Dipaleseng Local Municipality
(Registration number MP306)
Annual Financial Statements
for the year ended 30 June 2021

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Dipaleseng Local Municipality
Nature of business and principal activities	Provision of services (sanitation, refuse and other services) to communities in a sustainable manner, to promote social and economic development and to promote a safe and healthy environment.
The following is included in the scope of operation	Rates and waste management, Local Economic Development projects,Poverty alieviation,Planning and promotion of intergrated plan, Land , economic and environmental development.
Mayoral committee	The mandate of the municipality is in terms of section 152 of the Constitution of South Africa.
Executive Mayor	Councillor: ML Makhubu
Speaker	Councillor: KB Moeketsi
Chief Whip	Councillor: PM Mokoena
Councillors	Councillor: MD Khanye (Member of Mayoral Committee)
	Councillor: ZS Ngwenya (Member of Mayoral Committee)
	Councillor: AK Nyamade (MPAC Chairperson)
	Councillor: LM Maruping
	Councillor: SME Nhlapho
	Councillor: TJ Mahlangu
	Councillor: WS Davel
	Councillor: MF Dlamini
	Councillor: BG Shongwe
Grading of local authority	2
Chief Finance Officer (CFO)	Mrs P Phakoa (Acting)
Accounting Officers	Ms NB Khanye (Acting) Mr J Mokgatsi (Acting)
Registered office	Cnr of Johnny Mokoena Drive and themba Shozi Street Balfour Mpumalanga 2410
Postal address	Private Bag X1005 Balfour Mpumalanga 2410
Bankers	First National Bank South Africa
Auditors	Auditor General South Africa Registered Auditors

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

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are 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 officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

The accounting officers acknowledge that they are 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 officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are 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 officers have reviewed the municipality’s cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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 certify that the salaries, allowances and benefits of councillor's as disclosed in Note 31 and 32 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the on 31 August 2021 and were signed on its behalf by:

Ms NB Khanye (Acting)

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The municipality is engaged in service delivery and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 82 892 272 (2020: surplus R 210 326 272).

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 637 889 893 and that the municipality's total assets exceed its liabilities by R 637 889 893.

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 municipality is substantially dependent on the government for continued funding of operations. Dipaleseng Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations. The Municipality has been affected by the Covid-19 pandemic which resulted in a lockdown from 26 March 2020. The lockdown has affected the implementation of the municipality projects and other operations in the municipality. The effects of the pandemic have been assessed to date and no significant threats have been identified which could impact on the going concern of the Municipality.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name
Ms NB Khanye (Acting)
Mr J Mokgatsi (Acting)

6. Corporate governance

The Council:

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Audit and risk committee

J Masite was the chairperson of the audit committee for the year under review.

Accounting Officer's Report

Internal audit

In terms of Section 166 of the Municipal Finance Management Act, municipality, must appoint members of the Audit Committee. National Treasury policy requires that parent municipalities should appoint further members of the municipality's audit committees who are not directors of the municipal entity onto the audit committee.

7. Bankers

The municipality has its primary bank account with First National Bank.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the on 31 August 2021 and were signed on its behalf by:

Ms NB Khanye (Acting)

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	7	2 749 378	3 516 154
Receivables from non-exchange transactions	9	16 384 063	20 828 537
Prepayments	53	7 962 927	6 150 000
Receivables from exchange transactions	8	174 955 027	143 115 438
Cash and cash equivalents	10	6 454 128	3 115 741
		208 505 523	**176 725 870**
Non-Current Assets			
Investment property	3	40 539 938	42 229 102
Property, plant and equipment	4	763 109 219	657 021 324
Intangible assets	5	101 606	83 806
		803 750 763	**699 334 232**
Total Assets		**1 012 256 286**	**876 060 102**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	170 062 850	123 738 333
VAT payable	14	24 395 177	22 061 328
Consumer deposits	15	1 725 617	1 614 857
Employee benefit obligation	6	591 000	639 000
Unspent conditional grants and receipts	11	5 131 094	51 500
Other loans	55	12 400 000	61 326 851
		214 305 738	**209 431 869**
Non-Current Liabilities			
Provisions	12	145 844 655	107 769 696
Employee benefit obligation	6	14 216 000	11 812 000
		160 060 655	**119 581 696**
Total Liabilities		**374 366 393**	**329 013 565**
Net Assets		**637 889 893**	**547 046 537**
Accumulated surplus		637 889 893	547 046 537
Total Net Assets		**637 889 893**	**547 046 537**

* See Note 43

Dipaleseng Local Municipality

(Registration number MP306)
Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods	18	4 682 762	1 757 023
Service charges	17	112 678 267	107 146 276
Rental of facilities and equipment	19	272 294	161 774
Licences and permits	21	5 539 649	4 769 157
Interest received - investment	23	36 996 431	28 076 400
Gain on donated asset received		2 069 349	-
Total revenue from exchange transactions		**162 238 752**	**141 910 630**
Revenue from non-exchange transactions			
Property rates	24	30 509 606	29 789 049
Government grants & subsidies	25	182 577 906	220 618 646
Public contributions and donations	26	63 104	1 526 898
Fines, Penalties and Forfeits	20	1 629 308	1 377 857
Total revenue from non-exchange transactions		**214 779 924**	**253 312 450**
Total revenue	16	**377 018 676**	**395 223 080**
Expenditure			
Employee related costs	27	(68 966 275)	(61 800 905)
Remuneration of councillors	28	(5 415 237)	(5 028 864)
Depreciation and amortisation	29	(20 338 855)	(25 150 148)
(Reversal of impairments) Impairment loss	30	(1 064 329)	263 949
Finance costs	31	(15 513 238)	(10 381 570)
Lease rentals on operating lease	22	(427 974)	(464 472)
Debt Impairment	32	(51 046 647)	33 247 710
Bad debts written off		(6 564 653)	(2 675 702)
Bulk purchases	33	(77 897 182)	(68 678 767)
Contracted services	34	(22 609 941)	(16 710 836)
Loss on disposal of assets and liabilities		-	(1 182 806)
Fair value adjustments		(1 689 164)	(861 818)
Inventory Consumed		(8 023 261)	(5 287 264)
General Expenses	35	(14 569 648)	(20 185 315)
Total expenditure		**(294 126 404)**	**(184 896 808)**
Surplus for the year		**82 892 272**	**210 326 272**

* See Note 43

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	402 859 295	402 859 295
Adjustments		
Prior year adjustments	14 739 657	14 739 657
Balance at 01 July 2019 as restated*	**417 598 952**	**417 598 952**
Changes in net assets		
Surplus for the year	210 326 272	210 326 272
Total changes	210 326 272	210 326 272
Opening balance as previously reported	489 196 025	489 196 025
Adjustments		
Prior year adjustments	57 850 512	57 850 512
Restated* Balance at 01 July 2020 as restated*	**547 046 537**	**547 046 537**
Changes in net assets		
Surplus for the year	82 892 272	82 892 272
Total changes	82 892 272	82 892 272
Balance at 30 June 2021	**637 889 893**	**637 889 893**

Note(s)

* See Note 43

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Property rates		12 016 710	7 464 004
Service Charges		54 199 901	(87 178 860)
Grants		182 577 906	220 618 646
Interest income		36 996 431	28 076 400
Fines, Penalties and Forfeits		158 808	62 607
Sale of goods and rendering of services		4 682 762	1 757 023
Licences and permits		5 539 649	4 769 157
Rental of facilities and equipment		272 294	161 774
		296 444 461	175 730 751
Payments			
Employee costs		(71 534 137)	(63 184 467)
Suppliers		(31 755 425)	10 787 398
Finance costs		(15 513 238)	(10 381 570)
		(118 802 800)	(62 778 639)
Net cash flows from operating activities	38	**177 641 661**	**112 952 112**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(89 716 142)	(178 501 348)
Purchase of property, plant and equipment through provisions	4	(35 642 481)	4 676 003
Purchase of other intangible assets	5	(17 800)	-
Net cash flows from investing activities		**(125 376 423)**	**(173 825 345)**
Cash flows from financing activities			
Movement in other liability		(48 926 851)	61 326 851
Net increase/(decrease) in cash and cash equivalents		**3 338 387**	**453 618**
Cash and cash equivalents at the beginning of the year		3 115 741	2 662 123
Cash and cash equivalents at the end of the year	10	**6 454 128**	**3 115 741**

* See Note 43

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	2 308 212	1 172 961	**3 481 173**	4 682 762	**1 201 589**	Refer to Note 53
Service charges	112 997 388	1 557 156	**114 554 544**	112 678 267	**(1 876 277)**	Less than 10%
Rental of facilities and equipment	178 752	130 008	**308 760**	272 294	**(36 466)**	Less than 10%
Licences and permits	69	-	**69**	5 539 649	**5 539 580**	Refer to Note 53
Interest received - investment	29 037 876	(2)	**29 037 874**	36 996 431	**7 958 557**	Refer to Note 53
Total revenue from exchange transactions	**144 522 297**	**2 860 123**	**147 382 420**	**160 169 403**	**12 786 983**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	33 115 332	-	**33 115 332**	30 509 606	**(2 605 726)**	Less than 10%
Transfer revenue						
Government grants & subsidies	163 373 020	12 930 000	**176 303 020**	182 577 906	**6 274 886**	Refer to Note 53
Public contributions and donations	-	-	**-**	63 104	**63 104**	Refer to Note 53
Fines, Penalties and Forfeits	840 060	(631 264)	**208 796**	1 629 308	**1 420 512**	Less than 10%
Total revenue from non-exchange transactions	**197 328 412**	**12 298 736**	**209 627 148**	**214 779 924**	**5 152 776**	
Total revenue	**341 850 709**	**15 158 859**	**357 009 568**	**374 949 327**	**17 939 759**	
Expenditure						
Personnel	(68 590 044)	1 918 941	**(66 671 103)**	(68 966 275)	**(2 295 172)**	Less than 10%
Remuneration of councillors	(5 147 856)	-	**(5 147 856)**	(5 415 237)	**(267 381)**	Less than 10%
Depreciation and amortisation	(21 940 800)	-	**(21 940 800)**	(20 338 855)	**1 601 945**	Less than 10%
Impairment loss/ Reversal of impairments	(1 680 000)	-	**(1 680 000)**	(1 064 329)	**615 671**	Less than 10%
Finance costs	(5 304 192)	1 704 192	**(3 600 000)**	(15 513 238)	**(11 913 238)**	Less than 10%
Lease rentals on operating lease	(895 812)	447 812	**(448 000)**	(427 974)	**20 026**	Less than 10%
Debt Impairment	(49 698 732)	-	**(49 698 732)**	(51 046 647)	**(1 347 915)**	Less than 10%
Bad debts written off	-	-	**-**	(6 564 653)	**(6 564 653)**	
Bulk purchases	(69 137 508)	(3 062 492)	**(72 200 000)**	(77 897 182)	**(5 697 182)**	Refer to Note 53
Contracted Services	(33 044 364)	10 630 064	**(22 414 300)**	(22 609 941)	**(195 641)**	Less than 10%
Sale of goods/Inventory	(5 553 240)	(2 174 376)	**(7 727 616)**	(8 023 261)	**(295 645)**	Less than 10%
General Expenses	(27 343 740)	7 930 898	**(19 412 842)**	(14 569 648)	**4 843 194**	Refer to Note 53
Total expenditure	**(288 336 288)**	**17 395 039**	**(270 941 249)**	**(292 437 240)**	**(21 495 991)**	
Operating surplus	**53 514 421**	**32 553 898**	**86 068 319**	**82 512 087**	**(3 556 232)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Gain on disposal of assets and liabilities	-	-	-	2 069 349	**2 069 349**	Less than 10%
Fair value adjustments	-	-	-	(1 689 164)	**(1 689 164)**	Refer to Note 53
	-	**-**	**-**	**380 185**	**380 185**	
Surplus before taxation	**53 514 421**	**32 553 898**	**86 068 319**	**82 892 272**	**(3 176 047)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**53 514 421**	**32 553 898**	**86 068 319**	**82 892 272**	**(3 176 047)**	

