Renosterberg Local Municipality
(Registration number NC075)
Annual financial statements
for the year ended 30 June 2021

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Renosterberg Local Municipality is a local municipality performing the functions as set out in the Constitution, Act 105 of 1996.
Mayoral committee	
Executive Mayor	Cllr. AI Samson - from 27 November 2020
	Cllr. J Olifant - until 27 Novemer 2020
Councillors	Cllr. JMZ Posthumus - from 27 November 2020
	Cllr. CS Papashe-Hugo - from 27 November 2020
	Cllr. TK Ramakwa - from 27 November 2020
	Cllr. VS Niewenhuisen - from 27 November 2020
	Cllr. D Kelem - from 27 November 2020
	Cllr. JM Mattheus - from 27 November 2020
	Cllr. EG Bekker - from 27 November 2020
	Cllr. ME Bitterbos - until 27 November 2020
	Cllr. JJ Niklaas - until 27 November 2020
	Cllr. SF Jantjies - until 27 November 2020
	Cllr. H Booysen - until 27 November 2020
Grading of local authority	Category B as defined by the Municipal Structures Act, Act no.117 of1998
Accounting Officers	Mr A Matolong - Acting from 1 September 2021
	Ms D Farmer - Acting from 1 March 2021 to 31 July 2021
	Mr T Loko - From 7 September 2020 to 31 March 2021
	Mr M Hoogbaard - from 1 January 2020 to 5 November 2020
	Mr S Dick - Acting from 6 March 2018 to 31 December 2019
Chief Finance Officer (CFO)	Mr T Sediti - Acting from 1 April 2021
	Ms G September - Acting from 31 August 2017 to 31 January 2020
Registered office	555 School Street Petrusville 8770
Business address	School Street Petrusville 8770
Postal address	PO Box 112 Petrusville 8770
Bankers	Standard Bank of South Afica Limited
Auditors	Auditor-General South Africa
Attorneys	BDP Attorneys Mabuza Attorneys Gqadushe Attorneys

General Information

Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003) Division of Revenue Act The Income Tax Act (Act no. 58 of 1962) Value Added Tax Act (Act no 89 of 1991) Municipal Structures Act (Act no. 117 of 1998) Municipal Systems Act (Act no. 32 of 2000) Municipal Planning and Performance Management Regulations Housing Act (Act no. 107 of 1997) Skills Development Levies Act (Act no. 9 of 1999) Employment Equity Act (Act no. 55 of 1998) Unemployment Insurance Act (Act no. 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations, 2005 Disaster Management Act of 2016 Spatial Planning and Land Use Management Act (Act 16 of 2013) Property Rates Act 6 of 2004

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

COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
FMG	Finance Management Grant
IAS	International Accounting Standards
IDP	Integrated Development Plan
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
INEP	Integrated National Electrification Programme
NERSA	National Energy Regulator of South Africa
MSA	Municipal Systems Act
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
PAYE	Pay As You Earn
SALGA	South African Local Government Association
SARS	South African Revenue Services

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 15 November 2021 and were signed on its behalf by:

Mr A Matolong
Acting Municipal Manager

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 providing municipal services and maintaining the best interest of the local community within the Renosterberg municipal area and operates principally in South Africa.

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

Net deficit of the municipality was R 32 093 610 (2020: deficit R 32 845 237).

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 341 989 307 and that the municipality's total liabilities exceed its assets by R 341 989 307.

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.

Furthermore management has reviewed the municipaltiy's cash flow forecast for the year ended 30 June 2020 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequete resources to continue it's operational existence for the foreseable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding fro government as evident from the Equitable Share allocations published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the municipality to the going concern assumption refer to note .

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

No matters to report.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Mr. S. Dick (Acting)	South African	Resigned 03 January 2020
Mr M Hoogbaard	South African	Appointed 06 January 2020, resigned 05 November 2020
Mr T Loko	South African	Administrator from 7 September 2020 to 31 March 2021
Ms D Farmer	South African	Appointed Monday, 01 March 2021, resigned Saturday, 31 July 2021
Mr A Matolong	South African	Appointed Wednesday, 01 September 2021

Accounting Officer's Report

7. Auditors

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

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	28 767	28 421
Receivables from exchange transactions	4	7 056	12 728
Statutory receivables from non-exchange transactions	5	1 701 798	1 409 536
Statutory receivables from exchange transactions	6	4 143 664	6 869 497
Receivables from exchange transactions	7	6 837 415	5 206 185
Cash and cash equivalents	8	2 707 316	665 532
		15 426 016	**14 191 899**
Non-Current Assets			
Investment property	9	25 657 437	25 657 437
Property, plant and equipment	10	491 668 394	496 264 278
Intangible assets	11	67 775	102 765
		517 393 606	**522 024 480**
Total Assets		**532 819 622**	**536 216 379**
Liabilities			
Current Liabilities			
Finance lease obligation	12	507 725	1 305 996
Payables from exchange transactions	13	155 381 908	142 215 827
Consumer deposits	14	789 917	656 327
Employee benefit obligation	15	499 000	268 000
Unspent conditional grants and receipts	16	2 569 106	447 688
Provisions	18	3 902 786	10 338 493
		163 650 442	**155 232 331**
Non-Current Liabilities			
Finance lease obligation	12	3 428 204	2 912 214
Employee benefit obligation	15	3 021 000	2 367 000
Provisions	18	20 730 669	1 621 710
		27 179 873	**6 900 924**
Total Liabilities		**190 830 315**	**162 133 255**
Net Assets		**341 989 307**	**374 083 124**
Accumulated surplus		341 989 307	374 083 124

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	15 308 632	14 621 317
Rental of facilities and equipment	20	1 322 989	534 746
Other income	21	140 730	103 689
Interest received - investment	22	188 757	283 181
Total revenue from exchange transactions		**16 961 108**	**15 542 933**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	4 174 028	4 039 224
Transfer revenue			
Government grants & subsidies	24	40 822 582	41 561 403
Public contributions and donations		4 698 833	-
Total revenue from non-exchange transactions		**49 695 443**	**45 600 627**
Total revenue	26	**66 656 551**	**61 143 560**
Expenditure			
Employee related costs	27	(28 412 049)	(25 699 311)
Remuneration of councillors	28	(2 958 442)	(3 010 271)
Depreciation and amortisation	29	(19 228 898)	(19 975 367)
Finance costs	30	(8 304 192)	(11 340 861)
Debt Impairment	31	(9 984 081)	(10 824 878)
Bulk purchases	32	(7 849 321)	(11 931 662)
General Expenses	33	(13 420 747)	(13 779 069)
Total expenditure		**(90 157 730)**	**(96 561 419)**
Operating deficit		**(23 501 179)**	**(35 417 859)**
Loss on disposal of assets		(8 134 309)	1 497 446
Fair value adjustments		-	254 034
Actuarial gains/losses	15	(458 122)	821 142
		(8 592 431)	**2 572 622**
Deficit for the year		**(32 093 610)**	**(32 845 237)**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	**406 928 361**	**406 928 361**
Changes in net assets		
Surplus for the year	(32 845 237)	(32 845 237)
Total changes	(32 845 237)	(32 845 237)
Restated* Balance at 01 July 2020	**374 082 917**	**374 082 917**
Changes in net assets		
Surplus for the year	(32 093 610)	(32 093 610)
Total changes	(32 093 610)	(32 093 610)
Balance at 30 June 2021	**341 989 307**	**341 989 307**

