Umsobomvu Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Umsobomvu municipal area.
Mayoral committee	
Mayor	MS Toto
Councilors	NJ Batties
	SK Brown
	VP Harmse
	E Humpries
	MR Kafi
	JP Mathee
	W Minnie
	MA Sestile
	ND Stafa
	CM Williams
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	TD Tshikundu
Accounting Officer	AC Mpela
Business address	21A Church Street Colesberg Northern Cape 9795
Postal address	Private Bag X6 Colesberg Northern Cape 9795
Bankers	ABSA Bank Limited Standard Bank of South Africa Limited First National Bank Limited
Telephone number	(051) 753 0777
Fax number	(051) 753 0574
Website	www.umsobomvumun.co.za

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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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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

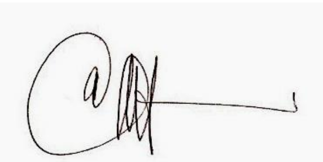
The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting 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 endeavors to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

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

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

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umsobomvu Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on pages 6 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:



AC Mpela
Accounting officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the Umsobomvu municipal area.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment. Net surplus of the municipality was R 21,844,794 (2020: deficit R 5,994,270).

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 524,371,647 and that the municipality's total assets exceed its liabilities by R 524,371,647. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cash flow of the municipality and where necessary procure funding for the ongoing operations of the municipality.

3. Subsequent events

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

4. Accounting officer's interest in contracts

The accounting officer had no interest in any contracts.

5. Accounting policies

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

6. Non-current assets

There were no changes in the nature of the non-current assets of the municipality during the year.

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Internal audit

The municipality has outsourced its internal audit function to Pixley-ka-Seme District Municipality (i.e. shared services).This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

8. Bankers

The municipality's bankers did not change during the year.

9. Auditors

Auditor General of South Africa (AGSA) will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note	2021	2020
Assets			
Current Assets			
Inventories	3	405,268	406,381
Other debtors	4	1,703,706	820,626
Receivables from exchange transactions	5	59,580,169	47,942,286
Receivables from non-exchange transactions	5	2,117,223	-
Statutory receivables from non-exchange transactions	6	14,654,418	14,077,702
Cash and cash equivalents	7	5,172,398	6,781,515
		83,633,182	**70,028,510**
Non-Current Assets			
Investment property	8	16,698,999	12,144,899
Property, plant and equipment	9	511,418,202	509,571,692
Intangible assets	10	64,816	97,175
Operating lease asset	11	274	372
		528,182,291	**521,814,138**
Total Assets		**611,815,473**	**591,842,648**
Liabilities			
Current Liabilities			
Finance lease obligation	12	651,924	530,002
Trade payables	13	37,378,063	31,150,738
Payables from non-exchange transactions	14	977,943	1,016,392
VAT payable	15	13,728,194	17,393,942
Consumer deposits	16	745,124	767,081
Employee benefit obligation	17	708,000	631,000
Unspent conditional grants and receipts	18	11,545,447	19,869,543
		65,734,695	**71,358,698**
Non-Current Liabilities			
Finance lease obligation	12	2,519,283	2,269,878
Employee benefit obligation	17	10,978,460	9,841,460
Provisions	19	8,211,388	5,845,760
		21,709,131	**17,957,098**
Total Liabilities		**87,443,826**	**89,315,796**
Net Assets		**524,371,647**	**502,526,852**
Accumulated surplus		524,371,647	502,526,852

Statement of Financial Performance

Figures in Rand	Note	2021	2020
Revenue			
Revenue from exchange transactions			
Service charges	20	61,972,225	58,207,757
Rental of facilities and equipment	21	23,457	100,331
Agency services	22	719,458	524,629
Other income	23	987,730	733,662
Interest received	24	6,227,953	1,724,509
Fair value adjustments		4,554,100	5,063,001
Total revenue from exchange transactions		**74,484,923**	**66,353,889**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	14,389,004	10,966,986
Transfer revenue			
Government grants and subsidies	26	86,864,096	79,611,163
Fines, penalties and forfeits	27	20,789,543	29,149,670
Public contributions and donations	28	7,688,112	-
Total revenue from non-exchange transactions		**129,730,755**	**119,727,819**
Total revenue		**204,215,678**	**186,081,708**
Expenditure			
Employee related costs	29	(56,729,144)	(49,981,429)
Remuneration of councilors	30	(3,996,005)	(4,128,432)
Depreciation and amortisation	31	(29,515,831)	(31,109,122)
Impairment loss	32	-	(697,727)
Finance costs	33	(2,094,091)	(2,055,555)
Debt impairment	34	(32,765,896)	(43,904,229)
Bulk purchases	35	(32,115,789)	(27,397,052)
Contracted services		(3,418,375)	(3,354,364)
Loss on disposal of assets and liabilities		-	(2,340,685)
General expenses	36	(17,865,878)	(18,655,818)
Auditors remuneration	37	(3,134,160)	(2,222,350)
Fines and penalties		(186,752)	(3,098,260)
Travel and subsistence		(548,963)	(1,217,495)
Total expenditure		**(182,370,884)**	**(190,162,518)**
Surplus (deficit) for the year		**21,844,794**	**(4,080,810)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	508,472,729	508,472,729
Adjustments		
Correction of errors (refer to Note 42)	(1,865,067)	(1,865,067)
Balance at 01 July 2019 as restated*	**506,607,662**	**506,607,662**
Changes in net assets		
Surplus for the year	(4,080,810)	(4,080,810)
Total changes	(4,080,810)	(4,080,810)
Balance at 01 July 2020	**502,526,853**	**502,526,853**
Changes in net assets		
Surplus for the year	21,844,794	21,844,794
Total changes	21,844,794	21,844,794
Balance at 30 June 2021	**524,371,647**	**524,371,647**

Cash Flow Statement

Figures in Rand	Note	2021	2020
Cash flows from operating activities			
Receipts			
Sale of goods and services		64,619,272	51,417,862
Government grant and subsidies		78,540,000	84,133,999
Interest income		157,498	340,635
		143,316,770	135,892,496
Payments			
Employee costs		(59,907,953)	(55,749,269)
Suppliers paid		(53,715,982)	(50,260,580)
		(113,623,935)	(106,009,849)
Net cash flows from operating activities	38	**29,692,835**	**29,882,647**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(31,329,981)	(27,351,578)
Purchase of other intangible assets	10	-	(27,430)
Net cash flows from investing activities		**(31,329,981)**	**(27,379,008)**
Cash flows from financing activities			
Finance lease payments		28,029	(123,492)
Net increase/(decrease) in cash and cash equivalents		**(1,609,117)**	**2,380,147**
Cash and cash equivalents at the beginning of the year		6,781,515	4,401,374
Cash and cash equivalents at the end of the year	7	**5,172,398**	**6,781,521**

Umsobomvu Local Municipality
Annual Financial Statements for the year ended 30 June 2021

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	69,427,986	2,301,250	**71,729,236**	61,972,225	**(9,757,011)**	Note 51
Rental of facilities and equipment	412,161	(388,000)	**24,161**	23,457	**(704)**	
Agency services	3,179,736	(2,506,664)	**673,072**	719,458	**46,386**	
Other income	8,043,510	(800,000)	**7,243,510**	987,730	**(6,255,780)**	Note 51
Interest received	2,697,799	3,916,095	**6,613,894**	6,227,953	**(385,941)**	
Fair value adjustments	-	-	**-**	4,554,100	**4,554,100**	Note 51
Total revenue from exchange transactions	**83,761,192**	**2,522,681**	**86,283,873**	**74,484,923**	**(11,798,950)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	17,347,496	(3,078,819)	**14,268,677**	14,389,004	**120,327**	
Transfer revenue						
Government grants and subsidies	71,891,150	7,942,000	**79,833,150**	86,864,096	**7,030,946**	Note 51
Fines, penalties and forfeits	32,830,320	(10,952,600)	**21,877,720**	20,789,543	**(1,088,177)**	
Public contributions and donations	-	-	**-**	7,688,112	**7,688,112**	Note 51
Total revenue from non-exchange transactions	**122,068,966**	**(6,089,419)**	**115,979,547**	**129,730,755**	**13,751,208**	
Total revenue	**205,830,158**	**(3,566,738)**	**202,263,420**	**204,215,678**	**1,952,258**	
Expenditure						
Employee related costs	(61,280,424)	-	**(61,280,424)**	(56,729,144)	**4,551,280**	Note 51
Remuneration of councilors	(4,617,844)	-	**(4,617,844)**	(3,996,005)	**621,839**	Note 51
Contracted services	(5,564,035)	(122,016)	**(5,686,051)**	(3,418,375)	**2,267,676**	Note 51
Loss on disposal of assets	(25,000)	-	**(25,000)**	-	**25,000**	Note 51
Depreciation and amortisation	(31,707,466)	598,778	**(31,108,688)**	(29,515,831)	**1,592,857**	Note 51
Finance costs	(306,000)	-	**(306,000)**	(2,094,091)	**(1,788,091)**	Note 51
Debt impairment	(28,378,599)	3,055,480	**(25,323,119)**	(32,765,896)	**(7,442,777)**	Note 51
Bulk purchases	(34,135,405)	2,887,000	**(31,248,405)**	(32,115,789)	**(867,384)**	
General expenses	(25,430,344)	1,604,932	**(23,825,412)**	(21,735,753)	**2,089,659**	Note 51
Total expenditure	**(191,445,117)**	**8,024,174**	**(183,420,943)**	**(182,370,884)**	**1,050,059**	
Surplus before taxation	**14,385,041**	**4,457,436**	**18,842,477**	**21,844,794**	**3,002,317**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1,062,000	-	**1,062,000**	405,268	**(656,732)**	Note 51
Other debtors	5,583,000	-	**5,583,000**	1,703,706	**(3,879,294)**	Note 51
Consumer debotrs	74,035,401	11,987,000	**86,022,401**	76,351,810	**(9,670,591)**	Note 51
Cash and cash equivalents	13,934,000	20,854,742	**34,788,742**	5,172,398	**(29,616,344)**	Note 51
	94,614,401	**32,841,742**	**127,456,143**	**83,633,182**	**(43,822,961)**	
Non-Current Assets						
Investment property	2,061,000	-	**2,061,000**	16,698,999	**14,637,999**	Note 51
Property, plant and equipment	514,593,787	-	**514,593,787**	511,418,202	**(3,175,585)**	
Intangible assets	2,014,000	-	**2,014,000**	64,816	**(1,949,184)**	Note 51
Operating lease asset	-	-	**-**	274	**274**	Note 51
	518,668,787	**-**	**518,668,787**	**528,182,291**	**9,513,504**	
Total Assets	**613,283,188**	**32,841,742**	**646,124,930**	**611,815,473**	**(34,309,457)**	
Liabilities						
Current Liabilities						
Trade payables	17,640,003	5,370,000	**23,010,003**	63,629,647	**40,619,644**	Note 51
Consumer deposits	803,000	-	**803,000**	745,124	**(57,876)**	Note 51
Provisions	692,543	-	**692,543**	1,359,924	**667,381**	Note 51
	19,135,546	**5,370,000**	**24,505,546**	**65,734,695**	**41,229,149**	
Non-Current Liabilities						
Provisions	19,727,245	(2,904,540)	**16,822,705**	21,709,131	**4,886,426**	Note 51
Total Liabilities	**38,862,791**	**2,465,460**	**41,328,251**	**87,443,826**	**46,115,575**	
Net Assets	**574,420,397**	**30,376,282**	**604,796,679**	**524,371,647**	**(80,425,032)**	
Net Assets						
Reserves						
Accumulated surplus	574,420,397	30,376,282	**604,796,679**	524,371,647	**(80,425,032)**	