Dipaleseng Local Municipality

(Registration number MP306)
Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	40 000	(2 174 376)	**(2 134 376)**	2 749 378	**4 883 754**	Refer to Note 53
Receivables from non-exchange transactions	17 993 524	(221 258)	**17 772 266**	16 384 063	**(1 388 203)**	Refer to Note 53
Prepayments	-	-	**-**	7 962 927	**7 962 927**	Refer to Note 53
Consumer debtors	103 854 498	(86 855 036)	**16 999 462**	174 955 027	**157 955 565**	Refer to Note 53
Cash and cash equivalents	119 614 752	21 892 973	**141 507 725**	6 454 128	**(135 053 597)**	Refer to Note 53
	241 502 774	**(67 357 697)**	**174 145 077**	**208 505 523**	**34 360 446**	
Non-Current Assets						
Investment property	53 184 000	-	**53 184 000**	40 539 938	**(12 644 062)**	Refer to Note 53
Property, plant and equipment	460 162 191	-	**460 162 191**	763 109 219	**302 947 028**	Refer to Note 53
Intangible assets	405 390	-	**405 390**	101 606	**(303 784)**	Refer to Note 53
	513 751 581	**-**	**513 751 581**	**803 750 763**	**289 999 182**	
Total Assets	**755 254 355**	**(67 357 697)**	**687 896 658**	**1 012 256 286**	**324 359 628**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	150 007 899	(21 394 911)	**128 612 988**	170 062 859	**41 449 871**	Refer to Note 53
VAT payable	1 357 879	-	**1 357 879**	24 395 177	**23 037 298**	Less than 10%
Consumer deposits	1 527 949	-	**1 527 949**	1 725 617	**197 668**	Less than 10%
Employee benefit obligation	28 849 000	-	**28 849 000**	591 000	**(28 258 000)**	Refer to Note 53
Unspent conditional grants and receipts	80 471 000	(78 171 000)	**2 300 000**	5 131 094	**2 831 094**	Refer to Note 53
Other loans	-	-	**-**	12 400 000	**12 400 000**	Refer to Note 53
	262 213 727	**(99 565 911)**	**162 647 816**	**214 305 747**	**51 657 931**	
Non-Current Liabilities						
Provisions	-	-	**-**	145 844 655	**145 844 655**	Refer to Note 53
Employee benefit obligation	-	-	**-**	14 216 000	**14 216 000**	
	-	**-**	**-**	**160 060 655**	**160 060 655**	
Total Liabilities	**262 213 727**	**(99 565 911)**	**162 647 816**	**374 366 402**	**211 718 586**	
Net Assets	**493 040 628**	**32 208 214**	**525 248 842**	**637 889 884**	**112 641 042**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	493 040 628	32 208 214	**525 248 842**	637 889 883	**112 641 041**	

Accounting Policies

Figures in Rand	Note(s)	2021	2020

1. Presentation of Annual Financial Statements

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

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

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.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

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

Trade receivables

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The 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 [name a key assumption] 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including entity specific variables, i.e. production estimates, supply demand, together with economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. 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 .

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

1.5 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:

Accounting Policies

1.5 Investment property (continued)

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

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

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

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

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

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

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.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for donation and other related assets which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses

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

Item	Depreciation method	Average useful life
Land	Straight-line	indefinite
Buildings	Straight-line	0 - 100 years
Plant and machinery	Straight-line	5 - 15 years
Furniture and fixtures	Straight-line	3 - 10 years
Motor vehicles	Straight-line	3 - 12 years
Office equipment	Straight-line	3 - 7 years
IT equipment	Straight-line	1 - 3 years
Computer software	Straight-line	1 - 3 years
Infrastructure	Straight-line	0 - 100 years
Community	Straight-line	0 - 100 years
Other property, plant and equipment	Straight-line	5 -12 years
Specialised vehicles	Straight-line	5 - 7 years
Tools and loose gear	Straight-line	3 - 5 years

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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).

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

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

Accounting Policies

1.7 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

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. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

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

Accounting Policies

1.8 Intangible assets (continued)

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

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 years
Servitudes	Straight-line	indefinite

1.9 Financial instruments

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

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

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.

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

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 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.

1.9 Financial instruments (continued)

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.

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

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 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.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

1.9 Financial instruments (continued)

Financial liabilities

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost

1.10 Statutory receivables

Identification

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

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

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

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

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

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

Accounting Policies

1.10 Statutory receivables (continued)

- amounts derecognised.

Accrued interest

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

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- 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.

1.11 Leases

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

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

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.

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.

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

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

1.13 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).

1.13 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

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.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.13 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.

1.14 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.

1.14 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 either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

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:

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.

1.15 Employee benefits

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

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

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

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

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

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

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

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.

1.15 Employee benefits (continued)

Post-employment benefits

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

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

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

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.

1.15 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.

1.15 Employee benefits (continued)

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

1.15 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, housing subsidies and gratuities upon retirement to some 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.

1.15 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.

1.16 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.16 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 41.

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.

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Provisions and contingencies (continued)

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.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 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).

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.19 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.

1.19 Revenue from non-exchange transactions (continued)

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, 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.

Recognition

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

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

Measurement

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

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

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

1.19 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related 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.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.20 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.21 Investment income

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

1.22 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.

1.23 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.

Accounting Policies

1.23 Accounting by principals and agents (continued)

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

Recognition

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

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

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

1.24 Comparative figures

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

1.25 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.

1.25 Unauthorised expenditure (continued)

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

1.26 Fruitless and wasteful expenditure

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

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

1.27 Irregular expenditure

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

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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).

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

1.28 Segment information

A segment is an activity of an entity:

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

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

1.29 Budget information

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

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

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

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

The budget for the economic entity includes all the entities approved budgets under its control.

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 .

Accounting Policies

1.30 Related parties

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

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

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

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

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

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

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

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

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

1.31 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.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

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:

IGRAP 20: Accounting for Adjustments to revenue

2. New standards and interpretations (continued)

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

The municipality has adopted the amendment for the first time in the 2021 annual financial statements.

The impact of the interpretation is not material.

GRAP 34: Separate Financial Statements

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

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

The impact of the standard is not material.

GRAP 18 (as amended 2016): Segment Reporting

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

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

The impact of the standard 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 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2021	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2021	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2021	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2021	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2021	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	40 539 938	-	40 539 938	42 229 102	-	42 229 102

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	42 229 102	(1 689 164)	40 539 938

Reconciliation of investment property - 2020

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	39 792 566	3 451 000	(152 646)	(861 818)	42 229 102

Pledged as security

No investment property is pledged as security.

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

3. Investment property (continued)

Details of valuation

The effective date of the revaluations was Wednesday, 30 June 2021. Revaluations were performed by an independent valuer, Mr Botha, of Messrs Botha and Rudd. Botha and Rudd are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2 902 500	-	2 902 500	2 902 500	-	2 902 500
Plant and machinery	982 935	(752 820)	230 115	895 302	(677 725)	217 577
Furniture and fixtures	2 694 644	(2 126 369)	568 275	2 751 579	(2 019 450)	732 129
Motor vehicles	1 644 431	(270 946)	1 373 485	6 566 421	(4 921 991)	1 644 430
IT equipment	1 114 875	(867 233)	247 642	1 571 989	(1 039 435)	532 554
Infrastructure	866 811 921	(458 236 012)	408 575 909	820 819 172	(441 153 189)	379 665 983
Community	79 231 566	(44 485 592)	34 745 974	78 323 291	(45 628 176)	32 695 115
Other property, plant and equipment	60 505 092	(52 761 453)	7 743 639	60 614 563	(51 964 536)	8 650 027
Work in Progress	306 721 680	-	306 721 680	229 981 009	-	229 981 009
Total	**1 322 609 644**	**(559 500 425)**	**763 109 219**	**1 204 425 826**	**(547 404 502)**	**657 021 324**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Additions through provisions	Depreciation	Impairment loss	Total
Land	2 902 500	-	-	-	-	-	-	-	2 902 500
Plant and machinery	217 577	87 633	-	-	-	-	(75 095)	-	230 115
Furniture and fixtures	732 129	12 506	(39 128)	63 104	-	-	(199 156)	(1 180)	568 275
Motor vehicles	1 644 430	-	-	-	-	-	(270 945)	-	1 373 485
IT equipment	532 554	90 000	(145 135)	-	-	-	(207 906)	(21 871)	247 642
Infrastructure	379 665 983	-	(174 924)	10 970 692	-	35 642 481	(17 114 516)	(413 807)	408 575 909
Community	32 695 115	-	(36 567)	4 119 746	-	-	(1 404 848)	(627 472)	34 745 974
Other property, plant and equipment	8 650 027	-	-	160 001	-	-	(1 066 389)	-	7 743 639
Work in Progress	229 981 009	89 526 003	-	-	(12 785 332)	-	-	-	306 721 680
	657 021 324	**89 716 142**	**(395 754)**	**15 313 543**	**(12 785 332)**	**35 642 481**	**(20 338 855)**	**(1 064 330)**	**763 109 219**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Additions through donation	Disposals	Transfers received	Transfers	Additions through provisions	Depreciation	Impairment loss	Impairment reversal	Total
Land	2 902 500	-	-	-	-	-	-	-	-	-	2 902 50
Plant and machinery	292 367	-	-	-	-	-	-	(74 790)	-	-	217 57
Furniture and fixtures	867 979	81 745	-	-	-	-	-	(217 595)	-	-	732 12
Motor vehicles	400 613	1 264 367	-	-	-	-	-	(281 717)	-	261 167	1 644 43
IT equipment	566 130	152 277	-	-	-	-	-	(185 853)	-	-	532 55
Infrastructure	395 283 549	-	-	(608 463)	11 462 391	-	(4 676 003)	(21 795 082)	(409)	-	379 665 98
Community	34 495 582	-	-	(275 515)	-	-	-	(1 523 152)	(1 800)	-	32 695 11
Other property, plant and equipment	9 142 098	-	617 014	(42 117)	-	-	-	(1 071 959)	-	4 991	8 650 02
Work in Progress	64 220 810	176 385 945	-	-	-	(10 625 746)	-	-	-	-	229 981 00
	508 171 628	**177 884 334**	**617 014**	**(926 095)**	**11 462 391**	**(10 625 746)**	**(4 676 003)**	**(25 150 148)**	**(2 209)**	**266 158**	**657 021 32**

Pledged as security

No assets are pledged as security.