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		9 470 330	13 715 558
Grants		47 642 833	42 720 696
Interest income		188 757	283 181
		57 301 920	56 719 435
Payments			
Employee costs		(31 240 613)	(28 691 440)
Suppliers		(5 670 970)	(586 416)
Finance costs		(1 023 715)	(12 077 557)
		(37 935 298)	(41 355 413)
Net cash flows from operating activities	35	**19 366 622**	**15 364 022**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(17 042 557)	(15 346 463)
Cash flows from financing activities			
Finance lease payments		(282 281)	(25 828)
Net increase/(decrease) in cash and cash equivalents		**2 041 784**	**(8 269)**
Cash and cash equivalents at the beginning of the year		665 532	673 801
Cash and cash equivalents at the end of the year	8	**2 707 316**	**665 532**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	21 829 680	-	**21 829 680**	15 308 632	**(6 521 048)**	48, x1
Rental of facilities and equipment	884 742	-	**884 742**	1 322 989	**438 247**	48, x2
Other income - (rollup)	76 710	-	**76 710**	140 730	**64 020**	48, x5
Interest received - investment	400 000	-	**400 000**	188 757	**(211 243)**	48, x6
Total revenue from exchange transactions	**23 191 132**	**-**	**23 191 132**	**16 961 108**	**(6 230 024)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	6 784 067	-	**6 784 067**	4 174 028	**(2 610 039)**	48, x7
Transfer revenue						
Government grants & subsidies	39 377 000	-	**39 377 000**	40 822 582	**1 445 582**	48, x8
Public contributions and donations	-	-	**-**	4 698 833	**4 698 833**	
Total revenue from non-exchange transactions	**46 161 067**	**-**	**46 161 067**	**49 695 443**	**3 534 376**	
Total revenue	**69 352 199**	**-**	**69 352 199**	**66 656 551**	**(2 695 648)**	
Expenditure						
Personnel	(21 858 722)	-	**(21 858 722)**	(28 412 049)	**(6 553 327)**	48, x10
Remuneration of councillors	(3 045 046)	-	**(3 045 046)**	(2 958 442)	**86 604**	48, x11
Depreciation and amortisation	(7 950 000)	-	**(7 950 000)**	(19 228 898)	**(11 278 898)**	48, x12
Finance costs	-	-	**-**	(8 304 192)	**(8 304 192)**	48, x13
Debt Impairment	(6 490 002)	-	**(6 490 002)**	(9 984 081)	**(3 494 079)**	48, x14
Bulk purchases	(9 236 464)	-	**(9 236 464)**	(7 849 321)	**1 387 143**	48, x15
General Expenses	(16 528 577)	-	**(16 528 577)**	(13 420 747)	**3 107 830**	48, x17
Total expenditure	**(65 108 811)**	**-**	**(65 108 811)**	**(90 157 730)**	**(25 048 919)**	
Operating deficit	**4 243 388**	**-**	**4 243 388**	**(23 501 179)**	**(27 744 567)**	
Loss on disposal of assets and liabilities	-	-	**-**	(8 134 309)	**(8 134 309)**	48, x18
Actuarial gains/losses	-	-	**-**	(458 122)	**(458 122)**	48, x20
	-	**-**	**-**	**(8 592 431)**	**(8 592 431)**	
Deficit before taxation	**4 243 388**	**-**	**4 243 388**	**(32 093 610)**	**(36 336 998)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**4 243 388**	**-**	**4 243 388**	**(32 093 610)**	**(36 336 998)**	

Statement of Financial Position

Renosterberg Local Municipality
(Registration number NC075)
Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Assets						
Current Assets						
Inventories	-	-	**-**	28 767	**28 767**	
Receivables from exchange transactions	-	-	**-**	7 056	**7 056**	
Statutory receivables from non-exchange transactions	-	-	**-**	1 701 798	**1 701 798**	
VAT receivable	-	-	**-**	12 957 449	**12 957 449**	
Consumer debtors	66 532 251	-	**66 532 251**	6 837 415	**(59 694 836)**	
Cash and cash equivalents	-	-	**-**	2 707 316	**2 707 316**	
	66 532 251	**-**	**66 532 251**	**24 239 801**	**(42 292 450)**	
Non-Current Assets						
Investment property	-	-	**-**	25 657 437	**25 657 437**	
Property, plant and equipment	1 080 560 536	-	**1 080 560 536**	491 668 394	**(588 892 142)**	
Intangible assets	-	-	**-**	67 775	**67 775**	
	1 080 560 536	**-**	**1 080 560 536**	**517 393 606**	**(563 166 930)**	
Total Assets	**1 147 092 787**	**-**	**1 147 092 787**	**541 633 407**	**(605 459 380)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	507 725	**507 725**	
Payables from exchange transactions	70 881 493	-	**70 881 493**	155 381 903	**84 500 410**	
VAT payable	-	-	**-**	8 813 785	**8 813 785**	
Consumer deposits	12 024 756	-	**12 024 756**	789 917	**(11 234 839)**	
Employee benefit obligation	-	-	**-**	499 000	**499 000**	
Unspent conditional grants and receipts	-	-	**-**	2 569 106	**2 569 106**	
Provisions	-	-	**-**	3 902 786	**3 902 786**	
	82 906 249	**-**	**82 906 249**	**172 464 222**	**89 557 973**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	3 428 204	**3 428 204**	
Employee benefit obligation	-	-	**-**	3 021 000	**3 021 000**	
Provisions	8 000 000	-	**8 000 000**	20 730 669	**12 730 669**	
	8 000 000	**-**	**8 000 000**	**27 179 873**	**19 179 873**	
Total Liabilities	**90 906 249**	**-**	**90 906 249**	**199 644 095**	**108 737 846**	
Net Assets	**1 056 186 538**	**-**	**1 056 186 538**	**341 989 312**	**(714 197 226)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 056 186 538	-	**1 056 186 538**	341 989 312	**(714 197 226)**	

Accounting Policies

Figures in Rand	Note(s)	2021	2020

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 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 / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments 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, held to maturity investments 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.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. 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 goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

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 18 - Provisions.

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on entity combinations.

Post-retirement benefits

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

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

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

Allowance for doubtful debts

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

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5. Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

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 is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

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

Fair value

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

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

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

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

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

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 (see note 9).

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

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

1.4 Investment property (continued)

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

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.

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.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Accounting Policies

1.5 Property, plant and equipment (continued)

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment

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

Land, except for landfill and quary sites, is not depreciated as it has an indefinate useful life.

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

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 shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings - Operational buildings	Straight-line	5, 15 - 80 years, some indefinite
Building - Housing	Straight-line	5, 15 - 80 years, some indefinite
Furniture and fixtures	Straight-line	7 - 10 years
Motor vehicles	Straight-line	5 - 7 years
Office equipment	Straight-line	3 - 5 years
IT equipment	Straight-line	3 - 5 years
Infrastructure	Straight-line	5 - 100 years, some indefinite
Community - Community facilities	Straight-line	5 - 100 years, some indefinite

Accounting Policies

1.5 Property, plant and equipment (continued)

Community - Sport and recreation facilities	Straight-line	5 - 100 years, some indefinite
Bins and containers	Straight-line	5 - 7 years
Landfill sites	Straight-line	10 - 20 years
Specialised vehicles	Straight-line	5 - 7 years
Infrastructure asset - Wastewater network	Straight-line	12 - 100 years, some indefinite
Infrastructure asset - Water network	Straight-line	7 - 100 years, some indefinite
Infrastructure asset - Roads and stormwater network	Straight-line	55 - 100 years, some indefinite
Infrastructure asset - Electricity network	Straight-line	10 - 60 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.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

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

1.6 Site restoration and dismantling cost

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

1.6 Site restoration and dismantling cost (continued)

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

1.7 Intangible assets

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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

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

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

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

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

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

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

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

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.

Accounting Policies

1.7 Intangible assets (continued)

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

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

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

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 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.

1.8 Financial instruments (continued)

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.8 Financial instruments (continued)

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	**Category**
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer deposits	Financial asset measured at fair value
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
Bank overdraft	Financial liability measured at amortised cost

1.9 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.

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

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

The transaction amount (for 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; or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

1.9 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

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

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

Other charges

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

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.

The entity assess statutory receivables individually, when assets are individually significant, and individually or collectively for statutory receivables that are not individually significant. Where no objective evidence of impairment exists for an individually assessed debtor (whether individually significant or not), an entity includes the assets in a group of statutory receivables with similar credit risk characteristics and collectively assesses them for impairment.

Statutory receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

For collective assessments of impairment, statutory receivables with similar credit risk characteristics are grouped together. The credit risk characteristics are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In making this assessment management may consider the following indicators as guidance for possible impairment:

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact that the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will received (which can be measured reliably), from a group of statutory receivables (statutory receivables with similar credit risk characteristics grouped together) since the initial recognition of those receivables. The decrease may not yet be identified for the individual financial receivable in the group. These can include:
  - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
  - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)

1.9 Statutory receivables (continued)

- Accounts in arrears for a period longer that the initial estimated repayment period;
- Accounts with arrears of over 90 days showing no repayments in the last financial year;
- Accounts handed over for collection;
- Any negative changes in the ability of debtors and borrowers to repay the amounts due to the entity (e.g. an increased number of late payments);
- A breach in contract, such as a default in interest or capital payments.