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	66,819,000	(2,510,973)	**64,308,027**	64,619,272	**311,245**	Note 51
Government grants and subsidies	80,032,850	(1,208,000)	**78,824,850**	78,540,000	**(284,850)**	
Interest income	2,348,000	3,933,336	**6,281,336**	157,498	**(6,123,838)**	Note 51
Other receipts	31,249,161	(3,794,671)	**27,454,490**	-	**(27,454,490)**	Note 51
	180,449,011	**(3,580,308)**	**176,868,703**	**143,316,770**	**(33,551,933)**	
Payments						
Suppliers and employee cost	(132,027,000)	(4,056,780)	**(136,083,780)**	(113,623,935)	**22,459,845**	Note 51
Finance costs	-	(306,000)	**(306,000)**	-	**306,000**	Note 51
	(132,027,000)	**(4,362,780)**	**(136,389,780)**	**(113,623,935)**	**22,765,845**	
Net cash flows from operating activities	**48,422,011**	**(7,943,088)**	**40,478,923**	**29,692,835**	**(10,786,088)**	
Cash flows from investing activities						
Capital assets	(16,347,850)	(11,562,600)	**(27,910,450)**	(31,329,981)	**(3,419,531)**	Note 51
Decrease (increase) in investments	-	15,263,742	**15,263,742**	-	**(15,263,742)**	
Net cash flows from investing activities	**(16,347,850)**	**3,701,142**	**(12,646,708)**	**(31,329,981)**	**(18,683,273)**	
Cash flows from financing activities						
Increase (decrease) in consumer deposits	56,000	-	**56,000**	28,029	**(27,971)**	Note 49
Net increase/(decrease) in cash and cash equivalents	32,130,161	(4,241,946)	**27,888,215**	(1,637,146)	**(29,642,856)**	
Cash and cash equivalents at the beginning of the year	5,816,264	1,084,000	**6,900,264**	6,781,515	**(118,749)**	
Cash and cash equivalents at the end of the year	**37,946,425**	**(3,157,946)**	**34,788,479**	**5,144,369**	**(29,761,605)**	

Appropriation Statement
Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Property rates	17,347,496	(3,078,819)	14,268,677	-		14,268,677	14,389,004		120,327	101 %	83 %
Service charges	69,427,529	2,301,707	71,729,236	-		71,729,236	61,972,225		(9,757,011)	86 %	89 %
Investment revenue	2,697,799	3,916,095	6,613,894	-		6,613,894	6,227,953		(385,941)	94 %	231 %
Transfers recognised - operational	107,523,960	(19,819,338)	87,704,622	-		87,704,622	64,880,000		(22,824,622)	74 %	60 %
Other own revenue	8,832,767	(1,266,776)	7,565,991	-		7,565,991	34,762,400		27,196,409	459 %	394 %
Total revenue (excluding capital transfers and contributions)	**205,829,551**	**(17,947,131)**	**187,882,420**	**-**		**187,882,420**	**182,231,582**		**(5,650,838)**	**97 %**	**89 %**
Employee costs	(61,280,424)	-	(61,280,424)	-	-	(61,280,424)	(56,729,144)	-	4,551,280	93 %	93 %
Remuneration of councillors	(4,617,844)	-	(4,617,844)	-	-	(4,617,844)	(3,996,005)	-	621,839	87 %	87 %
Debt impairment	(28,378,599)	3,055,480	(25,323,119)			(25,323,119)	(32,765,896)	-	(7,442,777)	129 %	115 %
Depreciation and asset impairment	(31,707,466)	598,778	(31,108,688)			(31,108,688)	(29,515,831)	-	1,592,857	95 %	93 %
Finance charges	(306,250)	250	(306,000)	-	-	(306,000)	(2,094,091)	-	(1,788,091)	684 %	684 %
Materials and bulk purchases	(34,135,405)	2,887,000	(31,248,405)	-	-	(31,248,405)	(32,115,789)	-	(867,384)	103 %	94 %
Other expenditure	(30,994,379)	1,482,916	(29,511,463)	-	-	(29,511,463)	(25,154,128)	-	4,357,335	85 %	81 %
Total expenditure	**(191,420,367)**	**8,024,424**	**(183,395,943)**	**-**	**-**	**(183,395,943)**	**(182,370,884)**	**-**	**1,025,059**	**99 %**	**95 %**
Surplus/(Deficit)	**14,409,184**	**(9,922,707)**	**4,486,477**	**-**		**4,486,477**	**(139,302)**		**(4,625,779)**	**(3)%**	**(1)%**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	21,984,096		21,984,096	- %	- %
Surplus (Deficit) after capital transfers and contributions	**14,409,184**	**(9,922,707)**	**4,486,477**	**-**		**4,486,477**	**21,844,794**		**17,358,317**	**487 %**	**152 %**
Surplus/(Deficit) for the year	**14,409,184**	**(9,922,707)**	**4,486,477**	**-**		**4,486,477**	**21,844,794**		**17,358,317**	**487 %**	**152 %**
Cash flows											
Net cash from (used) operating	40,280,011	198,942	40,478,953	-		40,478,953	29,692,835		(10,786,118)	73 %	74 %
Net cash from (used) investing	(16,347,880)	3,701,142	(12,646,738)	-		(12,646,738)	(31,329,981)		(18,683,243)	248 %	192 %
Net cash from (used) financing	56,000	-	56,000	-		56,000	28,029		(27,971)	50 %	50 %
Net increase/(decrease) in cash and cash equivalents	**23,988,131**	**3,900,084**	**27,888,215**	**-**		**27,888,215**	**(1,609,117)**		**(29,497,332)**	**(6)%**	**(7)%**
Cash and cash equivalents at the beginning of the year	5,816,264	1,084,000	6,900,264	-		6,900,264	6,781,515		(118,749)	98 %	117 %
Cash and cash equivalents at year end	**29,804,395**	**4,984,084**	**34,788,479**	**-**		**34,788,479**	**5,172,398**		**29,616,081**	**15 %**	**17 %**

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
2020				
Financial Performance				
Property rates				10,966,986
Service charges				58,207,757
Investment revenue				1,724,509
Transfers recognised - operational				52,926,345
Other own revenue				35,571,293
Total revenue (excluding capital transfers and contributions)				**159,396,890**
Employee costs	-	(52,500,804)	52,500,804	(49,981,429)
Remuneration of councillors	-	(4,354,095)	4,354,095	(4,128,432)
Debt impairment	(26,620,175)	(20,241,933)	(6,378,242)	(43,904,229)
Depreciation and asset impairment	-	(31,138,647)	31,138,647	(31,806,849)
Finance charges	(212,863)	-	(212,863)	(2,055,555)
Materials and bulk purchases	-	(27,890,750)	27,890,750	(27,397,052)
Other expenditure	(3,018,412)	(34,760,308)	31,741,896	(30,888,972)
Total expenditure	**(29,851,450)**	**(170,886,537)**	**141,035,087**	**(190,162,518)**
Surplus/(Deficit)				**(30,765,628)**
Transfers recognised - capital				26,684,818
Surplus (Deficit) after capital transfers and contributions				**(4,080,810)**
Share of surplus (deficit) of associate				-
Surplus/(Deficit) for the year				**(4,080,810)**
Capital expenditure and funds sources				
Total capital expenditure				27,430
Cash flows				
Net cash from (used) operating				29,882,647
Net cash from (used) investing				(27,379,008)
Net cash from (used) financing				[illegible]
Net increase/(decrease) in cash and cash equivalents				**2,380,147**
Cash and cash equivalents at the beginning of the year				4,355,387
Cash and cash equivalents at year end				**6,735,534**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and loans and receivables

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

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17 - Employee benefit obligation.

Effective interest rate

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

Allowance for doubtful debts

On consumer debtors and trade 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 debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

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

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

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

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

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

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

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

1.4 Investment property (continued)

Fair value

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

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

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

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

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

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.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	20 - 25 years
Roads and paving	Straight line	10 - 15 years
Electricity	Straight line	5 - 50 years
Water	Straight line	15 - 100 years
Sewerage	Straight line	15 - 60 years
Landfill sites	Straight line	23 - 25 years
Recreational facilities	Straight line	20 - 25 years
Security measures	Straight line	20 - 25 years
Specialist vehicles	Straight line	1 -5 years
Other vehicles	Straight line	1 - 5 years
Office equipment	Straight line	3 - 7 years
Furniture and fittings	Straight line	7 - 10 years
Plant and equipment	Straight line	2 - 10 years

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

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

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

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

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

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

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

1.5 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 29 - Repairs and maintenance).

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

1.6 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.

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

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

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

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

Item	Depreciation method	Average useful life
Computer software	Straight line	3 - Indefinite
Website	Straight line	5 years

1.7 Financial instruments

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

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

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

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

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

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 favorable to the entity.

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.7 Financial instruments (continued)

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.

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.7 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	financial asset measured at amortised cost
Receivables from non-exchanges transactions	financial asset measured at amortised cost
Statutory receivables from non-exchange transactions	financial asset measured at amortised cost
Operating lease receivables	financial asset measured at amortised cost
Consumer debtor's	financial asset measured at amortised cost
Cash and cash equivalents	financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	financial liability measured at amortised cost
Payables from non-exchange transactions	financial liability measured at amortised cost
Consumer deposits	financial liability measured at amortised cost
VAT payable	financial liability measured at amortised cost
Bank overdraft	financial liability measured at amortised cost
Other financial liabilities	financial liability measured at fair value

Initial recognition

The entity 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.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

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

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

1.7 Financial instruments (continued)

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 entity 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, a 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.

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 entity 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 entity 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 entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

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

Gains and losses

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

Financial assets measured at amortised cost:

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

1.7 Financial instruments (continued)

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it 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 recognise the new financial asset, financial liability or servicing liability at fair value.

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

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

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

1.7 Financial instruments (continued)

Financial liabilities

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

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

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

Presentation

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

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.

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.

1.8 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.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

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

1.8 Statutory receivables (continued)

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.

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 another financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

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

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

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

Derecognition

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

1.8 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.

1.9 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 - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

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 municipality's incremental borrowing rate.

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

1.10 Inventories (continued)

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the 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.

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is 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.

1.11 Impairment of cash-generating assets (continued)

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 it carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

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

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

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than it 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.

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

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

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

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

Useful life is 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.

Identification

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

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

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

Value in use

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.13 Employee benefits

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

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

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

1.13 Employee benefits (continued)

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

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

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

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

Short-term employee benefits

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

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

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

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

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

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.

1.13 Employee benefits (continued)

multi-employer plans

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

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

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

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

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.

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

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

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

1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

1.14 Provisions and contingencies

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

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

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

Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

1.14 Provisions and contingencies (continued)

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

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

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 test 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 1.11 and 1.12.

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.

Accounting Policies

1.15 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.

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by.

Interest, royalties and dividends

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

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

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

1.15 Revenue from exchange transactions (continued)

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

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

1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.16 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 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.

1.19 Accounting by principals and agents (continued)

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

Recognition

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

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

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

1.20 Comparative figures

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

1.21 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.

1.22 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.

1.23 Irregular expenditure

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

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

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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.

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

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

1.24 Segment information

A segment is an activity of an entity:

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

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

1.25 Budget information

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

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

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

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

1.25 Budget information (continued)

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

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

1.26 Related parties

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

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

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

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

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

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

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

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

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

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

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

1.28 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

1.28 Capital commitments (continued)

Capital commitments are not recognised in the Statement of financial position as a liability but are included in the disclosure notes in the following cases:

- 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 expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date;
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources; or
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for adjustments to Revenue	01 April 2020	The impact of the is not material.
• GRAP 18: Segment Reporting	01 April 2020	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

2.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline on Accounting for landfill sites	To be determined	Unlikely there will be a material impact
• The application of materiality to Financial Statements	To be determined	Unlikely there will be a material impact

3. Inventories

Water	34,968	36,081
Property stock	370,300	370,300
	405,268	**406,381**

Inventories are held for own use and measured at the lower of cost or current replacement value.