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	217 264 938	12 789 311	-	230 054 249
Additions/capital expenditure	94 320 892	791 104	160 000	95 271 996
Transferred to completed items	(10 970 692)	(1 654 640)	(160 000)	(12 785 332)
	300 615 138	**11 925 775**	**-**	**312 540 913**

Figures in Rand	2021	2020

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	56 448 981	7 771 830	64 220 811
Additions/capital expenditure	172 278 348	5 017 481	177 295 829
Transferred to completed items	(11 462 391)	-	(11 462 391)
	217 264 938	**12 789 311**	**230 054 249**

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		
Maintenance of Buildings and Facilities	103 079	1 063 520
Maintenance of Equipment	-	183 307
Maintenance of Unspecified Assets	2 699 999	-
	2 803 078	**1 246 827**

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

Notes to the Annual Financial Statements

5. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	101 606	-	101 606	59 821	23 985	83 806

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Total
Servitudes	83 806	17 800	101 606

Reconciliation of intangible assets - 2020

	Opening balance	Total
Servitudes	83 806	83 806

Pledged as security

No intangible assets are pledged as security:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Employee Benefit Obligation

Long service awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of every year. The Projected Unit Credit Method has been used to value the liabilities. The latest valuation was performed for Dipaleseng Local Municipality as at 30 June 2021 by qualified experts.

The accumulated defined benefit obligation in respect of the long-service awards are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits).

Long service award relate to the legal obligation to provide long service leave awards. Actuarial benefits have been calculated for 172 eligible employees as at 30 June 2021 that are entitled to long service awards. The long service awards liability is not a funded arrangement. i.e. no separate assets have been set aside to meet this liability.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3 259 000)	(2 850 000)

The major categories of plan assets as a percentage of total plan assets are as follows:

Changes in the present value of long service awards obligation are as follows:

Opening balance	2 850 000	2 630 850
Benefits paid	(214 000)	(248 500)
Net expense recognised in the statement of financial performance	623 000	467 650
	3 259 000	**2 850 000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	135 000	(13 849)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	Yield Curve	7.52 %
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	3.08 %
Normal Salary Increase Rate	Equal to CPI+1%	4.08 %
Net Effective Discount Rate	Yield Curve Based**	3.31 %
Average Retirement Age (years)	62	62
Normal Retirement Age (years)	65	65
Mortality Rates	SA85-90	SA85-90

Figures in Rand	2021	2020

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

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

We use the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

**The Net Effective Discount Rate is different for each relevant time period of the yield curves’ various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2021 of 6.25%. The next salary increase was assumed to take place on 01 July 2022.

Sensitivity analysis

Mortality rate

We have tested the effect of a 20% p.a change in the normal mortality rate. The effect is as follows

	-20% Withdrawal rate	**+20% Withdrawal rate**
Total Accrued Liability	3 427 000	3 106 000
Current Service Cost	308 000	267 000
Interest Cost	371 000	335 000

Other assumptions

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

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	One percentage point increase	**One percentage point decrease**
Total Accrued Liability	3 466 000	3 070 000
Current Service Cost	308 000	266 000
Interest Cost	376 000	331 000

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

	2021 R	2020 R	2019 R	2018 R	2017 R
Defined benefit obligation	3 259 000	2 850 000	2 630 850	2 019 000	1 874 000

	2021	**2020**
Non-current liabilities	(14 216 000)	(11 812 639)
Current liabilities	591 000	(639 000)

Notes to the Annual Financial Statements

Figures in Rand				2021	2020
				(13 625 000)	(12 451 639)
	-	-	-	**(13 625 000)**	**(12 451 639)**

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Other defined contribution plan

Post-employment Medical Aid Liabilities

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

The expected value of each employee and their spouse’s future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee’s medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. The previous actuaries however assumed that only 75% of those currently on medical aid would be on medical aid in retirement. However, they also assumed that 15% of those not currently on medical aid would be on medical aid in retirement. We also assumed that all active members will remain on the same medical aid option at retirement.

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e., no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	11 548 000	9 601 000

The major categories of plan assets as a percentage of total plan assets are as follows:

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

Opening balance	9 601 000	10 089 417
Benefits paid	(246 000)	(357 879)
Net expense recognised in the statement of financial performance	2 193 000	(130 538)
	11 548 000	**9 601 000**

Net expense recognised in the statement of financial performance

Current service cost	482 000	616 996
Interest cost	979 000	927 995
Actuarial (gains) losses	732 000	(1 675 529)
	2 193 000	**(130 538)**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	732 000	(1 675 529)

Figures in Rand	2021	2020

Key assumptions used

Assumptions used at the reporting date:

Discount Rate	Yield Curve	10.40 %
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	5.49 %
Medical Aid Contribution Inflation	CPI+1 %	6.49 %
Net Effective Discount Rate	Yield curve based**	3.67 %
Average Retirement Age	62	62
Normal Retirement Age	65	65

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

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

We used the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

Other assumptions

Sensitivity analysis

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

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

	One percentage point increase	**One percentage point decrease**
Total Accrued Liability	12 338 000	10 538 000
Interest Cost	1 335 000	1 137 000
Service Cost	606 000	492 000

Mortality Rate

We have tested the effect of a 20% p.a change in the normal mortality rate. The effect is as follows:

	+20% Mortality rate	-20% Mortality rate
Total Accrued Liability	12 449 000	10 789 000
Interest Cost	1 165 000	1 347 000
Service Cost	520 000	603 000

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

7. Inventories

Maintenance materials	2 720 616	3 477 683
Water for distribution	28 762	38 471
	2 749 378	**3 516 154**

Inventory pledged as security

No Inventory has been pledged as security.

8. Receivables from exchange transactions

Gross balances		
Other debtors	7 489 219	7 489 219
Consumer debtors - Electricity	62 844 841	54 175 403
Consumer debtors - Water	114 013 021	97 809 064
Consumer debtors - Waste water	128 724 789	109 692 181
Consumer debtors - Refuse	72 317 538	60 893 988
Consumer debtors - Property Rental	1 581 520	1 250 772
Consumer debtors - Other	98 743 936	95 925 871
	485 714 864	**427 236 498**
Less: Allowance for impairment		
Consumer debtors - Electricity	(41 657 019)	(39 036 675)
Consumer debtors - Water	(73 170 759)	(68 430 585)
Consumer debtors - Waste water	(82 784 231)	(76 859 506)
Consumer debtors - Refuse	(46 652 511)	(42 735 519)
Consumer debtors - Property Rental	(1 004 825)	(851 219)
Other Debtors	(7 489 219)	-
Consumer debtors - Other	(58 001 273)	(56 207 556)
	(310 759 837)	**(284 121 060)**
Net balance		
Other debtors	-	7 489 219
Consumer debtors - Electricity	21 187 822	15 138 728
Consumer debtors - Water	40 842 262	29 378 479
Consumer debtors - Waste water	45 940 558	32 832 675
Consumer debtors - Refuse	25 665 027	18 158 469
Consumer debtors - Property Rental	576 695	399 553
Consumer debtors - Other	40 742 663	39 718 315
	174 955 027	**143 115 438**
Electricity		
Current (0 -30 days)	2 813 273	7 737 266
31 - 60 days	1 546 794	1 348 758
61 - 90 days	1 526 946	1 307 217
91 - 120 days	1 298 242	1 337 739
121 - 365 days	9 412 361	8 530 787
> 365 days	46 247 226	33 913 636
	62 844 842	**54 175 403**

Figures in Rand	2021	2020

8. Receivables from exchange transactions (continued)

Water		
Current (0 -30 days)	2 250 891	2 513 982
31 - 60 days	1 688 826	1 574 024
61 - 90 days	1 956 435	1 573 930
91 - 120 days	1 586 198	1 660 824
121 - 365 days	11 246 505	10 345 213
> 365 days	96 188 521	81 086 163
	114 917 376	**98 754 136**

Waste water		
Current (0 -30 days)	2 050 108	3 479 460
31 - 60 days	1 959 856	2 791 159
61 - 90 days	1 955 812	2 739 601
91 - 120 days	1 887 242	2 739 682
121 - 365 days	12 715 160	18 574 408
> 365 days	108 156 612	140 261 859
	128 724 790	**170 586 169**

Refuse		
Current (0 -30 days)	1 159 787	1 060 503
31 - 60 days	1 130 638	1 021 637
61 - 90 days	1 117 480	1 010 834
91 - 120 days	1 105 299	1 003 736
121 - 365 days	7 367 954	6 775 516
> 365 days	60 436 380	50 021 763
	72 317 538	**60 893 989**

Property Rental		
Current (0 -30 days)	29 136	20 879
31 - 60 days	28 731	19 334
61 - 90 days	28 149	18 743
91 - 120 days	27 978	18 618
121 - 365 days	210 496	125 985
> 365 days	1 257 030	1 047 214
	1 581 520	**1 250 773**

Other debtors		
> 365 days	(7 489 219)	-

Other		
Current (0 -30 days)	452 218	356 689
31 - 60 days	396 602	360 703
61 - 90 days	390 897	326 849
91 - 120 days	406 792	323 866
121 - 365 days	2 515 549	2 251 661
> 365 days	94 581 878	92 306 103
	98 743 936	**95 925 871**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

8. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Industrial/ commercial		
Current (0 -30 days)	2 807 197	8 960 059
31 - 60 days	1 495 728	1 368 628
61 - 90 days	1 597 115	1 313 420
91 - 120 days	1 282 702	1 418 877
121 - 365 days	9 250 514	8 430 487
> 365 days	93 172 531	81 222 726
	109 605 787	**102 714 197**
Residential		
Current (0 -30 days)	5 439 288	4 855 763
31 - 60 days	5 067 127	4 542 899
61 - 90 days	5 155 859	4 481 534
91 - 120 days	4 840 394	4 499 799
121 - 365 days	32 930 154	30 184 138
> 365 days	300 238 852	255 238 257
	353 671 674	**303 802 390**
National and provincial government		
Current (0 -30 days)	106 298	114 406
31 - 60 days	23 582	23 399
61 - 90 days	43 402	27 425
91 - 120 days	19 172	28 038
121 - 365 days	224 550	263 790
> 365 days	1 621 381	1 628 415
	2 038 385	**2 085 473**
Other		
Current (0 -30 days)	402 631	178 048
31 - 60 days	165 011	159 051
61 - 90 days	179 343	143 959
91 - 120 days	169 482	134 016
121 - 365 days	1 062 807	949 639
> 365 days	11 834 882	10 525 576
	13 814 156	**12 090 289**
Total		
Current (0 -30 days)	8 755 414	14 108 277
31 - 60 days	6 751 447	6 093 977
61 - 90 days	6 975 719	5 966 339
91 - 120 days	6 311 751	6 080 729
121 - 365 days	43 468 024	39 828 054
> 365 days	406 867 647	348 614 974
	479 130 002	420 692 350
Less: Allowance for impairment	(303 270 618)	(284 121 060)
	175 859 384	**136 571 290**

Figures in Rand	2021	2020

8. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(284 121 060)	(249 199 321)
Contributions to allowance	(26 638 777)	(34 921 739)
	(310 759 837)	**(284 121 060)**

Receivables from exchange transactions general information

Basis used to assess and test whether receivables from exchange transactions are impaired

The estimate were determined by the judgment of the management of the municipality, supplemented by experience of past practices and statistics in relation to uncollectable debt. The effects of the time value of money has been ignored due to the fact that the debt is immediately payable.

In assessing whether statutory receivables are impaired, management assessed whether there are any indications that:
(a) Individually significant receivables are impaired; and/or
(b) Groups of similar, individually insignificant, receivables are impaired.

The total debtors were separated into groups of similar receivables with similar risk profiles and assessed for impairment. Where a specific group of debtors was deemed to be fully recoverable then those receivables were not included in the assessment, an example of this is debt owed by government entities.

The grouping was based on the type of debtor, i.e. government, business, residential, employees and councillors, exhibiting similar characteristics which provide information about the possible collectability of the amounts owing to the municipality.