Management need not utilize all the indicators given above as guidance but only use the indicators to which management has sufficient information to make the assessment for possible or actual impairment.

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

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

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

Derecognition

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

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

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

1.10 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.

1.10 Leases (continued)

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 interest rate implicit in the lease.

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.

1.11 Inventories

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

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

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

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

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

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

1.11 Inventories (continued)

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 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.

1.12 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.

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

[Specify judgements made]

1.13 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.

Accounting Policies

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

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

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

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

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

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.

Accounting Policies

1.14 Employee benefits

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

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

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

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

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

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

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

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

1.14 Employee benefits (continued)

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.

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.

1.14 Employee benefits (continued)

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.

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;

1.14 Employee benefits (continued)

- 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.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

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

Accumulated leave is vesting.

Staff Bonuses Accrued

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

1.15 Provisions and contingencies

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

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

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

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

1.15 Provisions and contingencies (continued)

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

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

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

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

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

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

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 .

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

Accounting Policies

1.15 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

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

Sale of goods

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

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

1.17 Revenue from exchange transactions (continued)

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 services performed to date as a percentage of total services to be performed.

Pre-paid electricity:

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July.The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

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

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

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.

1.18 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.

1.18 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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.

1.18 Revenue from non-exchange transactions (continued)

Measurement

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

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

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

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

Taxes

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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.

1.18 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

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

1.19 Investment income

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

1.20 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.

1.21 Comparative figures

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

1.22 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.

1.23 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.

Accounting Policies

1.24 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.

1.25 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.26 Conditional grants and receipts

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

1.27 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.

Accounting Policies

1.27 Budget information (continued)

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

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

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

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

1.28 Related parties

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

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

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

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

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

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

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

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

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

1.29 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.

1.30 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

1.31 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

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

Notes to the Annual 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:

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:

IGRAP 20: Accounting for Adjustments to Revenue

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

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

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has adopted the standard for the first time in the 2019/2021 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

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

The municipality has adopted the interpretation for the first time in the 2020/2021 annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

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

The municipality has adopted the standard for the first time in the 2019/2019 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

3. Inventories

Water at cost	28 767	28 421

3.1 Invetories recognised as an expense during the year

Bullk water	(346)	483 106

Inventory pledged as security

No inventory was pledged as security for any financial liability at year-end.

4. Receivables from exchange transactions

Prepaid sales receivable	7 056	7 056
Other sundry receivables	-	5 672
	7 056	**12 728**

Trade receivables from non-exchange transactions pledged as security

No other receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of trade receivables from non-exchange transactions

The credit quality of other receivables from 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:

Trade receivables from non-exchange transactions past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 7 056 (2020: R 12 728) were past due but not impaired.

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

3 months past due	7 056	12 728

5. Statutory receivables from non-exchange transactions

Government grants and subsidies	84 000	84 000
Property rates	1 617 798	1 325 536
	1 701 798	**1 409 536**

Statutory receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

Rates		
Current (0 -30 days)	509 204	493 353
31 - 60 days	226 952	228 456
61 - 90 days	219 713	214 898
> 120 days	14 725 918	12 597 595
Less: Allowance for impairment	(13 979 989)	(12 208 766)
	1 701 798	**1 325 536**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

5. Statutory receivables from non-exchange transactions (continued)

Summary of debtors by customer classification

	2021	2020
Consumers		
Current (0 -30 days)	380 997	374 130
31 - 60 days	164 699	167 558
61 - 90 days	158 603	157 701
> 120 days	8 211 027	7 072 503
	8 915 326	7 771 892
Less: Allowance for impairment	(8 615 850)	(7 555 313)
	299 476	**216 579**

	2021	2020
Industrial/ commercial		
Current (0 -30 days)	77 122	83 245
31 - 60 days	36 323	42 908
61 - 90 days	35 805	39 444
91 - 120 days	4 994 179	4 436 033
	5 143 429	4 601 630
Less: Allowance for impairment	(4 968 651)	(4 323 885)
	174 778	**277 745**

	2021	2020
National and provincial government		
Current (0 -30 days)	51 085	35 978
31 - 60 days	25 931	17 989
61 - 90 days	20 727	17 752
91 - 120 days	1 525 272	1 089 060
	1 623 015	1 160 779
Less: Allowance for impairment	(395 398)	(329 567)
	1 227 617	**831 212**

	2021	2020
Total		
Current (0 -30 days)	509 204	493 353
31 - 60 days	226 952	228 456
61 - 90 days	219 713	214 898
> 120 days	14 725 900	12 597 595
	15 681 769	13 534 302
Less: Allowance for impairment	(13 979 898)	(12 208 766)
	1 701 871	**1 325 536**

Credit quality of statutory receivables from non-exchange transactions

The credit quality of 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 statutory receivables from non-exchange transactions

Property rates debtors are payable within 30 days. The credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of property rates debtors is not performed in terms of GRAP 104 on initial recognition.

Figures in Rand	2021	2020

5. Statutory receivables from non-exchange transactions (continued)

Statutory receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 955 569 (2020: R 1 325 536) were past due but not impaired.

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

	2021	2020
1 month past due	955 569	1 325 536

Statutory receivables from non-exchange transactions impaired

As of 30 June 2021, receivables from non-exchange transactions of R 13 979 898 (2020: R 12 208 766) were impaired and provided for.

The ageing of these loans is as follows:

	2021	2020
3 to 6 months	13 979 898	12 208 766

Reconciliation of provision for impairment of statutory receivables from non-exchange transactions

	2021	2020
Opening balance	(12 208 766)	(10 379 058)
Provision for impairment	(1 771 132)	(1 829 708)
	(13 979 898)	**(12 208 766)**

6. VAT receivable

	2021	2020
VAT	4 143 664	6 869 497

Input Vat receivable relates to input Vat on creditors invoices not yet paid at year-end, as well as output Vat levied on receivables from exchange transactions not yet received at year-end, these transactions will only be claimed from or declared to SARS when they are paid or received as the Municipality is registered for VAT on the cash basis.

The carrying value amount of VAT receivable approximates fair value due to its short-term nature.

7. Receivable from exchange transactions

	2021	2020
Gross balances		
Electricity	23 446 981	21 403 356
Water	25 218 106	21 490 929
Sewerage	13 429 808	10 869 569
Refuse	8 232 688	7 006 373
Sundry services	2 835 494	2 548 672
	73 163 077	**63 318 899**
Less: Allowance for impairment		
Electricity	(19 354 421)	(18 036 245)
Water	(23 947 792)	(20 712 028)
Sewerage	(12 573 776)	(10 242 111)
Refuse	(7 776 742)	(6 682 138)
Sundry services	(2 672 931)	(2 440 192)
	(66 325 662)	**(58 112 714)**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

7. Receivable from exchange transactions (continued)

	2021	2020
Net balance		
Electricity	4 092 560	3 367 111
Water	1 270 314	778 901
Sewerage	856 032	627 458
Refuse	455 946	324 235
Sundry services	162 563	108 480
	6 837 415	**5 206 185**
Electricity		
Current (0 -30 days)	887 261	1 354 151
31 - 60 days	476 646	193 067
61 - 90 days	313 688	364 349
> 120 days	21 769 386	19 491 789
Less: Allowance for impairment	(19 354 421)	(18 036 245)
	4 092 560	**3 367 111**
Water		
Current (0 -30 days)	851 307	1 521 132
31 - 60 days	404 868	549 333
61 - 90 days	375 111	428 763
> 120 days	23 586 820	18 991 701
Less: Allowance for impairment	(23 947 792)	(20 712 028)
	1 270 314	**778 901**
Sewerage		
Current (0 -30 days)	512 366	499 042
31 - 60 days	242 906	239 892
61 - 90 days	240 550	242 903
> 120 days	12 433 986	9 887 732
Less: Allowance for impairment	(12 573 776)	(10 242 111)
	856 032	**627 458**
Refuse		
Current (0 -30 days)	257 891	244 658
31 - 60 days	121 922	118 690
61 - 90 days	120 465	115 388
> 120 days	7 732 410	6 527 637
Less: Allowance for impairment	(7 776 742)	(6 682 138)
	455 946	**324 235**
Other (specify)		
Current (0 -30 days)	79 688	60 845
31 - 60 days	34 421	21 858
61 - 90 days	28 375	29 092
> 90 days	2 693 010	2 436 877
Less: Allowance for impairment	(2 672 931)	(2 440 192)
	162 563	**108 480**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

