



Phokwane Local Municipality
Annual Financial Statements
for the year ended 30 June 2022

Phokwane Local Municipality

(Registration number NC094)

Annual Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity	Local municipality as defined in the Municipal Structures Act (Act no.117 of 1998)
Nature of business and principal activities	Phokwane Municipality is a local municipality performing the functions as set out in the Constitution (Act no.105 of 1996)
Mayoral committee	
Mayor	TB Afrika (Since November 2021) OS Tumodi (July 2021 to October 2021)
Speaker	RP Selogilwe
Councillors	W Harmse MP Mohale E Meyer SM Mokgobo TP Mathe MS Diloke NR Nxamashe GG Halter MK Tivane N Pieters SM Khosa LA Le Roux E Davies TKG Mocumie MT van Wyk VL Janki MM Setlhogomi NS Pitso SKJ Botman TP Lottering PJ Majahe SS Lewis MA van Wyk TE Joubert AG Gill
Accounting Officers	Ms B Mgauguli - Acting since 14 October 2021 Ms KG Gaborone - Acting from 23 March 2021 to 11 October 2021 Mr BK Ndwandwe - Administrator from 8 April 2019 to 31 March 2021
Chief Finance Officer (CFO)	Ms TP Modisa - Acting since 18 February 2021 Mr JS Gomba - Administrator from 8 April 2019 to 31 March 2021
Registered office	24 Hertzog Street Hartswater 8570
Postal address	Private Bag X3 Hartswater 8570
Bankers	Standard Bank of South Africa

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General Information

	ABSA Bank Limited
Auditors	The Auditor General of South Africa
Attorneys	Towell and Goenewaldt Van de Wall and Partners Liesel van De Merwe
Members of the audit committee	Sechaba Thole (Chairperson) Letlhogonolo Berend Maisaka Pule
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. 30 of 1966) 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:

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Abbreviations used:

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 (Previously CMIP)
MSIG	Municipal System Improvement Grant
PAYE	Pay As You Earn
SALGA	South African Local Government Association
SARS	South African Revenue Services

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Accounting Officers' Responsibilities and Approval

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

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

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

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

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

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on 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 officers are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officers on 30 September 2022 and were signed on its behalf by:

Ms B Mgaguli
Acting Municipal Manager

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Accounting Officers' Report

The accounting officers submit their report for the year ended 30 June 2022.

1. Review of activities

Main business and operations

- The operating net surplus (deficit) of R 161 637 213 (2021: deficit R 129 777 603).
- The municipality's current liabilities exceed its current assets by R (408 108 183) (2021: R (287 382 903)).
- Debtors days grew to 1444 days from (2021: 1420 days).

2. Going concern

Notwithstanding that municipality had an accumulated surplus (deficit) of R 161 637 213 (2021: deficit R 129 777 603) and that the municipality's total assets exceeded its liabilities by the said R (408 108 183) (2021: R (287 382 903)); the persistency over a sustained period of time of the above mentioned deficit and current liabilities in excess of the current assets, is worrisome. Strategies to address the root causes of the said situation are under way as part of the Financial Recovery Plan in terms of section 139 (1) (b), (4) and (5) of the Constitution with effect from April 2019.

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 municipality's cash flow forecast for the year ended 30 June 2022 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operation existing for the foreseeable future.

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

For details of management's assumptions with respect to the applicability of the going concern assumption refer to note 45.

3. Subsequent events

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

Refer to note 46 details of subsequent events.

4. Accounting Officers' 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 Officers

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

Name	Nationality	Changes
Ms B Mgaguli	South African	Acting since 14 October 2021
Ms KG Gaborone	South African	Acting from 23 March 2021 to 11 October 2021
Mr BK Ndwandwe	South African	Administrator from 8 April to 31 March 2021

7. Auditors

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

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	3	5 688 977	5 286 292
Other receivables from exchange transactions	4	39 477 185	8 991 805
Statutory receivables from non-exchange transactions	5	14 815 379	23 537 498
Other receivables from non-exchange transactions	6	1 335 589	1 565 764
Statutory receivables from exchange transactions	7	-	7 546 422
Receivables from exchange transactions	8	54 369 698	24 517 881
Cash and cash equivalents	9	28 257 472	59 633 545
		143 944 300	131 079 207
Non-Current Assets			
Investment property	10	24 442 169	23 986 426
Property, plant and equipment	11	1 159 514 727	1 198 031 744
Intangible assets	12	3 996 855	5 310 380
Heritage assets	13	7 635 063	7 635 063
		1 195 588 814	1 234 963 613
Total Assets		1 339 533 114	1 366 042 820
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	500 338 735	366 785 473
VAT payable	15	2 398 714	-
Consumer deposits	16	3 985 401	3 981 008
Employee benefit obligation	17	1 394 000	1 071 000
Unspent conditional grants and receipts	19	43 935 633	46 624 629
		552 052 483	418 462 110
Non-Current Liabilities			
Finance lease obligation	18	103 949	103 949
Employee benefit obligation	17	18 682 000	17 527 000
Provisions	20	129 826 864	129 444 731
		148 612 813	147 075 680
Total Liabilities		700 665 296	565 537 790
Net Assets		638 867 818	800 505 030
Accumulated surplus		638 867 818	800 505 030
Total Net Assets		638 867 818	800 505 030

* See Note

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Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	154 991 864	140 327 715
Rental of facilities and equipment	23	1 091 546	73 694
Interest received (trading)		33 056 086	25 061 905
Commissions received	24	261 854	231 467
Other income	24	860 667	4 543 738
Interest received - investment	25	1 623 236	1 118 866
Total revenue from exchange transactions		191 885 253	171 357 385
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	30 328 625	29 591 248
Transfer revenue			
Government grants & subsidies	27	141 153 994	150 549 984
Fines, Penalties and Forfeits	28	47 309	106 761
Interest received (trading)		7 612 728	6 401 815
Total revenue from non-exchange transactions		179 142 656	186 649 808
Total revenue	21	371 027 909	358 007 193
Expenditure			
Employee related costs	29	(97 557 649)	(90 697 780)
Remuneration of councillors	30	(7 033 816)	(4 330 308)
Depreciation and amortisation	31	(67 552 200)	(62 301 989)
Finance costs	32	(20 369 208)	(14 223 248)
Debt Impairment	33	(106 355 410)	(151 717 657)
Bulk purchases	34	(137 403 431)	(124 579 671)
General Expenses	35	(97 666 968)	(39 056 378)
Total expenditure		(533 938 682)	(486 907 031)
Operating deficit		(162 910 773)	(128 899 838)
Gain (loss) on disposal of assets and liabilities		284 105	(1 216 777)
Fair value adjustments	36	455 742	516 342
Actuarial gains/losses	17	533 713	(341 362)
Reversal of impairments	37	-	164 032
		1 273 560	(877 765)
Deficit for the year		(161 637 213)	(129 777 603)

* See Note

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2020	930 282 633	930 282 633
Changes in net assets		
Surplus for the year	(129 777 603)	(129 777 603)
Total changes	(129 777 603)	(129 777 603)
Restated* Balance at 01 July 2021	800 505 031	800 505 031
Changes in net assets		
Surplus for the year	(161 637 213)	(161 637 213)
Total changes	(161 637 213)	(161 637 213)
Balance at 30 June 2022	638 867 818	638 867 818

* See Note

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Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		29 586 969	47 435 891
Grants		138 464 998	165 275 001
Interest income		42 292 050	32 582 586
		<u>210 344 017</u>	<u>245 293 478</u>
Payments			
Employee costs		(102 579 759)	(93 115 450)
Suppliers		(82 073 949)	(75 437 652)
Finance costs		(20 369 208)	(14 223 248)
		<u>(205 022 916)</u>	<u>(182 776 350)</u>
Net cash flows from operating activities	39	<u>5 321 101</u>	<u>62 517 128</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(36 024 396)	(40 224 234)
Purchase of other intangible assets	12	(672 778)	(5 559 535)
Net cash flows from investing activities		<u>(36 697 174)</u>	<u>(45 783 769)</u>
Cash flows from financing activities			
Finance lease payments		-	(190 431)
Net increase/(decrease) in cash and cash equivalents		<u>(31 376 073)</u>	<u>16 542 928</u>
Cash and cash equivalents at the beginning of the year		59 633 545	43 090 617
Cash and cash equivalents at the end of the year	9	<u>28 257 472</u>	<u>59 633 545</u>