In estimating the future cash flows, management considered both the amount and timing of the cash flows that it will receive in future. In line with par 12 of the Credit Control Policy, the municipality does not see itself as a credit provision institution and hence the effect of the time value of money is not considered as all outstanding amounts are immediately payable.

In determining the amount impaired, management estimates the cash flows that it expects to collect based on facts and circumstances at the reporting date.

The future cash flows of a group of receivables that were individually or collectively evaluated for impairment were estimated using historical experience. For this purpose management adopted the payment pattern of each receivable over the previous 12 months as the most appropriate methodology as it reflects the amount likely to be collected in future.

The impairment loss was 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 receivable, or group of statutory receivables, shall be reduced, either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

Receivables from exchange pledged as security

No receivables from exchange transactions were pledged as security.

Receivables from exchange debtors impaired

As of 30 June 2021, receivables from exchange of R 486 619 219 (2020: R 420 692 350) were impaired and provided for.

The amount of the provision was R 310 759 837 as of 30 June 2021 (2020: R 284 121 060).

The ageing of the amounts past due and impaired is as follows:

1 month past due	8 755 414	14 108 277
2 months past due	6 751 447	6 093 977
3 months past due	6 975 719	5 966 337
3 to 6 months	6 311 751	6 080 729
Over 6 months	450 335 671	388 443 028

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

9. Receivables from non-exchange transactions

Gross balances		
Consumer debtors - Rates	88 678 544	70 185 648
Gert Sibande District	5 903 613	5 903 613
Other Debtors - Sundry	389 322	389 322
Fines	7 381 672	5 911 172
	102 353 151	**82 389 755**
Less: Allowance for impairment		
Consumer debtors - Rates	(80 699 633)	(56 291 763)
Fines	(5 269 455)	(5 269 455)
	(85 969 088)	**(61 561 218)**
Net balance		
Consumer debtors - Rates	7 978 911	13 893 885
Other debtors	6 322 172	6 322 172
Fines	2 112 217	641 717
	16 413 300	**20 857 774**
Rates		
Current (0 -30 days)	3 088 596	2 795 764
31 - 60 days	2 656 124	2 414 262
61 - 90 days	2 578 569	2 357 021
91 - 120 days	2 449 022	2 223 834
121 - 365 days	15 928 799	12 965 175
> 365 days	63 198 982	48 512 758
	89 900 092	**71 268 814**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

9. Receivables from non-exchange transactions (continued)

Summary of debtors by customer classification

Industrial/ commercial		
Current (0 -30 days)	911 925	866 377
31 - 60 days	639 146	706 165
61 - 90 days	598 985	684 705
91 - 120 days	585 683	577 901
121 - 365 days	3 926 806	3 596 588
> 365 days	19 019 709	14 305 925
	25 682 254	**20 737 661**

Residential		
Current (0 -30 days)	852 308	777 680
31 - 60 days	761 805	691 353
61 - 90 days	742 875	673 950
91 - 120 days	730 579	663 480
121 - 365 days	4 852 970	4 119 797
> 365 days	20 470 627	15 388 298
	28 411 164	**22 314 558**

National and provincial government		
Current (0 -30 days)	499 986	400 203
31 - 60 days	493 091	390 903
61 - 90 days	488 776	387 796
91 - 120 days	476 385	385 586
121 - 365 days	2 748 015	1 282 774
> 365 days	5 653 621	6 312 849
	10 359 874	**9 160 111**

Other		
Current (0 -30 days)	824 377	751 503
31 - 60 days	762 082	625 840
61 - 90 days	747 932	610 571
91 - 120 days	656 375	596 866
121 - 365 days	4 401 009	3 966 017
> 365 days	18 055 026	12 505 686
	25 446 801	**19 056 483**

Total		
Current (0 -30 days)	3 088 596	2 795 764
31 - 60 days	2 656 124	2 414 262
61 - 90 days	2 578 569	2 357 021
91 - 120 days	2 449 022	2 223 834
121 - 365 days	15 928 799	12 965 175
> 365 days	63 198 982	48 512 758
	89 900 092	71 268 814
Less: Allowance for impairment	(80 699 633)	(56 291 763)
	9 200 459	**14 977 051**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

9. Receivables from non-exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(61 561 218)	(50 062 189)
Contributions to allowance	(24 407 870)	(11 499 029)
	(85 969 088)	**(61 561 218)**

Included in receivables from non-exchange transactions above are statutory receivables as described below:

9. Receivables from non-exchange transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

Traffic fines are governed by Administrative Adjudication of Road Traffic Offences Act, No. 46 of 1998 (AARTO) and National Road Traffic Act, No. 93 of 1996 of South Africa, hence this is therefore recognised as a statutory receivable. The receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law. No interest is charged on outstanding fines, and any additional penalties applied by the court is paid by the offender to the court directly, and is therefore not considered to be revenue for the municipality.

Property rates is levied in terms of the Municipal Property Rates Act 6 of 2004, hence this is therefore recognised as a statutory receivable. The receivable is calculated by applying the Council approved rates randages against the valuation of individual properties within the municipality jurisdiction. Council approved rebates and exemptions are further applied to reduce the receivable.

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

The estimate were determined by the judgment of the management of the municipality, supplemented by experience of past practices and statistics in relation to uncollectable debt. The effects of the time value of money has been ignored due to the fact that the debt is immediately payable.

In assessing whether statutory receivables are impaired, management assessed whether there are any indications that:
(a) Individually significant receivables are impaired; and/or
(b) Groups of similar, individually insignificant, receivables are impaired.

The total debtors were separated into groups of similar receivables with similar risk profiles and assessed for impairment. Where a specific group of debtors was deemed to be fully recoverable then those receivables were not included in the assessment, an example of this is debt owed by government entities.

The grouping was based on the type of debtor, i.e. government, business, residential, employees and councillors, exhibiting similar characteristics which provide information about the possible collectability of the amounts owing to the municipality.

In estimating the future cash flows, management considered both the amount and timing of the cash flows that it will receive in future. In line with par 12 of the Credit Control Policy, the municipality does not see itself as a credit provision institution and hence the effect of the time value of money is not considered as all outstanding amounts are immediately payable.

In determining the amount impaired, management estimates the cash flows that it expects to collect based on facts and circumstances at the reporting date.

The future cash flows of a group of receivables that were individually or collectively evaluated for impairment were estimated using historical experience. For this purpose management adopted the payment pattern of each receivable over the previous 12 months as the most appropriate methodology as it reflects the amount likely to be collected in future.

The impairment loss was 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 receivable, or group of statutory receivables, shall be reduced, either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit.

Impairment of traffic fine debtors were based only on historical payment trend of total debt.

Statutory receivables past due but not impaired

All statutory debtors are considered for impairment.

Statutory receivables impaired

As of 30 June 2021, Statutory receivables of R97 281 764 (2020: R77 179 986) were impaired and provided for.

9. Receivables from non-exchange transactions (continued)

The amount of the provision was R85 969 088 as of 30 June 2021 (2020: R61 561 218).

The ageing of the amounts past due and impaired is as follows:

	2021	2020
1 month past due	3 088 596	2 795 764
2 months past due	2 656 124	2 414 262
3 months past due	2 578 569	2 357 021
3 to 6 months	2 449 022	2 223 834
Over 6 months	79 127 781	61 477 933

10. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Bank balances	6 454 128	3 115 741

Cash and cash equivalents pledged as collateral

No cash and cash equivalents has been pledged as collateral security in the current year.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
First National BANK - Cheque Account - 51590840208	5 255 596	(39 389)	391 372	80 230 407	(39 389)	391 372
First National BANK - Current Account - 62054655827	52 394	91 562	2 128 006	(11 678 332)	3 128 832	2 128 832
First National BANK - Call Account - 62033239783	186 069	26 298	142 745	(62 097 948)	26 298	26 298
Total	**5 494 059**	**78 471**	**2 662 123**	**6 454 127**	**3 115 741**	**2 546 502**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2021	2020
Unspent conditional grants and receipts		
Expanded Public Works Programme Integrated Grant	51 500	51 500
Regional Bulk Infrastructure Grant	5 079 594	-
	5 131 094	**51 500**

See note 25 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	32 823 860	35 642 481	2 432 478	70 898 819
Provision - Department of water & sanitation	74 945 836	-	-	74 945 836
	107 769 696	**35 642 481**	**2 432 478**	**145 844 655**

Reconciliation of provisions - 2020

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	34 659 522	(4 676 002)	2 840 340	32 823 860
Provision - Department of water & sanitation	74 945 836	-	-	74 945 836
	109 605 358	**(4 676 002)**	**2 840 340**	**107 769 696**

Environmental rehabilitation provision

The landfill rehabilitation is created for the rehabilitation of the current operational sites which are evaluated at each year-end toreflect the best estimate at reporting date. The sites under consideration are the Greylingstad, Siyathemba, and Grootvlei landfill sites.

The valuation for the landfill site was performed by Mr Seakle Godschalk Pr Sci Nat. from Environmental and Sustainability Solutions (ESS). Mr Godschalk is a registered professional environmental scientist with the South African Council for Natural Scientist Profession as well as the Southern African Institute of Ecologists and Environmental Scientists. Mr Godschalk is also a member of the Institute of Municipal Finance Officers and Institute of Directors.

Key financial assumptions used in this calculation were as follows:

	Greylingstad	Grootvlei	Siyathemba
CPI	4.82%	4.82%	4.82%
Discount rate	8.82%	8.82%	8.82%
Net effective discount rate	4.00%	4.00%	4.00%

Department of Water and Sanitation

Dipaleseng Local Municipality has made a provison of R 74 945 836 relating to services rendered by the Department of Water and Sanitation.

13. Payables from exchange transactions

	2021	2020
Trade payables	118 259 409	92 901 061
Amounts received in advance	1 509 467	1 002 129
Retentions	4 777 186	3 798 816
Accrued leave pay	11 043 967	9 836 321
Accrued bonus	1 267 549	1 396 224
Accrued expense	25 081 716	7 276 113
Unallocated Deposits	8 059 323	6 875 841
Salary Clearing Control	64 233	651 828
	170 062 850	**123 738 333**

14. VAT payable

	2021	2020
VAT payables	24 395 177	22 061 328

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

15. Consumer deposits

Electricity	1 725 617	1 614 857

16. Revenue

Sale of goods	4 682 762	1 757 023
Service charges	112 678 267	107 146 276
Rental of facilities and equipment	272 294	161 774
Licences and permits	5 539 649	4 769 157
Interest received - investment	36 996 431	28 076 400
Property rates	30 509 606	29 789 049
Government grants & subsidies	182 577 906	220 618 646
Public contributions and donations	63 104	1 526 898
Fines, Penalties and Forfeits	1 629 308	1 377 857
	374 949 327	**395 223 080**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	4 682 762	1 757 023
Service charges	112 678 267	107 146 276
Rental of facilities and equipment	272 294	161 774
Licences and permits	5 539 649	4 769 157
Interest received - investment	36 996 431	28 076 400
	160 169 403	**141 910 630**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	30 509 606	29 789 049
Government grants & subsidies	182 577 906	220 618 646
Public contributions and donations	63 104	1 526 898
Fines, Penalties and Forfeits	1 629 308	1 377 857
	214 779 924	**253 312 450**

17. Service charges

Sale of electricity	61 739 467	61 233 667
Sale of water	22 446 156	19 678 617
Solid waste	7 226 250	7 164 139
Sewerage and sanitation charges	21 266 394	19 069 853
	112 678 267	**107 146 276**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