7. Receivable from exchange transactions (continued)

Summary of debtors by customer classification

	2021	2020
Consumers		
Current (0 -30 days)	2 003 424	2 886 759
31 - 60 days	967 055	980 310
61 - 90 days	877 584	864 724
> 90 days	55 605 375	46 930 489
	59 453 438	51 662 282
Less: Allowance for impairment	(58 459 509)	(50 845 794)
	993 929	**816 488**
Industrial/ commercial		
Current (0 -30 days)	489 137	650 610
31 - 60 days	262 556	106 996
61 - 90 days	159 155	248 641
> 90 days	6 844 855	6 069 132
	7 755 703	7 075 379
Less: Allowance for impairment	(7 355 450)	(6 763 585)
	400 253	**311 794**
National and provincial government		
Current (0 -30 days)	94 753	142 458
31 - 60 days	50 553	35 532
61 - 90 days	37 154	67 131
> 90 days	4 352 609	4 336 116
	4 535 069	4 581 237
Less: Allowance for impairment	(510 703)	(503 334)
	4 024 366	**4 077 903**
Total		
Current (0 -30 days)	2 588 514	3 679 828
31 - 60 days	1 280 761	1 122 838
61 - 90 days	1 078 188	1 180 496
91 - 120 days	68 215 614	57 335 738
	73 163 077	63 318 900
Less: Allowance for impairment	(66 325 662)	(58 112 715)
	6 837 415	**5 206 185**
Less: Allowance for impairment		
91 - 120 days	(66 325 662)	(58 112 714)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(58 112 714)	(48 209 992)
Contributions to allowance	(8 212 948)	(9 902 722)
	(66 325 662)	**(58 112 714)**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions were pledged as security for any financial liability at year-end.

7. Receivable from exchange transactions (continued)

Credit quality of receivables from exchange transactions

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:

Credit quality of receivables from exchange transactions

The credit quality of receivables from 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:

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 4 947 466 (2020: R 5 206 185) were past due but not impaired.

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

1 month past due	4 947 466	5 206 185

Receivables from exchange transactions impaired

As of 30 June 2021, receivables from exchange transactions of R 66 325 662 (2020: R 58 112 714) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	66 325 662	58 112 714

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	49 602	88 804
Short-term deposits	2 657 714	576 728
	2 707 316	**665 532**

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		
F1+	2 707 316	665 532

8. VAT receivable (continued)

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
Standard Bank - Current account	27 500	88 804	380 144	49 602	88 804	380 144
Standard Bank - Money markert account - 04 891 091 0 001	-	149 515	368	-	149 515	368
Standard Bank - Money markert account - 04 891 095 3 001	14	14	14	14	14	14
Standard Bank - Money markert account - 04 891 100 3 003	1 192	313 723	293 275	1 192	313 723	293 275
Standard Bank - Money markert account - 04 848 037 1 003	2 565 413	80 307	-	2 565 413	80 307	-
Standard Bank - Money markertaccount - 04 848 037 1 005	90 588	102	-	90 588	102	-
Standard Bank - Money markert account - 04 848 037 1 006	-	32 858	-	-	32 858	-
Standard Bank - Money markert account - 04 848 037 1 002	496	-	-	496	-	-
Total	**2 685 203**	**665 323**	**673 801**	**2 707 305**	**665 323**	**673 801**

9. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25 657 437	-	25 657 437	25 657 437	-	25 657 437

Reconciliation of investment property - 2021

	Opening balance	Total
Investment property	25 657 437	25 657 437

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	25 403 402	254 035	25 657 437

Pledged as security

No investment property was pledged as security for any financial liability at year-end.

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

Notes to the Annual Financial Statements

9. Investment property (continued)

Details of valuation

Property valuations were performed by an independent valuer, Mr.Z Van Der Merwe (registered with the South African Council of Property Valuers as a Professional Valuer, with registration number 4973/1), and representing Infratect (Pty) Ltd. Infractec (Pty) Ltd is not connected tp the municipality and have recent experience in the location and category of the investment property being valued.

The valuation is based on a unit rate which has been determined from the trends in the general market growth rate as indicated by the FNB housing price index for June 2020. This base rate has been adjusted with various factors such as property use, comparability of sales and market activity to determine a fair value under current market conditions at 30 June 2020. The fair value adjustments rate applied was 1% in 2020 and 1% in 2019.

Deemed cost

Deemed cost was determined using fair value.

Notes to the Annual Financial Statements

Figures in Rand

10. 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	127 042 300	-	127 042 300	127 042 300	-	127 042 300
Buildings	30 436 677	(23 011 167)	7 425 510	30 530 420	(22 488 002)	8 042 418
Infrastructure assets	534 956 214	(278 220 179)	256 736 035	538 942 664	(271 343 031)	267 599 633
Community assets	118 962 160	(94 739 546)	24 222 614	134 410 261	(106 438 782)	27 971 479
Other property, plant and equipment	4 899 999	(4 364 018)	535 981	5 077 430	(4 148 308)	929 122
Leased office equipment	5 672 355	(2 390 448)	3 281 907	5 672 355	(1 379 781)	4 292 574
Capital work in progress	72 424 047	-	72 424 047	60 386 752	-	60 386 752
Total	**894 393 752**	**(402 725 358)**	**491 668 394**	**902 062 182**	**(405 797 904)**	**496 264 278**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	127 042 300	-	-	-	-	127 042 300
Buildings	8 042 418	-	-	(616 908)	-	7 425 510
Infrastructure assets	267 599 633	-	4 959 702	(15 574 073)	(249 227)	256 736 035
Community assets	27 971 479	860 627	-	(3 248 859)	(1 360 633)	24 222 614
Other property, plant and equipment	929 122	941 946	-	(1 335 087)	-	535 981
Leased office equipment	4 292 574	-	-	(1 010 667)	-	3 281 907
Work in progress	60 386 752	16 996 997	(4 959 702)	-	-	72 424 047
	496 264 278	**18 799 570**	**-**	**(21 785 594)**	**(1 609 860)**	**491 668 394**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	127 042 300	-	-	-	-	127 042 300
Buildings	8 856 241	-	-	-	(813 823)	8 042 418
Infrastructure assets	276 339 438	-	-	5 243 745	(13 983 550)	267 599 633
Community assets	32 060 101	-	-	-	(4 088 622)	27 971 479
Other property, plant and equipment	1 029 865	117 030	(11 308)	-	(206 465)	929 122
Leased office equipment	2 892 105	4 255 731	(1 827 464)	-	(1 027 798)	4 292 574
Work in progress	54 656 795	10 973 702	-	(5 243 745)	-	60 386 752
	502 876 845	**15 346 463**	**(1 838 772)**	**-**	**(20 120 258)**	**496 264 278**

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

Refer to Appendix B for more detail on Property, plant and equipment, including those in the course of construction.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

10. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Office equipment	3 281 907	4 292 574

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

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	60 386 752	60 386 752
Additions/capital expenditure	16 996 997	16 996 997
Transferred to completed items	(4 959 702)	(4 959 702)
	72 424 047	**72 424 047**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	54 656 795	54 656 795
Additions/capital expenditure	10 973 702	10 973 702
Transferred to completed items	(5 243 745)	(5 243 745)
	60 386 752	**60 386 752**

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	74 200	109 958
Furniture & fittings	1 347	38 868
Transport assets	244 130	154 797
Infrastructure assets	3 375 535	-
	3 695 212	**303 623**

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

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

11. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 005 665	(937 890)	67 775	1 005 665	(902 900)	102 765

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software and licences	102 765	(34 990)	67 775

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software and licences	138 438	(35 673)	102 765

Pledged as security

No intangible assets are pledged as security for any financial liability at year-end.