* See Note

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	134 070 000	36 000 000	170 070 000	154 991 864	(15 078 136)	52, x1
Rental of facilities and equipment	500 000	-	500 000	1 091 546	591 546	52, x2
Interest received (trading)	30 612 000	-	30 612 000	33 056 086	2 444 086	52, x3
Commissions received	-	-	-	261 854	261 854	52, x4
Other income	10 000	-	10 000	860 667	850 667	52, x5
Interest received - investment	3 014 000	-	3 014 000	1 623 236	(1 390 764)	52, x6
Total revenue from exchange transactions	168 206 000	36 000 000	204 206 000	191 885 253	(12 320 747)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	40 882 000	-	40 882 000	30 328 625	(10 553 375)	52, x7
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Transfer revenue

Government grants & subsidies	171 665 000	-	171 665 000	141 153 994	(30 511 006)	52, x8
Fines, Penalties and Forfeits	270 000	-	270 000	47 309	(222 691)	52, x9
Interest received (trading)	-	-	-	7 612 728	7 612 728	52, x10

Total revenue from non-exchange transactions	212 817 000	-	212 817 000	179 142 656	(33 674 344)	
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Total revenue	381 023 000	36 000 000	417 023 000	371 027 909	(45 995 091)	
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Expenditure

Personnel	94 501 000	1 568 000	96 069 000	(97 557 649)	(193 626 649)	52, x11
Remuneration of councillors	5 085 000	-	5 085 000	(7 033 816)	(12 118 816)	52, x12
Depreciation and amortisation	70 948 000	-	70 948 000	(67 552 200)	(138 500 200)	52, x13
Finance costs	79 000	(39 000)	40 000	(20 369 208)	(20 409 208)	52, x14
Debt Impairment	87 476 000	-	87 476 000	(106 355 410)	(193 831 410)	52, x15
Bulk purchases	96 000 000	-	96 000 000	(137 403 431)	(233 403 431)	52, x16
Contracted Services	24 184 000	6 024 000	30 208 000	-	(30 208 000)	52, x17
Transfers and Subsidies	1 312 000	-	1 312 000	-	(1 312 000)	52, x18
General Expenses	91 472 000	9 564 000	101 036 000	(97 666 968)	(198 702 968)	52, x19

Total expenditure	471 057 000	17 117 000	488 174 000	(533 938 682)	(1 022 112 682)	
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Operating deficit	852 080 000	53 117 000	905 197 000	(162 910 773)	(1 068 107 773)	
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Gain on disposal of assets and liabilities	-	-	-	284 105	284 105	52, x20
Fair value adjustments	-	-	-	455 742	455 742	52, x21
Actuarial gains/losses	-	-	-	533 713	533 713	52, x22

	-	-	-	1 273 560	1 273 560	
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Deficit before taxation	852 080 000	53 117 000	905 197 000	(161 637 213)	(1 066 834 213)	
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Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	852 080 000	53 117 000	905 197 000	(161 637 213)	(1 066 834 213)	
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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	(15 528 000)	(7 484 000)	(23 012 000)	5 688 977	28 700 977	
Other receivables from exchange transactions	-	-	-	39 477 185	39 477 185	
Statutory receivables from non-exchange transactions	47 956 000	-	47 956 000	14 815 379	(33 140 621)	
Statutory receivables	-	-	-	1 335 589	1 335 589	
VAT receivable	-	-	-	(47 428 725)	(47 428 725)	
Consumer debtors	158 199 000	37 970 000	196 169 000	54 369 698	(141 799 302)	
Cash and cash equivalents	25 871 000	(20 000 000)	5 871 000	28 257 472	22 386 472	
	216 498 000	10 486 000	226 984 000	96 515 575	(130 468 425)	
Non-Current Assets						
Investment property	36 986 000	-	36 986 000	24 442 169	(12 543 831)	
Property, plant and equipment	1 225 778 000	21 409 000	1 247 187 000	1 159 514 727	(87 672 273)	
Intangible assets	5 474 000	-	5 474 000	3 996 855	(1 477 145)	
Heritage assets	7 635 000	-	7 635 000	7 635 063	63	
Long-term receivables	2 689 000	-	2 689 000	-	(2 689 000)	
	1 278 562 000	21 409 000	1 299 971 000	1 195 588 814	(104 382 186)	
Total Assets	1 495 060 000	31 895 000	1 526 955 000	1 292 104 389	(234 850 611)	
Liabilities						
Current Liabilities						
Finance lease obligation	190 000	-	190 000	-	(190 000)	
Payables from exchange transactions	438 618 000	(278 957 000)	159 661 000	500 338 735	340 677 735	
VAT payable	-	-	-	(45 030 011)	(45 030 011)	
Consumer deposits	3 928 000	-	3 928 000	3 985 401	57 401	
Employee benefit obligation	863 000	-	863 000	1 394 000	531 000	
Unspent conditional grants and receipts	-	-	-	43 935 633	43 935 633	
	443 599 000	(278 957 000)	164 642 000	504 623 758	339 981 758	
Non-Current Liabilities						
Finance lease obligation	104 000	-	104 000	103 949	(51)	
Employee benefit obligation	136 303 000	-	136 303 000	18 682 000	(117 621 000)	
Provisions	-	-	-	129 826 864	129 826 864	
	136 407 000	-	136 407 000	148 612 813	12 205 813	
Total Liabilities	580 006 000	(278 957 000)	301 049 000	653 236 571	352 187 571	
Net Assets	915 054 000	310 852 000	1 225 906 000	638 867 818	(587 038 182)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	915 054 000	310 852 000	1 225 906 000	638 867 818	(587 038 182)	

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2022											
Financial Performance											
Property rates	40 882 000	-	40 882 000	-		40 882 000	30 328 625		(10 553 375)	74 %	74 %
Service charges	134 070 000	36 000 000	170 070 000	-		170 070 000	154 991 864		(15 078 136)	91 %	116 %
Investment revenue	3 014 000	-	3 014 000	-		3 014 000	1 623 236		(1 390 764)	54 %	54 %
Transfers recognised - operational	119 039 000	(20 000 000)	99 039 000	-		99 039 000	115 662 198		16 623 198	117 %	97 %
Other own revenue	31 392 000	1 970 000	33 362 000	-		33 362 000	44 203 750		10 841 750	132 %	141 %
Total revenue (excluding capital transfers and contributions)	328 397 000	17 970 000	346 367 000	-		346 367 000	346 809 673		442 673	100 %	106 %
Employee costs	94 501 000	1 568 000	96 069 000	-	-	96 069 000	(97 557 649)	-	(193 626 649)	(102)%	(103)%
Remuneration of councillors	5 085 000	-	5 085 000	-	-	5 085 000	(7 033 816)	-	(12 118 816)	(138)%	(138)%
Debt impairment	-	-	-	-	-	-	(106 355 410)	-	(106 355 410)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	70 948 000	-	70 948 000	-	-	70 948 000	(67 552 200)	-	(138 500 200)	(95)%	(95)%
Finance charges	79 000	(39 000)	40 000	-	-	40 000	(20 369 208)	-	(20 409 208)	(50 923)%	(25 784)%
Materials and bulk purchases	173 082 000	7 484 000	180 566 000	-	-	180 566 000	(137 403 431)	-	(317 969 431)	(76)%	(79)%
Transfers and grants	1 312 000	-	1 312 000	-	-	1 312 000	-	-	(1 312 000)	- %	- %
Other expenditure	126 050 000	8 104 000	134 154 000	-	-	134 154 000	(97 666 968)	-	(231 820 968)	(73)%	(77)%
Total expenditure	471 057 000	17 117 000	488 174 000	-	-	488 174 000	(533 938 682)	-	(1 022 112 682)	(109)%	(113)%
Surplus/(Deficit)	799 454 000	35 087 000	834 541 000	-	-	834 541 000	(187 129 009)	-	(1 021 670 009)	(22)%	(23)%

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	52 626 000	-	52 626 000	-		52 626 000	25 491 796		(27 134 204)	48 %	48 %
Surplus (Deficit) after capital transfers and contributions	852 080 000	35 087 000	887 167 000	-		887 167 000	(161 637 213)		(1 048 804 213)	(18)%	(19)%
Surplus/(Deficit) for the year	852 080 000	35 087 000	887 167 000	-		887 167 000	(161 637 213)		(1 048 804 213)	(18)%	(19)%
Capital expenditure and funds sources											
Total capital expenditure	60 569 000	21 253 000	81 822 000	-		81 822 000	36 697 174		(45 124 826)	45 %	61 %
Sources of capital funds											
Internally generated funds	3 394 000	156 000	3 550 000	-		3 550 000	-		(3 550 000)	- %	- %

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Figures in Rand	Note(s)	2022	2021
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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 municipality 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.