17. Service charges (continued)

17. Sale of goods (continued)

18. Sale of goods

Tender Documents	368 696	164 348
Advertisements	-	2 264
Cemetery	231 985	191 589
Escort Fees	-	970
Clearance certificates	393 589	313 795
Occupation Certificates	11 429	10 375
Town Planning and Servitudes	3 426 514	801 436
Valuation Services	287	-
Administrative Handling Fees	65 225	59 975
Incidental Cash Surpluses	12	2 449
Intercompany Transactions	185 025	209 822
	4 682 762	**1 757 023**

19. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	272 294	161 774

20. Fines, Penalties and Forfeits

Overdue Books Fines	1 983	5 607
Municipal Traffic Fines	1 627 325	1 372 250
	1 629 308	**1 377 857**

21. Licences and permits (exchange)

Trading	-	25 609
Road and Transport	5 539 649	4 743 548
	5 539 649	**4 769 157**

22. Lease rentals on operating lease

Equipment		
Contractual amounts	24 100	13 849
Plant and equipment		
Contractual amounts	403 874	450 623
	427 974	**464 472**

23. Investment revenue

Interest revenue		
Bank	413 091	1 349 873
Interest charged on trade and other receivables	36 583 340	26 726 527
	36 996 431	**28 076 400**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Property rates

Rates received

Property rates	30 509 606	29 789 049

Valuations

Residential	1 269 697 100	1 270 130 100
Commercial	342 943 500	346 323 500
State	388 367 400	319 266 870
Mining	34 506 000	34 500 000
Vacant Land	46 268 000	44 948 000
Agriculture	2 097 076 000	2 103 866 000
Public Service Property	138 739 270	81 200 000
Place of worship	37 160 000	37 160 000
Multi purpose properties	2 560 000	2 560 000
	4 357 317 270	**4 239 954 470**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Figures in Rand	2021	2020

25. Government grants and subsidies

Operating grants		
Equitable share	91 101 000	72 019 000
Energy Efficiency and Demand Side Management Grant	2 699 500	-
Expanded Public Works Programme Integrated Grant	1 770 000	1 655 500
Local Government Financial Management Grant	2 600 000	2 752 609
Municipal Disaster Recovery Grant	-	179 000
	98 170 500	**76 606 109**

Capital grants		
Municipal Infrastructure Grant	18 487 000	18 816 000
Integrated National Electrification Programme Grant	10 000 000	11 523 387
Regional Bulk Infrastructure Grant	55 920 406	113 673 150
	84 407 406	**144 012 537**
	182 577 906	**220 618 646**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Unconditional grants received	91 101 100	148 599 646
Conditional grants received	91 476 806	72 019 000
	182 577 906	**220 618 646**

Equitable Share

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

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

Energy Efficiency and Demand Side Management Grant

Current-year receipts	2 700 000	-
Conditions met - transferred to revenue	(2 700 000)	-
	-	**-**

Expanded Public Works Programme Integrated Grant

Balance unspent at beginning of year	51 500	-
Current-year receipts	1 770 000	1 707 000
Conditions met - transferred to revenue	(1 770 000)	(1 655 500)
	51 500	**51 500**

Conditions still to be met - remain liabilities (see note 11).

Local Government Financial Management Grant

Current-year receipts	2 600 000	2 752 609
Conditions met - transferred to revenue	(2 600 000)	(2 752 609)
	-	**-**

Regional Bulk Infrastructure Grant

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

25. Government grants and subsidies (continued)

Current-year receipts	61 000 000	175 000 000
Conditions met - transferred to revenue	(55 920 406)	(113 673 150)
Transferred to liability - other loans	-	(61 326 850)
	5 079 594	**-**

Conditions still to be met - remain liabilities (see note 11).

Integrated National Electrification Programme Gran

Balance unspent at beginning of year	-	1 523 387
Current-year receipts	10 000 000	10 000 000
Conditions met - transferred to revenue	(10 000 000)	(11 523 387)
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	10 816 000
Current-year receipts	18 487 000	8 000 000
Conditions met - transferred to revenue	(18 487 000)	(18 816 000)
	-	-

Municipal Disaster Recovery Grant

Current-year receipts	-	179 000
Conditions met - transferred to revenue	-	(179 000)
	-	-

26. Public contributions and donations

Public contributions and donations	63 104	1 526 898

Figures in Rand	2021	2020

27. Employee related costs

Basic	43 053 602	39 337 689
Bonus	2 744 018	2 316 903
Medical aid - company contributions	4 929 118	5 812 278
UIF	1 501 245	1 197 842
Leave pay provision charge	559 814	2 755 103
Defined contribution plans	7 059 094	2 464 053
Overtime payments	5 018 148	3 913 891
Long-service awards	390 758	563 416
Acting allowances	432 770	1 638 018
Car allowance	1 665 114	119 750
Housing benefits and allowances	502 581	487 400
Standby allowance	396 649	309 217
Cellphone allowance	623 897	885 345
Bargain council	89 467	-
	68 966 275	**61 800 905**

Remuneration of municipal manager

Annual Remuneration	-	783 063
Acting Allowance	92 553	-
Backpay	-	21 961
Leave paidout	-	106 976
	92 553	**912 000**

Remuneration of chief finance officer

Annual Remuneration	953 633	1 016 714
Car Allowance	190 727	203 343
Cellphone Allowance	95 363	101 671
Housing Allowance	143 045	152 507
Backpay	-	40 733
	1 382 768	**1 514 968**

Remuneration of Corporate Services Director

Annual Remuneration	846 307	817 231
Contributions to UIF, Medical and Pension Funds	8 573	-
Acting Allowance	-	2 373
Backpay	-	29 076
	854 880	**848 680**

Remuneration of Community Services Director

Annual Remuneration	846 307	817 231
Contributions to UIF, Medical and Pension Funds	9 886	-
Acting Allowance	-	88 374
Backpay	-	29 076
	856 193	**934 681**

Remuneration of Planning and Development

Annual Remuneration	423 153	422 612
Contributions to UIF, Medical and Pension Funds	5 124	-

Figures in Rand	2021	2020

27. Employee related costs (continued)

Acting Allowance	-	71 581
Backpay	-	20 353
Leave Paidout	-	105 551
Travelling Allowance	-	50 714
	428 277	**670 811**

Remuneration of Technical Services Director

Annual Remuneration	950 907	997 480
Contributions to UIF, Medical and Pension Funds	10 501	-
Acting Allowance	-	789
Backpay	-	32 669
	961 408	**1 030 938**

The remuneration of key management disclosed above has been incorporated in the Employee related costs of R68 966 275 (2021) and R61 800 905 (2020)

28. Remuneration of councillors

Executive Major	822 278	824 327
Chief Whip	275 755	336 411
Mayoral Committee Members	1 282 076	1 255 540
Speaker	661 065	663 114
Councillors	2 374 063	1 949 472
	5 415 237	**5 028 864**

In-kind benefits

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

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.

Refer to note 42: Related Parties for the detailed disclosure regarding councillors' remuneration.

29. Depreciation and amortisation

Property, plant and equipment	20 338 855	25 150 148

30. Impairment of assets

Impairments		
Property, plant and equipment	1 064 329	2 209
Reversal of impairments		
Property, plant and equipment	-	(266 158)
Total impairment losses (recognised) reversed	**1 064 329**	**(263 949)**

Figures in Rand	2021	2020

31. Finance costs

Trade and other payables	12 875 760	7 335 075
Interest cost(Provisions)	2 637 478	3 046 495
	15 513 238	**10 381 570**

32. Debt impairment

Debt impairment	51 046 647	(33 247 710)

33. Bulk purchases

Electricity - Eskom	72 366 640	59 733 125
Water	5 530 542	8 945 642
	77 897 182	**68 678 767**

34. Contracted services

Outsourced Services		
Burial Services	17 905	11 462
Business and Advisory	5 730 520	2 166 987
Medical Services [Medical Health Services & Support]	-	450
Security Services	7 010 465	6 302 292
Transport Services	4 054 337	3 730 106
Consultants and Professional Services		
Business and Advisory	16 058	-
Infrastructure and Planning	-	143 044
Legal Cost	2 161 899	2 027 842
Contractors		
Maintenance of Buildings and Facilities	103 079	1 063 520
Maintenance of Equipment	-	183 307
Maintenance of Unspecified Assets	2 699 999	-
Prepaid Electricity Vendors	815 679	1 081 826
	22 609 941	**16 710 836**

35. General expenses

Advertising	660 313	938 286
Auditors remuneration	5 579 676	6 008 781
Bank charges	606 681	556 686
Fines and penalties	-	117 614
Insurance	3 266 667	2 450 000
IT expenses	149 260	103 570
Protective clothing	603 786	208 820
Subscriptions and membership fees	11 060	191 167
Telephone and fax	1 193 219	5 026 029
Travel - local	441 213	2 309 281
Title deed search fees	9 746	6 343
Drivers Licences and Permits	2 048 027	2 268 738
	14 569 648	**20 185 315**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Fair value adjustments

Investment property (Fair value model)	(1 689 164)	(861 818)

37. Auditors' remuneration

Fees	5 579 676	6 008 781

38. Cash generated from operations

Surplus	82 892 272	210 326 272
Adjustments for:		
Depreciation and amortisation	20 338 855	25 150 148
Gain on donated asset	(2 069 349)	1 182 806
Fair value adjustments	1 689 164	861 818
Impairment loss (reversal)	1 064 329	(263 949)
Debt impairment	51 046 647	(33 247 710)
Bad debts written off	6 564 653	2 675 702
Movements in retirement benefit assets and liabilities	(48 000)	20 767
Movements in provisions	38 074 959	73 110 174
Other non-cash items	1 607 519	(85 252 558)
Changes in working capital:		
Inventories	766 776	(3 408 106)
Receivables from exchange transactions	(31 839 589)	(105 270 778)
Receivables from non-exchange transactions	4 444 474	(18 408 838)
Prepayments	(1 812 927)	(5 579 925)
Payables from exchange transactions	46 324 526	(11 967 654)
VAT	2 333 849	3 082 071
Unspent conditional grants and receipts	5 079 594	(1 471 887)
Consumer deposits	110 760	86 908
Other loans	(48 926 851)	61 326 851
	177 641 661	**112 952 112**

Figures in Rand	2021	2020

39. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At fair value	Total
Trade and other receivables from exchange transactions	175 859 382	175 859 382
Trade and other receivables from non-exchange transactions	17 605 611	17 605 611
Cash and cash equivalents	6 454 128	6 454 128
	199 919 121	**199 919 121**

Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	175 062 850	-	175 062 850
Consumer deposits	1 725 617	-	1 725 617
Vat payable	24 473 549	-	24 473 549
Other loans	-	12 400 000	12 400 000
	201 262 016	**12 400 000**	**213 662 016**

2020

Financial assets

	At fair value	Total
Trade and other receivables from exchange transactions	144 060 509	144 060 509
Trade and other receivables from non-exchange transactions	21 911 703	21 911 703
Cash and cash equivalents	3 115 741	3 115 741
	169 087 953	**169 087 953**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	123 738 334	123 738 334
Vat payable	22 140 396	22 140 396
Consumer deposits	1 614 857	1 614 857
	147 493 587	**147 493 587**

Figures in Rand	2021	2020

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	10 865 938
Approved and contracted for		
• Property, plant and equipment	43 768 531	40 141 362
Total capital commitments		
Already contracted for but not provided for	-	10 865 938
Approved and contracted for	43 768 531	40 141 362
	43 768 531	**51 007 300**

Authorised operational expenditure

Already contracted for but not provided for		
• Expenditure	25 390 435	37 787 854
Total operational commitments		
Already contracted for but not provided for	25 390 435	37 787 854

Total commitments

Total commitments		
Authorised capital expenditure	43 768 531	51 007 300
Authorised operational expenditure	25 390 435	37 787 854
	69 158 966	**88 795 154**

This committed expenditure relates to plant and equipment and will be financed by available government grant, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	119 496
- in second to fifth year inclusive	-	27 658
	-	**147 154**

Operating lease payments represent rentals payable by the Dipaleseng municipality for certain copy machines. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	-	53 261
- in second to fifth year inclusive	-	5 326
	-	**58 587**

Certain of the municipality's equipment is held to generate rental income. Rental of equipment is expected to generate rental on an ongoing basis.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Contingencies

The table below comprises all the law suits which are deemed to be possible obligations and neither the expense nor the accompanying liability was recognised. Thulamela Municipality's legal counsel has indicated that the likelihood of the court ruling being in favour of the applicant is very slim albeit not remote.

