



Emakhazeni Local Municipality
Annual Financial Statements
for the year ended 30 June 2023

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity	MP314 - Local Municipality. The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structures Act 117 of 1998, Municipal Systems Act 32 of 2000, and various other acts and regulations.
Nature of business and principal activities	<p>Municipality -provide democratic and accountable government for the community</p> <ul style="list-style-type: none">- to ensure the provision of services to the community in a sustainable manner;- to promote social and economic development;- to promote a safe and healthy environment; and- to encourage the involvement of the community and community organisations in the matters of the municipality. <p>Legislation governing the operations of the municipality includes but are not limited to the following:</p> <ul style="list-style-type: none">- Municipal Structures Act 117 of 1998 Local Government- Municipal Systems Act 32 of 2000 Local Government- Municipal Finance Management Act 56 of 2003
Jurisdiction	<p>Emakhazeni Local Municipality is located in the Mpumalanga province of South Africa and is one of six municipalities under the jurisdiction of the Nkangala District Municipality.</p> <ul style="list-style-type: none">- Belfast- Dullstroom- Emgwenya- eNtokozweni- Machadodorp- Sakhelwe- Siyathuthuka- Waterval Boven
Legislation governing the municipality's operations	<p>Local Government: Municipal Finance Management Act (Act No. 56 of 2003)</p> <p>Local Government: Municipal Systems Act (Act No. 32 of 2000)</p> <p>Government: Municipal Structures Act (Act No. 117 of 1998)</p> <p>Constitution of the Republic of South Africa (Act No. 108 of 1996)</p> <p>Municipal Property Rates Act (Act No.6 of 2004)</p> <p>Division of Revenue Act (Act No.9 of 2021)</p>
Grading of local authority	<p>South African municipalities are graded from Grade 1 to Grade 6, with Grade 1 being the smallest. Emakhazeni Local Municipality is a low capacity (grade 2) municipality.</p>
Executive Mayor Speaker Chief Whip	<p>Cllr. J.M. Mabila (Ward 2) - Acting Executive Mayor from June 2023</p> <p>Cllr. N.A. Mashele (Proportional)</p> <p>Cllr. S.P. Mthimunye (Ward 8)</p>
Mayoral Committee: Technical & Community services Mayoral Committee: Finance, Internal Audit & Risk Mayoral Committee: Corporate Service	<p>Cllr. J.M. Mabila (Ward 2)</p> <p>Cllr. S.S. Mthimunye (Ward 4)</p> <p>Cllr. N.B. Nkosi (Ward 5)</p>
Councillors	<p>Cllr. A.T. Lukhele (Ward 1)</p> <p>Cllr. D.M. Mahlangu (Ward 3) - Chairperson of MPAC</p> <p>Cllr. S.C. Nkosi (Ward 6)</p> <p>Cllr. S.S. Ndimande (Ward 7)</p> <p>Cllr. S.I. Skosana (Proportional)</p> <p>Cllr. D.M. Hepburn (Proportional)</p> <p>Cllr. Z.E. Mthimunye (Proportional)</p>

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	<p>Cllr. F.N. Nhlapho (Proportional)</p> <p>Cllr. D. Janse van Rensburg (Proportional) - From February 2023</p> <p>Cllr S.L. Ndinisa (Proportional) - From June 2023</p>
Non-Returning Councillors:	<p>Executive Mayor - Cllr.T.D. Ngwenya (Proportional) - Until June 2023</p> <p>Councillor - Cllr. D.F. Maseko (Proportional) - Until December 2022</p>
Accounting Officer (Municipal Manager)	<p>Mr. G. Mthimunye - Contract ended in July 2022</p> <p>Mrs. S. Tseka - Acted in August 2022</p> <p>Mr. A.M. Tshesane - Acted from September 2022 to October 2022</p> <p>Mr. J. Shabangu - Appointed as the Municipal Manager from November 2022</p>
Chief Financial Officer	<p>Mr. A.M. Tshesane</p> <p>Mrs. T. Lengwate - Seconded as Acting CFO from Nkangala District Municipality from September 2022 to October 2022 while Mr Tshesane was appointed as acting Municipal Manager</p>
Manager Infrastructure, Planning and Social Development	<p>Mrs. S. Tseka - Appointed from November 2021 to February 2023</p> <p>Mrs. D Malope - Acting from March 2023 to June 2023</p>
Manager Corporate Services	<p>Mr. M.J. Sibanyoni - Acting from July 2021 to August 2022 & from March 2023 to June 2023</p> <p>Mrs. D Malope - Appointed from September 2022 and acted as Manager: Infrastructure, Planning and Social Development from March 2023 to June 2023</p>

Emakhazeni Local Municipality

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General Information

Business address	25 Scheepers Street Belfast 1100
Postal address	P.O Box 17 Belfast 1100
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Adonisi Moletsane Malepane Moloi Incorporated B.V Mbungela Attorneys K.T Mokoena Attorneys M.B Mabunda Attorneys Mohlala Attorneys Mmakola Matsimela Incorporated Attorneys Nkgadima and Associates Attorneys Raphela Attorneys Nomaswazi Shabangu Attorneys
Municipal Website	www.emakhazeni.gov.za Tel: (013) 253 7600
Audit and performance committee	Ms. Fikile Mudau - Chairperson Ms. Jane Masite - Member Adv. JL Thubakgale - Member Ms. Mathabiso Chamane - Member Ms. Patience Ntuli - Member
Risk management anti-fraud, anti-corruption committee	Mr. Trevor Boltman - Chairperson

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

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Abbreviations used:

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
VAT	Value added tax
UIF	Unemployment insurance fund

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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.

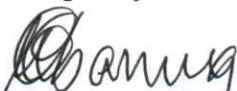
The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal 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 2024 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 municipality is wholly dependent on municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's internal auditors.

The annual financial statements set out from page 6, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 August 2023.



Mr J.W. Shabangu
Municipal Manager
31 August 2023

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	7,518,032	22,126,121
VAT receivable	4	10,242,524	4,385,939
Receivables from exchange transactions	5	26,867,991	27,015,425
Receivables from non-exchange transactions	6	15,265,140	5,338,849
Inventories	7	2,138,656	2,422,976
		62,032,343	61,289,310
Non-Current Assets			
Property, plant and equipment	8	1,509,693,809	1,561,383,177
Investment property	9	259,003,872	254,174,556
Intangible assets	10	26,489	36,061
Heritage assets	11	114,324	114,324
		1,768,838,494	1,815,708,118
Total Assets		1,830,870,837	1,876,997,428
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	300,955,202	233,546,588
Consumer deposits	13	1,921,049	2,025,901
Unspent conditional grants and receipts	14	1,950,587	-
Employee Benefit Obligations	15	920,000	871,759
		305,746,838	236,444,248
Non-Current Liabilities			
Employee Benefit Obligations	15	18,825,000	16,712,200
Provisions	16	72,919,489	62,710,341
		91,744,489	79,422,541
Total Liabilities		397,491,327	315,866,789
Net Assets		1,433,379,510	1,561,130,639
Accumulated surplus		1,433,379,510	1,561,130,639
Total Net Assets		1,433,379,510	1,561,130,639

* See Note 41

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	116,029,506	116,742,021
Sale of goods and rendering of services	18	579,571	500,904
Operational revenue	19	804,305	2,159,778
Interest, dividends and rent on land	20	17,941,445	21,876,645
Actuarial gains		315,106	3,689,113
Fair value adjustments		4,829,317	-
Total revenue from exchange transactions		140,499,250	144,968,461
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	96,023,369	76,382,159
Transfer revenue			
Transfers and subsidies	22	139,169,128	182,071,293
Fines, Penalties and Forfeits	23	3,153,316	3,884,763
Total revenue from non-exchange transactions		238,345,813	262,338,215
Total revenue		378,845,063	407,306,676
Expenditure			
Employee related costs	24	(123,406,298)	(114,584,792)
Remuneration of councillors	25	(7,245,372)	(7,267,467)
Depreciation and amortisation	26	(75,901,112)	(110,055,195)
Impairments of non-current assets and inventories	27	(28,407,802)	(12,974,448)
Interest, dividends and rent on land	28	(20,693,148)	(13,164,330)
Debt Impairment	29	(92,284,407)	(63,440,851)
Bad debts written off	30	-	(11,819,038)
Bulk purchases	31	(69,777,063)	(72,690,722)
Contracted services	32	(38,945,329)	(37,513,270)
Loss on disposal of assets and liabilities	33	(2,650,413)	(33,553,766)
Inventories consumed	34	(16,664,595)	(17,414,602)
Operational cost	35	(29,338,436)	(29,680,605)
Operating leases	36	(1,282,209)	(982,962)
Total expenditure		(506,596,184)	(525,142,048)
Deficit for the year		(127,751,121)	(117,835,372)

* See Note 41

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Statement of Changes in Net Assets

	Accumulated surplus / deficit	Total net assets
2021		
Closing balance as previously reported	(1,751,881,218)	(1,751,881,218)
Prior period errors	(74,890,851)	(74,890,851)
Balance at 1 July 2021 as Restated*	(1,826,772,069)	(1,826,772,069)
2022		
Restated opening balance	(1,826,772,069)	(1,826,772,069)
Prior period errors	147,806,063	147,806,063
Surplus for the year	117,835,377	117,835,377
Balance at 1 July 2022 as Restated*	(1,561,130,629)	(1,561,130,629)
2023		
Surplus for the year	127,751,118	127,751,118
Balance at 30 June 2023	(1,433,379,511)	(1,433,379,511)

* See Note 41

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		69,311,458	91,776,538
Rates received		55,469,560	56,757,122
Grants received		141,070,387	145,140,505
Finance income		1,812,998	586,433
Other receipts		3,461,599	13,786,644
		<u>271,126,002</u>	<u>308,047,242</u>
Payments			
Employee costs		(133,519,476)	(114,507,494)
Suppliers		(80,836,111)	(68,993,314)
Finance cost		(17,111,156)	(5,819,858)
VAT Receivable / (Payable)		(5,856,585)	(8,181,460)
		<u>(237,323,328)</u>	<u>(197,502,126)</u>
Net cash flows from operating activities	37	<u>33,802,674</u>	<u>110,545,116</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(48,410,764)	(89,702,836)
Purchase of investment property	9	-	(190,966)
Net cash flows from investing activities		<u>(48,410,764)</u>	<u>(89,893,802)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(14,608,090)</u>	<u>20,651,314</u>
Cash and cash equivalents at the beginning of the year		22,126,121	1,474,807
Cash and cash equivalents at the end of the year	3	<u>7,518,031</u>	<u>22,126,121</u>

* See Note 41

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	139,152,000	(19,496,000)	119,656,000	116,029,506	(3,626,494)
Sale of goods and rendering of services	-	-	-	579,571	579,571
Operational revenue	4,229,000	(1,445,000)	2,784,000	804,305	(1,979,695)
Interest, dividends and rent on land (Exchange revenue)	6,435,000	9,287,000	15,722,000	17,941,445	2,219,445
Actuarial gains	-	-	-	315,106	315,106
Fair value adjustments	-	-	-	4,829,317	4,829,317
Total revenue from exchange transactions	149,816,000	(11,654,000)	138,162,000	140,499,250	2,337,250

Revenue from non-exchange transactions

Taxation revenue

Property rates	69,438,000	4,153,000	73,591,000	96,023,369	22,432,369
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Transfer revenue

Transfers and subsidies	139,155,000	-	139,155,000	139,169,128	14,128
Fines, Penalties and Forfeits	10,537,000	(6,069,000)	4,468,000	3,153,316	(1,314,684)

Total revenue from non-exchange transactions	219,130,000	(1,916,000)	217,214,000	238,345,813	21,131,813
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Total revenue	368,946,000	(13,570,000)	355,376,000	378,845,063	23,469,063
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Expenditure

Employee related cost	(121,379,000)	-	(121,379,000)	(123,406,298)	(2,027,298)
Remuneration of councillors	(8,611,000)	-	(8,611,000)	(7,245,372)	1,365,628
Depreciation and amortisation	(49,450,000)	-	(49,450,000)	(75,901,112)	(26,451,112)
Impairments of non-current assets	-	-	-	(28,407,802)	(28,407,802)
Interest, dividends and rent on land (Expense)	(4,000,000)	(13,544,000)	(17,544,000)	(20,693,148)	(3,149,148)
Debt Impairment	(50,000,000)	-	(50,000,000)	(92,284,407)	(42,284,407)
Bulk purchases	(76,000,000)	(3,315,000)	(79,315,000)	(69,777,063)	9,537,937
Contracted Services	(20,838,000)	(12,140,000)	(32,978,000)	(38,945,329)	(5,967,329)
Lost on disposal of assets and liabilities	(650,000)	-	(650,000)	(2,650,413)	(2,000,413)
Inventory consumed	(29,608,000)	(9,868,000)	(39,476,000)	(16,664,595)	22,811,405
Operational cost	(23,771,000)	(447,000)	(24,218,000)	(29,338,436)	(5,120,436)
Operational leases	-	-	-	(1,282,209)	(1,282,209)

Total expenditure	(384,307,000)	(39,314,000)	(423,621,000)	(506,596,184)	(82,975,184)
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Surplus/(deficit)	(15,361,000)	(52,884,000)	(68,245,000)	(127,751,121)	(59,506,121)
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Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Statement of Financial Position

Assets

Current Assets

Cash and cash equivalents	86,198,000	(85,842,000)	356,000	7,518,032	7,162,032	
VAT receivable	-	-	-	10,242,524	10,242,524	
Receivables from exchange transactions	20,795,000	56,573,000	77,368,000	26,867,991	(50,500,009)	
Receivables from non-exchange transactions	156,225,000	13,814,000	170,039,000	15,265,140	(154,773,860)	
Inventories	(24,487,000)	(9,868,000)	(34,355,000)	2,138,656	36,493,656	
	238,731,000	(25,323,000)	213,408,000	62,032,343	(151,375,657)	

Non-Current Assets

Property, plant and equipment	1,521,183,000	(9,842,000)	1,511,341,000	1,509,693,809	(1,647,191)	
Investment property	260,601,000	(3,850,000)	256,751,000	259,003,872	2,252,872	
Intangible assets	300,000	-	300,000	26,489	(273,511)	
Heritage assets	114,000	-	114,000	114,324	324	
	1,782,198,000	(13,692,000)	1,768,506,000	1,768,838,494	332,494	

Total Assets

	2,020,929,000	(39,015,000)	1,981,914,000	1,830,870,837	(151,043,163)	
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Liabilities

Current Liabilities

Payables from exchange transactions	136,228,000	(13,870,000)	122,358,000	300,955,201	178,597,201	
Consumer deposits	1,855,000	3,710,000	5,565,000	1,921,049	(3,643,951)	
Unspent conditional grants and receipts	-	-	-	1,950,587	1,950,587	
Employee Benefit Obligations	-	-	-	920,000	920,000	
Provisions	3,961,000	7,922,000	11,883,000	-	(11,883,000)	
	142,044,000	(2,238,000)	139,806,000	305,746,837	165,940,837	

Non-Current Liabilities

Employee Benefit Obligations	-	-	-	18,825,000	18,825,000	
Provisions	145,573,000	-	145,573,000	72,919,489	(72,653,511)	
	145,573,000	-	145,573,000	91,744,489	(53,828,511)	

Total Liabilities

	287,617,000	(2,238,000)	285,379,000	397,491,326	112,112,326	
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Net Assets

	1,733,312,000	(36,777,000)	1,696,535,000	1,433,379,511	(263,155,489)	
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Net Assets

Reserves

Accumulated surplus	1,733,312,000	(36,777,000)	1,696,535,000	1,433,379,510	(263,155,490)	
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Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	128,731,000	(56,552,000)	72,179,000	69,311,458	(2,867,542)
Rates received	66,878,000	(3,322,000)	63,556,000	55,469,560	(8,086,440)
Grants received	139,155,000	-	139,155,000	141,070,387	1,915,387
Interest income	3,200,000	(1,560,000)	1,640,000	1,812,998	172,998
Other receipts	22,610,000	4,164,000	26,774,000	3,461,599	(23,312,401)
	360,574,000	(57,270,000)	303,304,000	271,126,002	(32,177,998)

Payments

Cash paid to employees	(281,207,000)	-	(281,207,000)	(133,519,476)	147,687,524
Cash paid to suppliers	-	-	-	(80,836,111)	(80,836,111)
Finance cost	(4,000,000)	-	(4,000,000)	(17,111,156)	(13,111,156)
VAT Receivable / Payable	-	-	-	(5,856,585)	(5,856,585)
	(285,207,000)	-	(285,207,000)	(237,323,328)	47,883,672

Net cash flows from operating activities	75,367,000	(57,270,000)	18,097,000	33,802,674	15,705,674
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Cash flows from investing activities

Purchase of property, plant and equipment	(67,834,000)	9,692,000	(58,142,000)	(48,410,764)	9,731,236
Net increase/(decrease) in cash and cash equivalents	7,533,000	(47,578,000)	(40,045,000)	(14,608,090)	25,436,910
Cash and cash equivalents at the beginning of the year	78,665,000	-	78,665,000	22,126,121	(56,538,879)
Cash and cash equivalents at the end of the year	86,198,000	(47,578,000)	38,620,000	7,518,031	(31,101,969)

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Significant accounting policies

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

1.1 Basis of preparations

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

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

In terms of paragraph 3.23 of the GRAP Conceptual Framework users of General Purpose Financial Reports (GPFRs) are assumed to have a reasonable knowledge of the entity's activities and the environment in which it operates, to be able and prepared to read GPFRs, and to review and analyse the information presented with reasonable diligence. Therefore, reasonable GRAP knowledge is assumed and the Standard's definitions, recognition criteria and specific requirements are not repeated in the Accounting Policies, being the Standard and not an Accounting Policy.