Deemed cost

Deemed cost was determined using depreciated replacement cost.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Finance lease obligation

Minimum lease payments due		
- within one year	1 436 596	1 305 996
- in second to fifth year inclusive	4 885 839	6 322 435
	6 322 435	7 628 431
less: future finance charges	(2 386 506)	(3 410 221)
Present value of minimum lease payments	**3 935 929**	**4 218 210**

Present value of minimum lease payments due		
- within one year	507 725	282 281
- in second to fifth year inclusive	3 428 204	3 935 929
	3 935 929	**4 218 210**

Non-current liabilities	3 428 204	2 912 214
Current liabilities	507 725	1 305 996
	3 935 929	**4 218 210**

It is municipality policy to lease certain office equipment under finance lease.

The lease term is 5 years and the average effective borrowing rate was 24.95 % in 2020 (2019 - 14.65%).

Interest rates at contract inception fixed at 24.95% (2019 - 14.65%). All lease repayments escalate at between 10% to 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

13. Payables from exchange transactions

Trade payables	117 135 585	114 929 339
Payments in advance	3 437 430	3 261 411
Accrued leave pay	3 080 207	2 801 972
Accrued bonus	518 630	505 213
Salary control	20 602 877	12 918 290
Retentions payable	5 325 182	3 362 568
Deferred revenue - prepaid electicity sales	13 114	15 137
Suspense accounts	5 268 883	4 421 897
	155 381 908	**142 215 827**

14. Consumer deposits

Electricity	347 032	347 032
Water	442 885	309 295
	789 917	**656 327**

Deposits are paid by consumers for new electricity and water connections and are repaid when connections are terminated. Where consumers default on their payments the municipality can utilise deposits as payments for outstanding amounts.

No interest is paid on deposits held.

Management is of opinion that the carrying value of the deposits approximates the fair value.

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

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

15. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(1 915 000)	(1 083 000)
Present value of the defined benefit obligation-partly or wholly funded	(1 605 000)	(1 552 000)
	(3 520 000)	**(2 635 000)**
Non-current liabilities	(3 021 000)	(2 367 000)
Current liabilities	(499 000)	(268 000)
	(3 520 000)	**(2 635 000)**
Benefits		
Post-retirement medical aid benefit	1 704 000	1 036 000
Long service awards	1 317 000	1 331 000
	3 021 000	**2 367 000**

Post retirement benefits

Post Retirement Medical Aid Benefit		
Balance 1 July	1 083 000	1 701 000
Contribution for the year	60 000	87 000
Interest cost	132 000	167 000
Benefits paid during the year	(25 603)	(436 520)
Actuarial gains/(losses)	665 603	(435 480)
Total post retirement benefit - 30 June	1 915 000	1 083 000
Less: Transfer to current portion	(211 000)	(47 000)
	1 704 000	**1 036 000**

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Members		
In-service (employee) members	15	15
Continuation members (Pensioners)	1	1
	16	**16**

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

Figures in Rand	2021	2020

15. Employee benefit obligations (continued)

Liability

In-service (employee) members	1 447 000	637 000
Continuation members (Pensioners)	468 000	446 000
	1 915 000	**1 083 000**

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

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Fedhealth
- Samwumed

Key actuarial assumptions used:

Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	Difference between nominal and yield curves
Health Care Cost Inflation Rate	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield curve based	Yield curve based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:
"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We used the nominal and real yield curves as at 29 June 2021 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age:

The average retirement age for all active employees was assumed to be 58 for females and 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age:

It has been assumed that in-service members will retire at age 65, which then implicitly allows for expected rates of early and ill-health retirement.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

15. Employee benefit obligations (continued)

Mortality rates:

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants:

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Withdrawal decrements:

A table setting out assumed rates of withdrawal

Age band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Discount Rate:

The Actuary has determined that the most appropriate discounting method is the yield curve. A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing . The discount rate which corresponds to the implied duration of the liability at year end is 10.27%.

Sensitivity Analysis on the Accrued Liability:

Assumption	Change	Change
Valuation Assumptions		1 915 000
Health care inflation	+1%	1 986 000
Health care inflation	-1%	1 815 000
Mortality rate	+20%	1 837 000
Mortality rate	-20%	2 007 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2021:

Assumption	Change	Current service	Interest Cost
Valuation Assumption		126 000	85 000
Health care inflation	+1%	130 000	88 000
Health care inflation	-1%	119 000	80 000
Mortality rate	+20%	121 000	81 000
Mortality rate	-20%	131 000	89 000

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

15. Employee benefit obligations (continued)

Long service award

Long service award		
Balance 1 July	1 552 000	1 737 000
Current service cost	168 000	175 000
Interest cost	165 000	188 000
Benefits paid during the year	(72 519)	(162 339)
Actuarial gains/(losses)	(207 481)	(385 661)
Subtotal	1 605 000	1 552 000
Less: Transfer to current portion	(288 000)	(221 000)
Balance 30 June	**1 317 000**	**1 331 000**

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Total eligible	91	97

Key actuarial assumptions used:

Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	Difference between nominal and yield curves
Normal Salary Increase Rate	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield curve based	Yield curve based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.” We use the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal Salary Inflation Rate:

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

Average Retirement Age:

The average retirement age for all active employees was assumed to be 63 years for males, and 58 females. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age:

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

15. Employee benefit obligations (continued)

Mortality Rates:

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal decrements:

A table setting out the assumed rates of withdrawal from service is set out below:

Age band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Discount Rate:

The Actuary has determined that the most appropriate discounting method is the yield curve. A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing . The discount rate which corresponds to the implied duration of the liability at year end is 8.35%.

Sensitivity Analysis on the Accrued liability:

Assumption	Change	Liability
Valuation assumptions		1 605 000
General salary inflation	+1%	1 706 000
General salary inflation	-1%	1 519 000
Withdrawal rate	+20%	1 530 000
Withdrawal rate	-20%	1 687 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2021:

Assumption	Change	Current service cost	Interest cost
Valuation Assumption		155 000	133 000
General salary inflation	+1%	165 000	143 000
General salary inflation	-1%	146 000	124 000
Withdrawal rate	+20%	146 000	126 000
Withdrawal rate	-20%	164 000	141 000

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	2 485 107	25 091
Expanded Public Works Programme	83 503	-
Integrated National Electrification Programme	496	-
Disaster Management Grant	-	422 597
	2 569 106	**447 688**

Movement during the year

Balance at the beginning of the year	447 688	25 091
Additions during the year	19 897 000	41 984 000
Income recognition during the year	(17 327 894)	(41 561 403)
Transfered to the national revenue fund	(447 688)	-
	2 569 106	**447 688**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

See note 24 for reconciliation of grants from National/Provincial Government.

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

17. Impairment loss on assets

18. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	11 960 203	6 004 520	6 668 732	24 633 455

Reconciliation of provisions - 2020

	Opening Balance	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	12 192 974	973 008	(1 205 779)	11 960 203

Non-current liabilities	20 730 669	1 621 710
Current liabilities	3 902 786	10 338 493
	24 633 455	**11 960 203**

As such a net discount rate of 5.52% p.a (2020: 5.52%) has been used. The net discount rate was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the markert closed on 30 June 2021 (30 June 2020) reduced by the contract price adjustment index (CPAF) as obtained from the South African Forum of Civil Engineering Contractors (SAFCEC).

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

18. Provisions (continued)

Environmental rehabilitation provision

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset.

The municipality does not have a permit of licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environment Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The following key assumptions are use in determining the provision value:

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

As such a net discount rate of 5.52% p.a (2020: 5.52%) has been used. The net discount rate was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the markert closed on 30 June 2021 (30 June 2020) reduced by the contract price adjustment index (CPAF) as obtained from the South African Forum of Civil Engineering Contractors (SAFCEC).