Case	Applicant	Case No.	2021	2020
The company is suing the Municipality for an alleged breach of contract in the amount of Twenty Five Million and Two hundred Thousand (R25 00 200.00). The matter is filled in the North Gauteng Division of the High Court under Case 23132/2018. Upon receipt of the summons a notice of intention to defend on the following basis: •That the alleged signed agreement is fraudulent and the signature thereof may be forged and that as a consequence of that, the agreement is ipso facto void and thus unenforceable •The fundamental differences on the purported signatures by the former Municipal Manager on the so called conformation of order and the Service Level Agreement. The Applicant approached the court for a Summary Judgement on the 27th of July 2018. They obtain a warrant of Execution in respect of the Municipal account. The Municipal approached the Court on urgent basis seeking the upliftment of the attachment on the bank account. The court granted an order in favour of the Municipality. An Applicant for a rescission of judgment is filled and awaits a set down for hearing from the Register of Court. •Somewhere towards end of August the same company issued fresh summons in the High Court on the basis of breach of contract for an amount of Four Million and Three Hundred and Fifty Thousand. The matter was set down for trial on the 3rd June 2019. The first respondents raised failure to company with certain directives from the judge. The judge then ordered wasted costs for the day against the Applicant’s Attorneys of Record for not having the explanatory affidavit before the court. In the month of July the Applicant proposed an out of Court settlement which was outright rejected. The Municipality is steadfast that it is not indebted to the Applicant at all hence no settlement agreement would be considered. •The matter was set down and heard by the full bench in the Pretoria High Court on the 13th of December 2019 and the court ordered as following: •The Application for the rescission and setting aside of the summary judgement of 2017 June 2018 by Rautenbanch J is granted. •The Applicant is granted leave to deliver its plea with 10(ten) days of date to this order. •The warrant of execution issued on 29 June 2018 is set aside •Costs are granted against the first responder on the scale between attorney and client. •The Gauteng Legal Practice Council is directed in this matter complied with the requirements of the Legal/practice Act, Rules and Code of Conduct	Smart and Safer Solutions (PTY) LTD	23132/2018	25 000 200	25 000 200

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Contingencies (continued)

This matter pertains to one Municipal employee who was allegedly assaulted in 2018 whilst there was protest by the employees. It is allegedly that she suffered head injuries which resulted from concussion and she suffered from depression and post-traumatic stress. As a consequent therefore, the Municipality is sued in the tune of R 1 000 000 .00. According to HR records the employee attended three consultations on separate occasions and is due to submit a close-up report for the claim to be submitted to COIDA for lodgement. Municipality has since filed a notice citing bare denial on the liability claimed. Upon receipt of Summons Municipality will aggressively oppose any claim as per the notice letter.	NOTICE IN TERMS OF SECTION 3(1) OF THE INSTITUTION OF LEGAL PROCEEDINGS AGIANST CERTAIN ORGANS OF STATE ACT NO 40 OF 2002		1 000 000	1 000 000
The Plaintiff has issued Combined Summons against the Municipality in the Regional Court held in Evander wherein an amount of R 293 816.57 plus interest is claimed against the Municipality. It is alleged in the Particulars of Claim the Plaintiff has supplied a 100KVA transformer and dismantling of the older transformer. The matter has been opposed based on the irregular appointment of the service provider and it is currently at a Discovery stage. The matter is now ripe and due for a set down in the foreseeable future	KF PHETLA PROJECTS CC		293 817	293 817
The Municipality received a notice in terms of the above section, wherein it is alleged that in October 2020 there was interruptions to power supply through the negligence on the part of the Municipality. Owing to surges in the electricity supply the resident suffered damages in that pump motors burned. She alleged that she suffered damages in the amount of R116 400.00	CATHERINA JOHANNA CLAUDINA		116 400	-
Council in its meeting held in March 2020 under item B-01/03/20, resolved to dismiss the Municipal Manager Mr I.P Mutshinyali based on the outcome of DC Hearing The former Municipal Manager referred the matter to CCMA for Conciliation and Arbitration. The Arbitration convened the 14th of June 2021, the parties presented their verbal arguments. Therefore the Commissioner resolved that both parties should submit formal written closing arguments that will be considered in issuing the final award on the matter. On the basis of the above under case number MPMB 975-20 the Commissioner ruled in favour of the Municipality as follows: That the dismissal of the applicant, Isaac Pandelani Mutshinyali, by the responder Dipaleseng Local Municipality was procedurally and substantively fair. The case management to close the file. Based on the above background the former Municipal Manager Mr IP.Mutshinyali exercise his constitutional right to refer the matter to the Labour Court. The Council should note that the former Municipal Manager intends to bring application to the Labour Court on the following terms. Reviewing ,correcting and setting aside the award made by the Arbitrator Mr Freddy Baloyi Reinstating the applicant as from the date of his dismissal being 13 March 2020 on the same terms and conditions that existed at that time prior to his dismissal Granting costs of this in an event of any of the respondents opposing it Granting further and/or alternative relief	IP MUTSHINYALI		-	-
			26 410 417	**26 294 017**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

42. Related parties

Relationships	
Councillors	Refer to general information on page 2
Accounting Officers	Refer to accounting officers' report note
Members of key management	NB Khanye - Acting Municipal Manager and Director Community Services and Public Relations LM Msibi - Director Infrastructure Services TP Mokoena - Director Corporate Services L Sindi - Director Planning and Economic Development P Phakoa - Acting CFO GC Letsoala - CFO Resigned during the year

Related party balances

Councillors' arrears accounts are disclosed in note 50.

Remuneration of key management

The remuneration of members of key management is disclosed in note 28.

Notes to the Annual Financial Statements

Figures in Rand

42. Related parties (continued)

Remuneration of management

Management class: Mayoral committee

2021

Name	Basic salary	Car allowance	Cellphone allowance	Pension, Medical Aid, SDL & Other benefits	Total
Cllr M Makhubu - Executive Mayor	806 066	-	16 212	6 429	828 707
Cllr KB Moeketsi - Speaker	483 640	161 213	16 212	5 099	666 164
Cllr D Khanye - Member	457 730	152 577	40 800	5 059	656 166
Cllr ZS Ngwenya - Member	457 730	152 577	20 664	4 875	635 846
Cllr PM Mokoena - Chief Whip	191 318	63 773	20 664	2 148	277 903
	2 396 484	**530 140**	**114 552**	**23 610**	**3 064 786**

2020

Name	Basic salary	Car allowance	Cellphone allowance	Pension, Medical Aid, SDL & Other benefits	Total
Cllr M Makhubu - Executive Mayor	775 063	-	24 408	386 421	1 185 892
Cllr KB Moeketsi - Speaker	478 098	141 953	24 408	220 849	865 308
Cllr D Khanye - Member	440 125	146 708	40 800	73 327	700 960
Cllr ZS Ngwenya - Member	440 125	146 708	27 376	122 545	736 754
	2 133 411	**435 369**	**116 992**	**803 142**	**3 488 914**

The Mayoral Committee remuneration above of R3 064 786 (2021), R3 488 914 (2020), has been included in the remuneration of councillors below.

Notes to the Annual Financial Statements

Figures in Rand

42. Related parties (continued)

Management class: Councillors

2021

Name	Basic salary	Car allowance	Cellphone allowance	Pension, Medical Aid, SDL & Other benefits	Total
Mayoral committee members	2 396 484	530 140	114 552	23 610	3 064 786
Cllr WS Davel	191 318	63 773	40 800	2 332	298 223
Cllr TJ Mahlangu	255 091	-	27 852	2 243	285 186
Cllr SME Nhlapo	255 091	-	14 412	2 120	271 623
Cllr LM Maruping	255 091	-	20 664	2 177	277 932
Cllr AK Nyamande	245 525	81 842	14 412	2 645	344 424
Cllr MF Dlamini	191 318	63 773	15 012	2 096	272 199
Cllr BG Shongwe	255 091	-	40 800	2 362	298 253
	4 045 009	**739 528**	**288 504**	**39 585**	**5 112 626**

2020

Name	Basic salary	Car allowance	Cellphone allowance	Pension, Medical Aid, SDL & Other benefits	Total
Mayoral committee members	2 133 411	435 369	116 992	803 142	3 488 914
Cllr WS Davel	183 960	61 320	40 800	27 594	313 674
Cllr TJ Mahlangu	245 280	-	32 168	84 150	361 598
Cllr SME Nhlapo	245 280	-	23 208	44 100	312 588
Cllr LM Maruping	245 280	-	27 376	79 090	351 746
Cllr AK Nyamande	236 082	78 694	23 208	42 720	380 704
Cllr PM Mokoena	214 620	30 660	27 376	117 183	389 839
Cllr MF Dlamini	183 960	61 320	25 757	27 594	298 631

42. Related parties (continued)

Cllr BG Shongwe	40 880	-	6 800	8 806	56 486
	3 728 753	**667 363**	**323 685**	**1 234 379**	**5 954 180**

43. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Inventory

The increase in Inventory of R3 389 501 is due to increase in materials inventory and in water inventory on hand. The increase is made up as follows: increase by R3 368 416, this decrease is due to correction of materials inventory valuation for 2020-21 financial year, this correction increases materials inventory opening balance in 2020-21 financial year and increase Accumulated surplus opening balance in the 2020-21 financial year. Increase by R21 085, this increase is due to correction of Water inventory valuation for 2020-21 financial year, this correction increases Water inventory by R21 085 and decreases Bulk purchase expense by R21 085 which increase Accumulated surplus for the year 2020-21 financial year.

Receivables from exchange

The increase in Receivables from Exchange of R105 132 859 is due to correction of gross debtors and impairment. This correction increases the receivables from exchange opening balance in 2020-2021 financial year and increase Accumulated surplus opening balance in the 2020-2021 financial year. There was also a decrease in receivables due to reversal of municipal own debt of R 945 071.

Prepayments

The decrease in prepayments is due to a correction increase in insurance by R5 561 330 and a reclassification of Gert Sibande incorrect prepayment of R25 903 613. This correction decreases the prepayments opening balance in 2020-2021 financial year and decreases accumulated surplus opening balance in the 2020 -2021 financial year.