The Statement of Financial Performance has been prepared to classify expenses by nature, whilst revenue is classified in a manner appropriate to the municipality's operations. The Cash Flow Statement has been prepared using the Direct Method.

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.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All figures are rounded to the nearest Rand.

1.3 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months. based on the expectation that it will receive grant funding from Government to ensure the settlement of liabilities as they become due.

1.4 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.

1.5 Significant judgements and sources of estimation uncertainty

In the application of the municipality's accounting policies, which are described above, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered to reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

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Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Revenue Recognition

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Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (Revenue from Exchange Transactions) and GRAP 23 (Revenue from Non-exchange Transactions). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

• Estimation of Meter Readings:

Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

• Estimation of unused Prepaid Metered Services (Pre-paid electricity):

Pre-paid electricity is only recognised as electricity is consumed. An accrual for payments received in advance is made based on pre-paid electricity sold at year-end, but still unused. The estimate is based on the average monthly consumption of consumers over an 11 month period (July till May) compared to the electricity consumption in June. If the electricity consumption (units) in June was above the 11 month average, the municipality is of the opinion that those units will only be used by the consumer in the next financial year and therefore the income from those units will be regarded as income received in advance.

• Revenue from Traffic Fines:

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Non exchange receivables arising from traffic fines are measured at the best estimate based on expected inflows of economic benefits to the municipality.

Loans and receivables

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

The impairment for loans and receivables is first for individually significant loans and receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and poor payment history/default of payments are all considered indicators of impairment.

For loans and receivables 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 loan's or receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

Allowance for slow moving, damaged and obsolete stock:

An assessment is made of net realisable value of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided.

The write down is included in the operation surplus or deficit.

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

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

reasonably possible that the selling price assumption may change, which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Value in use of cash-generating assets:

The municipality reviews and tests the carrying value of cash -generating 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 assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors such as exchange rates and inflation interest.

Value in use of non-cash-generating asset:

The municipality reviews and tests the carrying value of non-cash-generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Internally generated intangible assets and intangible assets with an indefinite useful life are tested for impairment on an annual basis.

Provisions:

Provisions were raised and management determined an estimate based on the information available. The provision is discounted when the time value of money is material. Additional disclosures of these estimates of provisions are included in note 16 - Provisions

Useful lives of property, plant and equipment and other assets:

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more 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 post-retirement and long- term obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government 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 or other long-term liability. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality 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.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Allowance for doubtful debts:

On trade receivables from exchange and non-exchange, 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 trade receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

The provision for doubtful debt is determined by taking into account the payment rate by exchange receivable (consumer debtor), indigent status and whether the consumer debtor has a credit balance at financial year end.

Non-exchange receivables (Traffic fine debtors) have been impaired taking into account historical payment rates by these non-exchange receivables.

Budget Information:

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences (between budget and actual amounts) are explained in the notes to the annual financial statements.

Water Inventory:

The estimation of the Water Inventory in reservoirs is based on actual dip readings, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end.

Capitalisation of Capital Assets:

Judgement by management is required to distinguish between expenses incurred to maintain and repair capital assets and expenses incurred that will increase the remaining useful life of capital assets and needs to be capitalised to capital assets.

Recognition and Derecognition of Land:

The municipality assesses whether it controls or does not control land by considering the principles contained in IGRAP 18.

The municipality is assessed to control land of which it is not the legal owner or the custodian and relevant transactions are accounted for per the requirements of the relevant Standards of GRAP and the required disclosures are made in the relevant Notes to the Financial Statements. In order to assess that the municipality controls the land, the following factors are considered in applying its judgement:

- The municipality acts as the custodian of the land in terms of a binding arrangement with the legal owner of the land and has the right to direct access to the land, and to restrict or deny the access of others to the land.
- The municipality is required / granted a right to use the land in terms of a binding arrangement with the legal owner of the land and has the right to direct access to the land, and to restrict or deny the access of others to the land to meet its service delivery objectives for (name the service).

Fair Value Estimations

As described in Accounting Policies 1.5, the municipality subsequently measures its Investment Property, in terms of the Fair Value Model.

The valuation of assets is based on management's estimation. Management considered the impact of valuation techniques and market information in order to determine the current valuations, and more specific as follows:

- Investment Property is measured at fair value amounts based on valuation techniques and market information. The actual value of these items could differ from those estimated.

Other

1.6 Investment property

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

- use in the production or supply of goods or services or for
- administrative purposes, or
- 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.

Emakhazeni Local Municipality

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Accounting Policies

1.6 Investment property (continued)

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. Where an investment property is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition and any other costs attributable to bring the asset to a condition necessary for it to be capable of operating in the manner intended by the Municipality. The cost of self-constructed investment property is the cost at date of completion. Transfers made to or from investment property only when there is a change in use.

Where investment property 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, its deemed cost is the carrying amount of the asset{s} given up.

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.

The cost of Investment property is the purchase price and other costs attributable to bring the asset to a condition necessary for it to be capable of operating in the manner intended by the Municipality.

Where the classification of an investment property is based on management's Judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

Land held for a currently undetermined future use;

A building owned (or held by under a finance lease) and leased out under one or more operating leases;

Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held:

A building that is vacant but is held to be leased out under one or more operating leases;

Property that is being constructed or developed for future use as investment property.

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Accounting Policies

1.6 Investment property (continued)

Fair value

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

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

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

If the municipality 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 municipality 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.

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

De-recognition

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

Gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance in the period of the retirement or disposal.

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

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

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

1.7 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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Accounting Policies

1.7 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.

Depreciation recognition

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Depreciation of an asset ceases at the date that the asset is derecognised.

Impairment

Property, plant and equipment is reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an Impairment is recognised in the Statement of Financial Performance.

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	25 - 50 years
Furniture and fixtures	Straight-line	5 - 7 years
Motor vehicles	Straight-line	5 - 15 years
Plant and Equipment	Straight-line	4 - 15 years
Infrastructre assets	Straight-line	7 - 90 years
Emergency vehicles	Straight-line	5 years
Library books	Straight-line	5 - 10 years

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

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

The depreciation charge for each period is recognised in surplus or deficit

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements.

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual audited financial statements, which include: the cumulative expenditure recognised in the carrying value of an item of property, plant and equipment; the carrying value of an item of property, plant and equipment that is taking a significantly longer period of time to complete than expected; and the carrying value of an item of property, plant and equipment where construction or development has been halted.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.8 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.

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Accounting Policies

1.8 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.

1.9 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. Intangible assets are identifiable resources controlled by the municipality from which the municipality expects to derive future economic benefits or service potential. The municipality has classified computer software as 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.

Intangible assets are initially recognised at cost on its acquisition date. The cost of an intangible asset is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost.

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.

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.

Emakhazeni Local Municipality

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Accounting Policies

1.9 Intangible assets (continued)

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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, internally generated	Straight-line	4 years

Amortisation

The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is still subject to an annual impairment test.

Amortisation of an intangible asset with a finite life asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Amortisation ceases at the date that the asset is derecognised.

Amortisation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the intangible assets. The amortisation charge for each period is recognised in Statement of Financial Performance, unless it is included in the carrying amount of another asset.

Impairment

Intangible assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance

De-recognition

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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

Intangible assets are derecognised:

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

1.10 Heritage assets

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

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

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

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

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

Emakhazeni Local Municipality

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Accounting Policies

1.10 Heritage assets (continued)

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

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

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

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

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

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Emakhazeni Local Municipality

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Accounting Policies

1.10 Heritage assets (continued)

Derecognition

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

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

1.11 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.

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

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

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

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

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

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

A financial asset is:

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Financial instruments (continued)

- 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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash Equivalents	Financial asset measured at amortised cost
Receivables from Exchange transactions	Financial asset measured at amortised cost
Receivables from Non-exchange transactions	Financial asset measured at amortised cost

Financial Assets measured at Amortised Cost

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an Effective Yield Basis.

The Municipality 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
Payables from Exchange transactions	Financial liability measured at amortised cost
Unspent grants	Financial liability measured at amortised cost
Consumer Deposits	Financial liability measured at amortised cost

Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as Other Financial Liabilities (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the Effective Interest Rate Method. Interest expense is recognised in Surplus or Deficit by applying the effective interest rate.

Initial recognition

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

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Emakhazeni Local Municipality

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Accounting Policies

1.11 Financial instruments (continued)

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

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

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

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

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

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

Gain and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Derecognition

Financial Assets

The municipality derecognises financial assets using trade date accounting.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Financial instruments (continued)

The municipality derecognises a financial asset only when:

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

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

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises 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 recognises 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 recognises 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.

Financial liabilities

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

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

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

Presentation

Emakhazeni Local Municipality

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Accounting Policies

1.11 Financial instruments (continued)

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets.

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

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

1.12 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
- amounts derecognised.

Accrued interest

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.12 Statutory receivables (continued)

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

Emakhazeni Local Municipality

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Accounting Policies

1.12 Statutory receivables (continued)

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

1.13 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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

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

1.14 Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the rendering of services or held for distribution in the ordinary course of operations.

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 Inventories (continued)

- 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 first-in, first-out (FIFO) 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.

Water Inventory

Water is regarded as Inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the Inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the FIFO Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold Properties

Unsold properties are valued at the lower of cost and net realisable value on a FIFO / Weighted Average Method. Direct costs are accumulated for each separately identifiable development.

Other Arrangements

Redundant and slow-moving Inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such Inventory at the lower of cost and net realisable value are recognised in Surplus or Deficit in the year in which they arise.

The amount of any reversal of any write-down of Inventories arising from an increase in current replacement cost or net realisable value is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the Inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.15 Impairment of cash-generating assets

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

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.

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1.15 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

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.

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Accounting Policies

1.15 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.

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Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Redesignation

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Accounting Policies

1.15 Impairment of cash-generating assets (continued)

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

Impairment of non-cash-generating assets

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- consideration is given to the nature of the asset, whether it is primarily to provide a service to the community, and whether there is any realistic possibility of the asset being used in a commercial and profitable manner.

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.

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

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 asset is determined using the following approach:

Depreciated replacement cost approach

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

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

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.16 Value added tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the Value-added Tax Act (Act No. 89 of 1991).

The municipality accounts for VAT on the payment basis.

1.17 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months' consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

1.18 Employee benefits

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

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Accounting Policies

1.18 Employee benefits (continued)

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.

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Accounting Policies

1.18 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity 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.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee. In terms of Section 7(3) of South African Local Bargaining Council (SALBC) agreement, leave accumulated subsequent to 1 January 2004 may only be accumulated to a maximum of forty-eight (48) days.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee

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Accounting Policies

1.18 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.

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.

Emakhazeni Local Municipality

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Accounting Policies

1.18 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.

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

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

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).

Emakhazeni Local Municipality

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Accounting Policies

1.18 Employee benefits (continued)

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.

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

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

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

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

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

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.

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Accounting Policies

1.18 Employee benefits (continued)

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

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

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

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

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through Surplus or Deficit.

1.19 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

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.

Emakhazeni Local Municipality

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Accounting Policies

1.19 Provisions and contingencies (continued)

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

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.19 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 1.15 and .

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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.19 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.

1.20 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP;
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

1.21 Revenue from exchange transactions

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

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

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

Measurement

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.21 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

Service charges are levied in terms of approved tariffs.

Service Charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage and are levied based on the extent of each property.

Service charges relating to sewerage and sanitation are recognised on a monthly basis in arrears by applying the approved tariff to all properties. Tariffs are determined per category of property usage and are levied based on the extent of each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Revenue arising from application of the approved tariff of charges is recognised when the relevant services is rendered by allaying the relevant published tariff.

Prepaid Electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.21 Revenue from exchange transactions (continued)

Interest and dividends

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

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

Interest is recognised 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.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.22 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.

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.

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.

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.

Revenue received from conditional grants, donations and other funding are recognised as revenue to the extent that the municipality has complied with the criteria, conditions or obligations embodied in the agreement, where applicable. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

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

Property Rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

The municipality recognises an asset in respect of property rates (taxes) when the taxable event occurs and the asset recognition criteria are met.

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

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

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

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 constitute both spot fines and summonses.

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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

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.

Government Grants and Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

Unspent conditional grants are financial liabilities that are separately reflected on the statement of financial position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this * Unspent conditional grants are recognised as a liability when the grant is received.

* When grant conditions are met an amount equal to the conditions met are transferred to revenue in the statement of financial performance.

* The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.

* Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the statement of financial performance.

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the statement of financial position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

Public Contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Other Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

Interest Earned

Interest earned on investments is recognised in Surplus or Deficit on the Time-proportionate Basis that takes into account the effective yield on the investment.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

1.23 Borrowing costs

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.23 Borrowing costs (continued)

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

1.24 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

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

1.25 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason of classification is disclosed. Where material prior period errors have been identified in the current year, the correction is made retrospectively as far as it is practicable and the prior year comparatives are restated accordingly.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.26 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.27 Fruitless and wasteful expenditure

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

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

1.28 Irregular expenditure

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

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

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

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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

1.29 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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.29 Segment information (continued)

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. A measure of assets and liabilities for each reportable segment are not presented as these amounts are not regularly provided to management.

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

1.30 Budget information

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 functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 1/07/2022 to 30/06/2023.

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.

In general, a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the annual financial statements in determining whether a difference between the budget and actual amount is material.

1.31 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. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

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 parties included key management personnel, close members of family of key management and councillors. Key management personnel included all heads of departments or members of the municipal council of the municipality.

The Council together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control activities of the municipality to manage the resources and the overall achievement of municipal objectives.

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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.31 Related parties (continued)

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.

1.32 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 does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date. Where the non-adjusting event is material and non-disclosure could influence the economic decisions of the users, additional disclosure will be provided.

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

1.33 Accumulated surplus/(deficit)

The accumulated surplus/(deficit) represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/(deficit). Prior year adjustments, relating to income and expenditure, are credited/debited against accumulated surplus/(deficit) when retrospective adjustments are made.

1.34 Grant in Aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction; expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the event giving rise to the transfer has occurred.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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2. New standards and interpretations

2.1 Standards, Amendments to Standards and Interpretations published but not yet Effective

The following GRAP Standards and Interpretations have been published but are not yet effective and have not been early adopted by the municipality - additionally, these standards and interpretations are not always relevant to the entities' operations and are indicated as such below:

Standard of GRAP / Nature of Impending Changes / Expected Impact	Effective Date	Planned Date for Application by Municipality
GRAP 1 - Presentation of Financial Statements (Amended)	1/04/2023	30/06/2024
GRAP 25 - Employee Benefits (Revised)	1/04/2024	30/06/2025
GRAP 104 - Financial Instruments (Revised)	1/04/2025	30/06/2026
General GRAP - Improvement to the Standards of GRAP (2021)	1/04/2023	30/06/2024
IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Not yet determined	Not yet determined
IGRAP 21 - The Effect of Past Decisions on Materiality: It is unlikely that there will be a material impact.	1/04/2023	30/06/2024
Guideline - Accounting for Landfill Sites	Not yet determined	Not yet determined
Guideline -The Application of Materiality to Financial Statements: It is unlikely that there will be a material impact.	Not yet determined	Not yet determined

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	(627,531)	967,454
Short-term deposits	8,145,563	21,158,667
	7,518,032	22,126,121

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
FNB Main Account - 62028195510	2,397,018	931,260	550,279	(627,532)	967,454	652,467
FNB Money On Call Account - 62178430212	1,595	5,596,284	10,000	1,595	5,596,284	10,000
FNB 7 Day Notice Account - 74720711205	15,254	10,000	80,706	15,254	10,000	80,706
FNB 7 Day Notice Account - 74720709953	10,000	10,000	135,568	10,000	10,000	135,568
FNB 7 Day Notice Account - 74720710702	10,893	10,349,675	55,106	10,893	10,349,675	55,106
FNB 7 Day Notice Account - 74720708666	9,930	11,234	319,707	9,930	11,234	319,707
FNB Call Account - 74720719957	1,225	486,673	10,000	1,225	486,673	10,000
FNB Cash Intelligence Investment Account - 74763982095	8,084,020	4,551,892	51,892	8,084,020	4,551,892	51,892
FNB Call Account - 62774591385	1,309	10,091	10,000	1,309	10,091	10,000
FNB Call Account - 62774589801	1,000	10,000	5,070	1,000	10,000	5,070
FNB Money On Call Account - 62076419508	1,773	10,463	22,779	1,773	10,463	22,779
FNB Money On Call Account - 62855646926	5,416	92,371	90,701	5,416	92,371	90,701
FNB Call Account - 62783746070	1,418	9,904	20,747	1,418	9,904	20,747
FNB Money On Call Account - 62862609652	1,731	10,080	10,064	1,731	10,080	10,064
Total	10,542,582	22,089,927	1,372,619	7,518,032	22,126,121	1,474,807

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

Call and notice deposits are investments with a maturity period of less than 12 months and earn interest at rates varying from 3.9% to 8.77% per annum.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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4. VAT receivable

VAT	10,242,524	4,385,939
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VAT is payable on the receipts basis. The municipality however uses accrual accounting, and only once payment is received from debtors, VAT is paid over to SARS.

Furthermore, VAT is claimable on the payment basis.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

VAT Receivable arise where the municipality has a claim from the South African Revenue Service where the VAT Inputs exceeded the VAT outputs as per the Value-Added Tax Act 89 of 1991.