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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 20 - Provisions.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for assets as noted in accounting policy 1.5. Property plant and equipment. This estimate is based on industry norm.

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.

Post-retirement benefits

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

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

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

Allowance for doubtful debts

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

1.4 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.

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Accounting Policies

1.4 Investment property (continued)

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

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

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

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

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

Fair value

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

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

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

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

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

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.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 11).

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

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.

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.

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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 cost less accumulated depreciation and any impairment losses.

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 quarry sites, is not depreciated as it has an indefinite 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.

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1.5 Property, plant and equipment (continued)

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item 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
Community facilities	Straight-line	5 - 100 years
Sport and recreation facilities	Straight-line	5 - 100 years
Electrical Infrastructure	Straight-line	15 - 60 years
Water supply Infrastructure	Straight-line	5 - 90 years
Roads Infrastructure	Straight-line	5 - 100 years
Sanitation Infrastructure	Straight-line	5 - 100 years
Stomwater Infrastructure	Straight-line	20 - 60 years
Solid Waste Infrastructure	Straight-line	9 - 80 years
Housing	Straight-line	5 - 100 years
Operational buildings	Straight-line	5 - 100 years
Computer equipment	Straight-line	4 - 7 years
Furniture and Fittings	Straight-line	4 - 7 years
Lease assets - Office equipment	Straight-line	5 years
Machinery and equipment	Straight-line	4 - 5 years
Office equipment	Straight-line	3 - 7 years
Vehicles	Straight-line	4 - 15 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.

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Accounting Policies

1.5 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

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

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.

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.

If the related asset is measured using the revaluation model:

- (a) changes in the liability after the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 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.

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1.7 Intangible assets (continued)

Intangible assets are initially recognised at cost.

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.

Subsequent measurement:

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

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

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

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

Amortisation 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	Straight-line	3 - 5 years

Derecognition:

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of 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 Heritage assets

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

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

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1.8 Heritage assets (continued)

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

The heritage assets of the municipality shall not be depreciated but, the municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

For a transfer from investment property carried at fair value, on inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

Derecognition

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

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

Application of deemed cost - Derivative 7

The Municipality opted to take advantage of the transitional provision as contained in the Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.9 Financial instruments

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

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Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Statutory receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	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
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

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

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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

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

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

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1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

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1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

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1.9 Financial instruments (continued)

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

Presentation

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

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

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

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Accounting Policies

1.10 Statutory receivables (continued)

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

Other charges

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

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1.10 Statutory receivables (continued)

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

1.11 Leases

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

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

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 .

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.

1.12 Inventories

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

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

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Accounting Policies

1.12 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.13 Impairment of cash-generating assets

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

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

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:

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Discount rate

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

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1.13 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

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Accounting Policies

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

Value in use

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

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

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

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

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

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1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

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.

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1.15 Employee benefits (continued)

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.

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.

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1.15 Employee benefits (continued)

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.

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).

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1.15 Employee benefits (continued)

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;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

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1.15 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

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-end for each employee.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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1.16 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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1.16 Provisions and contingencies (continued)

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.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

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.

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1.18 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.

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.

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.

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.

1.19 Revenue from non-exchange transactions

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

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

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1.19 Revenue from non-exchange transactions (continued)

Control of an asset arises 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.

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.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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.

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.

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Accounting Policies

1.20 Investment income

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

1.21 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.

1.22 Comparative figures

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

1.23 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 are 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.

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

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.

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Accounting Policies

1.26 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.

1.27 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.

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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.

1.29 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.

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Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.29 Related parties (continued)

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.

1.30 Events after reporting date

The accounting officer is not aware of any events after reporting date.

1.31 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% as at 1 April 2018 (2017: 14%) 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.

1.32 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.

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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2. New standards and interpretations

2.1 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 2022 or later periods:

GRAP 25 (as revised): Employee Benefits

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions have not yet been set. 01 April 2099.

The municipality expects to adopt the revisions for the first time in the 2098/2099 annual financial statements.

The adoption of this revisions is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS@ 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions have not yet been set. 01 April 2009.

The municipality expects to adopt the revisions for the first time in the 2008/2009 01 April 2009.

The adoption of this revisions is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities.

The municipality expects to adopt the guideline for the first time in the 2008/2009 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 104 (as revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the revisions is not yet set by the Minister of Finance.

The municipality expects to adopt the revisions for the first time when the Minister sets the effective date for the revisions.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

iGRAP 21: The Effect of Past Decisions on Materiality

Background

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items").

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation have not yet been set. 01 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2022/2023 01 April 2023.

The adoption of this interpretation is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 2020: Improvements to the standards of GRAP 2020

Every three years, the Accounting Standards Board undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters.

Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.

Amendments include,

GRAP 5 – Borrowing Costs

- For general borrowings, borrowing costs eligible for capitalisation determined by applying a capitalisation rate
 - Clarify that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until substantially all the activities necessary to prepare asset for intended use or sale are complete

GRAP 13 – Leases

- Operating leases & Sale and leaseback transactions are currently assessed for impairment in accordance with GRAP 26

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Clarify that these arrangements may also be assessed in accordance with GRAP 21

GRAP 16 – Investment Property

- Clarify that GRAP 21 may be applied to assess investment property for impairment
- Include heading “Classification of property as investment property” (par 6 and 7) & delete existing headings
- Investment property under construction (within scope of GRAP 16)
 - Added heading “Guidance on initially measuring self-constructed investment property at fair value”
 - Added clarification that investment property is measured at fair value at earliest of:
 - completion of construction or development; or
 - when fair value becomes reliably measurable
- Clarify requirements on transfers to and from Investment property
 - Change in use involves an assessment on whether:
 - property meets, or ceases to meet definition of investment property and
 - evidence exists that a change in use has occurred
 - List of examples of a change in use is regarded as non-exhaustive

GRAP 17 – Property, Plant and Equipment

- Delete example indicating that quarries and land used for landfill may be depreciated in certain instances
 - Land has an unlimited useful life and cannot be consumed through its use

GRAP 20 – Related Party Disclosures

- Clarify that entity, or any member of a group of which it is part, providing management services to reporting entity (or controlling entity of reporting entity) is a related party
 - Disclose amounts incurred by the entity for the provision of management services that are provided by a separate management entity
 - If an entity obtains management services from another entity (“the management entity”) the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity’s employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions
 - Management services are services where employees of management entity perform functions as “management” as defined

GRAP 24 – Presentation of Budget Information in Financial Statements

- Terminology amended
 - Primary financial statements amended to “financial statements” or “face of the financial statements”

GRAP 31 – Intangible Assets

- Extend requirement to consider whether reassessing useful life of intangible asset as finite rather as indefinite indicates that asset may be impaired
 - Both under cost model or revaluation model

GRAP 32 – Service Concession Arrangements: Grantor

- Clarify disclosure requirement for service concession assets
 - Disclose carrying amount of each material service concession asset recognised at the reporting date

GRAP 37 – Joint Arrangements

- Application guidance clarified
 - When party obtains joint control in a joint operation where activity of joint operation constitutes a function (GRAP 105 or GRAP 106), previous held interest in joint operation is not remeasured

GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

- When party obtains control of joint operation and entity had rights to assets, or obligations to liabilities before acquisition date, it comprises an acquisition received in stages
 - Apply the requirements for an acquisition achieved in stages, including remeasuring previously held interest in joint operation

Directive 7 – The Application of Deemed Cost

- Clarify that bearer plants within scope of Directive

The effective date of these improvements is 01 April 2023.

Phokwane Local Municipality

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the improvements for the first time in the 2022/2023 annual financial statements.

The adoption of this improvements is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

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

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

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

The effective date of this amendment is for years beginning on or after 01 April 2025.

The municipality expects to adopt the amendment for the first time in the 2024/2025 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods but are not relevant to its operations:

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after 01 April 2009.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards

Objective of this directive: The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board (IASB®) for public entities (hereafter referred to as "an entity") that meet the criteria to apply IFRS Standards as outlined in the Directive on The Selection of an Appropriate Reporting Framework by Public Entities (Directive 12).