Receivables from non- exchange

43. Prior-year adjustments (continued)

The decrease in Receivables from Exchange of R 1 443 426 is due to correction of gross debtors and impairment. This correction decreases the receivables from exchange opening balance in 2020-2021 financial year and decrease Accumulated surplus opening balance in the 2020 -2021 financial year. There was also a decrease in receivables due to reversal of municipal own debt of R 1 083 166.

Investment Property

The increase in investment property of R3 381 980 is due to Recognition of previously omitted investment. This correction increases investment property opening balance in 2020-21 financial year and increase Accumulated surplus opening balance in the 2020-21 financial year.

Intangible assets

The decrease in Intangible assets of R14 357 is due to a typing error of previously omitted investment. This correction decreases investment property opening balance in 2020-21 financial year.

PPE

The increase in property plant & equipment of R3 617 190 is due to recognition of previously omitted property plant and equipment. This correction increases property, plant and equipment opening balance in 2020-21 financial year and increase Accumulated surplus opening balance in the 2020-2021 financial year.

Unspent Conditional grants

The decrease in Unspent Conditional grants (RBIG) of R61 326 851 is due to reclassification of the amount from Unspent Conditional grants to other liabilities.

Intangible assets

The decrease in Intangible assets of R14 357 is due to a typing error of previously omitted investment. This correction decreases investment property opening balance in 2020-21 financial year.

VAT

The decrease in VAT is due to R135 817 input VAT recognition error corrected in 2021 and a reduction in output VAT of R 79 068 .61 due to reversal of revenue own billing by the Municipality. This correction decreases VAT Payable opening balance in 2020-21 financial year.

Trade and other payables

43. Prior-year adjustments (continued)

The decrease in Trade and other payables is due to insurance payable overstatement correction reduction of R1 200 000 and input VAT recognition error corrected in 2021 increase of R21 841. There was also a reclassification of Gert Sibande payable of R R20, 000 000 and a receipts advance reduction correction of R 6 557 144. The correction decreases Trade and other payables opening balance in 2020-21 financial year and increases accumulated surplus.

Provisions

The increase in provisions of R74 945 836 is due to the recognition of a DWS provision incorrectly omitted in 2019/2020 annual financial statements.

Revenue

Public Contributions and Donations

Dipaleseng Local Municipality received a donation for the renewal for the Siyathemba Municipal offices which were omitted from the 2019/2020 Annual Financial Statements. The omission resulted in understatement of revenue by R 611 407 and an understatement of accumulated surplus by R 611 407.

Fines, Penalties and Forfeits

Dipaleseng Local Municipality omitted fines & penalties of R5 607 in the Annual Financial Statements. The omission resulted in revenue being understated by R5 607 and accumulated surplus being understated by R5 607.

Sale of goods, service charges & other income (Reclassification)

Sale of goods amounting to R1 757 024 were incorrectly classified as service charges amounting to R1 484 778 and Other income amounting to R272 246. This resulted in understatement in sale of goods by R1 757 024 and overstatement of Service charges by R1 484 778 and Other income by R272 246.

Service charges

Service charges decreased by R 866 002 due to reversal of own billing by the municipality.

Property rates

Property rates decreased by R 1 083 166 due to reversal of own billing by the municipality.

Expenditure

Depreciation and amortization

In 2019/2020, there were assets which were omitted from the Annual Financial Statements and have been corrected in 2020/2021. This resulted in an understatement on depreciation amounting to R 65 991 and overstatement of accumulated surplus by R65 991.

Impairment loss

Property, plant & equipment Impairment of R2,209 was omitted in 2019/2020 Annual Financial statements and an impairment reversal of R 266, 158 was also omitted. The net effect of the error is an understatement of impairment reversal of R 263 949 which resulted in overstatement of accumulated surplus by R 263 949.

Debt Impairment

Debt impairment was incorrectly calculated in 2019/2020. The calculation error resulted in overstatement of debt impairment by R 118 939 324. The overstatement of debt impairment resulted in expenditure being subsequently overstated by the same amount and an understatement of accumulated surplus.

43. Prior-year adjustments (continued)

Bad debts were also incorrectly classified to debt impairment by R 2 675 702 resulting in an overstatement of debt impairment.

Bulk purchases

In the 2019/2020 annual financial statements, water consumed was incorrectly calculated resulting in an overstatement of bulk purchases by R21 084.78 and an understatement of accumulated surplus.

Contracted services

Contracted services were overstated by R 22 047 in 2019/2020 due to VAT being incorrectly expensed. The error resulted in expenditure being overstated and accumulated surplus being understated by the same amount.

Loss on disposal of assets

In the 2019/2020 annual financial statements, a loss on disposal of property, plant & equipment of R 528 849 was not recorded in the Annual Financial Statements. The omission resulted in expenditure being understated by R 528 849 and overstatement of accumulated surplus by R 528 849.

Fair value adjustments

A fair value loss adjustment of R861 818 on investment property was not accounted for in the Annual Financial Statements in the year 2019/2020 resulting in an understatement of expenditure and an overstatement of accumulated surplus by R861 818.

General expenses

In the 2019/2020 annual financial statements, there was an error relating insurance. An amount of R7 350 000 was incorrectly expensed to insurance resulting in overstatement of general expenditure and understatement of accumulated surplus.

Bad debts

The bad debts amount in the prior financial year amounting to R 2 675 702 was not disclosed separately in the 2020 annual financial statements. This resulted in an understatement of bad debts by R2 675 702.

Transfers & subsidies

Inventory consumed was incorrected named transfers & subsidies on the face of the annual financial statements in 2019/2020. In 2020/2021 it was then correctly renamed to its substance as Inventory consumed. The change in description has no impact on the figure reported.

<u>Disclosures</u>

Contingencies

In the 2019/2020 annual financial statements, there was a typing error on the Smart and Safer Solutions (PTY) LTD VS Dipaleseng Local Municipality.

The litigation amount was captured as R252 000 instead of R2 500 200 resulting in an overstatement of contingencies by R 199 800.

In the 2019/2020 annual financial statements, the following cases which did not meet the GRAP requirement of contingencies were incorrectly included.

TMN Kgomo and Associates issued an notice to institutes legal action against Dipaleseng LM for unpaid invoices for an amount of R 207 644.

Eskom issued provisional summons to the municipality due to default on the signed repayment plan. The Municipality is defending the matter in court. The total estimated litigation amount is R 10 121 277.

43. Prior-year adjustments (continued)

Department of Water and Sanitation (DWS) is claiming payment in respect of water consumption from April 2013 until 31 August 2016, The Municipality is defending the matter in court. The total estimated litigation amount is R 19 668 311.

In the 2019/2020 annual financial statements, the following cases which met GRAP 19 requirement of contingencies were incorrectly excluded.

NOTICE IN TERMS OF SECTION 3(1) OF THE INSTITUTION OF LEGAL PROCEEDINGS AGIANST CERTAIN ORGANS OF STATE ACT NO 40 OF 2002. The total estimated litigation amount is R 1 000 000
KF PHETLA PROJECTS CC. The total estimated litigation amount is R 293 817

The net effect of the consolidated above errors resulted in contingencies being overstated by R 9 234 904.

Related Parties

Councillors remuneration

In the prior year the mayoral committee and the councillors remuneration of R3 488 914 & R5 954 180 respectively were not disclosed in the 2019/2020 Annual Financial Statements. The amounts have been restated in the current year under note 43.

Remuneration of key management

In the prior year the remuneration of key management amounting to R 61 800 905 was incorrectly disclosed as R 55 888 828 resulting in an understatement of R5 912 077 in note 28. The amounts have been restated in the current year under note 28.

Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

In the prior year financial statements, an amount of R 588 670 was incorrectly disclosed as owing to SALGA (South African local government association. A correction was made in the current financial year under note 52.

Water Losses

In the 2020 financial year there was an error in the water losses amount disclosed as there was no basis for calculation. In the 2021 financial year, management restated the prior year figure from R 12 488 785 to R 371 492.

Statement of financial position

Current Assets

	Note	As previously reported	Correction of error	Restated
Inventories	7	126 653	3 389 501	3 516 154
Receivables from exchange transactions	8	31 678 329	111 437 109	143 115 438
Prepayments		26 492 283	(20 342 283)	6 150 000
Receivables from Non exchange transactions	9	17 451 516	3 377 021	20 828 537
		75 748 781	**97 861 348**	**173 610 129**

Non Current Assets

	Note	As previously reported	Correction of error	Restated
Investment Property	3	38 847 122	3 381 980	42 229 102
Property, plant and equipment	4	653 404 134	3 617 190	657 021 324
Intangible Asset	5	98 163	(14 357)	83 806
		692 349 419	**6 984 813**	**699 334 232**

Figures in Rand	2021	2020

43. Prior-year adjustments (continued)

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Payables from exchange transactions	13	151 473 636	(27 735 302)	-	123 738 334
Vat Payable	14	22 276 213	(214 885)	-	22 061 328
Employee Benefit Obligation		12 451 000	-	(11 812 000)	639 000
Unspent grants and receipts	11	61 378 351	-	(61 326 851)	51 500
Other Loans	55	-	-	61 326 851	61 326 851
		247 579 200	**(27 950 187)**	**(11 812 000)**	**207 817 013**

Non Current Liabilities

	Note	As previously reported	Correction of error	Re-classification	Restated
Employee benefit obligations		-	-	11 812 000	11 812 000
Provisions	12	32 823 860	74 945 836	-	107 769 696
		32 823 860	**74 945 836**	**11 812 000**	**119 581 696**

Net Assets

	Note	As previously reported	Correction of error	Restated
Accumulated Surplus		489 196 025	57 850 512	547 046 537

Statement of financial performance

Revenue

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges	18	109 497 056	-	(1 484 778)	108 012 278
Other Income		272 246	-	(272 246)	-
Fines, Penalties and Forfeits	20	1 372 250	5 607	-	1 377 857
Public Contributions and Donations	26	915 491	611 407	-	1 526 898
Sale of goods		-	-	1 757 024	1 757 024
Surplus for the year		**112 057 043**	**617 014**	**-**	**112 674 057**

Expenditure

	Note	As previously reported	Correction of error	Re-classification	Restated
Depreciation and amortisation	29	25 084 157	65 991	-	25 150 148
(Reversal of impairments) Impairment loss	30	-	(263 949)	-	(263 949)
Debt impairment	32	87 493 965	(54 246 255)	-	33 247 710
Bad debts written off		-	2 675 702	-	2 675 702
Bulk purchases	33	68 692 031	(13 264)	-	68 678 767
Contracted services	34	16 732 883	(22 047)	-	16 710 836
Loss on disposal of assets		1 711 655	(528 849)	-	1 182 806
Fair value adjustments		-	861 818	-	861 818
Inventory consumed		-	-	5 287 264	5 287 264
Transfers & Subsidies		5 287 264	-	(5 287 264)	-
General Expenses	35	27 540 739	(7 355 424)	-	20 185 315
Surplus for the year		**232 542 694**	**(58 826 277)**	**-**	**173 716 417**

Figures in Rand	2021	2020

44. Comparative figures

Certain comparative figures have been reclassified.

45. Risk management

Financial risk management

Liquidity risk

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

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	175 062 850	-	-	-
Consumer deposits	1 725 617	-	-	-

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	123 738 334	-	-	-
Consumer deposits	1 614 857	-	-	-

The Municipality does not have any non-derivative financial instruments with contractual obligations and maturity dates.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

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

Financial instrument	2021	2020
Cash and cash equivalents	6 454 128	3 115 741
Receivables from exchange transactions	174 955 027	143 115 438
Receivables from non-exchange transactions	16 384 063	20 828 357

Market risk

Interest rate risk

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

46. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 637 889 893 and that the municipality's total assets exceed its liabilities by R 637 889 893.