VAT Receivable is not impaired nor is it discounted as the amount is expected to be receivable within 60 days.

5. Receivables from exchange transactions

Electricity	12,586,560	13,355,438
Water	3,812,329	5,050,767
Waste water	4,001,396	3,398,351
Solid waste	3,539,876	2,960,256
Merchandising, jobbing and Contracts	59,217	50,429
Property Rental Debtors	348,791	2,083,298
Housing Selling Scheme	1,040	113,232
Sundry service charges debtors	2,267	3,654
Other receivables from exchange transactions	2,516,515	-
	26,867,991	27,015,425

Trade and other receivables from exchange transactions were not pledged as security.

The municipality receives applications for basic services that it processes. Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables. Deposits are required to be paid for all electricity and water accounts opened.

The management of the municipality is of the opinion that the carrying value of Receivables approximates their fair values.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratios of the municipality's Receivables.

Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio per service type. No further credit provision is required in excess of the Provision for Impairment.

Other receivables arising from exchange transactions encompass earnings generated by the sale of prepaid electricity that remains outstanding and has not yet been paid to the municipality by the service provider (CONLOG).

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
5. Receivables from exchange transactions (continued)		
The breakdown and ageing of receivables from exchange transactions are as follows		
Gross balances		
Electricity	113,575,543	88,625,554
Water	74,615,771	60,280,046
Waste water	41,126,518	33,241,315
Solid waste	42,742,239	34,082,818
Merchandising, jobbing and contracts	4,350,677	4,180,010
Property rental debtors	16,475,922	16,112,646
Housing selling scheme	110,475	113,345
Sundry service charges debtors	12,103	3,656
	293,009,248	236,639,390
Less: Allowances for impairments		
Electricity	(100,988,983)	(75,270,116)
Water	(70,803,442)	(55,229,279)
Waste water	(37,125,122)	(29,842,964)
Solid waste	(39,202,363)	(31,122,562)
Merchandising, jobbing and contracts	(4,291,460)	(4,129,581)
Property rental debtors	(16,127,131)	(14,029,348)
Housing selling scheme	(109,435)	(113)
Sundry service charges debtors	(9,836)	(2)
	(268,657,772)	(209,623,965)
Net balances		
Electricity	12,586,560	13,355,438
Water	3,812,329	5,050,767
Waste water	4,001,396	3,398,351
Solid waste	3,539,876	2,960,256
Merchandising, jobbing and contracts	59,217	50,429
Property rental debtors	348,791	2,083,298
Housing selling scheme	1,040	113,232
Sundry service charges debtors	2,267	3,654
	24,351,476	27,015,425
Electricity		
Current (0 -30 days)	4,297,398	3,923,014
31 - 60 days	2,985,591	2,814,191
61 - 90 days	2,834,699	2,601,096
91 - 120 days	2,688,751	2,562,637
>120 days	100,769,104	76,724,617
Less allowance for impairments	(100,988,983)	(75,270,117)
	12,586,560	13,355,438
Water		
Current (0 -30 days)	2,061,783	1,894,471
31 - 60 days	1,835,709	1,669,878
61 - 90 days	1,616,110	1,457,374
91 - 120 days	1,567,353	1,525,778
>120 days	67,534,816	53,732,545
Less allowance for impairments	(70,803,442)	(55,229,279)
	3,812,329	5,050,767

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
5. Receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	1,460,107	1,348,458
31 - 60 days	1,092,035	954,231
61 - 90 days	1,024,553	859,276
91 - 120 days	943,779	813,477
>120 days	36,606,044	29,265,873
Less allowance for impairments	(37,125,122)	(29,842,964)
	4,001,396	3,398,351
Refuse		
Current (0 -30 days)	1,193,322	1,059,168
31 - 60 days	1,025,410	893,501
61 - 90 days	962,082	840,687
91 - 120 days	923,163	803,598
>120 days	38,638,263	30,485,863
Less allowance for impairments	(39,202,364)	(31,122,561)
	3,539,876	2,960,256
Merchandising, jobbing and contracts		
Current (0 -30 days)	12,153	13,127
31 - 60 days	12,336	13,136
61 - 90 days	12,280	13,337
91 - 120 days	12,135	13,305
>120 days	4,301,773	4,127,105
Less allowance for impairments	(4,291,460)	(4,129,581)
	59,217	50,429
Property rental debtors		
Current (0 -30 days)	105,548	687,268
31 - 60 days	77,900	658,533
61 - 90 days	77,217	649,580
91 - 120 days	77,163	660,270
>120 days	16,138,094	13,456,995
Less allowance for impairments	(16,127,131)	(14,029,348)
	348,791	2,083,298
Housing selling scheme		
Current (0 -30 days)	461	461
31 - 60 days	461	461
61 - 90 days	461	461
91 - 120 days	461	461
>120 days	108,631	111,500
Less allowance for impairments	(109,435)	(112)
	1,040	113,232
Sundry service charges debtors		
Current (0 -30 days)	1,021	731
31 - 60 days	-	731
91 - 120 days	-	244
>120 days	11,082	1,950
Less allowance for impairments	(9,836)	(2)

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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5. Receivables from exchange transactions (continued)

	2,267	3,654
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Reconciliation for allowance for impairment on receivables from exchange transactions

Balance at beginning of the year	209,623,965	173,424,032
Contributions to allowance	59,033,807	36,199,933
	268,657,772	209,623,965

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 30 days past due are not considered to be impaired. At 30 June 2023, R 9,131,794 (2022: R8,926,697) were past due but not impaired.

6. Receivables from non-exchange transactions

Property rates	6,144,545	3,507,958
Traffic fines	265,111	200,580
Staff debtors	-	1,308,217
Accrued income	8,855,484	322,094
	15,265,140	5,338,849

Statutory receivables included in receivables from non-exchange transactions above are as follows:

Property rates	6,144,545	3,507,958
Traffic fines	265,111	200,580
	6,409,656	3,708,538

Other non-financial asset receivables included in receivables from non-exchange transactions above are as follows:

Accrued income	8,855,484	322,094
	8,855,484	322,094

Financial asset receivables included in receivables from non-exchange transactions above

	-	1,308,217
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Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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6. Receivables from non-exchange transactions (continued)

Trade and other receivables from non-exchange transactions were not pledged as security.

The municipality does not hold deposits or other security for its Receivables from Non-exchange transactions.

Rates and Traffic fines disclosed under Receivables from Non-exchanges transactions are Statutory Receivables in context of GRAP 108. Statutory receivables arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

Property rates is a tax levied by a municipality to a property owner used to fund services delivered. Property Rates are calculated by multiplying the market value of the property with a rate determined by the Municipal Council. The levying of this revenue stream is governed by the Municipal Property Rates Act 6 of 2004.

Traffic Fines arise from fines issued by the municipality's traffic officials. These fines are issued according the National Road Traffic Act 93 of 1996. The fines issued are divided into Radar Fines and Section 56 Fines.

Radar fines are speed control fines issued when a motorist is caught speeding on a radar camera device. The device takes a picture of the vehicle and takes a speed reading. The speeding fine is then delivered to the registered owner of the vehicle by post.

The Section 56 fine is imposed when a motorist is stopped by the traffic officer and his or her identity therefore is known and a Traffic Offence occurred.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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6. Receivables from non-exchange transactions (continued)

The breakdown and ageing of receivables from exchange transactions are as follows

Gross balances

Property rates	192,455,851	151,902,042
Traffic fines	179,886,924	177,196,469
Staff debtors	-	1,308,217
Accrued income	8,855,484	322,094
	381,198,259	330,728,822

Less: Allowance for impairment

Property rates	(186,311,306)	(148,394,084)
Traffic fines	(179,621,813)	(176,995,889)
	(365,933,119)	(325,389,973)

Net balance

Property rates	6,144,545	3,507,958
Traffic fines	265,111	200,580
Staff debtors	-	1,308,217
Accrued income	8,855,484	322,094
	15,265,140	5,338,849

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Staff debtors and accrued income are not subject to impairment.

Traffic fines are not subject to ageing, and the impairment value is calculated based on the collectability of fines, determined by the probability derived from the success of previous collection attempts as prescribed by iGRAP1

Property rates

Current (0 -30 days)	3,987,677	3,784,310
31 - 60 days	2,929,768	3,025,501
61 - 90 days	2,719,944	2,426,282
91 - 120 days	2,442,763	2,248,628
>120 days	180,375,699	140,417,321
Less allowance for impairments	(186,311,306)	(148,394,084)
	6,144,545	3,507,958

Reconciliation for allowance for impairment on receivables from non-exchange transactions

Balance at beginning of the year	325,389,973	298,149,055
Contributions to allowance	40,543,146	27,240,918
	365,933,119	325,389,973

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 30 days past due are not considered to be impaired. At 30 June 2023, R 3,987,677 (2022: R 3,784,310) were past due but not impaired.

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
7. Inventories		
Consumables	2,048,012	2,325,547
Water	90,644	97,429
	2,138,656	2,422,976

Consumable are held for own use and measured at the lower of Cost and Current Replacement Cost.

The prior year's closing balance of consumables has been restated due to stock items that did not appear on the inventory list and corrections as at 30 June 2022.

Obsolete and stolen Inventories to the amount of R158,689.24 and R14,438.80 were written off and recognised in Surplus or Deficits during the year.

Water is held for distribution and measured at the lower of Cost and Net Realisable Value. No write down of Inventory to Net Realisable Value was required.

The prior year closing balance of water inventory has been restated as a result of the recalculation of the cost of water production, based on actual expenditure for the Water Management department per General Ledger, and the volume of water contained in reservoirs and the municipality's water reticulation network as per Infrastructure Asset Register.

The cost of water production for the year amounted to R 4.53 (2022: R 4.20) per kilolitre.

No Inventories have been pledged as collateral for Liabilities of the municipality.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	49,096,382	-	49,096,382	49,096,380	-	49,096,380
Community assets	225,822,941	(71,876,994)	153,945,947	229,619,459	(65,113,115)	164,506,344
Computer Equipment	3,298,542	(1,767,788)	1,530,754	2,803,324	(1,563,625)	1,239,699
Furniture and Office Equipment	7,995,096	(5,635,655)	2,359,441	8,218,101	(5,342,633)	2,875,468
Library Books	4,648,632	(4,593,352)	55,280	4,599,304	(4,581,454)	17,850
Machinery and Equipment	5,530,139	(2,758,511)	2,771,628	5,617,667	(2,413,741)	3,203,926
Transport assets	54,625,883	(19,783,959)	34,841,924	54,639,839	(15,145,633)	39,494,206
Electrical infrastructure	298,367,498	(87,657,623)	210,709,875	288,536,353	(82,292,665)	206,243,688
Roads infrastructure	463,527,770	(173,321,684)	290,206,086	457,874,520	(158,390,691)	299,483,829
Sanitation infrastructure	1,471,315,936	(1,147,616,375)	323,699,561	436,215,757	(123,479,758)	312,735,999
Solid waste infrastructure	89,373,630	(61,368,152)	28,005,478	82,746,473	(51,974,424)	30,772,049
Storm water infrastructure	87,535,849	(22,524,883)	65,010,966	85,021,204	(19,796,657)	65,224,547
Water supply infrastructure	506,812,950	(159,352,461)	347,460,489	511,074,917	(124,585,725)	386,489,192
Other property, plant and equipment	(2)	-	(2)	-	-	-
Total	3,267,951,246	(1,758,257,437)	1,509,693,809	2,216,063,298	(654,680,121)	1,561,383,177

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Work-in- Progress	Depreciation	Impairment loss	Total
Land	49,096,380	2	-	-	-	-	49,096,382
Community assets	164,506,344	-	(523,480)	-	(9,672,338)	(364,579)	153,945,947
Computer Equipment	1,239,699	767,703	(96,700)	-	(373,719)	(6,229)	1,530,754
Furniture and Office Equipment	2,875,468	234,447	(97,966)	-	(640,848)	(11,660)	2,359,441
Library Books	17,850	49,327	-	-	(11,897)	-	55,280
Machinery and Equipment	3,203,926	99,079	(67,279)	-	(464,098)	-	2,771,628
Transport Assets	39,494,206	-	(5,457)	-	(3,039,543)	(1,607,282)	34,841,924
Electrical infrastructure	206,243,688	1,864,115	(279,419)	11,015,516	(8,116,084)	(17,941)	210,709,875
Roads infrastructure	299,483,829	6,706,831	(221,848)	-	(15,571,441)	(191,285)	290,206,086
Sanitation infrastructure	312,735,999	8,564,227	(682,617)	17,390,777	(12,360,999)	(1,947,826)	323,699,561
Solid waste infrastructure	30,772,049	6,627,156	-	-	(9,393,727)	-	28,005,478
Storm water infrastructure	65,224,547	2,514,644	-	-	(2,728,225)	-	65,010,966
Water supply infrastructure	386,489,192	2,427,052	(661,204)	(3,173,622)	(13,518,621)	(24,102,308)	347,460,489
Other property, plant and equipment	-	(2)	-	-	-	-	(2)
	1,561,383,177	29,854,581	(2,635,970)	25,232,671	(75,891,540)	(28,249,110)	1,509,693,809

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Work-in- Progress	Depreciation	Impairment loss	Total
Land	49,096,380	-	-	-	-	-	49,096,380
Community assets	180,934,526	-	(2,237,748)	-	(11,304,922)	(2,885,512)	164,506,344
Computer Equipment	2,604,394	435,047	(1,262,597)	-	(534,637)	(2,508)	1,239,699
Furniture and Office Equipment	3,293,624	346,698	(99,426)	-	(653,862)	(11,566)	2,875,468
Library Books	53,529	-	-	-	(35,679)	-	17,850
Machinery and Equipment	11,675,625	6,078	(7,568,432)	-	(886,516)	(22,829)	3,203,926
Transport Assets	37,772,855	4,988,027	(126,123)	-	(2,851,930)	(288,623)	39,494,206
Electrical infrastructure	172,750,155	69,319,623	(1,001,745)	(24,381,652)	(7,988,871)	(2,453,823)	206,243,688
Roads infrastructure	325,125,684	15,032,858	(5,430,212)	(15,588,689)	(16,819,506)	(2,836,306)	299,483,829
Sanitation infrastructure	298,935,100	29,035,130	(2,092,421)	892,360	(12,009,859)	(2,024,311)	312,735,999
Solid waste infrastructure	76,826,279	(6,180,430)	(8,302)	-	(39,862,356)	(3,142)	30,772,049
Storm water infrastructure	51,364,634	16,211,758	(5,572)	-	(2,329,721)	(16,552)	65,224,547
Water supply infrastructure	389,576,607	20,970,622	(13,721,182)	6,869,759	(14,777,336)	(2,429,276)	386,489,192
	1,600,009,392	150,165,411	(33,553,760)	(32,208,222)	(110,055,195)	(12,974,448)	1,561,383,177

Pledged as security

No items of Property, plant and equipment have been pledged as security for any liabilities.

Infrastructure assets

Infrastructure assets have been disclosed based on its nature and therefore classified into major/significant categories as required by GRAP 1.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2023

	Opening balance	Additions	Transfers / Expensed	Total
Electrical	4,033,747	12,869,518	(1,854,002)	15,049,263
Roads	-	9,235,345	(9,235,345)	-
Water Supply	53,487,263	6,051,124	(9,224,746)	50,313,641
Sanitation	892,360	19,153,561	(1,762,784)	18,283,137
	58,413,370	47,309,548	(22,076,877)	83,646,041

Reconciliation of Work-in-Progress 2022

	Opening balance	Additions	Transfers / Expensed	Total
Electrical	28,415,398	44,941,592	(69,323,243)	4,033,747
Roads	15,588,688	15,863,183	(31,451,871)	-
Water Supply	46,617,504	40,312,960	(33,443,201)	53,487,263
Sanitation	-	17,424,759	(16,532,399)	892,360
	90,621,590	118,542,494	(150,750,714)	58,413,370

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.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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8. Property, plant and equipment (continued)

Slow-moving projects

Upgrading of Machadodorp WTW and Water Use Licence Application(Phase) 1	32,591,882	32,591,882
Electrification of 240 Units to Extention 7 at Siyathuthuka	2,097,571	2,097,571
Upgrading of Madala Pump Station in Emakhazeni Belfast	2,638,573	2,638,573
Total Carrying Amount of Delayed or Halted Projects	37,328,026	37,328,026

Reasons for dealy in progress:

The project for upgrading of Machadodorp WTW and Water Use Licence Application(Phase) 1, is on hold due to insufficient funding. Progress has been made, but further development awaits the necessary financial support for completion.

The Construction for Electrification of 240 Units to Extention 7 at Siyathuthuka, is pending the finalisation by the Department of Human Settlement. Project remains unfinished, awaiting official approval for completion.

The Upgrading of Madala Pump Station in Emakhazeni Belfast project is halted due to depleted funds. Now incorporated into 'Madala Sewer Line Upgrade' project, currently under construction.