19. Service charges

Sale of electricity	6 760 845	5 697 338
Sale of water	4 376 542	4 894 210
Sewerage charges	2 780 101	2 731 780
Refuse removal	1 391 144	1 297 989
	15 308 632	**14 621 317**

20. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	1 322 989	534 746

21. Other income

Connection fees	114 477	87 184
Burial fees	1 297	5 159
Copies	3 268	5 258
Clearence certificates	7 033	3 253
Building plans	14 655	2 835
	140 730	**103 689**

22. Investment revenue

Interest revenue		
Bank	188 757	283 181

Figures in Rand	2021	2020

23. Property rates

Rates and taxes levied

Residential, business and government	2 672 631	2 515 193
Commercial	444 970	484 563
State	287 468	271 199
Small holdings and farms	768 959	768 269
	4 174 028	**4 039 224**

Valuations

Residential	-	354 389 000
Commercial	-	24 922 000
Small holdings and farms	-	801 000
	-	**380 112 000**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

24. Government grants and subsidies

Operating grants		
Equitable Share	23 494 688	24 687 000
Finance Management Grant	2 999 504	2 880 000
Library Grant (Provincial Government)	-	860 000
Extended Public Works Programme	916 497	1 023 000
Municipal Disaster Relief Fund	-	54 000
	27 410 689	**29 504 000**
Capital grants		
Municipal Infrastructure Grant	13 411 893	7 480 000
Intergrated National Electrification Grant	-	2 000 000
Demand Side Management Grant	-	2 577 403
	13 411 893	**12 057 403**
	40 822 582	**41 561 403**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	17 327 894	16 874 403
Unconditional grants received	23 494 688	24 687 000
	40 822 582	**41 561 403**

Equitable share

Current-year receipts	23 047 000	24 687 000
Conditions met - transferred to revenue	(23 494 688)	(24 687 000)
Transfer from surrendered conditional grants	447 688	-
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

24. Government grants and subsidies (continued)

Intergrated National Electrification Programme Grant

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

Conditions still to be met - remain liabilities (see note 16).

Library Grant

Current-year receipts	-	860 000
Conditions met - transferred to revenue	-	(860 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Municipal Infrastructure Grant

Balance unspent at beginning of year	25 091	25 091
Current-year receipts	15 897 000	7 480 000
Conditions met - transferred to revenue	(13 411 893)	(7 480 000)
Transfered to equitable share	(25 091)	-
	2 485 107	**25 091**

Conditions still to be met - remain liabilities (see note 16).

Extended Public Works Programme

Current-year receipts	1 000 000	1 023 000
Conditions met - transferred to revenue	(916 497)	(1 023 000)
	83 503	**-**

Conditions still to be met - remain liabilities (see note 16).

Financial Management Grant

Current-year receipts	3 000 000	2 880 000
Conditions met - transferred to revenue	(2 999 504)	(2 880 000)
	496	**-**

Conditions still to be met - remain liabilities (see note 16).

Disaster Management Relief Grant

Current-year receipts	-	54 000
Conditions met - transferred to revenue	-	(54 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Government grants and subsidies (continued)

Demand Side Management Grant

Balance unspent at beginning of year	422 597	-
Current-year receipts	-	3 000 000
Conditions met - transferred to revenue	-	(2 577 403)
Transfered to equitable share	(422 597)	-
	-	**422 597**

Conditions still to be met - remain liabilities (see note 16).

25. Fines, Penalties and Forfeits

26. Revenue

Service charges	15 308 632	14 621 317
Rental of facilities and equipment	1 322 989	534 746
Sundry Income	140 730	103 689
Interest received - investment	188 757	283 181
Property rates	4 174 028	4 039 224
Government grants & subsidies	40 822 582	41 561 403
Public contributions and donations	4 698 833	-
	66 656 551	**61 143 560**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	15 308 632	14 621 317
Rental of facilities and equipment	1 322 989	534 746
Sundry Income	140 730	103 689
Interest received - investment	188 757	283 181
	16 961 108	**15 542 933**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	4 174 028	4 039 224
Transfer revenue		
Government grants & subsidies	40 822 582	41 561 403
Public contributions and donations	4 698 833	-
	49 695 443	**45 600 627**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Employee related costs

Basic	20 471 519	17 986 387
Bonus	1 354 181	1 377 473
Medical aid - municipal contributions	529 214	87 000
UIF	181 374	174 734
SDL	160 086	161 064
Other payroll levies	5 900	4 832
Leave pay provision charge	333 203	429 511
Defined contribution plans	168 000	175 000
Travel, motor car, accommodation, subsistence and other allowances	81 154	61 076
Overtime payments	945 749	941 612
Acting allowances	229 039	564 064
Housing benefits and allowances	1 068 677	1 055 737
Pension - municipal contributions	2 883 953	2 680 821
	28 412 049	**25 699 311**

Remuneration of the Municipal Manager - MM Hoogbaard

Annual Remuneration	1 003 891	598 913
Contributions to UIF, Medical and Pension Funds	9 698	4 684
	1 013 589	**603 597**

Terminated in April 2021

Remuneration of the Municipal Manager - S Dick (Acting)

Annual Remuneration	-	621 810
Acting Allowance	-	197 858
Housing Allowance	-	10 893
Bonus	-	70 438
Contributions to UIF, Medical and Pension Funds	-	153 422
	-	**1 054 421**

The acting municipal manager was also the director of technical services, until the end of December 2019.

Remuneration of the Chief Financial Officer - G September

Annual Remuneration	353 258	329 276
Acting Allowance	70 235	184 683
Housing Allowance	11 574	10 893
Bonus	40 010	27 415
Contributions to UIF, Medical and Pension Funds	96 142	95 554
	571 219	**647 821**

Remuneration of Corporate Services director - M Mthini

Annual Remuneration	-	318 552

28. Remuneration of councillors

Councillors	2 958 442	3 010 271

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

28. Remuneration of councillors (continued)

Remuneration of the Mayor

Annual Remuneration	747 966	769 007
Car Allowance	10 181	145 448
Cellphone Allowance	29 278	20 868
Contributions to UIF, Medical and Pension Funds	5 052	111
	792 477	**935 434**

Remuneration of the other Councillors

Annual Remuneration	1 886 167	1 658 285
Car Allowance	65 157	288 270
Cellphone Allowance	175 668	125 208
Contributions to UIF, Medical and Pension Funds	7 705	3 073
	2 134 697	**2 074 836**

In-Kind benefits

The Councillor occupying the position of Mayor in a full-time capacity.

The Mayor has an office at the municipality and is provided with secretarial support at the expense of the municipality.

29. Depreciation and amortisation

Property, plant and equipment	19 193 908	19 939 695
Intangible assets	34 990	35 672
	19 228 898	**19 975 367**

30. Finance costs

Provisions	6 983 477	973 008
Trade and other payables	-	9 411 448
Finance leases	1 023 715	601 405
Employee benefits	297 000	355 000
	8 304 192	**11 340 861**

31. Debt impairment

Contributions to debt impairment provision	9 984 081	10 824 878

32. Bulk purchases

Electricity	7 849 667	11 448 556
Water	(346)	483 106
	7 849 321	**11 931 662**

Notes to the Annual Financial Statements

Figures in Rand		2021	2020

33. General expenses

Advertising		2 715	39 909
Auditors remuneration		998 682	929 825
Bank charges		157 324	207 885
Chemicals		1 459 954	1 194 568
Cleaning		-	36 000
Consulting and professional fees		3 199 620	5 580 649
Entertainment		27 159	72 470
Fuel and oil		300 567	479 329
Hire		298 936	496 558
IT expenses		114 899	132 923
Insurance		857 784	450 026
Inventory, spares and materials consumed	34	3 695 212	303 623
Medical expenses		-	22 304
Postage and courier		6 306	79 656
Printing and stationery		90 778	118 595
Protective clothing		84 981	260 471
Subscriptions and membership fees		500 000	500 000
Telephone and fax		1 347 162	1 093 331
Transport		(161 181)	112 625
Travel and subsistence		439 849	1 668 322
		13 420 747	**13 779 069**

34. Inventory, spares and materials consumed

Heading		
Buildings	74 200	109 958
Furniture and equipment	1 347	38 868
Transport assets	244 130	154 797
Infrastructure assets	3 375 535	-
	3 695 212	**303 623**