The cost of water production for the year amounted to R3.38 (2020: R5.47) per kilolitre.

Inventory pledged as security

No inventory was pledged as security for overdraft facilities of the municipality.

4. Other debtors

Other taxes	901	-
Sundry debtors	1,294,761	816,836
Payments made in advance	408,044	3,790
	1,703,706	**820,626**

Other debtors pledged as security

None of the other receivables from exchange transactions have been pledged as security for the municipality's financial liabilities.

Figures in Rand	2021	2020

4. Other debtors (continued)

Credit quality of other debtors

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Fair value of other debtors

Management is of the opinion that the carrying value of the other receivables from non-exchange transactions recorded at amortised cost in the financial statements approximate their fair values.

Other debtors past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 1,265,550 (2020: R 820,626) were past due but not impaired.

5. Consumer debtors

	2021	2020
Consumer debtors included in receivables from exchange transactions		
Electricity	8,226,157	6,701,880
Water	24,245,087	18,484,119
Sewerage	13,388,957	10,820,296
Refuse	12,740,638	10,244,065
Other (exchange)	979,330	1,691,926
	59,580,169	**47,942,286**
Consumer debtors included in receivables from non-exchange transactions		
Other (non-exchange)	2,117,223	-
Consumer debtors included in statutory receivables		
Rates	11,223,398	8,702,095
Gross balances		
Rates	28,284,753	22,717,035
Electricity	18,206,083	15,331,522
Water	91,634,274	80,858,771
Sewerage	47,455,221	40,523,393
Refuse	50,108,588	44,111,206
Other (exchange)	4,147,516	4,158,579
Other (non-exchange)	7,458,577	1,448,777
	247,295,012	**209,149,283**
Less: Allowance for impairment		
Rates	(17,061,355)	(14,014,940)
Electricity	(9,979,926)	(8,629,642)
Water	(67,389,187)	(62,374,652)
Sewerage	(34,066,264)	(29,703,097)
Refuse	(37,367,950)	(33,867,141)
Other (exchange)	(3,168,186)	(2,466,653)
Other (non-exchange)	(5,341,354)	(1,448,777)
	(174,374,222)	**(152,504,902)**

Figures in Rand	2021	2020

5. Consumer debtors (continued)

Net balance		
Rates	11,223,398	8,702,095
Electricity	8,226,157	6,701,880
Water	24,245,087	18,484,119
Sewerage	13,388,957	10,820,296
Refuse	12,740,638	10,244,065
Other (exchange)	979,330	1,691,926
Other (non-exchange)	2,117,223	-
	72,920,790	**56,644,381**

Rates		
Current (0 -30 days)	46,510	(97,648)
31 - 60 days	2,100,782	471,617
61 - 90 days	245,793	218,158
91 - 120 days	215,254	188,103
121 - 365 days	1,915,053	1,114,494
> 365 days	6,700,006	6,807,371
	11,223,398	**8,702,095**

Electricity		
Current (0 -30 days)	66,978	(201,974)
31 - 60 days	1,242,313	892,938
61 - 90 days	445,007	466,395
91 - 120 days	373,504	258,346
121 - 365 days	2,041,487	1,799,361
> 365 days	4,056,868	3,486,814
	8,226,157	**6,701,880**

Water		
Current (0 -30 days)	1,330,625	(836,711)
31 - 60 days	457,065	497,085
61 - 90 days	455,028	295,411
91 - 120 days	344,549	271,086
121 - 365 days	3,017,970	2,233,348
> 365 days	18,639,850	16,023,900
	24,245,087	**18,484,119**

Sewerage		
Current (0 -30 days)	4,868	(36,090)
31 - 60 days	427,180	381,831
61 - 90 days	332,013	251,697
91 - 120 days	313,237	222,982
121 - 365 days	2,038,496	1,498,639
> 365 days	10,273,163	8,501,237
	13,388,957	**10,820,296**

Figures in Rand	2021	2020

5. Consumer debtors (continued)

Refuse		
Current (0 -30 days)	(31,540)	(192,156)
31 - 60 days	189,677	182,577
61 - 90 days	161,647	149,023
91 - 120 days	154,758	140,596
121 - 365 days	1,379,453	1,078,734
> 365 days	10,886,643	8,885,291
	12,740,638	**10,244,065**

Housing rental		
Current (0 -30 days)	4,313	(9,969)
31 - 60 days	6,286	6,358
61 - 90 days	3,743	61,499
91 - 120 days	1,402	752
121 - 365 days	19,902	30,052
> 365 days	943,684	1,603,234
	979,330	**1,691,926**

Other (specify)		
Current (0 -30 days)	262,480	-
31 - 60 days	279,908	-
61 - 90 days	277,421	-
91 - 120 days	274,566	-
121 - 365 days	(154,661)	-
> 365 days	1,177,509	-
	2,117,223	**-**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	1,726,776	(1,373,847)
31 - 60 days	2,502,287	2,498,885
61 - 90 days	1,322,764	1,376,688
91 - 120 days	1,256,340	1,049,821
121 - 365 days	8,019,025	7,459,218
> 365 days	47,661,093	44,519,309
	62,488,285	**55,530,074**

Industrial/ commercial		
Current (0 -30 days)	6,548	(701)
31 - 60 days	242,905	(96,181)
61 - 90 days	27,221	39,485
91 - 120 days	26,717	6,761
121 - 365 days	148,167	80,297
> 365 days	296,434	974
	747,992	**30,635**

Figures in Rand	2021	2020

5. Consumer debtors (continued)

National and provincial government

Current (0 -30 days)	(18,064)	-
31 - 60 days	1,958,019	29,565
61 - 90 days	570,669	26,010
91 - 120 days	394,213	25,282
121 - 365 days	2,090,518	204,457
> 365 days	4,720,596	803,776
	9,715,951	**1,089,090**

Total

Current (0 -30 days)	(1,442,570)	(1,374,549)
31 - 60 days	9,148,025	5,822,234
61 - 90 days	5,080,011	3,890,058
91 - 120 days	4,838,951	3,204,685
121 - 365 days	31,019,946	25,186,339
> 365 days	198,650,648	172,420,515
	247,295,011	209,149,282
Less: Allowance for impairment	(174,374,221)	(152,504,901)
	72,920,790	**56,644,381**

Reconciliation of allowance for impairment

Balance at beginning of the year	(152,504,902)	(135,608,084)
Contributions to allowance	(21,869,320)	(16,896,818)
	(174,374,222)	**(152,504,902)**

Consumer debtors pledged as security

None of the consumer debtors have been pledged as security for the municipality's financial liabilities.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

In determining the recoverability of Consumer debtors, the municipality has pledged strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the consumer debtors have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

Fair value of consumer debtors

Management is of the opinion that the carrying value of the other receivables from non-exchange transactions recorded at amortised cost in the financial statements approximate their fair values.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 72,920,789 (2020: R 56,644,381) were past due but not impaired.

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

1 month past due	1,684,232	2,443,299
2 months past due	4,703,211	1,399,845
3 months past due	66,533,346	53,049,702

Figures in Rand	2021	2020

6. Statutory receivables from exchange transactions

Gross balances		
Rates	28,284,753	22,717,035
Traffic fines	27,698,050	46,859,703
	55,982,803	**69,576,738**

Less: Allowance for impairment		
Rates	(17,061,355)	(14,014,940)
Traffic fines	(24,267,030)	(41,484,096)
	(41,328,385)	**(55,499,036)**

Net balance		
Rates	11,223,398	8,702,095
Traffic fines	3,431,020	5,375,607
	14,654,418	**14,077,702**

Traffic fines		
Current (0-30 days)	89,667	2,234
31-60 days	151,659	3,037
61-90 days	227,262	1,557
91-120 days	187,760	117,363
> 120 days	2,774,672	5,251,416
	3,431,020	**5,375,607**

Reconciliation of allowance for traffic fines impairment		
Balance at beginning of the year	(41,484,097)	(45,444,861)
Unused amounts reversed	17,217,067	3,960,764
	(24,267,030)	**(41,484,097)**

Traffic fines are charged in accordance with the National Road Traffic Act, 1996 (Act No. 93 of 1996) on road traffic offences as permitter by the legislation. The initial transaction is recorded as per GRAP 23. The receivable includes all fines, interest and penalties permitted by the relevant law.

Property rates are charged based on the Municipal Properties Rate Act, 2004 (Act No.6 of 2004) on all applicable properties under the demarcation of the municipality. The initial transaction is recorded as per GRAP 23. The receivable includes fines, interest and penalties permitted by the relevant law.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3,750	3,750
Bank balances	4,893,004	6,448,118
Short-term deposits	275,644	329,647
	5,172,398	**6,781,515**

7. Cash and cash equivalents (continued)

Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
AAA	2,743,948	4,352,165

Cash and cash equivalents pledged as collateral

A bank guarantee has been issued to Eskom	6,000	6,000

In addition to the above, the municipality has issued a bank guarantee in favours of Eskom for an increased electricity demand to 40 MVA required to meet the consumers' increasing electricity demand.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
ABSA - Current account - 2440000005	1,271,592	7,040,362	1,249,542	6,386,006	(10,534,325)	1,227,929
ABSA - Current account - 4052875289	1,028,117	63,675	1,862,169	(2,261,123)	15,962,748	1,862,169
Standard Bank - Current Account 280412835	117,265	176,907	229,864	(323,529)	(284,076)	229,563
ABSA - Current Account - 4061642031	108,212	328,728	120,768	1,092,239	1,312,615	120,768
Standard Bank - Notice Deposit - 288901606001	83,637	83,637	83,637	83,637	83,637	83,637
Standard Bank - Notice Deposit 28890541001	151,485	151,485	151,485	151,485	151,485	151,485
First National Bank - Notice Deposit - 741047295062	24,356	24,220	24,356	24,356	24,356	24,356
ABSA Bank - Notice Deposit - 2063506922	-	-	152,830	-	-	152,830
ABSA Bank - Notice Deposit - 2069495799	-	-	13,453	-	-	13,453
ABSA Bank - Notice Deposit - 2073468449	-	-	485,497	-	-	485,497
ABSA Bank - Deposit Plus - 9355227534	16,166	70,169	-	16,166	70,169	-
Total	**2,800,830**	**7,939,183**	**4,373,601**	**5,169,237**	**6,786,609**	**4,351,687**

8. Investment property

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	16,698,999	-	16,698,999	12,144,899	-	12,144,899

8. Investment property (continued)

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	12,144,899	4,554,100	16,698,999

Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	7,341,898	(260,000)	5,063,001	12,144,899

Pledged as security

All of the municipality's investment property is held under freehold interests and investment property had been pledged as security for any liabilities for the municipality.

There are no restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

Details of property

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

The following criteria was used to determine whether a property should be classified as an investment property:

- A building owned by the municipality and leased out to third parties under one or more operating leases.
- Land held for a current undeterminable future use.
- Property being constructed or developed for future use as investment property.

Amounts recognised in surplus or deficit

No repairs and maintenance were incurred in the running of these property for the financial year.

Maintenance by condition, nature and type of expenditure - corrective maintenance is in place. Maintaince is done as reported on.

Under construction and capital commitments

No investment property was under construction or incurred towards contractual commitments during the financial year.