Expenditure incurred to repair and maintain property, plant and equipment

The following specific costs included in the amount of repairs and maintenance were incurred by municipality during the reporting period:

2023	Contracted Services	Inventory Consumed	Other Operational Costs
Electrical Infrastructure	498,776	225,921	-
Roads Infrastructure	-	3,937,024	-
Sanitation Infrastructure	-	4,580,377	-
Storm water Infrastructure	-	228	-
Water Supply Infrastructure	-	323,471	-
Machinery and Equipment	-	381,055	-
Transport Assets	52,987	2,553,898	311,524
	551,763	12,001,974	311,524
2022	Contracted Services	Inventory Consumed	Other Operational Costs
Machinery and Equipment	614	647,883	247,726
Water Supply Infrastructure	3,449,989	-	-
	3,450,603	647,883	247,726

Emakhazeni Local Municipality

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Figures in Rand	2023	2022
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8. Property, plant and equipment (continued)

Change in Estimate

During the financial year, management made changes in the estimate on certain assets within Property Plant and Equipment. Changes emanating from these reviews were accounted for as a change in accounting estimates in terms of GRAP 3. These were due to the changes in useful life whereby economic value could be derived from the assets after final physical verification of these assets were performed.

Infrastructure	65,825	-
Buildings	7,649	-
Movable assets	125,233	-
Library	124,174	-
	322,881	-

Detailed descriptions and component types of the assets in question are available in the Fixed Asset Register of the municipality.

Disposals

During the financial year the municipality incurred disposals/write-offs on its Property, Plant and Equipment due to various factors.

These included, amongst others, infrastructure that were upgraded (for example, roads that have been replaced by new brick paved roads, including upgrades to its storm water drainage systems) or infrastructure that were downgraded and written off due to theft, vandalism, fire damage, lightning damage, normal breakage or building demolition.

Emakhazeni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
8. Property, plant and equipment (continued)		
Infrastructure Assets		
Community and Operational Buildings:	523,480	2,237,747
Write-off of various assets at public open spaces, sports, and recreations facilities, as well as damage to municipal offices.		
Eletrical:	279,420	1,001,745
Various pole mounted transformers were written off due to lightning damage. Several streetlights were also derecognised, as well as damaged substations.		
Roads:	221,849	5,430,213
Various dilapidated road signs, road structures and kerbing were written off due to being upgraded and rebuilt or being damaged.		
Sanitation:	682,618	8,302
Various sewer pumps, electrical motors, pipes, and valves were written off and replaced.		
Storm water:	-	5,573
Obsolete stormwater infrastructure.		
Water Supply:	661,204	13,721,183
Various boreholes and handpumps were written off due to disrepair. Various water pumps and other mechanical equipment were written off.		
	2,368,571	22,404,763
Movable Assets		
Computer Equipment	947,001	1,262,598
Furniture and Office Equipment	97,966	99,427
Machinery and Equipment	67,280	7,568,436
Transport Assets	5,457	126,123
	1,117,704	9,056,584

Detailed descriptions, component types and Rand values assigned to each of the above written off assets can be found in the Fixed Asset Register of the municipality.

Impairments

During the financial year, the municipality impaired various assets within Property, Plant and Equipment. This followed a process of physical verification and conditioning grading, which prompted the municipality to relook the remaining useful life of the assets.

These impairments are aligned with the Impairment Methodology adopted by the municipality and contained in its Asset Management Policy. The Asset Management Policy is aligned with the municipality's Accounting Policy and complies with GRAP 21 and 26.

Infrastructure Assets:

Community and Operational Buildings:	364,579	2,885,512
The condition of various municipal buildings, open spaces, as well as sport and recreation facilities deteriorated during the past financial which prompted the municipality to impair these assets.		
Eletrical:	17,942	2,453,823
The condition of various municipal buildings, open spaces, as well as sport and recreation facilities deteriorated during the past financial which prompted the municipality to impair these assets.		

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
8. Property, plant and equipment (continued)		
Roads and Stormwater:	191,285	2,852,857
The condition of various road surfaces and road structures deteriorated to such an extent which prompted the municipality to impair these assts.		
Solid waste:	-	3,143
The condition of various Solid waste infrastructures deteriorated to such an extent which prompted the municipality to impair these assts.		
Sanitation:	1,947,826	2,024,311
The condition of water reservoirs and distribution boards deteriorated to such an extent which prompted the municipality to impair these assts.		
Water Supply:	24,102,309	2,429,277
The condition of various boreholes, water reservoirs and pump stations around the municipality deteriorated to such an extent that the municipality impaired these assets.		
	26,623,941	12,648,923
Movable Assets		
Computer Equipment	6,229	2,507
Furniture and Office Equipment	11,661	11,565
Machinery and equipment	-	22,829
Motor Vehicles	1,607,282	288,623
	1,625,172	325,524

Detailed descriptions, components types and photographs of the assets impaired are available in the Fixed Asset Register of the municipality.

Emakhazeni Local Municipality

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9. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	259,003,872	-	259,003,872	254,174,556	-	254,174,556

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Investment property	254,174,556	4,829,316	259,003,872

Reconciliation of investment property - 2022

	Opening balance	Additions	Total
Investment property	253,983,591	190,965	254,174,556

Pledged as security

Investment property is not pledged as security.

Fair Value adjustments

The Municipality is recognising Investment Property using the Fair Value model (reflecting market conditions at the reporting date).

During the financial year the Municipality adjusted the fair values of its investment properties on 30 June 2023 using the First National Bank Property Barometer which indicated that the Monthly FNB House Price index grew by 1,9% year on year.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
9. Investment property (continued)		
Fair Value Adjustment: Gains	4,829,317	-

Emakhazeni Local Municipality

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Figures in Rand

10. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	1,367,589	(1,341,100)	26,489	1,367,589	(1,331,528)	36,061

Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Computer Software	36,061	(9,572)	26,489

Reconciliation of intangible assets - 2022

	Opening balance	Total
Computer Software	36,061	36,061

Pledged as security

No Intangible assets are pledged as security.

Emakhazeni Local Municipality

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Figures in Rand

11. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	114,324	-	114,324	114,324	-	114,324

Reconciliation of heritage assets 2023

	Opening balance	Total
Historical buildings	114,324	114,324

Reconciliation of heritage assets 2022

	Opening balance	Total
Historical buildings	114,324	114,324

Pledged as security

No heritage assets are pledged as security:

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
12. Payables from exchange transactions		
Trade payables	232,089,585	165,401,287
Payments received in advance	31,442,357	26,162,342
Retentions	17,737,002	16,657,498
Unallocated receipts	8,364,608	7,351,641
Bonus Provisions	2,895,865	2,644,250
Employee accruals	(1,425,506)	5,836,376
Leave accruals	9,851,291	9,493,194
	300,955,202	233,546,588

The prior year amount for Payables from Exchange Transactions has been restated due to the correction of errors. Refer to Note 42 on "Prior period adjustments" for details of the restatement.

Staff Bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Payments Received in Advance are due to payments received for hall hire and prepaid electricity. Payments received in advance are consumer debtors' accounts paid in advance.

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the Municipal Finance Management Act. No interest is charged for the first 30 days from the date of receipt of the statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did default on payment of its Creditors. Terms for payment have been re-negotiated by the municipality.

13. Consumer deposits

Electricity	1,897,145	1,987,813
Water	22,648	36,832
Housing rental	1,256	1,256
	1,921,049	2,025,901

Consumer Deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

Deposits are paid for the rental of properties. Deposits will not be repaid in the case of outstanding rent or in the case of property being damaged.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximates their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

Emakhazeni Local Municipality

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Figures in Rand	2023	2022
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14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	(4)	-
Water Services Infrastructure Grant	591	-
Municipal Disaster Recovery Grant	1,950,000	-
	1,950,587	-

Movement during the year

Balance at the beginning of the year	-	5,855,989
Less: Roll over not approved	-	(4,576,621)
Additions during the year	60,595,000	77,253,000
Income recognition during the year	(58,644,413)	(78,532,368)
	1,950,587	-

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of Grants from Government and other sources. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld during the 2022/23 financial year.

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

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
15. Employee benefit obligations		
Defined benefit plan		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	6,384,000	(6,231,000)
Present value of the defined benefit obligation-partly or wholly funded	13,361,000	(11,352,959)
	19,745,000	(17,583,959)
 Non-current liabilities	(18,825,000)	(16,712,200)
Current liabilities	(920,000)	(871,759)
	(19,745,000)	(17,583,959)
 Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	17,583,979	18,864,412
Actuarial Loss/(gain)	(315,106)	(3,688,445)
Net expense recognised in the statement of financial performance	2,476,147	2,408,012
	19,745,020	17,583,979
 Net expense recognised in the statement of financial performance		
Current service cost - Long service awards	598,385	609,021
Current service cost - Medical aid	625,208	807,382
Interest cost - Long service awards	648,846	455,230
Interest cost - Medical aid	1,475,467	1,566,689
Expected contributions (benefits paid) - Medical aid	(282,456)	(280,916)
Expected Benefits Vesting - Long service awards	(589,303)	(749,394)
	2,476,147	2,408,012
 Calculation of actuarial gains and losses		
Actuarial (gains) losses – Long service awards	(504,928)	76,143
Actuarial (gains) losses – Medical aid	189,822	(3,764,588)
	(315,106)	(3,688,445)

Emakhazeni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2023	2022
15. Employee benefit obligations (continued)		
Long service awards liability		
Opening balance	6,231,000	5,840,000
Current service cost	598,385	609,021
Actuarial gains (losses)	(504,928)	76,143
Interest cost	648,846	455,230
Benefits paid	(589,303)	(749,394)
	6,384,000	6,231,000

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

At year end 361 (2022: 370) employees were eligible for Long-service Awards.

	Male	Female	Total
Number of eligible employees	126	235	361
Average Annual Salary (R)	207,875	203,313	204,905
Average age (years)	42.3	46.4	44.9
Average past service (years)	10.5	12.8	12

Emakhazeni Local Municipality offers employees long service award bonus for every 5 years of services completed, from 5 years to 45 years of service. No other long-service benefits are provided to employees.

Completed service (years)	Long Service Bonus Awards (% of Annual Salary)	Determination of cash bonus (R)
5	2%	(5/250) x annual earnings
10	4%	(10/250) x annual earnings
15	8%	(20/250) x annual earnings
20,25,30,35,40,45	12%	(30/250) x annual earnings

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2023 by Mr Chanan Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Projected Unit Credit Method has been used to value the liabilities.

The Current-service Cost for the year ending 30 June 2023 is estimated to be R 598,385, whereas the cost for the ensuing year is estimated to be R 632,000 (30 June 2022: R 609,021 and R 598,385 respectively).

Best estimate of benefits payments expected in next annual period 2023/2024 (comparatives are for 2022/2023):

Opening accrued liability	6,384,000	6,231,000
Current service cost	632,000	598,385
Interest cost	686,000	648,846
Actuarial (gains) losses	-	(504,928)
Benefits vesting	(661,000)	(589,303)
Closing accrued liability	7,041,000	6,384,000

The history of Long Service Awards Liabilities and Assets:

The table below summarises the accrued liabilities and the plan assets for the current period and the previous periods.

Emakhazeni Local Municipality

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Figures in Rand	2023	2022
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15. Employee benefit obligations (continued)

	2023	2022	2021	2020	2019
Present Value of Defined Benefit Obligation	6,384,000	6,231,000	5,840,000	5,397,000	5,149,000

Sensitivity Analysis on the Unfunded Accrued Liability and Current Service & Interest Cost:

The effect of a 1% movement in the salary inflation rate is as follows:

Increase:	2023
Effect on the aggregate of the current service cost and the interest cost	1,340,669
Effect on the defined benefit obligation	6,747,000

Decrease:	
Effect on the aggregate of the current service cost and the interest cost	1,170,518
Effect on the defined benefit obligation	6,052,000

The effect of a 1% movement in the discount rate is as follows:

Increase:	2023
Effect on the aggregate of the current service cost and the interest cost	1,225,189
Effect on the defined benefit obligation	6,043,000

Decrease:	
Effect on the aggregate of the current service cost and the interest cost	1,271,293
Effect on the defined benefit obligation	6,762,000

Post-Retirement Health Care Benefits Liability

Movements in the Present Value of the Defined Benefit Obligation were as follows:

Opening balance	11,352,959	13,024,412
Current service cost	625,208	807,362
Actuarial gains (losses)	189,822	(3,764,588)
Interest cost	14,775,467	1,566,689
Benefits paid	(282,456)	(280,916)
Closing accrued liability	26,661,000	11,352,959

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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15. Employee benefit obligations (continued)

Municipal employees contribute to accredited medical schemes.

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependents may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependents. Some options also differentiate on the basis of income.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable should they be a member of a medical scheme at retirement. All current continuation members receive a 60% subsidy.

All 60% post-employment subsidies are subject to a maximum of R 5,277 (R 5,007 for the year ending 30 June 2023) per principal member per month, for the year ending 30 June 2024. The maximum subsidy amount has been assumed to increase annually on 1 July at 75% of salary inflation.

Upon a member's death-in-service or death-in-retirement, the surviving dependents will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality. The provision is utilised when eligible employees receive the value of the vested benefits.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2023 by Mr Chanan Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service members	174	157
In-service Non-members	187	213
Continuation Members (Pensioners)	5	5
	366	375

The accrued liability in respect of past service has been estimated as follows:

In-service Members	10,507,000	7,750,191
In-service Non-members	666,000	451,900
Continuation Members	2,188,000	3,150,868
Total Liability	13,361,000	11,352,959

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Hosmed
- Sizwe-Hosmed
- Samwumed

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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15. Employee benefit obligations (continued)

The Current-service Cost for the year ending 30 June 2023 is estimated to be R 625,188 whereas the cost for the ensuing year is estimated to be R 786,000 (30 June 2022: R 807,382 and R 625,188 respectively).

The history of Post-Retirement Health Care Benefits Liabilities and Assets:

The table below summarises the accrued liabilities and the plan assets for the current period and the previous periods.

	2023	2022	2021	2020	2019
Present Value of Defined Benefit Obligation	13,361,000	11,352,959	13,024,000	8,861,000	6,197,000

Sensitivity Analysis on the Unfunded Accrued Liability and Current Service & Interest Cost:

The effect of a 1% movement in the salary inflation rate is as follows:

Increase:	2023
Effect on the aggregate of the current service cost and the interest cost	2,511,019
Effect on the defined benefit obligation	14,688,000

Decrease:	
Effect on the aggregate of the current service cost and the interest cost	1,773,637
Effect on the defined benefit obligation	11,795,000

The effect of a 1% movement in the discount rate is as follows:

Increase:	2023
Effect on the aggregate of the current service cost and the interest cost	1,887,189
Effect on the defined benefit obligation	11,525,000

Decrease:	
Effect on the aggregate of the current service cost and the interest cost	2,361,680
Effect on the defined benefit obligation	15,667,000

Emakhazeni Local Municipality

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15. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date on both obligations:

DEMOGRAPHIC AND MORTALITY ASSUMPTION

Assumptions - LSA

Assumed retirement age (years)	62	63
Mortality during employment	SA85-90	SA85-90

Assumptions - Medical Aid

Assumed retirement age (years)	62	63
Proportion with a spouse dependant at retirement	60%	60%
Continuation of members at retirement	75%	75%
Portion of in-service non-members joining a scheme by retirement and continuing with the subsidy at retirement.	3%	3%
Mortality during employment	SA85-90	SA85-90
Mortality post-retirement	PA(90) - 1 with a 1% mortality improvement p.a. from 2010	PA(90) - 1 with a 1% mortality improvement p.a. from 2010

Eligible employees:

Long service awards:

Number of employees	361	370
Average annual salary (R)	204,905	188,276
Average ages (years)	44.9	45.4
Average past service (years)	12	11.6

Post-Retirement Health Care Benefits Liability

Number of eligible employees	361	370
Number of in-service members	174	45.4
In-service members - Average age (years)	42.6	11.6
In-service members - Average employer contributions	2,597	370
Number of in-service non-members	187	157
In-service non-members - Average age (years)	47.1	42.3
In-service non-members - Average employer contributions	2,817	2,172
Number of continuation members	5	5
Continuation Members - Average age (years)	46	75
Continuation Members - Average employer contributions	4,299	3,834

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Figures in Rand	2023	2022
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15. Employee benefit obligations (continued)

Valuation assumptions:

Long service awards

Discount Rate	11.32%	10.93%
General earnings inflation rate (long-term)	6.57%	7.76%
Net discount rate	4.45%	2.94%

Post-Retirement Health Care Benefits Liability

Discount Rate	12.58%	13.16%
Health Care Cost Inflation Rate	8.18%	10.16%
Net-of-health-care-cost-inflation discount rate	4.07%	2.74%
Maximum subsidy inflation rate	5.76%	6.50%
Net of maximum subsidy inflation rate	6.48%	6.25%

Withdrawal from Service

If an eligible employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below:

Long service awards

	Females	Males
20	9%	9%
30	6%	6%
40	5%	5%
50	3%	3%

Post-Retirement Health Care Benefits Liability

As per Table A4.2

Emakhazeni Local Municipality

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16. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Change in Estimate	Interest	Total
Landfill site provision	62,710,341	6,627,157	3,581,991	72,919,489

Reconciliation of provisions - 2022

	Opening Balance	Change in Estimate	Interest	Total
Landfill site provision	58,186,314	(2,820,445)	7,344,472	62,710,341

There is currently no intention by management to rehabilitate any of the municipality's landfill sites within the next 12 months after year-end.

The landfill rehabilitation and closure are created for the rehabilitation and closure of the current operational sites which are evaluated at year-end to reflect the best estimate at reporting date. The sites under consideration are the Belfast (Old & New), Dullstroom, Waterfal Boven and Machadodorp/Entokozweni landfill sites. The valuation for the landfill sites were performed by A.J Bowers (professional Civil Engineer/Waste Management) from Ducharme Consulting.