Entities that apply IFRS Standards and operate in the public sector may need to formulate an accounting policy in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition (hereafter referred to as "formulating an accounting policy") using other sources. When formulating an accounting policy in the absence of an IFRS Standard, the municipality needs to consider its users and their information needs. Users of financial statements prepared using the IFRS Standards are interested in information on the return on their investments, and/or the return of their investments, and to make decisions about providing resources to the municipality.

The objective of this Directive is to explain when, and in what circumstances, an municipality may consider the principles in a Standard of GRAP when formulating such an accounting policy.

It covers: Scope, Formulating an accounting policy in the absence of a specific IFRS® Standard, and Basis for conclusions.

The effective date of the Directive is 01 April 2021.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

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Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the guideline will have a material impact on the municipality's 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.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the interpretation until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Figures in Rand	2022	2021
3. Inventories		
Water - at cost	3 173 199	3 042 590
Consumable stores	2 515 778	2 243 702
	5 688 977	5 286 292
Inventories recognised as an expense during the year		
Bulk water	55 839 812	52 359 867
Inventory pledged as security		
No inventory was pledged as security for any financial liability of the municipality at year end.		
4. Other receivables from exchange transactions		
Other receivables	39 477 185	8 991 805
Other receivables from 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 other receivables from 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:		
Other receivables from exchange transactions past due but not impaired		
Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 39 477 185 (2021: R 8 991 805) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
3 months past due	39 477 185	8 991 805
5. Statutory receivables from non-exchange transactions		
Gross balances		
Property rates	14 796 474	23 518 593
Traffic fines	18 905	18 905
	14 815 379	23 537 498
Net balance		
Consumer debtors - Rates	14 796 474	23 518 593
Consumer debtors - Other (Specified)	18 905	18 905
	14 815 379	23 537 498
Property rates		
Current (0 -30 days)	3 509 701	3 016 858
31 - 60 days	2 999 579	2 578 368
61 - 90 days	2 889 248	2 483 530
91 days +	148 500 815	127 647 854
Less: impairment	(143 102 869)	(112 208 017)
	14 796 474	23 518 593

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Figures in Rand	2022	2021
5. Statutory receivables from non-exchange transactions (continued)		
Traffic fines		
91 days +	18 905	18 905
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	946 818	813 862
31 - 60 days	830 402	713 795
61 - 90 days	783 136	673 166
91 days +	75 624 601	48 449 086
	78 184 957	50 649 909
Less: Allowance for impairment	(69 471 166)	(41 873 335)
	8 713 791	8 776 574
Industrial/ commercial		
Current (0 -30 days)	2 516 229	2 162 892
31 - 60 days	2 122 724	1 824 644
61 - 90 days	2 059 862	1 770 609
91 days +	9 271 799	72 428 907
	15 970 614	78 187 052
Less: Allowance for impairment	(13 797 481)	(64 638 865)
	2 173 133	13 548 187
National and provincial government		
Current (0 -30 days)	46 655	40 104
31 - 60 days	46 453	39 930
61 - 90 days	46 250	39 755
91 days +	60 829 771	6 769 861
	60 969 129	6 889 650
Less: Allowance for impairment	(59 834 272)	(5 695 818)
	1 134 857	1 193 832
Total		
Current (0 -30 days)	3 509 701	3 016 857
31 - 60 days	2 999 579	2 578 368
61 - 90 days	2 889 248	2 483 531
91 days +	148 500 815	127 647 854
	157 899 343	135 726 610
Less: Allowance for impairment	(143 102 869)	(112 208 017)
	14 796 474	23 518 593
Reconciliation of allowance for impairment		
Balance at beginning of the year	(112 208 018)	(99 607 181)
Contributions to allowance	(30 894 851)	(12 600 837)
	(143 102 869)	(112 208 018)

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Figures in Rand	2022	2021
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5. Statutory receivables from non-exchange transactions (continued)

Statutory receivables general information

Statutory receivables from non-exchange transactions pledged as security

No statutory receivables from non-exchange transactions that are pledged as security.

Credit quality of statutory receivables from non-exchange transactions

The credit quality of statutory 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.

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

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 14 796 474 (2021: R 23 518 593) were past due but not impaired.

Statutory receivables from non-exchange transactions impaired

As of 30 June 2022, statutory receivables from non-exchange transactions of R 143 102 869 (2021: R 112 208 018) were impaired and provided for.

6. Other receivables from non-exchange transactions

Deposits paid	1 003 562	974 753
Other sundry receivables	332 027	591 011

1 335 589	1 565 764
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Current assets	1 335 589	1 565 764
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Other receivables from non-exchange transactions pledged as security

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

Credit quality of other 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:

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

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June, 2022, R 1 335 589 (2021: R 1 565 764) were past due but not impaired.

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

3 months past due	1 335 589	1 565 764
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Figures in Rand	2022	2021
7. Statutory receivables from exchange transactions		
VAT	-	7 546 422
8. Receivables from exchange transactions		
Gross balances		
Electricity	76 059 544	63 485 335
Water	330 554 230	280 806 131
Sewerage	195 313 858	170 089 796
Refuse	128 054 326	111 318 543
Sundry	21 423 899	20 393 678
	751 405 857	646 093 483
Less: Allowance for impairment		
Electricity	(65 750 444)	(59 555 994)
Water	(311 928 231)	(274 199 706)
Sewerage	(184 413 324)	(162 176 155)
Refuse	(121 915 935)	(106 528 660)
Sundry	(13 028 225)	(19 115 087)
	(697 036 159)	(621 575 602)
Net balance		
Electricity	10 309 100	3 929 341
Water	18 625 999	6 606 425
Sewerage	10 900 534	7 913 641
Refuse	6 138 391	4 789 883
Sundry	8 395 674	1 278 591
	54 369 698	24 517 881
Electricity		
Current (0 -30 days)	7 116 112	5 939 672
31 - 60 days	3 409 746	2 846 045
61 - 90 days	4 634 217	3 868 085
91 days+	60 899 469	50 831 533
Less: impairment	(65 750 444)	(59 555 994)
	10 309 100	3 929 341
Water		
Current (0 -30 days)	14 801 143	12 573 585
31 - 60 days	4 072 317	3 459 437
61 - 90 days	14 793 669	12 567 236
91 days+	296 887 102	252 205 873
Less: impairment	(311 928 232)	(274 199 706)
	18 625 999	6 606 425
Sewerage		
Current (0 -30 days)	2 555 270	2 225 267
31 - 60 days	2 463 396	2 145 257
61 - 90 days	2 427 519	2 114 014
91 days+	187 867 672	163 605 257
Less: impairment	(184 413 323)	(162 176 154)
	10 900 534	7 913 641

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Figures in Rand	2022	2021
8. Receivables from exchange transactions (continued)		
Refuse		
Current (0 -30 days)	1 729 713	1 503 651
31 - 60 days	1 656 704	1 440 185
61 - 90 days	1 623 680	1 411 477
91 days+	123 044 228	106 963 230
Less: impairment	(121 915 934)	(106 528 660)
	6 138 391	4 789 883
Sundry		
Current (0 -30 days)	149 216	142 041
31 - 60 days	149 551	142 360
61 - 90 days	148 524	141 382
91 days+	20 976 609	19 967 896
Less: impairment	(13 028 226)	(19 115 088)
	8 395 674	1 278 591
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	18 165 152	15 619 236
31 - 60 days	8 590 702	7 386 683
61 - 90 days	17 210 353	14 798 257
91 days+	646 332 688	555 746 716
	690 298 895	593 550 892
Less: Allowance for impairment	(640 036 161)	(571 026 892)
	50 262 734	22 524 000
Industrial/ commercial		
Current (0 -30 days)	4 120 924	3 543 361
31 - 60 days	2 019 576	1 736 524
61 - 90 days	3 514 715	3 022 114
91 days+	10 854 251	9 332 987
	20 509 466	17 634 986
Less: Allowance for impairment	(18 671 664)	(16 965 776)
	1 837 802	669 210
National and provincial government		
Current (0 -30 days)	3 746 737	3 221 618
31 - 60 days	1 058 418	910 077
61 - 90 days	2 653 758	2 281 823
91 days+	33 138 583	28 494 086
	40 597 496	34 907 604
Less: Allowance for impairment	(37 427 732)	(33 582 934)
	3 169 764	1 324 670

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Notes to the Annual Financial Statements

Figures in Rand	2022	2021
8. Receivables from exchange transactions (continued)		
Total		
Current (0 -30 days)	26 032 813	22 384 217
31 - 60 days	11 668 696	10 033 284
61 - 90 days	23 378 825	20 102 194
91 days+	690 325 524	593 573 789
	<u>751 405 858</u>	<u>646 093 484</u>
Less: Allowance for impairment	(697 036 160)	(621 575 603)
	<u>54 369 698</u>	<u>24 517 881</u>
Less: Allowance for impairment		
Current (0 -30 days)	(9 914 740)	(11 871 611)
31 - 60 days	(12 068 826)	(8 215 229)
61 - 90 days	(9 673 445)	(11 722 022)
91 days+	(665 379 148)	(589 766 740)
	<u>(697 036 159)</u>	<u>(621 575 602)</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(621 575 602)	(482 458 782)
Contributions to allowance	(75 460 557)	(139 116 820)
	<u>(697 036 159)</u>	<u>(621 575 602)</u>

Receivables from exchange transactions pledged as security

None of the receivables from 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.