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.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

46. Going concern (continued)

The municipality is substantially dependent on the government for continued funding of operations. Dipaleseng Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.The Municipality has been affected by the Covid-19 pandemic which resulted in a lockdown from 26 March 2020. The lockdown has affected the implementation of the municipality projects and other other operations in the municipality. The effects of the pandemic have been assessed to date and no significant threats have been identified which could impact on the going concern of the Municipality.

The municipality has reviewed the cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, the municipality is satisfied that it has access to adequate resources to continue in operational existence for the foreseeable future.

We draw attention to the fact that at 30 June 2021, the municipality's current liabilities exceeded its current assets by R 5 800 215.

The Municipality had challenges in paying its creditors within the 30 day payment policy. There was also a challenge in the collection from debtors during the 2021 financial year. This has now prompted the Municipality to embark on a revenue recovery programme in the 2022 financial year in order to improve its cash flow.

The municipality has reviewed its working capital for the year to 30 June 2021 and, in the light of this review the municipality is satisfied that the working capital is adequate for it to continue in operational existence for the foreseeable future.

47. Events after the reporting date

There were no subsequent events after the reporting date.

48. Unauthorised expenditure

Opening balance as previously reported	217 116 960	202 752 310
Opening balance as restated	**217 116 960**	**202 752 310**
Add: Expenditure identified - current	26 087 611	14 364 650
Closing balance	**243 204 571**	**217 116 960**

49. Fruitless and wasteful expenditure

Opening balance as previously reported	22 301 221	14 848 014
Opening balance as restated	**22 301 221**	**14 848 014**
Add: Expenditure identified - current	-	7 453 207
Closing balance	**22 301 221**	**22 301 221**

50. Irregular expenditure

Opening balance as previously reported	160 664 052	133 884 222
Opening balance as restated	**160 664 052**	**133 884 222**
Add: Irregular Expenditure - current	3 317 530	692 937
Add: Irregular Expenditure - prior period	-	24 833 424
Add Irregular Expenditure - current period (Not advertised)	-	1 178 789
Add Irregular Expenditure - (Three quotes not sourced)	-	74 680
Closing balance	**163 981 582**	**160 664 052**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

50. Irregular expenditure (continued)

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year fee	-	588 670
Amount paid - current year	-	(588 670)
	-	**-**

Material distribution losses		
Distribution loss- electricity	19 242 496	9 299 003
Distribution loss -Water	215 696	371 492
	19 458 192	**9 670 495**

Electricity losses

Electricity distribution losses for the current year increased to R19 242 496 (2020: R9 299 003). These electricity distribution losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network and non-technical losses being theft, faults etc. Attempts are currently being made to reduce these non-technical losses.

Water losses

Water losses comprises of water lost during the production process estimated at 5% of production. The water losses amount to R 215 696.27 (2019: R371 492.12)

Other material losses

Audit fees

Opening balance	3 893 533	2 386 953
Current year fee	5 579 676	6 008 891
Amount paid - current year	(4 964 365)	(4 502 311)
	4 508 844	**3 893 533**

PAYE and UIF

Opening balance	3 348 993	742 964
Current year subscription / fee	9 918 018	10 001 675
Amount paid - current year	(10 313 910)	(7 395 646)
	2 953 101	**3 348 993**

Pension and Medical Aid Deductions

Opening balance	6 931 216	1 345 205
Current year subscription / fee	10 713 280	17 073 299
Amount paid - current year	(17 644 496)	(11 487 288)
	-	**6 931 216**

The amount represents pension and medical aid contributions deducted from employees.

VAT

VAT payable	24 395 177	22 061 328

50. Irregular expenditure (continued)

Vat is paid over to SARS only once the payment is received from Debtors and is receivable from SARS once the payment has been made to Creditors. The amount above represents the amount immediately receivable/(payable) from/(to) SARS as at year end.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr SME Nhlapo	979	4 571	5 550
Cllr PP Moeketsi	2 960	20 888	23 848
Cllr W Davel	2 062	-	2 062
Cllr MF Dlamini	1 516	10 239	11 755
Cllr L Makhubu	1 352	18 908	20 260
Cllr K Nyamade	3 823	146 478	150 301
Cllr R Ngwenya	1 271	5 838	7 109
Cllr DE Moeketsi	2 399	76 022	78 421
Cllr MD Khanye	1 683	-	1 683
Cllr M Rantshema	1 243	14 985	16 228
Cllr S Shongwe	1 023	12 944	13 967
	20 311	**310 873**	**331 184**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr AK Nyamade	3 360	132 353	135 713
Cllr Z& H Nkosi	3 630	32 325	35 955
Cllr ML Makhubu	1 216	13 779	14 995
Cllr BK Nkosi/Moeketsi	2 606	9 773	12 379
Cllr MF Dlamini	1 334	4 548	5 882
Cllr LR Ngwenya	1 215	810	2 025
Cllr MD Khanye	1 630	239	1 869
Cllr SME Nhlapho	871	894	1 765
	15 862	**194 721**	**210 583**

During the year there are no Councillors’ that had arrear accounts outstanding for more than 90 days.

30 June 2021	Highest outstanding amount	Aging (in days)
Cllr K Nyamade	150 301	-
Cllr DE Moeketsi	78 421	-
Cllr PP Moeketsi	23 847	-
Cllr L Makhubu	20 261	-
Cllr M Rantshema	16 228	-
Cllr S Shongwe	13 967	-
Cllr MF Dlamini	11 755	-
Cllr R' Ngwenya	7 109	-
Cllr SME Nhlapo	5 550	-
Cllr W Davel	2 062	-

Figures in Rand	2021	2020

50. Irregular expenditure (continued)

Cllr MD Khanye	1 683	-
	331 184	**-**

30 June 2020	Highest outstanding amount	Aging (in days)
Cllr AK Nyamade	135 713	1 430
Cllr Z& H Nkosi	35 955	1 095
Cllr ML Makhubu	14 995	365
Cllr Nkosi/Moeketsi	12 379	791
Cllr MF Dlamini	5 882	365
Cllr LR Ngwenya	2 025	120
Cllr MD Khanye	1 869	90
Cllr SME Nhlapho	1 765	150
	210 583	**4 406**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

50. Irregular expenditure (continued)

Supply chain management regulations

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

Multiple items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Incident		
Emergency	3 240 869	14 736 415
Sole Provider/Accredited Agents	-	52 173
Impractical or Impossible to follow the process	76 661	56 677
Minor Breaches	409 148	3 584 508
	3 726 678	**18 429 773**

52. Budget differences

Material differences between budget and actual amounts

In terms of MFMA section 31 and Virement Policy of the municipality, the municipality can shift funds within budget parameters.The changes between Schedule B (Final Approved Budget) and Final Budget were due to reallocation within budget parameters.

In this disclosure, materiality has been assumed to be all the variance which are 10% or more. Below are explanation of differences identified:

Sale of goods

There was an increase in town planning documentation sales

Interest income

Significant amounts transferred to the investment account from the main account during the year.

Public donations

No donation was anticipated in the current year, hence there is no budget

Impairment loss

There was no anticipation of reversal from historical experience

Finance costs

No invoices were being received from DWS (Major creditor), therefore payments were not being made and interest was being accrued

Bulk purchases

DWS invoices were captured in June after the adjustment budget had been concluded on.

General expenditure

There was an error on prior year insurance costs which caused the basis of budgeting on the 2021 financial year to be less informed

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

52. Budget differences (continued)

Fair value adjustments

No fair value adjustments were anticipated

Inventories

Error in budgeting

Receivables from non-exchange transactions

The municipality anticipated its Debtors to increase due to the impact of Covid 19, however the customer payment rate was not materially impacted

Prepayments

There was no anticipation of advance payments by the municipality

Consumer debtors

Error in budgeting

Cash and cash equivalents

Error in cash flow budgeting

Investment property

Anticipation of fair value adjustment of investment property

Property, plant and equipment

Anticipated more asset write offs on PPE

Intangible assets

Anticipated more intangible asset purchases (ie - computer licensing)

Payables from exchange transactions

Variance due to more unanticipated debt from creditors

Employee benefit obligation

Due to change in valuation service providers, a more prudent amount was budgeted for

Unspent conditional grants

Anticipated RBIG grant to have a balance however the entire amount was transferred to the District

Other loans

There was an anticipation that there would be no unspent grants (nature of loan is an unspent grant - refer to 2020 RBIG) however due to cash flow constraints, there was still a balance outstanding

Provisions

Anticipated landfill site to have been complete

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

52. Budget differences (continued)

Rental of facilities and equipment

Anticipated collection of revenue resulted to be more than the actual billing and collected revenue. Variance in amount considered to be immaterial by management

Licences and permits

Error in budgeting

Fines, Penalties and Forfeits

Anticipated revenue and collected revenue resulted to be more than the actual billing and collected revenue. However, variance in amount. Variance in amount considered to be immaterial by management

VAT payable

Error in budgeting

Consumer deposits

Anticipated deposits to be withheld resulted being less than the actual deposit figures. Variance in amount considered to be immaterial by management.

53. Prepayments

The municipality has prepaid RM Solutions an amount of R2 883 334 as at 30 June 2021 (R 6 150 000 - 2020).

The municipality has prepaid an amount of R 5 079 594 on the RBIG Project to Gert Sibande District

In aggregate, the prepayment amount for the year ended 30 June 2021 amounted to R 7 926 927.

54. Accounting by principals and agents

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

Entity as agent

Resources held on behalf of the principal(s), but recognised in the entity's own financial statements

The municipality has a payable to the Department of Community Safety, Security and Liaison.

The expected timing of remittance of resources from the principal is on a monthly basis.

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R5 539 649 (2020: R4 769 157).

Dipaleseng Local Municipality entered into transaction with the Department of Community Safety, Security and Liaison through the Licencing operations which run through the financial year where the Municipality earns a commission of 20% and payment over 80% to the Department.

Entity as principal

Resources (including assets and liabilities) of the entity under the custodianship of the agent

Figures in Rand	2021	2020

54. Accounting by principals and agents (continued)

Ontec Systems (Pty) Ltd sells prepaid electricity on behalf of the Municipality.

The municipality has no receivable from Ontec Pty (Ltd) for vending of prepaid electricity.

The expected timing of remittance of resources by the agent to the Municipality is on a monthly basis.

Ontec Systems (Pty) Ltd will use its own equipment and software to management the vending of prepaid electricity. The system will ensure a 24-hour platform for prepaid electricity purchase 7 days a week of the month which enhances revenue to the Municipality.

Significant changes

There were no significant changes in the terms and conditions of the agreement between the Municipality and Ontec (Pty) Ltd during the year.

Fee paid

Fee paid as compensation to the agent	735 055	1 081 826

In the prior year the agent fee paid was to Conlog (Pty) Ltd for the same service and the contract expired in the prior year. The current year fee was paid to Ontec Systems (Pty) Ltd.

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

Either party may terminate the contract if the other party fails to cure any material breach of the contract within 30 days of written notice.

Unless the agreement is terminated on account of a breach by the Municipality Ontec shall use commercially reasonable efforts to transition to a new service provider.

55. Other loans

The R 12 400 000 (R 61 378 350 - 2020) relates to an outstanding payable to National Treasury as a result of a disallowed roll over on Regional Bulk Infrastructure Grant.