The 2023 amount is a discounted amount based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2023. The size of the landfill sites used up until now and estimate remaining useful lives are as follows:

	Belfast New Landfill	Belfast Old Landfill (stopped operating in 2018)	Dullstroom Landfill	Waterfal Boven Emgwenya landfill	Machadodorp Entokozweni Landfill
Machadodorp Entokozweni Landfill (m2)	98,771	41,013	22,369	22,468	27,309
Area of waste body to be rehabilitated in future (waste footprint) (m2)	16,853	41,013	18,560	19,391	23,496
Estimated site closure date	2525	2015	2024	2030	2023
Airspace consumed to date	92.8%	100%	90%	71.3%	Unknownr
Remaining useful lives (approximately)	2 years	0 years	1 year	7 years	0 year
Discounted value of liability for closure of the site as at 30 June 2023	R12,048,642	R23,118,790	R13,880,324	R10,277,637	R13,594,097

17. Service charges

Sale of electricity	69,323,705	72,768,048
Sale of water	20,031,953	19,337,647
Solid waste charges	12,013,418	10,860,496
Sewerage and sanitation charges	14,660,430	13,775,830
	116,029,506	116,742,021

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to Council's approved tariffs. These service charges revenue are the net amounts after taking into account revenue forgone.

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18. Sales of goods and rendering of services		
Advertisements	23,240	25,639
Application fees for land usage	97,573	96,328
Building plan approval	304,174	202,401
Cemetery and burial	57,301	57,211
Certificates	76,406	52,914
Drainage fees	10,999	23,014
Other	6,727	3,136
Photocopies and faxes	1,535	5,856
Tender documents	1,616	34,405
	579,571	500,904

19. Operational revenue

Administrative handling fees	71,594	574,277
Incidental cash surpluses	101,369	615,834
Sale of property	630,869	905,700
Merchandising, jobbing and contracts	473	63,330
Insurance claims	-	637
	804,305	2,159,778

The amounts disclosed above for Other Revenue are in respect of services rendered, other than described in Notes 17 to 19, which are billed to or paid for by the users as the services are required according to approved tariffs.

20. Interest, dividends and rent on land (exchange)

Interest on investments	1,812,998	586,433
Interest charged on outstanding service charges (exchange)	14,513,585	12,333,043
rent of land facilities and equipment	1,614,862	8,957,169
	17,941,445	21,876,645

Leasing Arrangements:

Operating Leases relate to property leases for municipal houses. The lessee does not have an option to purchase the leased asset at the expiry of the lease period. These rentals are classified as contingent rentals due to some uncertain lease periods which are on a month to month basis. The operating lease payments are therefore not subject to straight-lining and it is impracticable to disclose the future minimum lease payments expected to be received for each of the following periods as required by GRAP13:

- no later than one year
- later than one year and not later than five years
- later than five years

The municipality has operating lease agreements for the following classes of assets:

- Buildings

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
21. Property rates		
Rates received		
Property rates	96,023,369	76,382,159
Property Valuations:		
Agricultural	3,739,006,000	3,739,006,000
Business	412,941,000	412,941,000
Mining	90,350,000	90,350,000
Municipal	440,128,000	440,128,000
Places Of Public Worship	61,052,000	61,052,000
Private Owned Town	987,371,000	987,371,000
Public Benefit Organisation	17,490,000	17,490,000
Public Service Infrastructure	28,457,000	28,457,000
Public Service Purposes	187,213,000	187,213,000
Residential	1,717,712,000	1,717,712,000
State Owned	445,936,000	445,936,000
Vacant Land	146,550,000	146,550,000
	8,274,206,000	8,274,206,000

Valuations on land and buildings are performed every four 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. The new general valuation was implemented on 01 July 2019.

Rebates up to R15 000 (2022: R15 000) are granted to residential property above 100 000 market value and R30 000 granted to Private Owned Towns on properties above R100 000 market value.

Rates are levied on a monthly basis, except farmland that is levied on an annual basis. Interest at prime plus 1% per annum is levied on rates outstanding after due date for payment.

The following properties are exempted from property rates:

- Informal Settlements
- Municipal Properties
- Place of Worship

The prior year amount for property rates has been adjusted. Refer to note 42 for correction of errors for the detail of the restatement.

Tariff structure (cents per Rand)

	2023	2022
Agricultural	0.00278	0.00262
Business	0.0337	0.0321
Mining	0.0287152	0.0274
Multiple Use	-	-
Municipal	0.00262	0.0025
Places Of Public Worship	0.00262	0.0025
Private Owned Town	Various	Various

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand		2023	2022
21. Property rates (continued)			
Public Benefit Organisation	0.00262	0.0025	
Public Service Infrastructure	0.00262	0.0025	
Public Service Purposes	0.00262	0.0025	
Residential	0.0105434	0.0100605	
State Owned	0.0337	0.0322	
Vacant Land	0.0245	0.0222	

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
22. Transfers and subsidies		
Operating grants		
Equitable share	80,242,000	71,791,000
Expanded Public Works Programme grant	1,473,000	1,307,000
Financial Management grant	2,900,000	2,900,000
Local Government SETA grant	233,387	174,856
Public contributions and donations	49,328	31,573,069
	84,897,715	107,745,925
Capital grants		
Integrated National Electrification Programme grant	14,000,000	34,000,000
Municipal Infrastructure grant	20,272,004	19,046,000
Water Services Infrastructure grant	19,999,409	21,279,368
	54,271,413	74,325,368
	139,169,128	182,071,293
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received (Conditions met, revenue recognised)	58,644,409	78,532,368
Unconditional grants received	80,475,387	71,965,856
	139,119,796	150,498,224
Equitable Share		
Current year receipts	80,242,000	71,791,000
Conditions met - transferred to revenue	(80,242,000)	(71,791,000)
	-	-
<p>The Equitable Share Grant is an unconditional grant. In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund operations. The grant was utilised as per the intended purpose.</p>		
<p>The allocation of equitable share has been reduced by R 4,576,621 during the 2021/22 financial year due to the non-spending of funds on the Integrated National Electrification Programme Grant (R 4,232,249), Municipal Infrastructure Grant (R19,756) and Water Service Infrastructure Grant (R324,616) by the municipality as at 30 June 2021, as indicated above/below.</p>		
Expanded Public Works Programme grant		
Current-year receipts	1,473,000	1,307,000
Conditions met - transferred to revenue	(1,473,000)	(1,307,000)
	-	-
<p>The grant is to be utilised for salary expenses for the expended Public Works Program in accordance with the national cleaning campaign. No moneys have been withheld.</p>		
Local Government Financial Management Grant		
Current-year receipts	2,900,000	2,900,000
Conditions met - transferred to revenue	(2,900,000)	(2,900,000)
	-	-

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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22. Transfers and subsidies (continued)

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No moneys have been withheld.

Local Government SETA grant

Current-year receipts	233,387	174,856
Conditions met - transferred to revenue	(233,387)	(174,856)
	-	-

The municipality received from Sector Education Training to promote excellence performance by the human resources division. The funds must be utilised towards training.

Disaster Recovery Grant

Current-year receipts	1,950,000	-
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This grant is to be utilised to assist the Municipality with intervention measures of infrastructure damages due to the impact of storms that occurred in December 2022. The grant was received in respect of the 2023/24 financial year and funds should be spent within six months (June - November 2023) in line with the disaster grant framework. Projects prioritised by the municipality were for the replacement and repairs of generators and connections.

Municipal Infrastructure grant

Balance unspent at beginning of year	-	19,756
Less: Roll over not approved	-	(19,756)
Current-year receipts	20,272,000	19,046,000
Conditions met - transferred to revenue	(20,272,000)	(19,046,000)
	-	-

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. Funds have been withheld during the 2021/22 financial year due to the non-spending of funds.

Water Services Infrastructure Grant

Balance unspent at beginning of year	-	1,603,984
Less: Roll over not approved	-	(324,616)
Current-year receipts	20,000,000	20,000,000
Conditions met - transferred to revenue	(19,999,409)	(21,279,368)
	591	-

This grant has been provided by Department of Water and Sanitation and to try to get water to areas where it was recognised that full services would not become available. Funds have been withheld during the 2021/22 financial year due to the non-spending of funds.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
22. Transfers and subsidies (continued)		
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	-	4,232,249
Less: Roll over not approved	-	(4,232,249)
Current-year receipts	14,000,000	34,000,000
Conditions met - transferred to revenue	(14,000,000)	(34,000,000)
	-	-

The Integrated Electrification Programme Grant is a conditional grant of which the purpose is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme. The grant was utilised as per intended purpose. Funds have been withheld during the 2021/22 financial year due to the non-spending of funds.

Public contributions and donations

Donations Received	49,327	31,573,069
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Various donations in a variety of formats were made to the municipality during the year under review:

Capital Contributions:

Middelburg Regional Library - Library Books	49,327	-
Komati Forestry - Two UD Trucks	-	3,304,626
Komati Forestry - One Powerstar Truck	-	1,185,133
Nkangala District Municipality - 3 Completed capital projects	-	26,585,040

In-kind Contributions (Operational Expenses):

49,327	31,074,799
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In-kind donations

The municipality received in-kind benefits worth R 472,442 from Nkangala District Municipality for services rendered by TM Lengwate who was seconded to perform the duties of the Chief Financial Officer of Emakhazeni Local Municipality from 01 February 2022 to June 2022 at no cost to the municipality

23. Fines, Penalties and Forfeits

Illegal Connections Fines	169,366	1,611,235
Overdue Books Fines	-	128
Municipal Traffic Fines	2,983,950	2,273,400
	3,153,316	3,884,763

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
24. Employee related costs		
Basic	73,222,160	70,163,778
Bonus	5,817,196	4,944,542
Medical aid - company contributions	5,689,840	5,001,782
UIF	683,778	652,485
Travel, motor car, accommodation, subsistence and other allowances	9,952,514	9,919,447
Overtime payments	9,652,573	6,336,703
Long-service awards	657,928	314,857
Acting allowances	1,122,086	971,534
Housing benefits and allowances	661,285	673,014
Pension fund contributions	14,063,093	13,331,575
Defined benefit expenses	1,827,567	2,231,022
Bargaining Council	56,278	44,053
	123,406,298	114,584,792

Remuneration of Municipal Manager - Mr. J.W. Shabangu

Annual Remuneration	493,221	-
Telephone and Car Allowance	112,400	-
Contributions to UIF, Medical and Pension Funds	99,787	-
Travel claims	6,229	-
SALGBC	86	-
Skills Development Levy	5,628	-
	717,351	-

Mr. J.W. Shabangu was appointed as the Municipal Manager from November 2022.

Remuneration of Acting Municipal Manager - Mr. A.M. Tshesane

Acting Allowance	30,742	-
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An acting allowance was paid to Mr. A.M. Tshesane from September 2022 to October 2022.

Remuneration of Acting Municipal Manager - Mrs. S. Tseka

Acting Allowance	15,371	-
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An acting allowance was paid to Mrs. S. Tseka in August 2022.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
24. Employee related costs (continued)		
Remuneration of Municipal Manager - Mr. G. Mthimunye		
Annual Remuneration	179,367	634,669
Leave Pay	68,544	-
Telephone & Car Allowances	14,375	172,496
Annual Bonus	52,889	52,889
Contributions to UIF, Medical and Pension Funds	10,895	126,939
Travel Claim	-	4,445
SALGBC	10	124
Skills Development Levy	3,082	7,801
	329,162	999,363

Mr. G. Mthimunye's contract ended in July 2022.

Remuneration of Chief Financial Officer - Mr. A.M. Tshesane

Annual Remuneration	668,725	55,026
Telephone & Car Allowances	198,600	16,550
Travel Claims	3,767	-
Contributions to UIF, Medical and Pension Funds	(129)	-
SALGBC	5	-
Skills development levy	8,220	650
	879,188	72,226

Mr. A.M. Tshesane was appointed as Chief Financial Officer from June 2022. Mr Tshesane was appointed as acting Municipal Manager from September 2022 to October 2022.

Remuneration of Acting Chief Financial Officer - Mrs. T. Lengwate

Acting Allowance	20,483	33,362
Travelling allowance	-	24,474
Travel Claims	-	416
Contribution to UIF	177	533
Skills Development Levy	205	533
	20,865	59,318

Mrs. T. Lengwate was seconded as Acting CFO from Nkangala District Municipality from February 2022 to May 2022 and also from September 2022 to October 2022 while Mr Tshesane was appointed as acting Municipal Manager. Her salary was paid by Nkangala District Municipality.

Remuneration of Acting Chief Financial Officer - Mr. S.P. Leshage

Acting Allowance	-	57,403
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Mr. S.P. Leshage was appointed as Acting Chief Financial Officer from August 2020 until January 2022.

Remuneration of Acting Manager Infrastructure, Planning and Social Development - Mrs. D Malope

Acting Allowance	29,174	-
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Mrs. D. Malope was appointed as Acting Manager: Infrastructure, Planning and Social Development from March 2023 to 30 June 2023.

Remuneration of Manager Infrastructure, Planning and Social Development - Mrs. S. Tseka

Annual Remuneration	487,554	408,120
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Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
24. Employee related costs (continued)		
Leave Pay	11,834	-
Telephone & Car Allowances	81,300	84,000
Acting Allowance	-	772
Contribution to UIF, Medical and Pension Funds	52,916	46,934
SALGBC	85	82
Skills Development Levy	6,100	5,082
	639,789	544,990

The post was vacant for the period July 2021 to October 2021. Mrs. S. Tseka was appointed as Manager: Infrastructure, Planning and Social Development from November 2021. Mrs. Tseka resigned in February 2023.

Remuneration of Manager Corporate Services - Mrs. D Malope

Annual Remuneration	588,221	-
Telephone & Car Allowances	81,000	-
Contribution to UIF, Medical and Pension Funds	48,097	-
SALGBC	108	-
Skills Development Levy	6,965	-
	724,391	-

Mrs. D. Malope was appointed as Manager: Corporate Services from September 2022 and acted as Manager: Infrastructure, Planning and Social Development from March 2023 to 30 June 2023.

Remuneration of Acting Manager Corporate Services - Mr. M.J. Sibanyoni

Acting Allowance	40,186	75,354
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Mr. M Sibanyoni was appointed as Acting Manager: Corporate Services from July 2021 until August 2022 and also from March 2023 to 30 June 2023.

Remuneration of Manager Corporate Services - Mrs T.J. Shoba

Annual Remuneration	-	19,429
Car Allowances	-	14,327
Telephone Allowances	-	1,050
Contribution to UIF, Medical and Pension Funds	-	3,674
SALGBC	-	10
Skills Development Levy	-	305
	-	38,795

Mrs T.J. Shoba served as Manager: Corporate Services from December 2018 until July 2021.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
25. Remuneration of councillors		
Executive Mayor	952,863	886,245
Speaker	775,387	717,371
Councillors	5,105,064	5,402,517
Chief Whip	412,058	261,334
	7,245,372	7,267,467

Remuneration of councillors

The Mayor, Speaker, Chief Whip and Members of the Mayoral Committee are fulltime. Each is provided with an office and secretarial support at the cost of the Municipality.

The remuneration of the political office-bearers and Councillors are within the upper limits as determine by the framework in envisage in Section 291 of the Constitution.

The Mayor and Speaker have use of a Council-owned vehicle for official duties. The Mayor and Speaker each have a full-time driver. The executive Major has a fulltime-bodyguard.