35. Cash generated from operations

Deficit	(32 093 610)	(32 845 237)
Adjustments for:		
Depreciation and amortisation	19 228 898	19 975 367
Gain (loss) on sale of assets and liabilities	8 134 309	(1 497 446)
Fair value adjustments	-	(254 034)
Debt impairment	9 984 081	10 824 878
Movements in retirement benefit assets and liabilities	885 000	(803 000)
Movements in provisions	6 983 476	110 929
Changes in working capital:		
Inventories	(346)	(1 986)
Receivables from exchange transactions	5 672	(1 404)
Consumer debtors	(11 615 311)	(5 684 815)
Other receivables from non-exchange transactions	(292 262)	178 646
Payables from exchange transactions	13 165 874	27 774 346
VAT	2 725 833	(2 937 620)
Unspent conditional grants and receipts	2 121 418	422 597
Consumer deposits	133 590	102 801
	19 366 622	**15 364 022**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	7 056	7 056
Statutory receivables from non-exchange transactions	1 701 798	1 701 798
Receivables from exchange transactions	6 837 415	6 837 415
Cash and cash equivalents	2 707 316	2 707 316
	11 253 585	**11 253 585**

Financial liabilities

	At fair value	At amortised cost	Total
Payables from exchange transactions	-	155 381 908	155 381 908
Consumer deposits	789 917	-	789 917
Unspent conditional grants and receipts	-	2 569 106	2 569 106
	789 917	**157 951 014**	**158 740 931**

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	12 728	12 728
Statutory receivables from non-exchange transactions	1 409 536	1 409 536
Receivables from exchange transactions	5 206 185	5 206 185
Cash and cash equivalents	665 532	665 532
	7 293 981	**7 293 981**

Financial liabilities

	At fair value	At amortised cost	Total
Payables from exchange transactions	-	142 215 827	142 215 827
Consumer deposits	656 327	-	656 327
Unspent conditional grants and receipts	-	447 688	447 688
	656 327	**142 663 515**	**143 319 842**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	515 737
Total capital commitments		
Already contracted for but not provided for	-	515 737
Total commitments		
Total commitments		
Authorised capital expenditure	-	515 737

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

38. Related parties

Related party disclosure is considered in terms of the related party accounting policy as disclosed in the annual financial statements as GRAP 20 is not yet effective for municipalities. In terms of this policy management have considered the principles of control and joint control and have not identified any party irrespective if any transactions were entered into, in the records and operations of the municipality. Management have furthermore considered the internal controls, based on the economic utilisation of resources and have opted to use the existing internal controls of interest declarations by key staff, the declarations if any during bid committee processes and declarations from service providers who submit competitive bids in terms of the SCM regulations. Although other controls such as expensive third party confirmations are available to identify possible related parties, the municipality have accepted the current risk of disclosure.

Relationships	
Interest in relates parties	Councillors and / or management of the municipality
Services rendered to related parties	The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. This information is under the heading Councillors arrear consumer accounts see note 46
Compensation of related parties	Refer to accounting officer's report note 27
Compensation of related parties	Refer to note 28
Related party relationships	The municipalities officials declared the following relationships with the listed companies. It should be noted that no transactions were entered into between these related parties and the municipality:
Councillors	No business interest, shares and / or directorships held
Municipal Manager	No business interest, shares and / or directorships held
Acting Municipal Manager	No business interest, shares and / or directorships held
Administrator	No business interest, shares and / or directorships held
Acting Chief Financial Officer	No business interest, shares and / or directorships held
Corporate Services Directors	No business interest, shares and / or directorships held

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

38. Related parties (continued)

Related party balances

Loan accounts - Owing (to) by related parties		
Mr MS Mthini	-	26 796
Me G September	6	5 462
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Mayor AI Samson	43 081	-
Cllr. JMZ Posthumus	35 014	22 346
Cllr. SF Jantjies	802	1 691
Cllr. H Booysen	9 552	5 231
Cllr. D Kelem	54 115	-
Provision for doubtful debts related to outstanding balances with related parties		
Mayor AI Samson	43 081	-
Cllr. D Kelem	54 115	-
Cllr. JMZ Posthumus	35 014	22 346
Cllr. H Booysen	9 552	5 231
ME G September	-	5 462
Mr MS Mthini	-	26 796

38. Related parties (continued)

Remuneration of management

Executive management

2021

Name	Fees for services as a member of management	Basic salary	Bonuses and performance related payments	Other short-term employee benefits	Post-employment benefits	Total
Senior Management	70 235	2 013 661	95 590	276 575	23 148	2 479 209

2020

Name	Fees for services as a member of management	Basic salary	Bonuses and performance related payments	Other short-term employee benefits	Post-employment benefits	Total
Senior Management	382 541	1 868 551	126 805	258 545	32 680	2 669 122

Figures in Rand	2021	2020

39. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated the comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

The correction of the error(s) results in adjustments as follows:

39.1. Prior period error - Misstatement of Property plant and equipment

During the period under review it was noted that different classes of property plant and equipment were misstated in the prior year and not approprately presented according to correct class. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Property plant and equipmen - Infrastructure assets	22 950 853
Increase in Property plant and equipment - Community assets	4 404 027
Increase in Property plant and equipment - Other property plant and equipment	42 076
Decrease in Property plant and equipment - Capital work in progress	(5 243 745)
Decrease in Property plant and equipment - Buildings	(24 314)
Increase in Accumulated surplus	(20 743 386)
	1 385 511

Statement of financial performance	
Increase in Depreciation and amortisation	1 385 511

40. Risk management

Financial risk management

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.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

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

40. Risk management (continued)

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	789 917	-	-	-
Employee benefit obligation	3 520 000	-	-	-
Payables from exchange transactions	155 381 908	-	-	-
Unspent conditional grants and receipts	2 569 106	-	-	-
	162 260 931	**-**	**-**	**-**

At 30 June 2020	Less than 1 year	Between 1 and 2 year	Between 2 and 5 years	Overs 5 years
Consumer deposits	656 327	-	-	-
Employee benefit obligation	2 635 000	-	-	-
Payables from exchange transactions	142 215 827	-	-	-
Uspent conditional grants	447 688	-	-	-
	145 954 842	**-**	**-**	**-**

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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.

Foreign exchange risk

The municipality is not exposed to foreign exchange risk.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

Figures in Rand	2021	2020

41. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 341 989 307 and that the municipality's total liabilities exceed its assets by R 341 989 307.

We draw attention to the fact that at 30 June 2020, a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

1. The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.

2. Unspent grants to be surrendered are cash backed as required.

3. The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.

4. The consumer debtors days outstanding increased to 1434 days from (2020: 1434 days).

5. Electricity distribution losses (technical and non-technical) have decreased to 67% (2020:67%) and the water distribution losses has decreased to 77% from (2020: 77%).

6. The municipality's current liabilities exceeds it's current assets by R 148 224 426 (2019: R 141 040 432) which indicates a current ratio which is below the required norm of 1.5 - 2.

7. The municipality incurred a net surplus (deficit) for the year under review of R (32 093 610) (2019: R (32 845 237)), the major contributors to this change is increases impairments, finance costs, employee related costs. Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

Management has assessed the impact of the COVID-19 pandemic through various means and the result of the assessment is that the entity continues as a going concern based on the income generation potential and also grant allocation from National Treasury.

The Municipality has revised its budget for the year under review due to the impact of the Covid-19 pandemic and to ensure that its operating activities will be within its financial measures.

Covid 19 - Impact

The Municipality has assessed the impact of Covid-19 pandemic on the financial position and liquidity requirements. Our special adjustment budget was passed on 27 November 2020 to address the impact in the reduction of the consumption of services and fallen collection levels.

The Municipality had to increase operating revenue by R 3 195 000 whilst operating expenditure increased by the same amount.

National Treasury approved the relaxation for the utilisation of capital grants for financing operating expenditure due to the declining revenue and collection rates. This approval did not results in additional expenditure or new procurement activities but a change in funding process.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Going concern (continued)

The Municipality assessed the impact of the Covid-19 on its debtors collection process and increased the provision allocation for bad debts for accounts deemed to high risk of default. This process will be continuously monitored in the current year. Management has considered all risk factors, collections rates and other available information in assessing adequacy of provisions and impairments process at year end.

The Municipality has spent on Covid19 relief measures as follows:

Provision of wall mounted sanitizers/ wash soap, deep cleaning and disinfection of facilities R 836 551.