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 2022, R 54 369 698 (2021: R 24 517 881) were past due but not impaired.

Receivables from exchange transactions impaired

As of 30 June 2022, receivables from exchange transactions of R (697 036 159) (2021: R 621 575 603) were impaired and provided for.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	16 213 954	30 244 609
Short-term deposits	12 043 518	29 388 936
	<u>28 257 472</u>	<u>59 633 545</u>

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Figures in Rand	2022	2021
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9. Cash and cash equivalents (continued)

Cash and cash equivalents pledged as collateral

No cash and cash equivalents are pledged as collateral.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA BANK - 1930000309 (Primary Account)	16 213 954	30 244 609	31 473 394	16 213 954	30 244 609	31 473 394
ABSA Bank - 911851699 (General Call Account)	12 043 518	29 388 936	11 617 223	12 043 518	29 388 936	11 617 223
Total	28 257 472	59 633 545	43 090 617	28 257 472	59 633 545	43 090 617

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10. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	24 442 169	-	24 442 169	23 986 426	-	23 986 426

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	23 986 426	455 743	24 442 169

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	23 470 084	516 342	23 986 426

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.

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Figures in Rand	2022	2021
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10. Investment property (continued)

Property valuations were performed by an independent , Mr Reinier van Niekerk (registered with South African Council of Property Valuers (Pty) Ltd. DDP Valuers (Pty) Ltd is not connected to the municipality and have recent experience in location and category of the investment property being valued. The sales comparison approach was used to value land and discounted income approach was used to value other properties. The sales comparison approach compares the subject property to similar properties that have sold under similar market conditions. The value indicated is established by comparing the subject property with similar properties, called comparable sales. The income approach estimated market related future income and discounts it to the present value.

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

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11. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	31 679 261	(5 559)	31 673 702	31 679 261	(5 559)	31 673 702
Buildings	81 036 144	(60 299 478)	20 736 666	81 036 145	(58 002 932)	23 033 213
Infrastructure	2 532 089 614	(1 467 181 362)	1 064 908 252	2 499 530 572	(1 404 002 717)	1 095 527 855
Community	134 284 886	(111 712 098)	22 572 788	134 284 886	(108 600 884)	25 684 002
Other property, plant and equipment	43 101 692	(23 478 373)	19 623 319	46 240 968	(24 127 996)	22 112 972
Total	2 822 191 597	(1 662 676 870)	1 159 514 727	2 792 771 832	(1 594 740 088)	1 198 031 744

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land	31 673 702	-	-	-	31 673 702
Buildings	23 033 213	-	-	(2 296 547)	20 736 666
Infrastructure	1 095 527 855	34 794 588	(8 975 496)	(56 438 695)	1 064 908 252
Community	25 684 002	-	-	(3 111 214)	22 572 788
Other property, plant and equipment	22 112 972	1 229 808	-	(3 719 461)	19 623 319
	1 198 031 744	36 024 396	(8 975 496)	(65 565 917)	1 159 514 727

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers (out) / in	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	31 673 702	-	-	-	-	-	-	-	31 673 702
Buildings	22 393 885	-	(217 569)	3 118 742	-	(2 258 480)	(3 365)	-	23 033 213
Infrastructure	1 130 114 597	22 596 772	(603 176)	(3 275 174)	1 153 005	(54 341 601)	(226 287)	109 719	1 095 527 855
Community	28 622 515	-	(332 211)	156 432	-	(3 046 712)	(148 368)	432 346	25 684 002
Other property, plant and equipment	6 854 236	17 627 462	(52 673)	-	-	(2 316 053)	-	-	22 112 972
	1 219 658 935	40 224 234	(1 205 629)	-	1 153 005	(61 962 846)	(378 020)	542 065	1 198 031 744

Pledged as security

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

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

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Pampierstad: Bulk Water Infrastructure Phase 2	26 112 781	25 390 129
Provision of Water and Sanitation for 608 Stands in Guldenskat - Phase 1	2 834 128	2 834 128
Pampierstad Bulk Water Infrastructure	3 637 095	3 637 095
Masakeng 1200 Sites Sewer Reticulation Network	56 169 724	56 169 724
Development of Sport Facility Gaspan	2 628 875	-
Highmast Lighting 65056524020IGNEZZWM	275 140	-
	91 657 743	88 031 076

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11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Total
Opening balance	141 463 064	2 628 875	144 091 939
Additions/capital expenditure	34 794 588	-	34 794 588
Transferred to completed items	(54 954 781)	-	(54 954 781)
	121 302 871	2 628 875	123 931 746

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	181 013 188	2 628 874	-	183 642 062
Additions/capital expenditure	19 321 599	156 431	3 118 742	22 596 772
Transferred to completed items	(58 871 722)	(156 431)	(3 118 742)	(62 146 895)
	141 463 065	2 628 874	-	144 091 939

Deemed cost

Deemed cost was determined using depreciated replacement cost.

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12. Intangible assets

Computer software and licences

2022			2021		
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
6 897 780	(2 900 925)	3 996 855	6 321 590	(1 011 210)	5 310 380

Reconciliation of intangible assets - 2022

Computer software and licences

Opening balance	Additions	Disposals	Amortisation	Total
5 310 380	672 778	(21)	(1 986 282)	3 996 855

Reconciliation of intangible assets - 2021

Computer software and licences

Opening balance	Additions	Disposals	Amortisation	Total
101 135	5 559 535	(11 147)	(339 143)	5 310 380

Pledged as security

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

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13. Heritage assets

Art Collections, antiquities and exhibits
Historical buildings, monuments and conservation areas
Total

2022			2021		
Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
17 728	-	17 728	17 728	-	17 728
7 617 335	-	7 617 335	7 617 335	-	7 617 335
7 635 063	-	7 635 063	7 635 063	-	7 635 063

Reconciliation of heritage assets 2022

Art Collections, antiquities and exhibits
Historical buildings, monuments and conservation areas

Opening balance	Total
17 728	17 728
7 617 335	7 617 335
7 635 063	7 635 063

Reconciliation of heritage assets 2021

Art Collections, antiquities and exhibits
Historical buildings, monuments and conservation areas

Opening balance	Total
17 728	17 728
7 617 335	7 617 335
7 635 063	7 635 063

Pledged as security

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

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13. Heritage assets (continued)		
Deemed costs		
Deemed cost was determined using depreciated replacement cost.		
14. Payables from exchange transactions		
Trade payables	421 628 724	316 481 212
Payments received in advanced	46 560 396	18 084 617
Retentions	5 650 848	6 506 679
Unallocated deposits	13 620 308	13 620 309
Staff leave accrual	10 339 567	9 793 074
Staff bonus accrual	2 340 274	2 201 517
Payroll control account	198 618	98 065
	500 338 735	366 785 473
15. VAT payable		
VAT payable	2 398 714	-
16. Consumer deposits		
Electricity	872 823	870 546
Water	2 591 295	2 591 214
Housing rental	521 283	519 248
	3 985 401	3 981 008
17. 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	(13 791 000)	(12 971 000)
Present value of the defined benefit obligation-partly or wholly funded	(6 285 000)	(5 627 000)
	(20 076 000)	(18 598 000)
Non-current liabilities	(18 682 000)	(17 527 000)
Current liabilities	(1 394 000)	(1 071 000)
	(20 076 000)	(18 598 000)
Benefits		
Post-retirement medical aid benefit	(13 272 000)	(12 479 000)
Long service awards	(5 410 000)	(5 048 000)
	(18 682 000)	(17 527 000)

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17. Employee benefit obligations (continued)		
Post retirement benefits		
Post Retirement Medical Aid Benefit		
Balance 1 July	(12 971 000)	(11 250 000)
Contribution for the year	(445 000)	(473 000)
Interest cost	(1 274 000)	(1 138 000)
Benefits paid during the year	529 074	498 784
Actuarial gains/(losses)	369 926	(608 784)
	(13 791 000)	(12 971 000)
Less: Transfer to current portion	519 000	492 000
	(13 272 000)	(12 479 000)

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

Members

Current (In service) members	96	90
Continuation members (pensioners)	10	10
	106	100

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

Liability

Current (In service) members	9 271 000	7 022 000
Continuation members (pensioners)	4 520 000	4 228 000
	13 791 000	11 250 000

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

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Samwumed

Key actuarial assumptions used:

Discount rate	11,81%	10,01%
CPI (Consumer Price Inflation)	6,92%	5,32%
Health Care Cost Inflation Rate	8,42%	6,82%
Maximum subsidy inflation rate	5,94%	4,74%

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

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17. Employee benefit obligations (continued)

Consequently, a discount rate of 11,80%% per annum has been used. The corresponding index-linked yield at this term is 4,09%%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2022.