2023

Mayoral	Annual remuneration	Travel & Telephone Allowance	Housing Allowance	Pension and Medical Aid	Total
Cllr. T.D. Ngwenya: Executive Mayor	746,565	43,200	55,000	108,098	952,863
Cllr. N.A. Mashele: Speaker	517,474	153,008	-	104,905	775,387
Cllr. S.P. Mthimunya: Chief Whip	248,102	127,200	-	36,756	412,058
	1,512,141	323,408	55,000	249,759	2,140,308
Mayoral Executive Committee	Annual remuneration	Travel & Telephone Allowance	Housing Allowance	Pension and Medical Aid	Total
Cllr. S.S. Mthimunya: MMC Finance, Internal Audit & Risk	471,832	182,508	-	67,819	722,159
Cllr. J.M. Mabila: MMC Technical & Community services & Acting Executive Mayor from 21 June 2023.	422,584	182,508	-	101,824	706,916
Cllr. N.B. Nkosi: MMC Corporate Service	458,915	163,200	-	87,476	709,591
	1,353,331	528,216	-	257,119	2,138,666
Councillors	Annual remuneration	Telephone Allowance	Vehicle Allowance	Pension and Medical Aid	Total
Cllr. D. Mahlangu: MPAC Chairperson	301,944	43,200	-	67,029	412,173
Cllr. S.S. Ndimande	247,146	43,200	-	36,274	326,620
Cllr. A.T. Lukhele	159,443	143,821	-	23,356	326,620
Cllr. S.C. Nkosi	247,146	43,200	-	36,274	326,620
Cllr. S.I. Skhosana	246,856	43,200	-	36,193	326,249
Cllr. D.M. Hepburn	193,351	103,200	-	28,516	325,067
Cllr. D.F. Maseko (Until December 2022)	82,547	33,000	-	22,050	137,597
Cllr. Z.E. Mthimunya	245,276	43,200	-	36,592	325,068
Cllr. N.F. Nhlapo	244,213	44,400	-	36,454	325,067
Cllr. D. Janse van Rensburg (From February 2023)	101,582	18,500	-	15,237	135,319
	2,069,504	558,921	-	337,975	2,966,400

Emakhazeni Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand 2023 2022

25. Remuneration of councillors (continued) 2022

	Annual Remuneration	Travel & Telephone Allowance	Housing Allowance	Company Contributions	Total
Cllr. T.D. Ngwenya: Executive Mayor	628,825	115,885	45,823	95,712	886,245
Cllr. N.A. Mashele: Speaker	431,936	190,174	-	95,261	717,371
Cllr. S.P. Mthimunya: Chief Whip	181,287	55,750	-	24,297	261,334
	1,242,048	361,809	45,823	215,270	1,864,950

Mayoral Executive Committee

	Annual Remuneration	Travel & Telephone Allowance	Housing Allowance	Pension and Medical Aid	Total
Cllr. S.S. Mthimunya: MMC: Infrastructure, Planning and LED/IDP	421,558	192,135	-	65,174	678,867
Cllr. M. Nkambule: MMC: Finance & Social Development	266,684	112,261	-	56,398	435,343
Cllr. N.B. Nkosi: MMC Corporate Service & Transversal Issues	323,993	47,750	-	60,926	432,669
	1,012,235	352,146	-	182,498	1,546,879

Councillors

	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Pension and Medical Aid	Total
Cllr. D. Mahlangu: MPAC Chairperson	175,866	27,750	-	40,192	243,808
Cllr. S.S. Ndimande: Chairperson Finance, LED and IDP Section 79	192,142	27,750	-	30,007	249,899
Cllr. A.T. Lukhele: Chairperson Infrastructure Planning and Social Development Section 79	138,303	27,750	61,496	22,351	249,900
Cllr. S.C. Nkosi: Chairperson Corporate Services Section 79	192,142	27,750	-	30,007	249,899
Cllr. S.I. Skhosana	219,714	44,400	25,396	34,248	323,758
Cllr. D.M. Hepburn	119,169	27,750	32,683	19,569	199,171
Cllr. D.F. Maseko	113,348	27,750	42,000	46,846	229,944
Cllr. Z.E. Mthimunya	148,644	25,900	-	24,578	199,122
Cllr. N.F. Nhlapo	152,287	27,750	-	24,134	204,171
Cllr. A.A. Botha - Term ended 8 November 2021	67,426	41,271	-	10,114	118,811
Cllr. M.P. Ntuli - Term ended 8 November 2021	86,530	48,247	-	12,980	147,757
Cllr. N.T. Masha - Term ended 8 November 2021	86,530	48,247	-	12,980	147,757
Cllr. T.C. Ngomane - Term ended 8 November 2021	86,530	48,247	-	12,980	147,757
Cllr. R. Ndlovu - Term ended 8 November 2021	57,210	40,032	-	23,660	120,902
Cllr. S.S. Tshabalala - Term ended 8 November 2021	67,426	41,271	-	10,114	118,811
Cllr. E.S. Radebe - Term ended 8 November 2021	67,426	41,271	-	10,114	118,811
Cllr. N.A. Maidi - Term ended 8 November 2021	67,426	41,271	-	10,114	118,811
Cllr. J.T. Duma - Term ended 8 November 2021	86,530	48,247	-	12,980	147,757
Cllr. M. Kambula - Term ended 8 November 2021	154,955	80,569	-	23,243	258,767
Cllr. T.E. Scheffers - Term ended 8 November 2021	154,955	72,761	-	32,309	260,025
	2,434,559	815,984	161,575	443,520	3,855,638

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
26. Depreciation and amortisation		
Property, plant and equipment	75,901,112	110,055,195
27. Impairments of non-current assets and inventories		
Impairments		
Property, plant and equipment	28,407,802	12,974,448
28. Interest, dividends and rent on land		
Interest costs: Non-current Provisions	3,581,992	7,344,472
Interest paid: Trade and other payables	17,111,156	5,819,858
	20,693,148	13,164,330
29. Debt impairment		
Debt impairment	92,284,407	63,440,851
30. Bad debts written off		
Bad debts written off	-	11,819,038
31. Bulk purchases		
Electricity - Eskom	69,777,063	72,690,722
Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased in bulk on a monthly basis from Eskom.		
32. Contracted services		
Outsourced Services		
Clearing and Grass Cutting Services	-	2,391,875
Security services	15,386,479	15,365,506
Transport Services	52,987	1,492,131
Consultants and Professional Services		
Business and Advisory	14,182,068	12,606,061
Infrastructure and Planning	709,489	371,315
Legal cost	2,398,211	1,310,261
Contractors		
Maintenance of buildings and facilities	2,742,524	-
Maintenance of Equipment	2,107,158	3,486,744
Prepaid Electricity Vendors	1,366,413	489,377
	38,945,329	37,513,270
33. Loss on disposal of assets and liabilities		
Property, plant and equipment	2,650,413	33,553,766

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
34. Inventory Consumed		
Consumables	8,943,172	9,032,636
Materials and Supplies	7,714,637	8,424,167
Water consumed	6,786	(42,201)
	16,664,595	17,414,602
35. Operational cost		
Advertising	323,830	284,448
Bank charges	887,348	1,164,209
Entertainment	245,036	951,173
External audit fees	6,117,744	4,007,042
Insurance	780,287	2,465,362
Levies	155,035	140,803
Licence fees	627,552	630,543
Municipal service costs	-	486,810
Other general expenses	3,426,277	7,250,563
Postage and courier	35,979	303,197
Printing and stationery	1,092,501	880,103
Protective clothing	803,128	894,685
Skills development fund levy	989,394	932,036
Staff welfare	181,870	246,568
Subscriptions and membership fees	1,292,091	1,203,709
Telephone and fax	720,445	757,435
Transport provided as part of departmental activities	1,247,017	1,063,152
Travel - local	9,789,240	5,150,126
Workman's Compensation	623,662	868,641
	29,338,436	29,680,605
36. Operating leases		
Office Equipment	561,207	941,528
Transport assets	721,002	41,434
	1,282,209	982,962

The Municipality as Lessee:

The municipality has operating lease agreements for the following classes of assets:

Transport assets

Operating Leases for transport assets relate to the rental of vehicles and plant and equipment for on an ad hoc basis from a panel of contractors on instances where the municipal-owned plant and machinery have breakdowns or any other reasons where the municipal plant and machinery are not available. The Municipality does not have an option to purchase the leased asset at the expiry of the lease period. These rentals are classified as contingent rentals due to uncertain lease periods. The operating lease payments are therefore not subject to straight-lining and it is impracticable to disclose the future minimum lease payments expected to be paid for each of the following periods as required by GRAP 13:

- no later than one year
- later than one year and not later than five years
- later than five years

Office equipment

Operating Leases relate to Office Equipment with a lease term of 3 years. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
36. Operating leases (continued)		
	Minimum Lease Payments 2023	Minimum Lease Payments 2022
Within one year	1,599,999	-
In the second to fifth years, inclusive	2,638,792	-
	4,238,791	-

General description of the municipality's material leasing arrangements:

- (i) Office Equipment: Photocopy machines and printers
- (ii) Office equipment - Trenditrade 21 (Pty) Ltd t/a Nashua Mpumalanga
 - Lease period (36 months)
 - Average monthly instalment: R133,333

37. Cash generated from operations

Deficit	(127,751,121)	(117,835,372)
Adjustments for:		
Appropriations	-	(4,125,993)
Depreciation and amortisation	75,901,107	110,055,190
Impairment (Non-current assets)	28,249,113	12,974,448
Impairment (Current assets)	99,576,953	63,440,851
GRAP 25 provisions (Actuarial interest & Current service cost)	3,347,906	3,438,322
Donations received	(49,327)	(31,074,799)
Loss on disposal of property, plant and equipment	2,635,970	33,553,766
Movements in retirement benefit assets and liabilities	(1,186,865)	(4,718,775)
Movement in provision for landfill site rehabilitation	3,581,992	7,344,472
Movement in provision for staff leave and bonuses	609,713	(249,746)
Inventory stolen	158,689	-
Loss on disposal of inventories	14,442	-
Fair value adjustment of investment properties	(4,829,317)	-
Changes in working capital:		
Decrease / (Increase) in inventories	111,192	1,883,284
Decrease / (Increase) in receivables from exchange transactions	(58,886,373)	(40,598,416)
Decrease / (Increase) in receivables from non-exchange transactions	(50,469,437)	(21,337,225)
(Decrease) / Increase in value added tax payable	(5,856,585)	(8,181,460)
(Decrease) / Increase in unspent grants	1,950,587	(5,855,989)
(Decrease) / Increase in payables from exchange transactions	66,798,887	111,771,307
(Decrease) / Increase in consumer deposits	(104,852)	61,251
	33,802,674	110,545,116

38. Commitments for expenditure

Capital Commitments

Approved and contracted for but not provided for:

Infrastructure	56,913,863	37,762,914
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This expenditure will be financed from:

Government Grants	56,913,863	37,762,914
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Lease Commitments

Non-cancellable Operating Lease Commitments are disclosed in Note 37.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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Figures in Rand	2023	2022
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39. Contingent assets and liabilities

Contingent assets

The municipality was not engaged in any transaction or event during the year under review involving contingent assets.

Contingent liabilities

Contingent Liabilities arose due to various claims brought against the Municipality. All the claims are being contested based on legal advice. The likelihood of successfully defending the claims, as well as the timing and possible costs thereof are uncertain and cannot be determined at this time.

BV Mbungela Attorneys

Court Proceedings: Timani CC / Emkahazeni Local Municipality (eviction application):	1,700,000	1,700,000
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Eviction application wherein the municipality are required to provide alternative land/accommodation for unlawful occupiers of farm Sycamore. Legal counsel's estimate of the financial exposure is over R 1,700,000.00.

The uncertainties relating to the amount or timing of any outflow

As the possibility of the claim by the counterparty being successful has been assessed as being good, the possibility of an outflow of cash is not considered to be remote.

The possibility of any reimbursement

The entity will not be reimbursed by any party should it make settlement.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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40. Related parties

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

Related Party relationships

Councillors:

Surname & initials

Ward 1 - Cllr. A.T. Lukhele

Ward 2 - Cllr. J.M. Mabila

Ward 3 - Cllr. D.M. Mahlangu

Ward 4 - Cllr. S.S. Mthimunya

Ward 5 - Cllr. N.B. Nkosi

Ward 6 - Cllr. S.C. Nkosi

Ward 7 - Cllr. S.S. Ndimande

Ward 8 - Cllr. S.P. Mthimunya

Proportional - Cllr. T.D. Ngwenya

Proportional - Cllr. N.A. Mashele

Proportional - Cllr. F.N. Nhlapho

Proportional - Cllr. D.M. Hepburn

Proportional - Cllr. S.I. Skosana

Proportional - Cllr. Z.E. Mthimunya

Proportional - Cllr. D. Janse van Rensburg

Proportional - Cllr. D.F. Maseko

Proportional - Cllr. S.L. Ndinisa

Status

Member of the council

Member of the council and MMC Technical & Community services & Acting Executive Mayor from June 2023

Member of the council and chairperson of MPAC

Member of the council and MMC Finance, Internal Audit & Risk

Member of the council and MMC Corporate Service

Member of the council

Member of the council

Member of the council and Chief Whip

Member of the council, Resigned as Executive Mayor in June 2023

Member of the council and Speaker

Member of the council

Member of the council

Member of the council

Member of the council

Member of the council (from February 2023)

Membership terminated from council

Member of the council (from June 2023)

Key Management:

Municipal Manager:

Surname & initials

Mr. J. Shabangu

Mr. A.M. Tshesane

Mrs. S. Tseka

Mr. G. Mthimunya

Status

Appointed from November 2022

Acting from September 2022 to October 2022

Acting from July 2022 to August 2022

Contract ended in July 2022

Chief Financial Officer:

Surname & initials

Mr. A.M. Tshesane

Mrs. T. Lengwate

Mr. S.P. Leshage

Status

Appointed from June 2022

Acting from February 2022 to May 2022 &

September to October 2022

Acting from August 2020 to January 2022

Manager Infrastructure, Planning and Social Development

Surname & initials

Mrs. D Malope

Mrs. S. Tseka

Status

Acting from March 2023

Appointed from November 2021 to February 2023

Manager Corporate Services

Surname & initials

Mrs. D Malope

Status

Appointed from September 2022

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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40. Related parties (continued)

Mr. M.J. Sibanyoni

Acting from July 2021 to August 2022 & from March 2023

Mrs T.J. Shoba

Appointed from December 2018 until July 2021

Related party balances

During the year the Municipality rendered services to the following related parties that are related to the Municipality as indicated:

Councillors:

2023

	Rates Charges	Services Charges	Outstanding Balances
Cllr. A.T. Lukhele (Ward 1)	902	6,990	23,749
Cllr. J.M. Mabila (Ward 2)	902	6,164	2,677
Cllr. D.M. Mahlangu (Ward 3)	902	6,066	18,537
Cllr. S.S. Mthimunya (Ward 4)	902	3,262	436
Cllr. N.B. Nkosi (Ward 5)	902	5,022	(3,099)
Cllr. S.C. Nkosi (Ward 6)	902	6,214	5,046
Cllr. S.S. Ndimande (Ward 7)	1,208	4,375	5,583
Cllr. S.P. Mthimunya (Ward 8)	2,083	8,687	22,186
Cllr. N.A. Mashele (Proportional)	2,694	5,167	-
Cllr. F.N. Nhlapho (Proportional)	1,566	4,571	2,910
Cllr. D.M. Hepburn (Proportional)	-	9,375	(367)
Cllr. S.I. Skosana (Proportional)	902	7,781	(4,310)
Cllr. Z.E. Mthimunya (Proportional)	902	3,905	4,884
Cllr. D. Janse van Rensburg (Proportional)	4,824	6,686	2,149
	19,591	84,265	80,381

2022

	Rates Charges	Services Charges	Outstanding Balances
Cllr. A.T. Lukhele (Ward 1)	860	7,398	37,457
Cllr. J.M. Mabila (Ward 2)	860	6,467	1,604
Cllr. D.M. Mahlangu (Ward 3)	860	4,559	12,969
Cllr. S.S. Mthimunya (Ward 4)	860	3,615	(126)
Cllr. N.B. Nkosi (Ward 5)	-	522	146
Cllr. S.C. Nkosi (Ward 6)	860	6,060	5,131
Cllr. S.S. Ndimande (Ward 7)	-	7,371	24,204
Cllr. S.P. Mthimunya (ward 8)	1,962	8,048	13,417
Cllr. N.A. Mashele (Proportional)	2,545	5,901	(3,045)
Cllr. F.N. Nhlapho (Proportional)	-	105,215	773
Cllr. D.M. Hepburn (Proportional)	-	8,990	1,480
Cllr. S.I. Skosana (Proportional)	860	6,926	3,838
Cllr. Z.E. Mthimunya (Proportional)	-	-	78
Cllr. D.F. Maseko (Proportional)	-	8,026	10,551
	9,667	179,098	108,477

Section 57 Employees:

No Section 57 employees reside within the service area of the Emakhazeni Local Municipality.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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40. Related parties (continued)

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

Loans granted to Related Parties

In terms of the MFMA, the Municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No loans were granted to Councillors, Management, Staff and Public by Emakhazeni Local Municipality.

Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 27 and 28, to the Annual Financial Statements."

Remuneration of the family of key management personnel and councillors that are employed at the municipality:

There are no family members of key management personnel and councillors employed at the municipality.

Transactions with key management personnel or close family members of persons in the service of the state

Paragraph 45(a),(b) &(c) of Government Gazette No. 27636 issued on 30 May 2005 states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R 2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months.