9. Property, plant and equipment

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	33,889,098	-	33,889,098	33,889,098	-	33,889,098
Buildings	38,929,472	(17,005,794)	21,923,678	38,929,472	(15,943,760)	22,985,712
Infrastructure	989,829,327	(541,588,971)	448,240,356	960,392,990	(516,160,605)	444,232,385
Other property, plant and equipment	28,820,779	(21,455,709)	7,365,070	26,397,159	(17,932,662)	8,464,497
Total	**1,091,468,676**	**(580,050,474)**	**511,418,202**	**1,059,608,719**	**(550,037,027)**	**509,571,692**

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Depreciation	Total
Land	33,889,098	-	-	33,889,098
Buildings	22,985,712	-	(1,062,034)	21,923,678
Infrastructure	444,232,385	29,404,473	(25,396,502)	448,240,356
Other property, plant and equipment	8,464,497	1,925,508	(3,024,935)	7,365,070
	509,571,692	**31,329,981**	**(29,483,471)**	**511,418,202**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Impairment reversal	Total
Land	34,709,906	-	(820,808)	-	-	-	33,889,098
Buildings	24,092,956	-	(19,575)	(1,087,669)	-	-	22,985,712
Infrastructure	448,216,612	26,234,805	(991,875)	(28,436,896)	(790,261)	-	444,232,385
Other property, plant and equipment	9,035,875	1,062,239	(240,887)	(1,485,258)	(4,885)	97,413	8,464,497
	516,055,349	**27,297,044**	**(2,073,145)**	**(31,009,823)**	**(795,146)**	**97,413**	**509,571,692**

Figures in Rand	2021	2020

9. Property, plant and equipment (continued)

Pledged as security

None of the tangible assets were pledged as security during the current and previous financial years.

Compensation received for losses on property, plant and equipment – included in operating profit.

Other property, plant and equipment	-	27,343

Property, plant and equipment in the process of being constructed or developed

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Road signs	-	7,887
Project development costs were incurred, but due to funding problems, the project was stopped.		
Noupoort cemeteries	-	20,660
Project development costs were incurred, but due to funding problems, the project was stopped. Project commenced in the current year and project no longer slow moving.		
Noupoort electrification project	5,205,133	9,299,984
Project development costs were incurred, but due to funding problems, the project was stopped. Project commenced in the current year and project no longer slow moving.		
Upgrading of VIP's and bucket system to sewer network	4,981,111	11,420,915
Project development costs were incurred, but due to funding problems, the projects was stopped. Project commenced in the current year and project no longer slow moving.		
Van der Waltsfontein pipeline	334,991	13,354,389
Project completion was delayed by Covid-19 pandemic.		
Upgrading of Murray Street traffic Circle in Noupoort	-	523,039
Project completion was delayed by Covid-19 pandemic.		
Upgrading of Madikane and Nqandu Streets Project implementation was delayed due to the tender process.	12,812,835	-
	23,334,070	**34,626,874**

Reconciliation of work-in-progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	35,461,913	20,660	35,482,573
Additions/capital expenditure	20,005,362	-	20,005,362
Transferred to completed items	(15,564,331)	-	(15,564,331)
	39,902,944	**20,660**	**39,923,604**

9. Property, plant and equipment (continued)

Reconciliation of work-in-progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	11,980,615	10,360	11,990,975
Additions/capital expenditure	23,481,298	10,300	23,491,598
	35,461,913	**20,660**	**35,482,573**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Buildings	-	140,146
Infrastructure	84,110	230,327
Other property, plant and equipment	1,843,271	1,319,308
	1,927,381	**1,689,781**

10. Intangible assets

	2021			2020		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	2,042,345	(1,977,529)	64,816	2,042,345	(1,945,170)	97,175

Reconciliation of intangible assets - 2021

	Opening balance	Disposals	Total
Computer software	97,175	(32,359)	64,816

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	122,044	27,430	(52,299)	97,175

Pledged as security

All of the municipality's intangible assets are held under freehold interests and no intangible assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the intangible assets of the municipality.

Other information

The municipality amortizes all its intangible assets and no intangible assets are regarded as having indefinite useful lives. The amortisation expense has been included in the line item depreciation and amortisation in the Statement of Financial Performance. Amortisation is charged on a straight-line basis over the intangible assets' useful lives.

No impairment losses have been recognised on intangible assets at the reporting date.

Figures in Rand	2021	2020

11. Operating lease asset (accrual)

Minimum lease payments due		
- within one year	141	98
- in second to fifth year inclusive	133	274
	274	**372**
Non-current assets	274	372
	274	**372**

The lease relates to property owned by the municipality with lease terms of between 1 to 10 (2020: 1 to 10 years), and an option to extend. The lessee does not have an option to purchase the properte at the expiry of the lease period.

12. Finance lease obligation

Minimum lease payments due		
- within one year	923,426	975,950
- in second to fifth year inclusive	2,924,183	3,662,512
	3,847,609	4,638,462
less: future finance charges	(676,402)	(1,838,579)
Present value of minimum lease payments	**3,171,207**	**2,799,883**
Present value of minimum lease payments due		
- within one year	651,924	530,002
- in second to fifth year inclusive	2,519,283	2,269,881
	3,171,207	**2,799,883**
Non-current liabilities	2,519,283	2,269,878
Current liabilities	651,924	530,002
	3,171,207	**2,799,880**

The average lease term was 5 years (2020: 5 years) and the average effective borrowing rate was between 9% and 18% (2020: 13% and 48%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9.

13. Trade payables

Trade payables	18,477,961	21,817,719
Unallocated deposits	8,493,778	-
Accrued leave pay	4,054,307	3,514,279
Accrued bonus	1,043,500	978,376
Retentions	2,197,965	1,696,557
Other creditors	207,080	213,704
Performance bonus provision	610,836	602,238
Consumer debtors with credit balances (exchange)	2,166,685	2,192,763
Wellness programme	82,700	86,880
Sports programme	43,251	48,222
	37,378,063	**31,150,738**

Figures in Rand	2021	2020

14. Payables from non-exchange transactions

Salary control accounts	-	23,403
Sundry deposits	145,514	145,514
Consumer debtors with credit balances (non-exchange)	832,429	847,475
	977,943	**1,016,392**

15. VAT payable

VAT	13,728,194	17,393,942

16. Consumer deposits

Electricity	367,381	367,381
Water	377,743	399,700
	745,124	**767,081**

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

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 amortised cost. The fair value of consumer deposits was determined after considering the standard terms of conditions of agreements entered into between the municipality and its consumers.

17. Employee benefit obligations

Defined benefit plan

Post retirement benefit plan

Post retirement medical aid plan

The municipality provides for certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to those employees.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out on 30 June 2020 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service and past service costs, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for medical aid to the following medical aid schemes:

- Bonitas
- Hosmed
- LA Health
- Samwumed

Figures in Rand	2021	2020

17. Employee benefit obligations (continued)

The members of the post-employment medical aid benefit obligation are made up as follows:		
In-service members (employees)	24	24
Continuation members (retirees, widowers and orphans)	5	5
	29	**29**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

17. Employee benefit obligations (continued)

The liability in respect to past service has been estimated as follows:		
In-service members (employees)	3,956,000	3,412,000
Continuation members (retirees, widowers and orphans)	5,232,000	4,792,000
	9,188,000	**8,204,000**

Movements in the present value of the defined benefit obligation were as follows:		
Balance at the beginning of the year	8,204,000	9,285,609
Current service cost	219,000	290,635
Interest cost	824,000	858,045
Benefits paid	(395,000)	(361,953)
Actuarial gains / (losses)	336,000	(1,868,336)
	9,188,000	**8,204,000**

The amounts recognised in the statement of financial performance are as follows:		
Current service cost	219,000	290,635
Interest cost	824,000	858,045
Benefits paid	(395,000)	(361,953)
Actuarial gains / (losses)	336,000	(1,868,336)
	984,000	**(1,081,609)**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current services and interest cost	1,209,000	1,723,100
Fair value of plan assets	10,449,000	11,114,000
Decrease:		
Effect on the aggregate of the current services and interest cost	909,000	1,168,000
Effect on the defined obligation	8,140,000	8,533,000

The current service cost of the year ending 30 June 2021 is estimated to be R (219,000), whereas the cost for the ensuing year is estimated to be R (4381,000).

Long service award

The municipality operates an unfunded defined benefit plan for all of its employees. Under the plan, a long service award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter. The provision is an estimate of the log service award based on the historical staff turnover. No other long service benefits are provided to employees.

Movement in the long service award provision was as follows:		
Balance at the beginning of the year	2,269,000	2,224,769
Current service cost	250,000	233,956
Interest cost	154,000	168,231
Actuarial gains / (losses)	62,000	(66,898)
Expected employer benefit payments	(236,000)	(291,058)
	2,499,000	**2,269,000**

Figures in Rand	2021	2020

17. Employee benefit obligations (continued)

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

Current service cost	250,000	233,956
Interest cost	154,000	168,231
Benefits paid	62,000	(291,058)
Acturial gains / (losses)	(236,000)	(66,898)
	230,000	**44,231**

The effect of a 1% movement in the assumed rate of long award cost inflation is as follows:

Increase:		
Effect on the aggragate of the current services and interest cost	432,000	430,200
Effect on the defined obligation	2,634,000	2,399,000
Decrease:		
Effect on the aggragate of the current services and interest cost	482,000	378,000
Effect on the defined obligation	2,375,000	2,150,000

The current service cost of the year ending 30 June 2021 is estimated to be R (233 956), whereas the cost for the ensuing year is estimated to be R (250 000).

Non-current liabilities

Post-employment medical aid benefit liability	(8,772,460)	(7,808,460)
Long service award	(2,206,000)	(2,033,000)
	(10,978,460)	**(9,841,460)**

Current liabilities

Post-employment medical aid benefit liability	(415,000)	(395,000)
Long service award	(293,000)	(236,000)
	(708,000)	**(631,000)**

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

Carrying value		
Post-employment medical aid benefit liability	(9,188,000)	(8,204,000)
Long service award	(2,498,460)	(2,268,460)
	(11,686,460)	**(10,472,460)**

Non-current liabilities	(10,978,460)	(9,841,460)
Current liabilities	(708,000)	(631,000)
	(11,686,460)	**(10,472,460)**

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

Opening balance	(8,204,001)	(9,285,609)
Net expense recognised in the statement of financial performance	(984,000)	1,081,608
	(9,188,001)	**(8,204,001)**

Figures in Rand	2021	2020

17. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

	2021	2020
Current service cost	(219,000)	(290,635)
Interest cost	(824,000)	(858,045)
Actuarial (gains) losses	(336,000)	1,868,335
Settlement	395,000	361,953
	(984,000)	**1,081,608**

Key assumptions used

Assumptions used at the reporting date:

	2021	2020
Discount rates used: Post employment medical aid benefit liability	10.04 %	10.47 %
Discount rate used: long service award	9.35 %	7.14 %
Healthcare cost inflation rate	6.72 %	6.51 %
General salary inflation	5.81 %	3.84 %
Net discount rate: Post employment medical aid benefit liability	3.11 %	3.72 %
Net discount rate: long service award	3.35 %	3.18 %
Maximum subsidy inflation rate	4.81 %	2.84 %
Net discount rate: Maximum subsidy inflation rate	3.35 %	3.18 %
Expected retirement age (in years)	62	60

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2021	2020
Department Housing	130,852	130,852
Department Safety	124,919	124,919
Department Water Affairs and Forestry	1,519,388	1,519,388
Department Water Affairs and Forestry (2)	942,072	942,072
Development Bank of South Africa	6,337	6,337
Electricity Efficiency Demand Side Management Grant (EEDSM)	1,258,581	1,258,581
Expanded Public Works Programme (EPWP)	318,131	495,131
Institutional Re-organisation Grant	226,712	226,712
Integrated National Electrification Programme (INEP)	1,137,179	6,405,123
Municipal Infrastructure Grant (MIG)	5,601,018	953,003
National Lottery Development Trust Fund (NLDTF)	280,258	280,258
Disaster Management Grant	-	167,000
Water Services Infrastructure Grant (WSIG)	-	7,360,167
	11,545,447	**19,869,543**

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.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

19. Provisions

Reconciliation of provisions - 2021

	Opening Balance	**Additions**	**Unwinding of interest**	**Total**
Environmental rehabilitation	5,845,760	1,711,001	654,627	8,211,388

19. Provisions (continued)

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	5,221,604	624,156	5,845,760

Environmental rehabilitation provision

The provision of landfill sites relates to the obligation, in terms if the National Environmental: Waste Management Act, 2008 (Act No. 59 of 2008), were by the municipality is required ti execute the environmental management program to restore the landfill sites at Colesberg, Novalspont and Noupoort to comply with the permit requirements.