These rates were calculated by using a liability-weighted average of the yields for the two components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields). The two components are as follows:

Component	Duration (Years)
In-service members' retirement liability	19,67
Continuation members' liability	7,43
Liability-weighted average	15,75

Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8,42% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6,92%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3,21% which derives from $((1+11,80\%)/(1+8,42\%))-1$.

The expected inflation assumption of 6,92% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4,09%) and those of fixed interest bonds (11,80%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $((1+11,80\%-0.50\%)/(1+4,09\%))-1$.

The next contribution increase was assumed to occur with effect from 1 January 2023.

Maximum Subsidy Inflation Rate:

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 5,007.00 per member per month for the year ending 30 June 2023. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 7,92%, was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 5,94% was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2023.

Replacement Ratio:

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Demographic Assumptions

Mortality During Employment:

SA85-90 ultimate table, adjusted for female lives.

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17. Employee benefit obligations (continued)

Post-Employment Mortality:

PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year. In the year thereafter, we expect 1.99% fewer people to die, i.e. 1.99% is derived from $[1 - (1 - 1\%)^2]$, and so on.

Withdrawal from Service

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

Withdrawal rates:

Age Band	Withdrawal rate males	Withdrawal rate females
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55+	0%	0%

Average Retirement Age:

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. In-service members who have passed the assumed average retirement age, have been assumed to retire at their next birthday.

Continuation of Membership

It has been assumed that 75% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

Family Profile

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a subsidised spouse dependant. For current retiree members, actual subsidised spouse dependants were used and the potential for remarriage was ignored.

Sensitivity Analysis on the Accrued Liability

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17. Employee benefit obligations (continued)

Assumption	Change	% Change	In-service members	Continuation members	Total liability
Central assumptions			9 271 00	4 520 000	13 791 000
Health care inflation rate	+1% yr	4%	9 759 00	4 580 000	14 339 000
Health care inflation	-1% yr	-6%	8 601 00	4 425 000	13 026 000
Discount rate	+1% yr	-11%	8 043 00	4 237 000	12 280 000
Discount rate	-1% yr	13%	10 795 00	4 840 000	15 635 000
Post-employment mortality	+1% yr	-3%	9 028 00	4 359 000	13 387 000
Post-employment mortality	-1% yr	3%	9 509 00	4 680 000	14 189 000
Average retirement age	-1% yr	6%	10 039 000	4 520 000	14 559 000
Membership continuation	-10%	-9%	8 035 000	4 520 000	12 555 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2022:

Assumption	Change	% Change	Current service cost	Interest cost	Total liability
Central assumptions			461 00	1 598 000	2 059 000
Health care inflation rate	+1% yr	5%	490 00	1 662 000	2 152 000
Health care inflation	-1% yr	-7%	417 00	1 507 000	1 924 000
Discount rate	+1% yr	-7%	384 00	1 540 000	1 924 000
Discount rate	-1% yr	8%	557 00	1 661 000	2 218 000
Post-employment mortality	+1% yr	3%	448 00	1 550 000	1 998 000
Post-employment mortality	-1%yr	-3%	473 00	1 644 000	2 117 000
Average retirement age	-1% yr	7%	511 000	1 688 000	2 199 000
Membership continuation	-10%	-10%	399 000	1 452 000	1 851 000

Long service award

Long service award

Balance 1 July	(5 627 000)	(5 094 000)
Current service cost	(613 000)	(618 000)
Interest cost	(488 000)	(361 000)
Benefits paid during the year	279 213	178 578
Actuarial gains/(losses)	163 787	267 422
Subtotal	(6 285 000)	(5 627 000)
Less: Transfer to current portion	875 000	579 000
Balance 30 June	(5 410 000)	(5 048 000)

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

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17. Employee benefit obligations (continued)

Total eligible

As at year end, the following number of employees were eligible for long service bonuses

330	339
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Key actuarial assumptions used:

Discount rate	10,87%	9,13%
General earnings inflation rate	7,33%	5,77%
Net Effective Discount Rate	3,30%	3,18%

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

Key Demographic assumptions

Table below summarises the key demographic assumptions used

Mortality during employment: SA 85-90

Age Band	Withdrawal rate males	Withdrawal rate females
20	9%	9%
30	6%	6%
40	5%	5%
50	3%	3%
55	0%	0%

Sensitivity analysis

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- the general earnings inflation rate assumption;
- the discount rate assumption;
- the average retirement age of employees; and
- assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:

- a one percentage point increase and decrease in the assumed general earnings inflation rate;
- a one percentage point increase and decrease in the discount rate;
- a two-year increase and decrease in the assumed average retirement age of eligible employees; and
- a two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

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17. Employee benefit obligations (continued)

Sensitivity Analysis on the Accrued Liability

Assumption	Change	% Change	Liability
Central assumptions			6 285 00
General earnings inflation rate	+1%	5%	6 628 00
General earnings inflation rate	-1%	-5%	5 970 00
Discount rate	+1%	-5%	5 960 00
Discount rate	-1%	6%	6 645 00
Average retirement age	+2% yr	8%	6 758 00
Average retirement age	-2% yr	-12%	5 515 00
Withdrawal rates age	x2	-18%	5 145 000
Withdrawal rates age	x0,55	12%	7 053 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2022:

Assumption	Change	% Change	Current service cost	Interest cost	Total liability
Central assumptions			613 00	488 000	1 101 000
General earnings inflation rate	+1%	7%	659 00	519 000	1 178 000
General earnings inflation rate	-1%	-7%	572 00	460 000	1 032 000
Discount rate	+1%	-2%	576 00	510 000	1 086 000
Discount rate	-1%	2%	655 00	463 000	1 118 000
Average retirement age	+2% yr	7%	652 00	526 000	1 178 000
Average retirement age	-2% yr	-10%	561 00	427 000	988 000
Withdrawal rates	x2	-25%	453 000	388 000	841 000
Withdrawal rates	x0,5	18%	728 000	556 000	1 284 000

18. Finance lease obligation

Minimum lease payments due
- in second to fifth year inclusive

103 949 103 949

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant (MSIG)	169 582	169 582
COGHSTA Grant	42 778	42 778
Finance Management Grant (FMG)	2 850 351	1 089 387
Water Service Operating Grant (WSOG)	8 433 822	11 301 376
INEP	1 389 825	3 527 412
Northern Cape Roads Grant (NCRG)	1 463 126	1 463 126
Library Grant	2 399 126	2 399 126
Northern Cape Public Works Grant (NCPWG)	312 375	312 375
Municipal Infrastructure Grant (MIG)	23 020 420	26 299 467
Expanded Public Works Program (EPWP)	10 530	20 000
Disaster Management Grant	3 843 698	-
	43 935 633	46 624 629

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Figures in Rand	2022	2021
19. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	46 624 627	31 899 612
Additions during the year	158 465 001	173 716 000
Income recognition during the year	(141 153 995)	(150 549 983)
Funds withheld	(20 000 000)	(8 441 000)
	43 935 633	46 624 629

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 27 for reconciliation of grants from National/Provincial Government.