The municipality did not trade with the companies and individuals, which are considered to be Related Parties:

Interest of Related Parties

Entities under the control of management or councillors

Related party	Member / Employee	Designation
Mawubuye Cooperation	Ngwenya TD	Executive Mayor
Kwanele Consortium	Mabila JM	MMC Technical & Community Services
Striving to Satisfy trading & Projects	Mthimunye SP	Chief Whip
AMROB Continental (PTY) Ltd	Mahlangu DM	Chairperson MPAC
Khweza Sambe Pty Ltd	Lukhele AT	Councillor
Nhlamulo yaboMhlanti Logistics & Projects	Lukhele AT	Councillor
Machoka Maile Pty Ltd	Ndimande SS	Councillor
Scorpex 96 Construction	Nkosi SC	Councillor
Amahleko Group PTY Ltd	Maseko DF	Councillor
Dj Enterprise cc	Van Rensburg DJ	Councillor
Amtshesane Accountants (Pty) Ltd	Tshesane AM	Chief Financial Officer
Hlabolla Consulting & Projectsg	Tshesane AM	Chief Financial Officer
Ggola Bakery and Caterin	Tshesane AM	Chief Financial Officer

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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40. Related parties (continued)

Madokologe Consulting & Projects	Tshesane AM	Chief Financial Officer
Madikologe Trading,	Tshesane AM	Chief Financial Officer
Mamapo Bakery	Tshesane AM	Chief Financial Officer
AM Tshesane Accounts	Tshesane AM	Chief Financial Officer
Madikologe Tourism	Tshesane AM	Chief Financial Officer
Luthato Consulting	Lengwate TM	Adviser
Stomoti Vikela Logistics	Lengwate TM	Adviser

There were no transactions with the above listed entities subject to control by council members or key management personnel.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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41. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance

Statement of financial position and Statement of financial performance

2021

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022		
41. Prior-year adjustments (continued)				
2022				
Statement of financial position	As previously reported	Prior period error	Restated	Restated
Cash and cash equivalents	22,126,121	-	-	22,126,121
VAT Receivable	5,120,334	(734,395)	-	4,385,939
Receivables from exchange transactions	28,254,209	(1,238,781)	-	27,015,428
Receivables from non-exchange transactions	112,596,591	(107,257,742)	-	5,338,849
Inventories	4,160,514	(1,737,537)	-	2,422,977
Property plant and equipment	1,525,393,367	35,989,807	-	1,561,383,174
Investment property	254,174,557	-	-	254,174,557
Intangible assets	36,065	(5)	-	36,060
Heritage assets	114,325	-	-	114,325
Payables from exchange transactions	(225,099,302)	1,045,897	(9,493,194)	(233,546,599)
Consumer deposits	(2,025,901)	-	-	(2,025,901)
Employee benefit obligation - Current Liability	(871,759)	-	-	(871,759)
Provisions - Current Liability	(12,533,833)	3,040,639	9,493,194	-
Employee benefit obligation - Non Current Liability	(16,712,200)	-	-	(16,712,200)
Provisions - Non Current Liability	(52,325,230)	(10,385,111)	-	(62,710,341)
Accumulated surplus	(1,642,407,858)	81,277,228	-	(1,561,130,630)
	-	-	-	-
Statement of Financial performance	As previously reported	Prior period error	Reclassification	Restated
Service charges	113,596,739	3,145,282	-	116,742,021
Rental of facilities and equipment	8,957,169	-	(8,957,169)	-
Interest received - Investments	586,433	-	(586,433)	-
Sale of goods and rendering of services	500,116	-	787	500,903
Operational revenue	2,160,565	-	(787)	2,159,778
Interest, dividends and rent on land (Exchange revenue)	-	-	21,876,645	21,876,645
Interest received - Service charges	12,333,043	-	(12,333,043)	-
Actuarial gains	3,689,113	-	-	3,689,113
Property rates	71,701,519	4,680,641	-	76,382,160
Government grants and subsidies	150,498,224	-	(150,498,224)	-
Transfers and subsidies	-	-	182,071,293	182,071,293
Public contributions and donations	31,573,069	-	(31,573,069)	-
Fines, Penalties and Forfeits	3,884,763	-	-	3,884,763
Employee related cost	(115,919,363)	402,535	932,036	(114,584,792)
Remuneration of councillors	(7,267,467)	-	-	(7,267,467)
Depreciation and amortisation	(106,893,126)	(3,162,069)	-	(110,055,195)
Impairments of non-current assets	(12,974,448)	-	-	(12,974,448)
Interest, dividends and rent on land (Expense)	-	(7,344,472)	(5,819,858)	(13,164,330)
Finance cost	(5,819,858)	-	5,819,858	-
Debt impairment	(51,094,693)	(12,346,158)	-	(63,440,851)
Bad debts written off	-	-	(11,819,038)	(11,819,038)
Collection Cost	(11,819,038)	-	11,819,038	-
Bulk purchases	(72,690,722)	-	-	(72,690,722)
Contracted services	(45,944,071)	8,430,801	-	(37,513,270)
Loss on disposal of assets and liabilities	(36,597,465)	3,043,698	-	(33,553,767)
Inventories consumed	(15,943,996)	(1,470,606)	-	(17,414,602)
General expenses	(25,989,857)	-	25,989,857	-
Operational cost	-	(3,972,839)	(25,707,767)	(29,680,606)
Operating leases	-	231,166	(1,214,126)	(982,960)
	(109,473,351)	(8,362,021)	-	(117,835,372)

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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41. Prior-year adjustments (continued)

Nature of prior period adjustments

Prior period adjustments applicable during the reporting period consist of adjustments resulting from errors, as well as reclassifications necessitated by incorrect allocation of transactions to their relevant accounts, and reclassifications to comply with the requirements set by the Municipal Standard Chart of Accounts (mSCOA) and the Standard of Generally Recognised Accounting Practice (GRAP).

The following prior period adjustments occurred:

Historical expenses for accrued interest

During the investigation of historical records, it was found that interest on overdue debt owed to Eskom, which was levied in 2020, was never recognised as an expense when it occurred. This led to the understatement of payables from exchange transactions.

Statement of financial position

Payables from exchange transactions	-	(139,896)
Accumulated surplus	-	139,896
	-	-

Incorrect allocation of various expenditures

In the previous financial report, a variety of diverse expenses associated with contracted services, Inventory consumed, Operating leases, and Operational costs were inaccurately allocated (fluctuating within the bounds of this categories).

Statement of financial performance

Contracted service	-	(8,430,801)
Inventory consumed	-	3,405,685
Operating leases	-	(231,166)
operational cost	-	5,256,282
	-	-

Excessive provision for third-party deductions from employee remuneration

At the courts' directive in separate judgments periodically, the municipality withholds remuneration from employees who are obligated to pay funds to a third party in line with the applicable court order. While reconciling employee compensation, it was discovered that there was a redundant provision for this liability, originating from duplication that occurred during the previous financial year.

Statement of financial position

Payables from exchange transactions	-	2,700
Accumulated surplus	-	(1,800)
	-	900

Statement of financial performance

Employee related cost	-	(900)
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Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
41. Prior-year adjustments (continued)		
Estimation of unused pre-paid electricity units at year-end		
Revenue from the sale of pre-paid electricity is recognised based on an estimate of the prepaid electricity consumed as at the reporting date. Therefore, pre-paid electricity units purchased before year-end but not yet consumed during the financial year are accounted for as a liability and not as revenue. The revenue for which annual reporting is done excludes income arising from unused prepaid electricity units. The principle of excluding unused electricity units from revenue has not been applied in previous reporting periods.		
Statement of financial position		
Payables from exchange transactions	-	(460,147)
Statement of financial performance		
Service charges	-	460,147
Provision for employee bonuses		
The provision for bonuses payable to municipal employees on the reporting date for the comparative figure has been recalculated and amended to be consistent with the calculations of the current reporting period.		
Statement of financial position		
Payables from exchange transactions	-	401,635
Statement of financial performance		
Employee related cost	-	(401,635)
Impairment calculation for non-exchange receivables arising from issued traffic fines		
During the process of calculating impairments on receivables arising from non-exchange revenue related to traffic fines, it was identified that not all cash receipts were taken into account in the calculation of the provision for impairment for the comparative year. The accumulated impairment loss as at 30 June 2021 for Traffic Fines was increased due to expired fines that are not considered collectable by management.		
Statement of financial position		
Receivables from non-exchange transactions	-	(100,722,602)
Accumulated surplus	-	101,265,506
	-	542,904
Statement of financial performance		
Debt impairment	-	542,904
Interest related to the provision for landfill site rehabilitation		
The interest component related to the provision for landfill site rehabilitation costs was underestimated in the comparative reporting period.		
Statement of financial position		
Provisions (Current)	-	3,040,639
Provisions (Non-Current)	-	(17,729,584)
	-	(14,688,945)
Statement of financial performance		
Interest, dividends and rent on land (Expense)	-	14,688,945

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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41. Prior-year adjustments (continued)

Fixed assets

The municipality conduct a yearly verification process to verify the existence and conditions of all its fixed assets. The municipality has corrected errors in the carrying amount of its infrastructure, buildings, and movable assets. The errors were due to reclassification changes, asset gains, prior year zero balances, prior year projects, duplications, and ownership changes.

Statement of financial position

Property, plant and equipment	-	35,989,807
Intangible assets	-	(5)
Accumulated surplus	-	(36,108,173)
	-	(118,371)

Statement of financial performance

Depreciation and amortisation	-	3,162,069
Lost on disposal of assets and liabilities	-	(3,043,698)
	-	118,371

Payables from exchange transactions incorrectly recognise as contingent liabilities

During the audit of the financial statement for the year ending 30 June 2022, it was determined that contingent liabilities arising from past services rendered to the municipality were unquestionably owed to the beneficiary party. Recognising this liability implies that expenses in the past were understated. This finding was acknowledged by management, but the adjustment was not included in the 2023/2022 financial statement.

Statement of financial position

Payables from exchange transactions	-	(1,766,382)
Property, plant and equipment	-	(13,542)
Accumulated surplus	-	1,779,924
	-	-
	-	-

Items not on inventory register

The prior year's closing balance of consumables has been restated due to stock items that did not appear on the inventory list and corrections of the number of units that existed as at 30 June 2022.

Statement of financial position

Inventories	-	(706,699)
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Statement of financial performance

Consumables	-	706,699
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Recalculation of the cost of water held at year end

The prior year closing balance of water inventory has been restated due to the recalculation of the cost of water production, based on actual expenditure for the Water Management department per General Ledger, and the volume of water contained in reservoirs and the municipality's water reticulation network as per Infrastructure Asset Register.

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
41. Prior-year adjustments (continued)		
Statement of financial position		
Inventories	-	(1,030,811)
Accumulated Surplus	-	3,672,617
	-	2,641,806
Statement of financial performance		
Inventory consumed	-	(2,641,778)
Overstatement Overstatement of membership fees payable to SALGA		
Membership fees to SALGA pertaining to 2023 were Incorrectly recorded in 2022.		
Statement of financial position		
Payables from exchange transactions	-	1,283,443
Statement of financial performance		
Operational cost	-	(1,283,443)
Correction of Conlog pre-paid electricity not raised to Revenue in 2022		
Revenue from prepaid electricity were not raised and recognised in 2022.		
Statement of financial position		
Payables from exchange transactions	-	1,724,544
Statement of financial performance		
Service charges	-	(1,724,544)
Overstatement Overstatement of membership fees payable to SALGA		
Membership fees to SALGA pertaining to 2023 were Incorrectly recorded in 2022.		
Statement of financial position		
Payables from exchange transactions	-	1,283,443
Statement of financial performance		
Operational cost	-	(1,283,443)
Completeness of municipal rates		
A thorough assessment and reconciliation of property rates against the municipal valuation roll indicates that income from property rates was previously understated.		
Statement of financial position		
Receivable from non-exchange transactions	-	37,300,843
Accumulated surplus	-	(29,514,553)
	-	7,786,290

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
41. Prior-year adjustments (continued)		
Statement of financial performance		
Property rates	-	(7,786,290)
Duplication on Property rates		
In the recent past, municipal property rates were erroneously duplicated for various individual properties. Correcting this issue has implications for both the total revenue collected and the amounts outstanding in receivables.		
Statement of financial position		
Receivable from non-exchange transactions	-	(7,876,770)
Accumulated surplus	-	4,865,907
	-	(3,010,863)
Statement of financial performance		
Property rates	-	3,010,863
Correction on Service charges		
An evaluation of the completeness of the municipal levy system revealed instances where properties appeared on the valuation roll but were not registered on the municipal property rates levy list. Upon correcting this, it was also discovered that there were cases where incorrect levy codes had resulted in municipal service charges being applied under the wrong codes, causing a understatement of revenue.		
Statement of financial position		
Receivables from exchange transactions	-	5,526,439
Value receivable	-	(720,853)
Accumulated surplus	-	(2,924,701)
	-	1,880,885
Statement of financial performance		
Service charge	-	(1,880,885)
Debt impairment		
In light of the prior period adjustment related to debtors as described in the preceding paragraphs, the debt impairment figures for 2022 as well as 2021 have been recalculated.		
Statement of financial position		
Receivables from non-exchange transactions	-	(35,959,212)
Receivables from exchange transactions	-	(6,765,220)
Accumulated surplus	-	29,740,584
	-	(12,983,848)
Statement of financial performance		
Debt impairments	-	12,889,062
Property rates	-	94,786
	-	12,983,848

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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41. Prior-year adjustments (continued)

Reclassifications

The following reclassifications adjustment occurred:

Compliance with the requirements of the Municipal Standard Chart of Accounts

Multiple line items were reclassified to align the statement of financial position and the statement of financial performance with the Municipal Standard Chart of Accounts (mSCOA). The impact of these reclassifications is as follows:

Rental expenses for facilities and equipment totalling R8,957,169 has been reclassified and reassigned to the Rent on land category within the Interest, dividends, and rent on land classification.

The interest income of R586,432 derived from investments has been reclassified and allocated to the Interest on investments category within the Interest, dividends, and rent on land classification.

The interest income of R12,333,043 generated from service charges has been reclassified and assigned to the Interest charged on outstanding service charges category within the Interest, dividends, and rent on land classification.

Finance costs related to interest on overdue accounts amounting to R5,819,858 has been reclassified and allocated to the Interest paid category within the Interest, dividends, and rent on land classification.

General expenditure of R1,214,127.30 has been reclassified and allocated to the operating leases (machinery and equipment) category. The remaining general expenses totalling R24,775,730 has been reclassified and allocated to operational costs based on their respective sub classifications.

The skills development levy, previously categorized as employee related cost, has been reclassified and allocated to the Operational cost category. The reclassification amount is R932,036.

The provision for leave accrual, previously categorised as provisions, has been reclassified and allocated to payables from exchange transactions. The reclassified amount is R9,493,194.

Library fees, previously recognised as operational revenue, has been reclassified and allocated to the sale of goods and rendering of services category. The reclassified amount is R787.

The item of government grants and subsidies totalling R150,498,224 has been renamed as transfers and subsidies, which now includes the incorporation of public contributions and donations previously reported separately, amounting to R31,573,068

Collection cost totalling 11,819,038 has been renamed to Bad debt written of.

Inventory consumed was previously disclosed collectively. The line item (Reported in the previous audited financial statement at R16,405,749.94) were divided into three categories, namely Materials and Supplies at R6,369,366, Consumable Stores at R7,436,807, and Water Consumed at R2,599,577.

Emakhazeni Local Municipality

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42. Financial instruments

Classification

Financial assets:

In accordance with GRAP 104.13 the Financial Assets and Financial Liabilities of the municipality are classified as follows:

Categories of financial instruments

2023

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	26,867,991	26,867,991
Receivables from non-exchange transactions	8,855,484	8,855,484
Cash and cash equivalents	7,518,032	7,518,032
	43,241,507	43,241,507

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	300,955,202	300,955,202
Consumer deposits	1,921,049	1,921,049
	302,876,251	302,876,251

2022

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	27,015,425	27,015,425
Receivables from non-exchange transactions	1,630,311	1,630,311
Cash and cash equivalents	22,126,121	22,126,121
	50,771,857	50,771,857

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	233,546,591	233,546,591
Consumer deposits	2,025,901	2,025,901
	235,572,492	235,572,492

Emakhazeni Local Municipality

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43. Risk management

Financial risk management objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Emakhazeni Local Municipality

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43. Risk management (continued)

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. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instruments

Cash and cash equivalents	7,518,032	22,126,121
Receivables from exchange transactions	26,867,991	27,015,425
Receivables from non-exchange transactions	15,265,140	5,338,849

Credit quality of Financial Assets:

- First National Bank: (Fitch) F1+

Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Foreign Exchange Risk

The municipality's activities do not expose it to Foreign Exchange Risk.

44. Going concern

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.

Management also considered the following matters in relation to the Going Concern position of Emakhazeni Local Municipality:

- On 25 May 2023 Council adopted the 2023/24 to 2025/26 budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF), fund the elementary operations of the Municipality to support the on-going delivery of municipal services to residents, reflected that the Budget was cash-backed over the three-year period.
- The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the budget. The cash management processes is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an on-going inflow of revenue to support the on-going delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.
- A cost containment program is in place and it is regarded by the Municipality as a high priority in order to contain cost and improve service delivery.

Emakhazeni Local Municipality

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44. Going concern (continued)

Current ratio:	20%	26%
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The current ratio increased from the previous year to the current year.

Emakhazeni Local Municipality

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Figures in Rand	2023	2022
44. Going concern (continued)		
Quick ratio:	20%	25%
The Quick ratio increased from the previous financial year to the current year.		
Debt-collection period (after impairment) (Days)	66	53
Debt-impairment provision as a percentage of accounts receivable	99%	93%
The current ratio increased from the previous year to the current year.		
Debt ratio	22%	17%
The debt ratio increased from the previous year to the current year.		
Net Asset position	1,433,379,510	1,561,130,639
Surplus / (Deficit)	(127,751,121)	(117,835,372)
Cash flow		
Bank balances	7,518,031	22,126,121
Amount of net cash in /(out)flows for the year from operating activities	33,802,674	110,545,116

Payment of creditors within 30 days

The creditors were not paid within the 30 days as required by law.

Despite the above negative indicators, the municipality is a going concern because of the following:

Municipality Entity Funding

The municipality receives funding from the Government as Grants and Transfers as per the DoRA. There is no intention from Treasury to stop the distribution of Equitable share to Emakhazeni Local Municipality. This is also corroborated by experience where National Treasury has met its obligations year on year and has therefore created a constructive obligation.

It is a state entity set up by the Constitution of the Republic of South Africa to provide basic services to the community and is also funded by the state for that purpose. Failure to provide these services will prompt National Government intervention to ensure it stays functional and able to deliver basic services and consequently compliance with the Constitution.

	2023/24	2024/25	Total
Finance Management Grant (FMG)	2,900,000	4,318,000	7,218,000
Municipal Infrastructure Grant (MIG)	21,004,000	21,782,000	42,786,000
Integrated National Electrification Program (Municipal) Grant	15,000,000	15,674,000	30,674,000
Integrated National Electrification Program (Eskom) Grant	731,000	745,000	1,476,000
Equitable Share	86,552,000	93,475,000	180,027,000
Water Services Infrastructure Grant (WSIG)	25,000,000	26,125,000	51,125,000
	151,187,000	162,119,000	313,306,000

Taking the aforementioned into account, Management has prepared the Annual Financial Statements on the Going Concern Basis.

Emakhazeni Local Municipality

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45. Events after the reporting date

The accounting officer is not aware of any other matter or circumstance arising since the end of the financial year to the date of authorisation of these financial statements that require disclosure.