The provision was determined by an independent expert as at 30 June 2021 and approximates the discounted expected future cash flows using reasonable estimation techniques. The discount rate used for the landfill sites is based on the bond rate that measures as close as possible to the future date of the rehabilitation. The final rehabilitation of the landfill sites is expected to at the end of the useful lives of the individual landfill sites. No uncertainties were listed in the engineer's report.

The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

The value of the provision so based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site om which it is located, the obligation for which a municipality insure as a consequence of having used th property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumptions as to the useful lives of these, assets, which influence the provision for future costs.

Key assumptions used:

Total area expected to be rehabilitated: 123 047 square meters.

Average rate per square metre: R184.67 (excl. VAT)

The area to be rehabilitated can be reconciled to the different sites as
follow: Colesberg: 45 856 square metres
Novalspont: 19 129 square metres
Noupoort: 20 054 square metres

The Novalspont landfill site has adequate footprint and airspace available for the disposal of solid waste until the end of its useful life in 14 years (2034). Colesberg is estimated to reach capacity during the 20th year of operation (2040). Noupoort is estimated to reach capacity during the 17th year of operation (2037).

20. Service charges

	2021	2020
Sale of electricity	29,756,159	28,111,478
Sale of water	14,535,654	13,141,191
Sewerage and sanitation charges	10,099,576	9,861,794
Refuse removal	6,648,875	6,735,205
Other service charges	931,961	358,089
	61,972,225	**58,207,757**

21. Rental of facilities and equipment

	2021	2020
Facilities and equipment		
Halls	19,838	97,619
Machinery	3,228	2,364
	23,066	**99,983**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

21. Rental of facilities and equipment (continued)

Included in the above rentals are operating lease rentals at straight-lined amounts of R 98 (2020: R 58).

22. Agency services

Department of Transport, Safety and Liaison	719,458	524,629

23. Other income

Building plan fees	12,263	10,027
Cemetery fees	23,401	21,653
Commission earned	129,957	191,122
Connection and re-connection fees	53,268	58,673
Insurance claims	925	27,343
Other income	704,211	390,152
Photocopies	2,547	3,687
Sand, gravel and soil sales	7,484	23,614
Tender documents	30,435	7,391
Transaction fees	23,239	-
	987,730	**733,662**

24. Investment revenue

Interest revenue		
Bank	157,498	340,635
Consumer debtors	6,070,455	1,383,874
	6,227,953	**1,724,509**

25. Property rates

Rates received

Rates	15,123,421	11,530,228
Less: Income forgone	(734,417)	(563,242)
	14,389,004	**10,966,986**

Valuations

Residential	693,844,300	681,693,120
Commercial	297,037,400	203,445,000
State	2,566,713,667	1,282,958,490
Agricultural	-	80,199,500
	3,557,595,367	**2,248,296,110**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2020. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 1 July 2024.

Figures in Rand	2021	2020

26. Government grants and subsidies

Operating grants		
Equitable share	61,680,000	49,477,345
Finance Management Grant (FMG)	1,900,000	1,970,000
Library Development Grant	1,300,000	1,292,923
	64,880,000	**52,740,268**
Capital grants		
Expanded Public Works Programme (EPWP)	1,000,000	822,000
Municipal Infrastructure Grant (MIG)	4,605,985	10,536,997
Integrated National Electrification Programme (INEP)	8,017,944	6,365,989
Library Development Grant	-	186,077
Water Services Infrastructure Grant (WSIG)	8,360,167	8,959,832
	21,984,096	**26,870,895**
	86,864,096	**79,611,163**

Equitable Share

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

All registered indigents receive a monthly subsidy of R - (2020: R 166), which is funded from the grant. All registered indigent households receive 6kl water and 50kWh electricity free every month. Unspent MIG and WSIG grants from the prior year was withheld from equitable share.

National: Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	495,131	200,131
Current-year receipts	1,000,000	1,117,000
Conditions met - transferred to revenue	(1,000,000)	(822,000)
Repayments	(177,000)	-
	318,131	**495,131**

Conditions still to be met - remain liabilities (see note 18).

The Expanded Public Works Programme (EPWP) Grant is allocated to incentivize municipalities to expand work creation efforts through the use of Labour incentive delivery methods in the identified focus areas on compliance with the EPWP guidelines.

R177,000 was withheld from the equitable share in the 2021 financial period due to grant conditions not being met in the previous period.

National: Finance Management Grant (FMG)

Current-year receipts	1,900,000	1,970,000
Conditions met - transferred to revenue	(1,900,000)	(1,970,000)
	-	**-**

The Finance Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). The FMG also pays for the cost of the Financial Management Internship Programme (e.g., salary costs).

All conditions attached to the grant were met.

No funds were withheld.

Figures in Rand	2021	2020

26. Government grants and subsidies (continued)

National: Integrated National Electrification Programme (INEP)

Balance unspent at beginning of year	6,405,123	2,771,112
Current-year receipts	6,510,000	10,000,000
Conditions met - transferred to revenue	(8,017,944)	(6,365,989)
Repayments	(3,760,000)	-
	1,137,179	**6,405,123**

Conditions still to be met - remain liabilities (see note 18).

The grant is paid by National Treasury in order to implement the Integrated National Electrification Programme by addressing the electrification backlog of all existing and planned residential dwellings and the installation of relevant bulk infrastructure.

R3,760,000 was withheld from the equitable share in the 2021 financial period due to grant conditions not being met in the previous period.

National: Department of Water Affairs and Forestry

Balance unspent at beginning of year	1,519,388	1,519,388

Conditions still to be met - remain liabilities (see note 18).

The grant was used for the operation and maintenance of sewerage and water schemes transferred from the Department of Water Affairs and Forestry to the municipality, the refurbishment of water infrastructure, the Olifants River Water Resource Project and the payment of salaries of the staff transferred from the department.

No funds have been withheld.

National: Energy Efficiency and Demand Side Management Grant (EEDSM)

Balance unspent at beginning of year	1,258,581	1,258,581

Conditions still to be met - remain liabilities (see note 18).

The Energy Efficiency and Demand Side Management Grant (EEDSM) is allocated to the municipality for the implementation of energy efficiency and demand side management initiatives within the municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

No funds were withheld.

Provincial: Library Development Grant

Current-year receipts	1,300,000	1,479,000
Conditions met - transferred to revenue	(1,300,000)	(1,479,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The grant is paid to the municipality by the Provincial Department of Sports, Arts and Culture for the maintenance and operations of the libraries within its municipal aera.

No funds were withheld.

Figures in Rand	2021	2020

26. Government grants and subsidies (continued)

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	953,003	1,322,480
Current-year receipts	9,451,000	11,490,000
Conditions met - transferred to revenue	(4,605,985)	(10,536,997)
Other	(197,000)	(1,322,480)
	5,601,018	**953,003**

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated by National Treasury 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.

R197,000 was withheld from the equitable share in the 2021 financial period due to grant conditions not being met in the previous period.

National: Department of Water Affairs and Forestry (2)

Balance unspent at beginning of year	942,072	942,072

Conditions still to be met - remain liabilities (see note 18).

The grant was allocated to the municipality for the development of new, refurbish, upgrade and replace ageing water and sanitation infrastructure.

National: Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	7,360,167	6,563,865
Current-year receipts	3,300,000	16,320,000
Conditions met - transferred to revenue	(8,360,167)	(8,959,833)
Other	(2,300,000)	(6,563,865)
	-	**7,360,167**

Conditions still to be met - remain liabilities (see note 18).

To facilitate the planning and implementation of various water projects water and on-site sanitation projects to accelerate backlog reduction and enhance the sustainability of services, especially in rural areas.

R2 300 000 was withheld from the equitable share in the 2021 financial period due to grant conditions not being met.

Other: National Lottery Development Trust Fund

Balance unspent at beginning of year	280,258	280,258

Conditions still to be met - remain liabilities (see note 18).

This grant was allocated to the municipality for the upgrading of the sport stadiums within the municipal area.

No funds were withheld.

Figures in Rand	2021	2020

26. Government grants and subsidies (continued)

Disaster Management Grant

Balance unspent at beginning of year	167,000	-
Current-year receipts	-	167,000
Repayments	(167,000)	-
	-	**167,000**

None of the conditions associated with the Disaster Management Grant has been met.

Funds made available to the municipality by National Treasury to respond to the COVID-19 pandemic.

R167,000 was withheld from the equitable share in the 2021 financial perios sue to the grant conditions not being met in the previous period.

Provincial: Department of Housing

Balance unspent at beginning of year	130,852	130,852

Conditions still to be met - remain liabilities (see note 18).

This grant was allocated to the municipality for the construction and maintenance of low cost housing in the district.

No funds were withheld.

Provincial: Department of Safety

Balance unspent at beginning of year	124,919	124,919

Conditions still to be met - remain liabilities (see note 18).

This grant was allocated to the municipality for the construction of a taxi rank.

No funds were withheld.

Other: Development Bank of South Africa

Balance unspent at beginning of year	6,337	6,337

Conditions still to be met - remain liabilities (see note 18).

This grant was allocated to the municipality for the purchase of water meters.

No funds were withheld.

Other: Institutional Re-organizational Grant

Balance unspent at beginning of year	226,712	226,712

Conditions still to be met - remain liabilities (see note 18).

This grant was allocated to the municipality to assist financially with the re-organisation of the municipality after 1994, for which the funds were used.

No funds were withheld.

Figures in Rand	2021	2020

27. Fines, penalties and forfeits

Law enforcement (traffic) fines	20,779,193	29,132,290
Other	10,350	17,380
	20,789,543	**29,149,670**

The full amount of traffic fines issued during the year is recognised at the initial transaction date as revenue in accordance with iGRAP 1.

28. Public contributions and donations

Property, plant and equipment	7,688,112	-

Donations are represented by internal roads that was paved by the Northern Cape Department of Roads and Public Works in terms of the Root-out-of-the-dust programme. The completion date respectively was 31 March 2019 and 31 March 2020.