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

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20. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	129 444 731	(9 259 619)	9 641 752	129 826 864

Reconciliation of provisions - 2021

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	120 821 897	1 153 005	7 469 829	129 444 731

Environmental rehabilitation provision

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

Area of the rehabilitation sites	Jan Kempdorp	Hartswater(Old)	Hartswater(New)	Ganspan	Pampierstad
Area (ha)	2,9	2,3	4,8	4,6	1,9

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

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 used:

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 4% p.a (2021 4%) 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 market closed on 30 June 2022 (2021) reduced by the contract price adjustment index (CPAF) as obtained from the South African Forum of Civil Engineering Contractors (SAFCEC).

Municipal site	Year	2022 Provision	2021 Provision	2020 Provision
Old Hartswater	2016	34 105 665	34 429 032	33 529 509
New Hartswater	2021	6 099 414	5 785 327	4 232 554
Jan Kempdorp	2015	13 103 640	12 547 306	10 743 648
Ganspan	2016	66 601 461	67 274 037	65 398 486
Pampierstad	2016	9 916 687	9 409 032	6 917 700
		129 826 867	129 444 734	120 821 897

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Figures in Rand	2022	2021
21. Revenue		
Service charges	154 991 864	140 327 715
Rental of facilities and equipment	1 091 546	73 694
Interest received (trading)	33 056 086	25 061 905
Commissions received	261 854	231 467
Other income	860 667	4 543 738
Interest received - investment	1 623 236	1 118 866
Property rates	30 328 625	29 591 248
Government grants & subsidies	141 153 994	150 549 984
Fines, Penalties and Forfeits	47 309	106 761
Interest received - Receivables from non-exchange	7 612 728	6 401 815
	371 027 909	358 007 193
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	154 991 864	140 327 715
Rental of facilities and equipment	1 091 546	73 694
Interest received (trading)	33 056 086	25 061 905
Commissions received	261 854	231 467
Other income	860 667	4 543 738
Interest received - investment	1 623 236	1 118 866
	191 885 253	171 357 385
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	30 328 625	29 591 248
Transfer revenue		
Government grants & subsidies	141 153 994	150 549 984
Fines, Penalties and Forfeits	47 309	106 761
Interest received - Receivables from non-exchange	7 612 728	6 401 815
	179 142 656	186 649 808
22. Service charges		
Sale of electricity	81 890 832	54 533 409
Sale of water	42 327 413	56 524 290
Sewerage and sanitation charges	18 274 319	17 351 006
Refuse removal	12 499 300	11 919 010
	154 991 864	140 327 715
23. Rental of facilities and equipment		
Premises		
Premises	1 091 546	73 694
24. Other revenue		
Commissions received	261 854	231 467
Other income	860 667	4 543 738
	1 122 521	4 775 205

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25. Investment revenue		
Interest revenue		
Bank	788 361	1 084 334
Deposits	834 875	34 532
	1 623 236	1 118 866
26. Property rates		
Rates received		
Property rates	30 328 625	29 591 248
Rates reconciliation		
Residential	7 243 611	8 644 059
Commercial	9 125 727	9 517 650
State	393 044	376 073
Agricultural	13 566 243	11 053 467
	30 328 625	29 591 249

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Figures in Rand	2022	2021
27. Government grants & subsidies		
Operating grants		
Equitable share	114 939 000	130 024 000
Finance Management Grant	723 198	639 308
Expanded Public Works Programme Grant	-	1 000 000
	115 662 198	131 663 308
Capital grants		
Municipal Infrastructure Grant (MIG)	3 894 953	5 252 834
Disaster Management Grant	2 613 302	-
Integrated National Electrification Grant	5 467 317	7 179 563
Water Systems Operating Grant	13 516 224	6 454 279
	25 491 796	18 886 676
	141 153 994	150 549 984
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	26 214 995	20 525 984
Unconditional grants received	114 939 000	130 024 000
	141 153 995	150 549 984
Equitable Share		
Current-year receipts	94 939 000	121 583 000
Conditions met - transferred to revenue	(114 939 000)	(130 024 000)
Surrendered	20 000 000	8 441 000
	-	-
Municipal Systems Improvement Grant (MSIG)		
Balance unspent at beginning of year	169 582	169 582
Conditions still to be met - remain liabilities (see note 19).		
COGHSTA Grant		
Balance unspent at beginning of year	42 778	42 778
Conditions still to be met - remain liabilities (see note 19).		
Finance Management Grant		
Balance unspent at beginning of year	1 089 387	1 128 694
Current-year receipts	3 000 000	3 000 000
Conditions met - transferred to revenue	(723 198)	(639 307)
Surrendered	(515 838)	(2 400 000)
	2 850 351	1 089 387
Conditions still to be met - remain liabilities (see note 19).		

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27. Government grants & subsidies (continued)		
Water System Operating Grant		
Balance unspent at beginning of year	11 301 376	7 255 654
Current-year receipts	16 000 000	10 500 000
Conditions met - transferred to revenue	(13 516 224)	(6 454 278)
Surrendered	(5 351 330)	-
	8 433 822	11 301 376
Conditions still to be met - remain liabilities (see note 19).		
Integrated National Electrification Programme Grant		
Balance unspent at beginning of year	3 527 412	12 106 975
Current-year receipts	5 000 000	3 400 000
Conditions met - transferred to revenue	(5 467 317)	(7 179 563)
Surrendered	(1 670 270)	(4 800 000)
	1 389 825	3 527 412
Conditions still to be met - remain liabilities (see note 19).		
Northern Cape Roads Grant		
Balance unspent at beginning of year	1 463 126	1 463 126
Conditions still to be met - remain liabilities (see note 19).		
Library Grant		
Balance unspent at beginning of year	2 399 126	2 399 126
Conditions still to be met - remain liabilities (see note 19).		
NC Public Works Grant		
Balance unspent at beginning of year	312 375	312 375
Conditions still to be met - remain liabilities (see note 19).		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	26 299 467	5 760 302
Current-year receipts	13 069 000	25 792 000
Conditions met - transferred to revenue	(3 894 953)	(5 252 835)
Surrendered	(12 453 094)	-
	23 020 420	26 299 467
Conditions still to be met - remain liabilities (see note 19).		

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27. Government grants & subsidies (continued)		
Expanded Public Works Programme Grant		
Balance unspent at beginning of year	20 000	1 142 000
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
Surrendered	(9 470)	(1 122 000)
	10 530	20 000
Conditions still to be met - remain liabilities (see note 19).		
Disaster management grant		
Balance unspent at beginning of year	-	119 000
Current-year receipts	6 457 000	-
Conditions met - transferred to revenue	(2 613 302)	-
Surrendered	-	(119 000)
	3 843 698	-
Conditions still to be met - remain liabilities (see note 19).		
28. Fines, Penalties and Forfeits		
Building Fines	47 309	106 761

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29. Employee related costs

Basic	65 707 123	63 797 420
Bonus	5 265 745	5 126 974
Medical aid - company contributions	3 676 813	3 531 416
UIF	630 739	578 029
SDL	742 044	566 093
Other payroll levies	42 797	42 441
Leave pay provision charge	988 718	827 481
Travel, motor car, accommodation, subsistence and other allowances	2 561 339	668 521
Overtime payments	5 457 927	3 591 876
Long-service awards	613 000	618 000
Acting allowances	419 839	73 195
Housing benefits and allowances	135 996	124 422
Termination benefits	11 315 569	11 151 912
	97 557 649	90 697 780

Remuneration of the Acting Municipal Manager - Me KG Gabarone: (July 2021 - Oct 2021):

Acting Allowance	57 358	51 622
Car Allowance	87 909	57 593
Contributions to UIF, Medical and Pension Funds	1 419	1 106
	146 686	110 321

Remuneration of the Acting Chief Financial Office - Me TP Modisa: (Jul 2021 - June 2022):

Acting Allowance	68 056	21 573
Annual Remuneration	613 335	560 902
Car Allowance	127 705	42 568
Contributions to UIF, Medical and Pension Funds	172 708	160 196
Other	6 000	8 982
	987 804	794 221

Remuneration of the Director of Corporate Services - Mr ME Mojaki: (1 July 2020 - 30 June 2021):

Annual Remuneration	428 371	527 315
Car Allowance	126 363	127 705
Remote Allowance	25 359	32 457
Contributions to UIF, Medical and Pension Funds	113 981	152 601
Other	20 400	9 600
	714 474	849 678

30. Remuneration of councillors

Councillors	7 033 816	4 330 308
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Remuneration of the Mayor: OS Tumodi

Mayoral Allowance	464 698	500 055
Transport Allowance	22 140	-
Telephone Allowance	31 943	27 750
Contributions to pension, medical and SDL	10 495	-
	529 276	527 805

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30. Remuneration of councillors (continued)

Remuneration of the Speaker: RP Selogilwe

Speaker Allowance	594 629	401 645
Telephone Allowance	35 397	27 750
	630 026	429 395

Remuneration of the Councillors:

Councillor Allowance	4 936 098	2 852 018
Transport Allowance	6 860	-
Telephone Allowance	754 788	471 750
Contributions to pension, medical and SDL	176 768	-
	5 874 514	3 323 768

The Mayor and Speaker are full time. Each is provided with an office and shared secretarial support at the cost of the Council.