46. Unauthorised expenditure

Opening balance as previously reported	324,072,575	223,676,456
Add: Current	117,340,002	100,396,119
Closing balance	441,412,577	324,072,575

47. Fruitless and wasteful expenditure

Opening balance as previously reported	15,499,487	10,441,064
Add: Expenses identifies - current	16,638,660	5,783,772
Add: Expenses identifies - Prior period	-	1,026,933
Add: Expenses identified - current (June 2023)	2,166,557	-
Less: Written-off by Council prior years	(15,499,488)	(1,752,282)
Less: Written-off by Council current year (June 2023 report)	(8,800,776)	-
Less: Written-off by Council current year (mid year report)	(7,837,884)	-
Closing balance	2,166,556	15,499,487

The opening balance of Fruitless and Wasteful expenditure has been restated due to corrections made to the fruitless and wasteful expenditure register since the 2019/2020 financial year which was also referred to MPAC for condonement.

48. Irregular expenditure

Opening balance as previously reported	322,078,576	160,390,522
Restatement based on Irregular Expenditure condoned in 2023	-	111,790,994
Add: Irregular expenditure - current	35,945,148	58,954,692
Add: Irregular expenditure - prior period	-	7,523,188
Less: Written off by Council current year	(33,080,212)	-
Less: Written off by Council prior years	(290,099,728)	(16,580,820)
Closing balance	34,843,784	322,078,576

Irregular Expenditure not condoned:

Project: Refurbishment and upgrading of Machadodorp Water Treatment Works	27,145,957	-
Add: Irregular expenditure non condoned	2,864,936	-
Closing balance	30,010,893	-

The opening balance of Irregular Expenditure as at 30 June 2022 has been restated according to the actual amount submitted to MPAC and condoned in the 2023 financial year.

Emakhazeni Local Municipality

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49. Additional disclosure in terms of Municipal Finance Management Act		
Material losses - Water		
Opening stock (KI)	23,22	23,220
Purified (KI)	3,969,375	4,054,435
Billed consumption (KI)	(1,186,389)	(1,206,116)
Less: Closing stock (KI)	(20,002)	(23,220)
Unaccounted Water loss (KL)	2,786,204	2,848,319
Percentage loss	70.14%	70.25%
Tariff	4.53	4.20
Rand Value of Water losses	12,625,996	11,951,313

Unaccounted consumption and water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections and theft and also internal use that is not metered and not read. The problem with tampered meters and illegal connections is an on-going process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

The prior year amount for water losses has been restated and recalculated based on consumption reports from the accounting system and the volume of water contained in reservoirs and the municipality's water reticulation network as per infrastructure Asset Register.

Emakhazeni Local Municipality

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

Bulk Electricity Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity Losses were as follows and are not recoverable:

The units referred to are measured in kWh (kilowatt-hours).

Unaccounted Electricity Losses	Lost (kWh)	Tariff (R/kWh)	Value
30 June 2023	19,534,044	1.63	31,799,495
30 June 2022	22,807,882	1.44	32,872,434

Unaccounted consumption and electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections) and also internal use that is not metered and not read. The problem with tampered meters and illegal connections is an on-going process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

The prior year amount for electricity losses has been restated and recalculated based on consumption reports from the accounting system which include internal use.

Breakdown of unaccounted Electricity Losses before Network losses accepted by NERSA.	2023 (kWh)	2022 (kWh)
System Input Volume	43,352,099	50,824,799
Billed Consumption (including own consumption)	(23,818,055)	(28,016,917)
	19,534,044	22,807,882

Network loss accepted by NERSA

	2023 (kWh)	2022 (kWh)
Unaccounted Electricity Losses (As disclosed above)	19,534,044	22,807,882
5.20% as per NERSA Guidelines	(2,254,309)	(2,642,890)
	17,279,735	20,164,992

Percentage Distribution Loss	39.86%	39.68%
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Contributions to organised local government - SALGA

Opening balance	540,777	(198,262)
Council subscriptions	1,283,443	1,099,556
Amount paid - current year	(1,304,248)	(360,518)
Balance Unpaid (included in Creditors)	519,972	540,776

Audit fees

Opening balance	5,654,758	4,268,785
Current year Audit Fee	7,656,933	4,896,799
Amount paid - current year	(6,000,000)	(3,510,826)
Balance Unpaid (included in Creditors)	7,311,691	5,654,758

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

PAYE, Skills Development Levy and UIF

Opening balance	(110,821)	-
Current year Payroll Deductions	16,649,228	15,378,434
Amount paid - current year	(16,755,931)	(15,489,255)
Balance Unpaid (included in Creditors)	(217,524)	(110,821)

The balance represents PAYE, SDL and UIF deducted from the June 2023 payroll. These amounts were paid during July 2023.

Pension and Medical Aid Deductions

Current year Payroll Deductions	30,634,894	28,478,742
Amount paid - current year	(30,634,894)	(28,478,742)
Balance Unpaid (included in Creditors)	-	-

VAT

VAT (receivable)/payable	(10,242,524)	(4,385,939)
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VAT output payables and VAT input receivables are shown in note .

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

Emakhazeni Local Municipality

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

Deviation from, and ratification of minor breaches of the Procurement Processes

In terms of section 12(1)(d)(i) of the Municipal Supply Chain Management Regulations approved by the council, a Supply Chain Management Policy must provide for the procurement of goods and services by way of a competitive bidding process.

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

Goods and services 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.

Summary of deviations

Emergency	3,862,620	-
Exceptional/impractical	-	142,534
Sole supplier	40,484	-
	3,903,104	142,534

The detailed register for the two years of reporting as mentioned in the summary above is as follows:

30 June 2023

Payee	Deviation type	Date of approval	Reason for deviation	Amount (R)
Phepha Security Services	MV 'Emergency	1/04/2023	Previous service provider abandoned site leaving municipal assets unguarded	3,862,620
Magna Consulting Ltd	Business 'Sole provider (Pty)	16/09/2022	There services is utilized for the capturing of traffic fines, generation warrants and capturing of S6 summons. The system requires annual license fees.	40,484

30 June 2022

Payee	Deviation type	Date of approval	Reason for deviation	Amount (R)
Forms Independent Africa (Pty)Ltds	Media Exceptional/impractical	22/02/2022	There is only one quotation for the supply of section 56 summons books from Forms Media Independent. They are the only supplier that have the template of how Emakhazeni's summons books must be printed and do have the following numbers of summons	21,574

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

Stayeasy Emalahleni	Exceptional/ impractical	1/03/2022	That the invitation for the Councillor 80,640 Induction Program was received on 21 November 2021. The induction was scheduled to take place at Witbank starting from 06 until 10 December 2021. 3. Due to time constraints in terms of the dates mentioned above and the emergency of finding suitable accommodation, the normal procurement process could not be followed hence the request for deviation
A New Hotel	Capital Exceptional/ impractical	15/03/2022	<p>1. That the invitation for the Councillor 40320 Induction Program was received on 09 March 2022.</p> <p>2. The induction was scheduled to take place at Witbank starting on the 14th March 2022</p> <p>3. Due to time constraints in terms of the dates mentioned above and the emergency of finding suitable accommodation, the normal procurement process could not be followed hence the request for deviation.</p>

Emakhazeni Local Municipality

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

2023	Outstanding up to 90 days	Outstanding more than 90 days	Total
Cllr. A.T. Lukhele	2,518	21,230	23,748
Cllr. J.M. Mabila	2,677	-	2,677
Cllr. D.M. Mahlangu	2,346	16,191	18,537
Cllr. S.S. Mthimunya	436	-	436
Cllr. S.C. Nkosi	2,399	2,647	5,046
Cllr. S.S. Ndimande	2,583	-	2,583
Cllr. S.P. Mthimunya	3,640	18,546	22,186
Cllr. F.N. Nhlapho	2,080	830	2,910
Cllr. D.M. Hepburn	1,113	-	1,113
Cllr. Z.E. Mthimunya	1,639	3,245	4,884
Cllr. D. Janse van Rensburg	2,149	-	2,149
	23,580	62,689	86,269
2022	Outstanding up to 90 days	Outstanding more than 90 days	Total
Cllr. A.T. Lukhele	2,703	34,754	37,457
Cllr. J.M. Mabila	1,604	-	1,604
Cllr. D.M. Mahlangu	1,747	11,222	12,969
Cllr. N.B. Nkosi	146	-	146
Cllr. S.C. Nkosi	2,267	2,846	5,113
Cllr. S.S. Ndimande	2,411	21,793	24,204
Cllr. S.P. Mthimunya	3,339	10,077	13,416
Cllr. F.N. Nhlapho	378	395	773
Cllr. D.M. Hepburn	1,480	-	1,480
Cllr. S.I. Skosana	2,592	1,246	3,838
Cllr. Z.E. Mthimunya	-	78	78
Cllr. D.F. Maseko	2,895	7,656	10,551
	21,562	90,067	111,629

Emakhazeni Local Municipality

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50. Segment information

General information

Reportable segments

The mandate of the municipality is to provide basic services to the community over which it governs. In order to execute its mandate and achieve its strategic goals, internal management reporting is based on each service objective.

The components described below have been identified as individually significant segments for purposes of reporting according to these service objectives:

- Basic services - Energy, Water and Waste management
- Town planning and development and transport
- Community development and safety

The categories in which segment reporting is conducted are as follows:

- Electricity
- Water
- Solid waste and cleansing
- Town planning and development
- Public safety
- Public works and roads
- Finance and Administration
- Unallocated

The Finance and Administration category, previously included under the category for unallocated segments, is now being disclosed separately owing to its substantial size as a component of the municipality.

The municipality does not monitor segments geographically.

A measure of assets and liabilities for each reportable segment has not been presented as these amounts are not regularly provided to management.

The separate segments discussed above as part of the financial performance are disclosed as follows.

Emakhazeni Local Municipality

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Year Ended 30 June 2023

Description	Electricity	Water	Solid waste and cleansing	Town planning and development	Public safety	Public works and roads	Finance and Administration	Unallocated	Grand Total
Revenue									
Revenue From Non-Exchange Transactions									
Service charges	69,323,705	20,031,953	26,673,848	-	-	-	-	-	116,029,506
Sale of goods and rendering of services	-	-	10,999	407,307	23,240	-	78,022	60,003	579,571
Operational revenue	-	-	-	630,869	-	473	172,963	-	804,305
Interest, dividends and rent on land	-	-	-	-	-	17,947	17,923,498	-	17,941,445
Actuarial gains	-	-	-	-	-	-	-	315,106	315,106
Fair value adjustments	-	-	-	-	-	-	-	4,829,317	4,829,317
Total Revenue From Exchange Transactions	69,323,705	20,031,953	26,684,847	1,038,176	23,240	18,420	18,174,484	5,204,426	140,499,251
Revenue From Non-Exchange Transactions									
Taxation Revenue									
Property rates	-	-	-	-	-	-	98,828,705	(2,805,336)	96,023,369
Interest, dividends and rent on land	-	-	-	-	-	-	-	-	-
Transfer revenue									
Transfers and subsidies	14,000,000	19,999,409	-	1,473,000	-	-	3,133,387	100,563,332	139,169,128
Fines, Penalties and Forfeits	169,366	-	-	-	2,983,950	-	-	-	3,153,316
Total Revenue From Non-Exchange Transactions	14,169,366	19,999,409	-	1,473,000	2,983,950	-	101,962,092	97,757,996	238,345,813
Total Revenue	83,493,071	40,031,362	26,684,847	2,511,176	3,007,190	18,420	120,136,575	102,962,422	378,845,063
Expenditure									
Employee related cost	(4,507,338)	(8,529,675)	(17,795,883)	(11,942,731)	(13,143,949)	(12,775,032)	(35,255,222)	(19,456,465)	(123,406,296)
Remuneration of councillors	-	-	-	-	-	-	-	(7,245,372)	(7,245,372)
Depreciation and amortisation	(8,116,084)	(31,856,977)	(6,144,593)	-	(10,148,334)	(18,610,985)	(373,720)	(650,419)	(75,901,112)
Impairment of assets	(17,942)	(52,351,422)	(1,947,826)	-	-	(1,798,567)	(17,889)	27,725,845	(28,407,802)
Interest, dividends and rent on land	-	-	(3,581,992)	-	-	-	(3,581,992)	(13,529,164)	(20,693,148)
Debt impairment	-	-	-	-	-	-	-	(92,284,407)	(92,284,407)
Bad debts written off	-	-	-	-	-	-	-	-	-
Bulk purchases	(69,777,063)	-	-	-	-	-	-	-	(69,777,063)
Contracted service	(3,476,195)	(2,082,976)	(561,329)	-	(15,386,479)	(17,575)	(13,582,564)	(3,838,210)	(38,945,329)
Lost on disposal of assets and liabilities	-	-	-	-	-	-	(14,439)	(2,635,975)	(2,650,413)
Inventory consumed	(160,167)	(8,771,034)	(1,649,267)	-	(153,183)	(5,140,353)	(512,770)	(277,821)	(16,664,595)
Operational cost	(42,441)	(227,638)	(2,640,114)	(233,400)	(195,196)	(285,661)	(21,702,593)	(4,011,394)	(29,338,436)
Operating leases	-	-	(414,055)	-	-	-	(868,157)	-	(1,282,212)
Total Expenditure	(86,097,232)	(103,819,723)	(34,735,058)	(12,176,131)	(39,027,141)	(38,628,174)	(75,909,345)	(116,203,382)	(506,596,184)
Surplus (Deficit) For The Year	(2,604,160)	(63,788,361)	(8,050,211)	(9,664,955)	(36,019,951)	(38,609,754)	44,227,230	(13,240,960)	(127,751,121)

Emakhazeni Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Year Ended 30 June 2022

Description	Electricity	Water	Solid waste and cleansing	Town planning and development	Public safety	Public works and roads	Finance and Administration	Unallocated	Grand Total
Revenue									
Revenue From Non-Exchange Transactions									
Service charges	72,768,048	19,337,647	24,636,326	-	-	-	-	-	116,742,021
Sale of goods and rendering of services	-	-	23,014	302,709	25,639	505	89,163	59,874	500,904
Operational revenue	157,389	-	-	905,700	-	63,330	1,033,359	-	2,159,778
Interest, dividends and rent on land	-	-	-	-	-	3,162	21,873,482	-	21,876,645
Actuarial gains	-	-	-	-	-	-	668	3,688,445	3,689,113
Fair value adjustments	-	-	-	-	-	-	-	-	-
Total Revenue From Exchange Transactions	72,925,437	19,337,647	24,659,340	1,208,409	25,639	66,997	22,996,673	3,748,319	144,968,461
Revenue From Non-Exchange Transactions									
Taxation Revenue									
Property rates	-	-	-	-	-	-	79,359,718	(2,977,559)	76,382,159
Interest, dividends and rent on land	-	-	-	-	-	-	-	-	-
Transfer revenue									
Transfers and subsidies	34,000,000	21,279,368	-	1,307,000	-	-	3,074,856	122,410,069	182,071,293
Fines, Penalties and Forfeits	1,611,235	-	-	-	2,273,400	-	-	128	3,884,763
Total Revenue From Non-Exchange Transactions	35,611,235	21,279,368	-	1,307,000	2,273,400	-	82,434,575	119,432,638	262,338,216
Total Revenue	108,536,672	40,617,015	24,659,340	2,515,409	2,299,039	66,997	105,431,248	123,180,957	407,306,677
Expenditure									
Employee related cost	(5,451,639)	(5,801,665)	(9,397,760)	(3,107,410)	(6,766,399)	(19,453,023)	(36,373,364)	(28,233,531)	(114,584,792)
Remuneration of councillors	-	-	-	-	-	-	-	(7,267,467)	(7,267,467)
Depreciation and amortisation	(514,312)	(785,039)	(108,527,721)	-	10,910	(231,492)	(3,205)	(4,335)	(110,055,195)
Impairment of assets	-	-	-	-	-	-	-	(12,974,448)	(12,974,448)
Interest, dividends and rent on land	-	-	(7,344,472)	-	-	-	-	(5,819,858)	(13,164,330)
Debt impairment	-	-	-	-	-	-	-	(63,440,851)	(63,440,851)
Bad debts written off	-	-	-	-	-	-	-	(11,819,038)	(11,819,038)
Bulk purchases	(72,690,722)	-	-	-	-	-	-	-	(72,690,722)
Contracted service	(128,430)	(3,830,130)	(942,338)	(2,391,875)	(15,465,445)	(493,770)	(12,878,234)	(1,383,049)	(37,513,270)
Lost on disposal of assets and liabilities	-	-	-	-	-	-	-	(33,553,766)	(33,553,766)
Inventory consumed	(1,008,579)	(9,317,499)	(1,864,453)	-	(500)	(4,127,935)	(740,314)	(355,323)	(17,414,602)
Operational cost	(8,778)	(140,803)	(681,377)	(58,426)	(138,986)	(156,359)	(24,491,494)	(4,004,381)	(29,680,605)
Operating leases	-	-	(57,994)	-	(9,208)	-	(915,760)	(2)	(982,963)
Total Expenditure	(79,802,458)	(19,875,136)	(128,816,115)	(5,557,711)	(22,369,629)	(24,462,580)	(75,402,371)	(168,856,049)	(525,142,048)
Surplus (Deficit) For The Year	28,734,213	20,741,879	(104,156,775)	(3,042,302)	(20,070,590)	(24,395,583)	30,028,877	(45,675,091)	(117,835,372)