29. Employee related costs

Basic	41,286,244	37,786,364
Performance bonus	560,366	602,238
Bonus	2,428,407	2,145,612
Medical aid fund: Council contributions	924,404	924,928
Leave pay provision charge	487,451	864,244
Pension fund: Council contributions	5,984,301	5,243,220
Long-service awards	120,343	130,839
Allowances	1,246,165	1,207,813
Housing benefits and allowances	393,851	370,677
Skills development levy (SDL)	412,415	-
Unemployment insurance fund (UIF): Council contributions	336,131	314,746
Overtime payments	2,284,672	2,426,115
Group scheme: Council contribution	3,723	6,010
Defined benefit plan expenses	236,000	(2,063,654)
Industrial Council	24,671	22,278
	56,729,144	**49,981,430**

Remuneration of the Municipal Manager

Annual remuneration	1,135,567	1,135,567
Performance bonus	179,139	174,260
Car allowance	144,000	144,000
Contributions to UIF, medical and pension funds	1,932	1,896
	1,460,638	**1,455,723**

Remuneration of the Chief Finance Officer

Annual remuneration	736,752	833,021
Performance bonus	101,747	156,586
Car allowance	232,268	188,993
Contributions to UIF, medical and pension funds	1,932	1,896
	1,072,699	**1,180,496**

Figures in Rand	2021	2020

29. Employee related costs (continued)

Remuneration of the Manager: Corporate Services

	2021	2020
Annual remuneration	1,086,878	1,033,154
Performance bonus	173,937	156,586
Car allowance	155,530	147,843
Contributions to UIF, medical and pension funds	1,932	1,896
	1,418,277	**1,339,479**

The Manager: Community Services resigned at the end of September 2012, whereafter the post was replaced with the Manager: Corporate Services. Mr. Kapp is acting as the manager in this post without any additional compensation.

Remuneration of the Manager: Technical Services

	2021	2020
Annual remuneration	752,117	864,863
Performance bonus	96,945	156,586
Car allowance	120,000	34,880
Contributions to UIF, medical and pension funds	1,932	2,203
	970,994	**1,058,532**

30. Remuneration of councilors

	2021	2020
Major	851,300	854,736
Councilors	3,144,705	3,273,696
	3,996,005	**4,128,432**

31. Depreciation and amortisation

	2021	2020
Property, plant and equipment	29,483,472	31,056,823
Intangible assets	32,359	52,299
	29,515,831	**31,109,122**

32. Impairment of assets

	2021	2020
Impairments		
Property, plant and equipment	-	697,727

Property, plant and equipment (buildings, infrastructure - and movable assets) have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment.

Value in use

Provide: A description of each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

The period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.

32. Impairment of assets (continued)

The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the municipality operates, or for the market to which the unit (group of units) is dedicated.

The discount rate(s) applied to the cash flow projections was -% (2020: 19%).

Fair value less cost to sell

Provide: A description of the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit (group of units), the following information shall also be disclosed:

A description of each key assumption on which management has based its determination of fair value less costs to sell.

A description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.

For the purposes of determining discounted cash flow projections, management have projected the cash flows over xx years.

The growth rate used to extrapolate cash flow projections was -%, and a discount rate of 9% was applied.

33. Finance costs

	2021	2020
Non-current borrowings	978,000	1,026,276
Overdue creditors	118,166	-
Finance leases	343,298	405,123
Rehabilitation of landfill sites	654,627	624,156
	2,094,091	**2,055,555**

34. Debt impairment

	2021	2020
Debt impairment	(3,582,624)	17,776,208
Bad debts written off	36,348,520	26,128,021
	32,765,896	**43,904,229**

35. Bulk purchases

	2021	2020
Electricity	31,787,593	26,796,313
Water	328,196	600,739
	32,115,789	**27,397,052**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. General expenses

Advertising	214,266	132,430
Bank charges	502,163	405,369
Cleaning	33,512	52,113
Computer expenses	866,701	815,407
Consulting and professional fees	3,733,586	4,300,557
Consumables	290,786	742,286
Furniture and office equipment	2,130,336	174,263
Entertainment	102,217	117,963
Fuel and oil	1,271,472	1,072,595
Insurance	1,464,590	831,596
Registration fees	147,128	173,083
Outsourced services	1,133,684	1,658,306
Library expenditure	-	84,449
Licence fees	610,324	371,834
Management fees	735,914	394,868
Other expenses	1,308,773	3,804,124
Postage and courier	127,716	264,233
Printing and stationery	73,702	164,629
Protective clothing	317,743	373,205
Special programme - Community participation	800,297	706,994
Workmen’s Compensation	266,635	296,071
Subscriptions and membership fees	646,292	618,115
Telephone and fax	892,662	832,757
Title deed search fees	32,148	649
Training	-	5,870
Uniforms	43,206	131,655
Materials and supplies	120,025	130,397
	17,865,878	**18,655,818**

37. Auditors' remuneration

Fees	3,134,160	2,222,350

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

38. Cash generated from operations

Surplus (deficit)	21,844,794	(3,130,292)
Adjustments for:		
Depreciation and amortisation	29,515,831	31,109,122
Fair value adjustments	(4,554,100)	(5,063,001)
Finance costs	343,298	405,123
Impairment deficit	-	697,727
Movements in provisions	2,365,628	624,156
Gain with disposal of assets and liabilities	-	2,340,685
Changes in working capital:		
Inventories	1,113	(8,647)
Receivables from exchange transactions	(11,637,883)	(4,321,932)
Other receivables from non-exchange transactions	(2,117,223)	598,523
Other receivables from exchange transactions	(883,080)	(306,798)
Statutory receivables from non-exchange transactions	-	(419,699)
Pre-payments	(576,716)	-
Trade payables	6,227,325	(532,280)
VAT	(3,665,748)	3,926,887
Payables from non-exchange transactions	(38,449)	624,475
Unspent conditional grants and receipts	(8,324,096)	4,522,836
Consumer deposits	(21,957)	(52,458)
Employee benefit obligation	1,214,000	(1,131,838)
Operating lease asset	98	58
	29,692,835	**29,882,647**

Figures in Rand	2021	2020

39. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	1,294,761	1,294,761
Receivables from exchange transactions	59,580,169	59,580,169
Cash and cash equivalents	5,172,398	5,172,398
	66,047,328	**66,047,328**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	20,675,926	20,675,926

2020

Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	816,836	816,836
Receivables from exchange transactions	47,942,286	47,942,286
Cash and cash equivalents	6,781,515	6,781,515
	55,540,637	**55,540,637**

Financial liabilities

	At amortised cost	Total
Trade payables from exchange transactions	23,514,276	23,514,276

40. Commitments

Authorised capital expenditure

	2021	2020
Already contracted for but not provided for		
• Property, plant and equipment	20,224,022	18,122,974
Total capital commitments		
Already contracted for but not provided for	20,224,022	18,122,974

This committed expenditure relates to plant and equipment and will be financed by government grants. The commitment amounts disclosed are inclusive of VAT.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Contingencies

Contingent liabilities

Litigation is in the process against the municipality relating to a dispute with a supplier who alleges that it suffered financial loss and stock on a housing project, and is seeking damages of R7,070,000 (2020: R7,070,000). The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

The following insurance claim is still pending at year end:

- Three children swam in the municipal quarry and drowned. Damages of R256,000 (2020: R256,000) is claimed by the family and is still in progress.

Contingent assets

The municipality has an on-going investigation relating to fraud that was committed by a former employee. The municipality suffered a financial loss and is seeking damages of R2,246,550 (2020: R2,246,550). The likelihood of action against the former employee being successful is dependent on the outcome of the court case.

The issue was reported to the South African Police Service and the Auditor-General of South Africa, as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

42. Related parties

Relationships

NJ Batties (Councilor)	Bongata Trading 533 CC
	Mighty Warrior Transport Services
	Living World Spiritual Faith Ministries
	CGB Consultants (Pty) Ltd
JP Mathee (Councilor)	Sakhisizwe Colesberg Tours
MB Kafi (Councilor)	Sakhisizwe Tours and events manager (Pty) Ltd
	Meals on Wheels
BJ Kapp (Corporate Services Manager)	Birtus Kapp Beleggings CC
	Kapp Family Trust
	Umsobomvu Industrial Development (Pty) Ltd
S Nkcithiso (Technical Manager)	Masilakhe Consulting CC
	Iviwe Engineering Solutions CC
	Uhamboluhle Construction CC
	Sida Engineering Solutions (Pty) Ltd
S Buka (Bid specification committee)	S.E.A.T Solutions
TD Tshikundu (Chief Financial Officer)	Mako Accounting Academy (Pty) Ltd
	Bokone Stylish Clothing (Pty) Ltd
	Joylou Boutique (Pty) Ltd

Related party transactions

	2021	2020
Property rates levied against related parties		
Councilors	16,698	13,395
Service charges rendered to related parties		
councilors	64,042	40,667
Other charges levied against related parties		
councilors	(863)	(277)

Remuneration of management

councilors

2021

42. Related parties (continued)

Name	Basic salary	Other short-term employee benefits	Other benefits received	Total
MS Toto	806,066	44,400	834	851,300
SE Humphries	255,091	44,400	139	299,630
MA Sestile	327,367	44,400	417	372,184
MR Kafi	327,367	44,400	-	371,767
VP Harmse	338,909	44,400	-	383,309
W Minnie	327,367	44,400	-	371,767
ND Staffa	255,091	44,400	139	299,630
NJ Batties	255,091	44,400	-	299,491
JP Matthee	255,091	44,400	-	299,491
SK Brown	255,091	44,400	-	299,491
CM Williams	127,545	20,400	-	147,945
	3,530,076	**464,400**	**1,529**	**3,996,005**

2020

Name	Basic salary	Other short-term employee benefits	Other benefits received	Total
MS Toto	604,549	40,800	209,387	854,736
SE Humphries	255,091	40,800	4,136	300,027
MA Sestile	327,367	40,800	4,270	372,437
MR Kafi	327,367	40,800	4,404	372,571
VP Harmse	315,825	40,800	4,538	361,163
W Minnie	327,367	40,800	4,270	372,437
ND Staffa	255,091	40,800	4,404	300,295
NJ Batties	255,091	40,800	3,600	299,491
JP Matthee	255,091	40,800	3,600	299,491
SK Brown	255,091	40,800	3,600	299,491
CM Williams	255,091	40,800	402	296,293
	3,433,021	**448,800**	**246,611**	**4,128,432**

42. Related parties (continued)

Executive management

2021

Name	Basic salary	Bonuses and performance related payments	Allowances	Other benefits received	Total
AC Mpela	1,135,567	179,139	144,000	1,932	1,460,638
TD Tshikundu	736,752	101,747	232,268	1,932	1,072,699
S Nkcithiso	752,117	96,945	120,000	1,932	970,994
BJ Kapp	1,086,878	173,937	155,530	1,932	1,418,277
	3,711,314	**551,768**	**651,798**	**7,728**	**4,922,608**

2020

Name	Basic salary	Performance bonus	Allowances	Other benefits received	Total
AC Mpela	1,135,567	174,260	144,000	1,896	1,455,723
TD Tshikundu	571,920	-	154,845	1,422	728,187
S Nkcithiso	635,670	-	20,000	1,422	657,092
BJ Kapp	1,033,154	156,586	147,843	1,896	1,339,479
DT Visagie	261,101	156,586	34,148	474	452,309
P Mosompha	229,192	156,586	14,880	781	401,439
	3,866,604	**644,018**	**515,716**	**7,891**	**5,034,229**

43. Prior period adjustments

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

Statement of financial position

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables from exchange transactions		46,890,075	1,039,457	12,752	47,942,288
Statutory receivables from non-exchange transactions		10,763,776	3,313,925	-	14,077,701
Cash and cash equivalents		6,967,492	(185,977)	-	6,781,515
Property, plant and equipment		505,965,792	3,605,900	-	509,301,692
Payables from exchange transactions		(26,325,005)	(4,812,981)	(12,752)	(31,150,738)
Payables from non-exchange transactions		(1,178,519)	162,127	-	(1,016,392)
VAT payable		(12,875,741)	(4,518,201)	-	(17,393,942)
Unspent conditional grants		(19,702,543)	(167,000)	-	(19,869,543)
Other receivables from non-exchange transactions		705,485	115,141	-	820,626
Accumulated surplus		(502,478,458)	1,865,066	-	(500,613,392)
Employee benefit obligations		(11,337,460)	1,496,000	-	(9,841,460)
		(2,605,106)	**1,913,457**	**-**	**(961,645)**

43. Prior period adjustments (continued)

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Restated
Service charges		(58,375,510)	167,753	(58,207,757)
Rental of facilities and equipment		(100,555)	224	(100,331)
Interest received		(1,727,495)	2,987	(1,724,508)
Agency services		(525,798)	1,169	(524,629)
Other income		(732,738)	(924)	(733,662)
Debt impairment		46,862,108	(2,957,879)	43,904,229
Bulk expenditure		27,460,547	(63,495)	27,397,052
General expenditure		19,719,703	(1,063,884)	18,655,818
Fines and penalties		1,192,130	1,906,131	3,098,261
Finance cost		2,212,863	(157,308)	2,055,555
Employee related costs		49,729,661	251,768	49,981,429
Surplus for the year		**85,714,916**	**(1,913,458)**	**83,801,457**

Errors

The following prior period errors adjustments occurred:

Consumer debtors

In the prior year the VAT of the consumer debtors was not correctly allocated and was subsequently corrected in the current period.