Procurement of personal protective equipment R 633 015.

Mobile toilets for informal areas in Phillipstown who do not have toilets R 1 239 000.

The budget for 2022 was increased due to an incline in expenditures related COVID 19 and additional funds that became available through DORA. However, allowance for debt impairment was increased due to non-affordability of consumers to pay for services during COVID. It should be noted that the Municipality is struggling to put measures in place to address the economic depression of its residence and relief measures to them.

42. Events after the reporting date

Mr T Sediti, who served as an Acting CFO, resigned on 31 October 2021, leaving the position of the CFO vacant.

43. Unauthorised expenditure

	2021	2020
Opening balance	241 664 724	207 557 274
Add: Unauthorised expenditure - current year	-	34 107 450
	241 664 724	**241 664 724**

Details of unauthorised expenditure – current year

-

Details of unauthorised expenditure - prior year

	Disciplinary steps taken/criminal proceedings	
Overspending of budget - Vote 2	Overspending of budget is initiating an investigation into the nature and completeness of the Unauthorised expenditure as disclosed and as required in the MFMA.	15 566 980
Overspending of budget - Vote 3	Management is initiating an investigation into the nature and completeness of the Unauthorised expenditure as disclosed and as required in the MFMA	18 540 470
		34 107 450

44. Fruitless and wasteful expenditure

	2021	2020
Opening balance	46 681 678	37 270 230
Current year	1 869 765	9 411 448
	48 551 443	**46 681 678**

Notes to the Annual Financial Statements

Figures in Rand		2021	2020

44. Fruitless and wasteful expenditure (continued)

Details of fruitless and wasteful expenditure – current year

	Disciplinary steps taken/criminal proceedings		
Interest on late payment of suppliers	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA	1 833 964	
Interest late payment - SARS VAT	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA	35 801	
		1 869 765	

Details of fruitless and wasteful expenditure - prior year

	Condoned by (condoning authority)		
Interest on late payment of suppliers	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA	8 984 950	
Interest late payment - SARS PAYE	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA	415 475	
Interest late payment - SARS VAT	Management is initiating an investigation in to the nature and completeness of the Fruitless and Wasteful expenditure as disclosed and as required in the MFMA	11 023	
		9 411 448	

45. Irregular expenditure

	2021	2020
Opening balance	125 670 583	121 634 483
Add: Irregular Expenditure - current year	-	4 036 100
	125 670 583	**125 670 583**

Details of irregular expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Procurement in contravention of Section 32 of the Municipal Supply Chain Regulations	Management is an investigation to the nature,accuracy and completeness of the irregularexpenditure as disclosed and as required in theMFMA	4 063 100

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2021	2020
Opening balance	4 112 449	3 604 744
Current year subscription / fee	500 000	507 705
	4 612 449	**4 112 449**

Material losses

	2021	2020
Electricity distribution losses (KWh)		
KWh purchased	7 085 348	7 146 320
KWh sold	(2 301 238)	(2 359 220)
KWh losses	**4 784 110**	**4 787 100**
% losses	68	67
Average cost per KWh unit	1,64	1,56
Loss in Rand value	**7 856 101**	**7 447 546**

	2021	2020
Water distribution losses (Mega litres)		
Mega litres purchased	2 539 463	2 539 463
Mega litres sold	(488 293)	(587 469)
Mega litres losses	**2 051 170**	**1 951 994**
% losses	81	77
Average cost per unit	0,14	0,14
Loss in Rand value	**288 702**	**274 743**

Audit fees

	2021	2020
Opening balance	4 835 050	3 391 398
Current year subscription / fee	847 227	1 443 652
	5 682 277	**4 835 050**

PAYE and UIF

	2021	2020
Opening balance	956 277	1 170 651
Current year subscription / fee	3 812 279	3 979 331
Amount paid - current year	(2 148 120)	(3 023 054)
Amount paid - previous years	(956 277)	(1 170 651)
	1 664 159	**956 277**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

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

Pension and Medical Aid Deductions

Opening balance	10 801 636	8 237 495
Current year subscription / fee	5 007 401	4 263 576
Amount paid - current year	-	(342 620)
Amount paid - previous years	(723 788)	(1 356 815)
	15 085 249	**10 801 636**

VAT

VAT receivable	12 957 449	15 772 954

VAT output payables and VAT input receivables are shown in note 6.

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

Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor SF Jantjies	802	-	802
Councillor JMZ Posthumus	2 885	32 129	35 014
Councillor H Booysen	1 080	8 472	9 552
Councillor M Bitterbos	1 132	3 661	4 793
Mayor AI Samson	1 298	41 783	43 081
Councillor D Kelem	1 442	52 673	54 115
	8 639	**138 718**	**147 357**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor SF Jantjies	1 691	-	1 691
Councillor JMZ Posthumus	1 019	4 212	5 231
Councillor H Booysen	2 371	19 975	22 346
	5 081	**24 187**	**29 268**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

Figures in Rand	2021	2020

47. Deviation from 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 accounting officer and includes a note to the annual financial statements.

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

2021

Reason for deviation	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000
Sole Provider	329 466	633 894	310 688
Other	406 658	1 396 182	1 337 999
	736 124	**2 030 076**	**1 648 687**

2020

Reason for deviation	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000
Sole Provider	359 834	851 051	-
Emergency	18 552	374 650	103 285
Other	655 818	894 215	1 565 335
	1 034 204	**2 119 916**	**1 668 620**

48. Budget differences

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The annual financial statements are prepared using the nature of expenses in the statement of financial performance. The approved budget covers the fiscal period from 1 July 2018 to 30 June 2019.

Changes from approved budget to final budget are the result of reallocations and shifting within the budget.

Basis for material differences between budget and actual amounts

It is general practice to deem a 10% deviation on operational revenue and expenditure versus the final budget as materialt

Explanations for material variances relating to the Statement of Financial Performance is set out as follows:

x1. Service charges - The variance is attributed to impact that the ESKOM call on customers to use electricity more sparing has had on the general consumption. Other factors include the tariffs adjustments during the course of the year and the electricity theft and meter tampering.

x2. Rental of facilities and equipment - There was an decrease in rented facilities at the resort than anticipated.

x3. Agency fees - No agency expenditure.

x4. Licences or Permits - License and permits are dificult to budget as it is based on the frequency of unpredictable events .

48. Budget differences (continued)

x5. Other Income - Other income dificult to budget as it is based on the frequency of unpredictable events

x6. Interest received - Less money kept on investment accounts.

x7. Property rates - Variance due to exemptions granted to property owners, which was not included in the budget

x8. Government grants & subsidies - Variance due to unspent grants withheld from allocation. Treasury withheld the municipality allocated and budgeted equitable share due to prior year's unspent grants, that resulted in the shortfall in the budgeted revenue.

x9. Fines, Penalties and Forfeits - The variance is mainly due to the fact that some of the revenue line items budgeted for did not materialize as anticipated. These include fines and penalties.

x10. Personnel - Variance due to wages paid outside the payroll that were not bugdeted for.

x11. Remuneration of councillors - The variance is due to a change in councillors.

x12. Depreciation and amortisation - The variance is mainly due to a new asset register that has been brought with restated capital costs. Due to restatement of assets, depreciation values changed from prior year, and the budget was based on prior year's assets registers prior to the restatements.

x13. Debt impairment - The variance is due to increase in debt impairment due to a significant increase in non-payment of debtors accounts.

x14. Finance costs - The variance is due to interest levied on outstanding eskom invoices, and change in actuarial valuation.

x15. Bulk purchases - The variance is due to an increase in Eskom Tarrifs, as approved by NERSA. NERSA approved 50% increase in Eskom electricity tarrifs, thus the municipality's cost of electricity was higher than anticipated.

x16. Contracted Services - Included in general expenses.

x17. General Expenses - The variance is due to cost cut measures, thus saving in certain expenditures. Due to financial constraints, the municipality had to reduce its costs and avoid avoidable expenditure.

x18. Gain on disposal of assets and liabilities - Gain on disposal is difficullt to predict.

x19. Fair value adjustments - Not budgeted for.

x20. Actuarial gains/losses - Not budgeted for.