The effect of the correction is as follows:

Receivables from exchange transactions	1,039,462	1,039,462
Statutory receivables from non-exchange transactions	356,046	356,046
Cash and cash equivalents	(352,977)	(352,977)
Property plant and equipment	3,605,900	3,605,900
Payables from exchange transactions	(100,603)	(100,603)
Payables from non-exchange transactions	162,127	162,127
VAT payable	(5,156,965)	(5,156,965)
Accumulated surplus	447,010	160,661
Service charges	-	282,894
Rental of facilities and equipment	-	224
Interest received	-	2,986
Agency fees	-	1,169
Other income	-	(924)
	-	**-**

Statutory receivables

Impairment balance of traffic fines was not disclosed correctly in the prior period and subsequently corrected in the current period.

The effect of the correction is as follows:

Statutory receivables from non-exchange transactions	2,957,879	2,957,879
Accumulated surplus	(2,957,879)	-
Debt impairment	-	(2,957,879)
	-	**-**

Figures in Rand	2021	2020

43. Prior period adjustments (continued)

Conlog debtor

In the prior financial year, a debtor for Conlog pre-paid electricity sales for June was not correctly accounted for. This error was subsequently corrected.

The effect of the correction is as follows:

Other receivables from non-exchange transactions	115,141	115,141
Accumulated surplus	(115,141)	-
Service charges	-	(115,141)
	-	**-**

Unspent grants

Disaster Management Grant received in the prior period not disclosed separately and has been corrected in the current period.

The effect of the correction is as follows:

Cash and cash equivalents	167,000	167,000
Unspent conditional grants	(167,000)	(167,000)
	-	**-**

Trade payables

Correction of the closing balance of Department of Water & Sanitation, Traffic Violation Solutions (Pty) Ltd and Vesta creditors at year end

The effect of the correction is as follows:

Payables from exchange transactions	(4,712,378)	(4,712,378)
VAT payables	624,951	624,951
Accumulated surplus	4,087,429	3,294,865
Bulk purchases	-	(63,495)
General expenditure	-	(1,050,072)
Fines and penalties	-	1,906,131
	2	**2**

Cash and cash equivalents

Accounting for the correction of the cash book balances at year end

The effect of the correction is as follows:

Cash and cash equivalents	2,429,350	2,429,350
Accumulated surplus	(2,429,350)	(2,429,350)
	-	**-**

Figures in Rand	2021	2020

43. Prior period adjustments (continued)

Post employment benefits

Correction of the closing balance of the of post-employment benefits at year end.
The effect of the correction is as follows:

Employee benefit obligation	1,496,000	1,496,000
Accumulated surplus	(1,496,000)	(1,590,460)
Employee related cost	-	251,768
Finance cost	-	(157,308)
	-	**-**

Reclassification

For purposes of the presentation and disclosure of the annual financial statements, the traffic fines debtor was reclassified from Other receivables from non-exchange transactions to Receivables from non-exchange transactions.

44. Comparative figures

Certain comparative figures have been reclassified.

45. Unauthorised expenditure

Opening balance	28,969,086	6,979,433
Add: Unauthorised expenditure - current year	27,818,818	21,989,653
	56,787,904	**28,969,086**

Vote 1 - Governance and administration	-	773,212
Vote 2 - Finance & admin	10,844,816	-
Vote 3 - Community services	16,973,994	19,251,264
Vote 4 - Technical services	-	1,965,177
	27,818,810	**21,989,653**

46. Fruitless and wasteful expenditure

There was no fruitless and wasteful expenditure incurred in the current period. Included in the payments made in advance is an amount of R404,253 that was paid by the municipality for the supply of paving bricks. This matter is still being investigated by the municipality if the paving bricks will be delivered or if the transaction should be classified as fruitless and wasteful expenditure.

47. Irregular expenditure

Opening balance	7,436,735	5,446,476
Add: Irregular expenditure - current year	3,212,812	1,990,259
Add: Irregular expenditure (additionally identified)	7,503,660	-
LessL Amounts written off by council	(5,203,071)	-
	12,950,136	**7,436,735**

-

Full extent of irregular expenditure identified during the audit will be fully investigated by senior management of the municipality.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organized local government

Current year subscription / fee	620,691	582,228
Amount paid - current year	(620,691)	(582,228)
	-	**-**

Audit fees

Current year subscription / fee	3,134,160	2,306,259
Amount paid - current year	(2,021,398)	(2,306,259)
	1,112,762	**-**

PAYE, UIF and SDL

Current year subscription / fee	8,404,417	7,485,157
Amount paid - current year	(8,404,417)	(7,485,157)
	-	**-**

Pension and medical aid deductions

Current year subscription / fee	10,409,436	9,277,255
Amount paid - current year	(10,409,436)	(9,277,255)
	-	**-**

VAT

VAT payable	13,728,194	17,393,942

VAT output payables and VAT input receivables are shown in note.

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

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

Distribution losses

Electricity	8,907,499	6,447,531
Water	9,489,410	9,137,943
	18,396,909	**15,585,474**

Electricity losses

The municipality purchased 25 669 795 (2020: 23 394 780) units during the financial year. It sold / billed 18 475 865 (2020: 17 765 702) units during the year and has calculated its distribution losses to be an estimated 28.02% (2020: 24.06%) at an average cost of R1.1454 (2020: R1.0028) per unit.

The main reasons for incurring electricity losses relates to the dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced / repaired as soon as they are reported.

Water losses

The municipality pumped 2 367 155 (2020: 2 710 955) units during the financial year. It sold / billed 965 086 (2020: 911 866) units during the year and has calculated its distribution losses to be an estimated 59.23% (2020: 66.36%) at an average cost of R1.9179 (2020: R1.4917) per unit.

These losses occur due to inter alia, leakages, the tampering of meters, incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced / repaired as soon as they are reported.

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

Councilors' arrear consumer accounts

The following councilors had arrear accounts outstanding for less than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MS Toto	2,091	2,643	4,734
MR Kafi	1,311	2,794	4,105
E Humphries	1,738	927	2,665
MA Sestile	1,360	212	1,572
W Minnie	1,606	5,486	7,092
VP Harmse	1,411	1,454	2,865
CM Williams	516	7,866	8,382
SK Brown	372	-	372
JP Mathee	1,358	-	1,358
NJ Batties	2,557	27,874	30,431
	14,320	**49,256**	**63,576**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MS Toto	1,780	1,004	2,784
E Humphries	1,423	989	2,412
MA Sestile	1,320	277	1,597
MR Kafi	2,421	1,093	3,514
VP Harmse	1,321	2,004	3,325
NJ Batties	2,036	24,913	26,949
MJ Williams	2,043	602	2,645
W Minnie	1,455	4,183	5,638
J Mathee	6,762	46	6,808
	20,561	**35,111**	**55,672**

During the year the following Councilors' had arrear accounts outstanding for more than 90 days.

30 June 2021	Highest outstanding amount	Aging (in days)
MS Toto	1,245	180
MR Kafi	1,679	330
E Humphries	822	30
MA Sestile	612	180
W Minnie	797	180
VP Harmse	516	180
MJ Williams	1,047	330
SK Brown	371	30
JP Mathee	3,267	180
NJ Batties	1,465	120
	11,821	**1,740**

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

30 June 2020	Highest outstanding amount	Aging (in days)
MS Toto	646	90
MR Kafi	1,486	30
E Humphries	530	30
MA Sestile	467	30
W Minnie	4,208	360
VP Harmse	571	30
MJ Williams	945	270
J Mathee	4,724	360
N Batties	1,116	180
	14,693	**1,380**

Supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

The expenses incurred as listed hereunder have been condoned.

Incident		
Exceptional cases	2,143,258	958,909
Sole provider	555,824	629,814
Emergency cases	1,096,814	557,745
	3,795,896	**2,146,468**

49. Segment information

General information

Identification of segments

The municipality is organized and reports to management on the basis of three major functional areas: Community and Social Services, Energy Sources, Executive Council, Finance and Administration, Road Transport, Waste Water Management, Water Management, Waste Management. The segments were organized around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

49. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Community and Social Services	Energy Sources	Executive and Council	Finance and Admin	Road Transport	Waste Water Management	Water Management	Waste Management	Total
Revenue									
Agency services	-	-	-	-	719,458	-	-	-	719,458
Fines, Penalties and Forfeits	194	10,156	-	-	20,779,193	-	-	-	20,789,543
Government Grants and Subsidies	1,300,000	8,017,944	61,680,000	1,900,000	1,000,000	8,360,167	4,605,985	-	86,864,096
Interest received	-	6,078,619	-	149,335	-	-	-	-	6,227,954
Other Income	25,953	47,203	402,958	462,565	42,985	2,301	3,765	-	987,730
Rental of Facilities and Equipment	-	-	-	20,230	3,228	-	-	-	23,458
Service charges	-	29,756,159	931,961	-	-	10,099,576	14,535,654	6,648,874	61,972,224
Property Rates	-	-	-	14,389,005	-	-	-	-	14,389,005
Public contributions and donations	-	-	-	-	7,688,112	-	-	-	7,688,112
Fair value adjustment	-	-	-	4,554,100	-	-	-	-	4,554,100
Total segment revenue	**1,326,147**	**43,910,081**	**63,014,919**	**21,475,235**	**30,232,976**	**18,462,044**	**19,145,404**	**6,648,874**	**204,215,680**
Entity's revenue									**204,215,680**

49. Segment information (continued)

	Community and Social Services	Energy Sources	Executive and Council	Finance and Admin	Road Transport	Waste Water Management	Water Management	Waste Management	Total
Expenditure									
Bulk purchases	-	31,787,593	-	-	-	-	328,196	-	32,115,789
Contracted services	-	1,153,095	(6,000)	52,304	1,630,851	419,760	103,376	64,988	3,418,374
Debt Impairment	-	-	-	32,765,897	-	-	-	-	32,765,897
Depreciation	-	-	-	32,359	128,819	29,354,653	-	-	29,515,831
Employee Related Costs	7,682,881	3,050,304	4,132,904	20,043,416	9,291,916	3,918,262	6,181,337	2,428,124	56,729,144
Finance cost	-	-	1,632,627	118,166	-	-	-	343,298	2,094,091
General expenses	7,940	979,667	6,778,970	6,087,274	1,533,712	302,276	1,818,871	357,168	17,865,878
Remuneration of councilors	-	-	3,996,005	-	-	-	-	-	3,996,005
Auditors remuneration	-	-	-	3,134,160	-	-	-	-	3,134,160
Fines and penalties	-	-	-	186,752	-	-	-	-	186,752
Travel and substance	-	4,785	286,879	227,240	23,907	181	5,971	-	548,963
Total segment expenditure	**7,690,821**	**36,975,444**	**16,821,385**	**62,647,568**	**12,609,205**	**33,995,132**	**8,437,751**	**3,193,578**	**182,370,884**
Total segmental surplus/(deficit)									**21,844,796**

49. Segment information (continued)

	Community and Social Services	Energy Sources	Executive and Council	Finance and Admin	Road Transport	Waste Water Management	Water Management	Waste Management	Total
Assets									
Cash and cash equivalents	-	-	-	5,172,398	-	-	-	-	5,172,398
Intangible Assets	-	-	-	64,816	-	-	-	-	64,816
Inventory	-	-	-	370,300	-	-	34,968	-	405,268
Investment Property	-	-	-	16,698,999	-	-	-	-	16,698,999
Property, plant and equipment	-	5,108,635	-	177,193,607	188,059,908	27,628,111	113,324,441	103,500	511,418,202
Receivables from exchange transactions	-	-	-	59,580,167	-	-	-	-	59,580,167
Receivables from non-exchange transactions	-	-	-	2,117,223	-	-	-	-	2,117,223
Statutory receivables from non-exchange transactions	-	-	-	14,654,417	-	-	-	-	14,654,417
Other receivables from exchange transactions	-	-	-	1,703,706	-	-	-	-	1,703,706
Operating lease asset	-	-	-	274	-	-	-	-	274
Total segment assets	**-**	**5,108,635**	**-**	**277,555,907**	**188,059,908**	**27,628,111**	**113,359,409**	**103,500**	**611,815,470**
Total assets as per Statement of financial Position									**611,815,470**
Liabilities									
Accounts Payable	-	-	-	37,378,059	-	-	-	-	37,378,059
Payables from non-exchange transactions	-	-	-	977,942	-	-	-	-	977,942
Other Financial Liabilities	-	-	-	3,171,206	-	-	-	-	3,171,206
Provisions	-	-	-	8,211,388	-	-	-	-	8,211,388
Unspent Grants	124,919	-	-	11,420,528	-	-	-	-	11,545,447
VAT Payable	-	-	-	13,728,194	-	-	-	-	13,728,194
Consumer deposits	-	-	-	745,124	-	-	-	-	745,124
Employee benefits	-	-	-	11,685,460	-	-	-	-	11,685,460
Total segment liabilities	**124,919**	**-**	**-**	**87,317,901**	**-**	**-**	**-**	**-**	**87,442,820**

Figures in Rand

	Community and Social Services	Energy Sources	Executive and Council	Finance and Admin	Road Transport	Waste Water Management	Water Management	Waste Management	Total
49. Segment information (continued)									
Total liabilities as per Statement of financial Position									**87,442,820**

50. Principal-Agent arrangements

Principal in Principle-Agent arrangement

The municipality is the Principal in the Principal-Agent arrangement with Conlog. Conlog undertakes pre-paid electricity sales through the use of third-party vendors on behalf of Umsobomvu Local Municipality. No significant judgements were applied in determining if the municipality was the principal. No changes have been made to the terms and conditions for the arrangement during the reporting period. No significant risks and benefits associated with the arrangement have been identified.

Compensation paid for agency activities		
Statement of Financial Performance		
Commission income paid	272,789	307,238
Statement of Financial Position		
Conlog debtor included in trade and other receivables	1,038,992	478,927

Umsobomvu Local Municipality paid 4.2% commission and other administrative cost to Conlog for acting as the agent on its behalf during the financial year.

Resources under custodianship of the agent, nor have they been recognised as such. All resources provided to third party vendors are that of the agent and not the municipality. There is no direct resource or cost implications for the principal if the principal-agent arrangement is terminated, however this will directly impact on service delivery continuity and revenue generation negatively, due to the reduction in service points.

Figures in Rand	2021	2020

50. Principal-Agent arrangements (continued)

Agent in Principle-Agent arrangement

The Umsobomvu Local Municipality is the Agent in the Principal-Agent arrangement with various personal insurance companies, unions and legal firms. The municipality deduct specified amounts from salaries of municipal employees on behalf of the principals in exchange for commission of 2.87% and 5.75%. No significant judgements are applied in determining that the municipality was the agent in the arrangement. There have been no significant changes in the terms and conditions of the arrangements during the reporting period. There are no significant risks and benefits associated with the principal-agent arrangements.

The Umsobomvu Local Municipality is the Agent in the Principal-Agent arrangement with Department of Transport, Safety and Liaison. The municipality is responsible for the issuing of vehicle and drivers' licenses on behalf of the Department of Transport, Safety and Liaison in exchange for commission of 12%. No significant judgements are applied in determining that the municipality was the agent in the arrangement.

Compensation received for agency activities		
Statement of Financial Performance		
Commission (Payroll deductions)	118,872	191,184
Commission (Department of Transport, Safety and Liaison)	44,409	525,798
	163,281	**716,982**
Statement of Financial Position		
Commission (Payroll deductions) included in trade and other payables	-	11,232

Umsobomvu Local Municipality was paid 2.87% commission by Metropolitan lives, Old Mutual, Avbob, Legal Wise, African Life Assurance, Comforting Funerals, Regent (Pty) Ltd and the African National Congress for acting as an agent on its behalf during the financial year.

Umsobomvu Local Municipality was paid 5.75% commission by Dohne & Fourie Attorneys, CJ Bouwer Attorney, Minaar & De Kock Attorneys and Gerhard van der Merwe Attorneys for acting as an agent on its behalf during the financial year.

Umsobomvu Local Municipality was paid 12% commission by the Department of Transport, Safety and Liaison for acting as an agent on its behalf during the financial year.

Resources under the custodianship of agent
There are no resources of the principal under the custodianship of Umsobomvu Local Municipality, nor have they been recognised as such.

51. Budget differences

Material differences between budget and actual amounts

Material differences are deemed material were the differences differ with 10% or more of the final budget.

Statement of financial performance

Service charges: The municipality billed less services than budgeted for. The decrease is also as a result of customers who are tempering with their electricity meters as it can be witnessed in the increase of distribution losses.

Rental in facilities and equipment: The municipality expected an increase in the income from rental facilities, unfortunately the anticipated increase was not achieved in the financial year due to the COVID -19 pandemic.

Agency services: This is attributable to the increase in collection of license fees.

Other income: Management expected an increase in other income, unfortunately the anticipated increase was not achieved. Licence and permits have been included as other income, as it is immaterial.

Interest received: Increase in interest received is due to the municipality continuous attempt to monthly levy interest against long outstanding debtors this is also indicated by the increase in the consumer debtors.

51. Budget differences (continued)

Government grants and subsidies: This is attributed to the fact that according to the DoRA letter the municipality was not intended to receive a Water Services Infrastructure Grant and after revaluation the municipality did receive the Grant.

Fines, penalties and interest: Decrease in fines revenue can be attributed to the ongoing Covid-19 pandemic. Due to the pandemic individuals do not travel as regularly as past periods and thus the opportunity to gain revenue through the issue of traffic fines has decreased.

Fair value adjustment: As stated with the investment property, management did not budget for the fair value adjustment to investment property due to the implementation of the new valuation roll.

Public contributions and donations: Management was not aware of the Department of Roads and Public Works completion of the project would fall within the current year additionally the cost of the project could not be estimated.

Remuneration of councilors: The municipality made provision for an increase in councilors remuneration for the current period but there was never a Government Gazette issued to indicate that the councilors remuneration is to be adjusted and thus stayed consistent from the prior period**.**

Debt impairment: Increase in the debt impairment can also be attributed to the increase in consumer debtors. Due to the consumer debtors balance increasing a larger amount was taken into consideration for the debt impairment calculation.

Contracted services: The decrease is as a result of underspending of grants, this can be seen in unspent conditional grants in the financial year.

General expenses: Management increased the budget from the prior year to prepare for unforeseen expenditure, however during the current period the general expenditure decreased.

Finance cost: Due to cashflow constraints experienced during the period the municipality incurred interest on creditor accounts that was not budgeted for.

Debt impairment: Increase in impairment of debtors is due to the increase in aging of customer debt that is not being settled by customers. Management also ensured that all fines issued have been accounted for in terms of iGRAP 1 and have provided for the portion deemed irrecoverable, which was not budgeted for.

Statement of financial position

Inventory: Due to a decrease in the water stock at yearend (volume and price).

Other receivables from non-exchange transactions: Due to the reclassification if certain receivables from non-exchange transactions the difference led to a material difference. the salary control account was previously disclosed as part other receivables from non-exchange transactions. However, the account is now viewed as a contingent asset.

Cash and cash equivalents: Due to cashflow constraints experienced during the period, management had to utilize most of their cash reserve in their investment account. The reason behind this is due to the recovery of debtors did not occur as planned.

Operating lease asset: Immaterial balance and therefore not budgeted for.

Trade payables: Due to the cashflow constraints experienced during the period the creditor accounts could not be settled in the required period of 30 days and thus the Trade payables amount increased

Unspent conditional grants: Management planned to exhaust all grant funding due to the COVID-19 pandemic, there were delays in spending of projects. Therefore, the municipality did not realise the revenue from qualifying expenditure.

VAT payable: Not budgeted for separately.

Finance lease obligation: Municipality did not budget for the finance lease liability.

52. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2020.

53. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 524,371,647 and that the municipality's total assets exceed its liabilities by R 524,371,647.

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 considered the following matters relating to the going concern assumption:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- 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.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing 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.
- The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- Surplus of R9,850,392 (2020: deficit of R3,130,292) was realised, Government grants and subsidies contributed R86,864,096 (2020: R79,611,163).
- The municipality's unspent conditional grants for the current year amounted to R11,545,447 (2020: R19,702,543). This is an indication that monies received are not utilized for the specific projects under construction and should be paid back to the relevant parties.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has not improved during the current financial year.
- 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 should be impaired (GRAP 104). A provision for doubtful debt amounting to R174 374 222 (2020: R152 504 902) has been disclosed in the financial statements.
- As at 30 June 2020 the municipality's current liabilities amounted to R61,524,777 (2020: R66,952,079), whilst the current assets amounted to R80,766,576 (2020: R67,599,160).
- The current and acid test ratios are below the required ratio of 1.11:1 and 1.00:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

- The Umsobomvu Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2020 financial year, the allocated Equitable Share allocation amounts to R53 603 000 and the Financial Management Improvement Grant to R1 970 000.

53. Going concern (continued)

- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2018 furthermore disclosed government's proposed allocation of the 2021 and 2022 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.

- The municipality has not been placed under administration for the 12 months ending 30 June 2020.

54. Risk management

Financial risk management

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 analyses 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.

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's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

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

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The table below analyses the municipality's remaining contractual maturity for its non-derivative financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cashflows.

54. Risk management (continued)

Description	Note ref in AFS	Average effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years
At 30 June 2021							
Fixed interest rate instruments							
Nashua	**12**	**Various**	**6,704,538**	**513,970**	**536,280**	**1,161,940**	**4,492,346**
Non-interest-bearing instruments							
• Payables from exchange transactions	13	0.00%	15,200,063	15,200,063	-	-	-
At 30 June 2020							
Fixed interest rate investments							
Ÿ Nashua	12	Various	4,420,309	484,250	491,700	1,073,545	2,370,814
Non-interest bearing instruments							
• Payables from exchange transactions	13	0.00%	17,105,340	17,105,340	-	-	-

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.

The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.

The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.

Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

54. Risk management (continued)

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality’s maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large
number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting.

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

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

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer deposits are increased accordingly.

Long-term receivables and other debtors are individually evaluated annually at the reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality’s exposures to interest rates on Financial assets and Financial liabilities are detailed in the Credit Risk Management section of this note.

54. Risk management (continued)

Price risk

The municipality does not hold any shares.