The mayor has use of a Council owned vehicle for official duties.

31. Depreciation and amortisation

Property, plant and equipment	65 565 917	61 962 846
Intangible assets	1 986 283	339 143
	67 552 200	62 301 989

32. Finance costs

Employee benefit obligation	1 762 000	1 499 000
Landfill provision	9 641 752	7 469 829
Trade and other payables	8 965 456	5 254 419
	20 369 208	14 223 248

33. Debt impairment

Debt impairment	106 355 410	151 717 657
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34. Bulk purchases

Electricity - Eskom	81 563 619	72 219 804
Water	55 839 812	52 359 867
	137 403 431	124 579 671

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35. General expenses		
Advertising	1 454 034	178 962
Auditors remuneration	3 745 748	3 500 011
Bank charges	752 119	662 799
Commission paid	-	377
Computer expenses	160 160	-
Consulting and professional fees	19 420 328	10 061 723
Entertainment	-	54 450
Hire	435 269	1 818 070
Insurance	2 967 431	1 021 506
Motor vehicle expenses	467 275	507 749
Fuel and oil	-	1 519 919
Printing and stationery	87 422	357 471
Protective clothing	3 291 487	659 219
Repairs and maintenance	54 590 111	9 845 048
Security (Guarding of municipal property)	7 397 871	5 653 435
Subscriptions and membership fees	1 022 769	963 737
Telephone and fax	1 179 253	903 022
Training	135 197	92 473
Travel - local	338 926	8 400
Sample analysis	221 568	228 742
Chemicals	-	1 019 265
	97 666 968	39 056 378
36. Fair value adjustments		
Investment property (Fair value model)	455 742	516 342
37. Impairment loss		
Impairments		
Property, plant and equipment	-	(164 032)
38. Auditors' remuneration		
Fees	3 745 748	3 500 011

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39. Cash generated from operations		
Deficit	(161 637 213)	(129 777 603)
Adjustments for:		
Depreciation and amortisation	67 552 200	62 301 989
(Loss) gain on sale of assets and liabilities	(284 105)	1 216 777
Fair value adjustments	(455 742)	(516 342)
Impairment reversals	-	(164 032)
Debt impairment	106 355 410	151 717 657
Movements in retirement benefit assets and liabilities	1 478 000	2 254 000
Movements in provisions	9 641 752	7 469 829
Changes in working capital:		
Inventories	(402 685)	(789 688)
Other receivables from exchange transactions	(32 079 953)	(4 497 371)
Consumer debtors	(136 207 227)	(117 795 133)
Other receivables from non-exchange transactions	10 287 883	(5 791 021)
Payables from exchange transactions	133 812 240	58 667 539
VAT	9 945 136	22 850 709
Unspent conditional grants and receipts	(2 688 996)	14 725 017
Consumer deposits	4 401	644 801
	5 321 101	62 517 128

40. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	39 477 185	39 477 185
Statutory receivables from non-exchange transactions	14 815 379	14 815 379
Receivables from exchange transactions	54 369 698	54 369 698
Cash and cash equivalents	28 257 472	28 257 472
	136 919 734	136 919 734

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	500 338 735	500 338 735
Consumer deposits	3 985 401	3 985 401
	504 324 136	504 324 136

2021

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	8 991 805	8 991 805
Statutory receivables from non-exchange transactions	23 537 498	23 537 498
Receivables from exchange transactions	24 517 881	24 517 881
Cash and cash equivalents	59 633 545	59 633 545
	116 680 729	116 680 729

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40. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	366 785 473	366 785 473
Consumer deposits	3 981 008	3 981 008
	370 766 481	370 766 481

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	19 557 111	6 164 269
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Total capital commitments

Already contracted for but not provided for	19 557 111	6 164 269
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This committed expenditure relates to property 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.

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42. Contingencies		
Contingent liabilities		
The following litigations have been raised against the municipality:		
CCG (Pty) Ltd vs Phokwane Local Municipality The Municipality terminated the contract on the basis of affordability of the Mscoa System	8 000 000	8 000 000
Adv AS Siebern obo Setologo The municipality is the 3rd repondent in the matter. The 1st and 2nd respondents dumped ammunition on the municipal land. A child suffered injuries out of explosives.	4 000 000	4 000 000
CC Victor vs Phokwane Local Municipality Merits already settled at 70/30 in favour of Plaintiff. Likelihood of settling quantum AT 30/70 to plaintiff.	1 400 000	1 400 000
Silvester B Trading vs Phokwane Local Municipality Contract terminated without lawful reason	1 900 000	1 900 000
B Visagie vs Phokwane Local Municipality Negligence	350 000	350 000
Senwes vs Phokwane Local Municipality The legal dispute is the accuracy of the municipal billing system. There are dispute resolution mechanisms which may resolve the dispute and reduce the claimed amount	669 708	669 708
Dephetogo Security Services vs Phokwane Local Municipality Reinstatement of contract	3 600 000	3 600 000
UMS vs Phokwane Local Municipality Breach of contract	3 200 000	3 200 000
Matseba Consulting vs Phokwane Local Municipality Breach of contract	2 400 000	2 400 000
IMATU obo Z Nikani & Another vs Phokwane Local Municipality Unfair Dismissal (Unlawful termination of contract)	9 000 000	9 000 000
JJ Steenkamp vs Phokwane Local Municipality Municipal noncompliance with environmental legislation, Health and Safety. Sewer spilling into business premises. Business closed as a result. Demanding Imprisonment of Accounting Officer	-	-
Motla Consulting Engineers (Pty) LTD vs Phokwane Local Municipality Contract unilaterally terminated without just cause	-	624 895
T. Mwali vs Phokwane Local Municipality Challenging appointment of Manager Political Office. Demanding Permanent Employment on a post with a degree qualification	-	-
Total	<u>34 519 708</u>	<u>35 144 603</u>

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43. Related parties

Relationships

Interest in related parties

Services rendered to related parties

Councillors and /or management of the municipality
The services rendered to related parties are charged at the approved tariffs that were advertised to the public. We have disclosed this information under the heading councillors arrear consumer accounts. Refer to note 50

Compensation of related parties

Compensation of key management personnel Refer to note 29

Compensation of related parties

Compensation of councillors Refer to note 30

Joint ventures

Municipality has no joint venture arrangement

Associates

Municipality has no associates in their business arrangement

Related party relationship

The municipalities officials declared the following relationship 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

Chief Financial Officer

No business interest, shares and / or directorships held

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43. Related parties (continued)

Remuneration of management

Management class: Executive management

2022

	Acting allowance	Annual remuneration	Car allowance	Remote Allowance	Contribution to UIF, Medical and pension funds	Other allowance	Total
Name							
Senior Management	125 413	1 041 706	341 977	25 359	288 109	26 400	1 848 964

2021

	Acting allowance	Annual remuneration	Car allowance	Contribution to UIF, Medical and pension funds	Other allowance	Total
Name						
Senior Management	73 195	1 088 217	227 866	313 903	51 038	1 754 219

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44. Risk management

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.

At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	3 985 401	-	-	-
Employee benefit obligation	20 076 000	-	-	-
Payables from exchange transactions	500 338 735	-	-	-
Unspent conditional grants and receipts	43 935 633	-	-	-
	568 335 769	-	-	-

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	3 981 008	-	-	-
Employee benefit obligation	18 598 000	-	-	-
Payables from exchange transactions	366 785 473	-	-	-
Unspent conditional grants and receipts	46 624 629	-	-	-
	435 989 110	-	-	-

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.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

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.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, and therefore it is not exposed to interest rate risk.

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44. Risk management (continued)

Foreign exchange risk

The municipality does not engage in foreign exchange transactions.

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.

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.

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 as available-for-sale.

45. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus of R 638 867 818 and that the municipality's total assets exceed its liabilities by R 638 867 818.

We draw attention to the fact that at 30 June 2022, 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 1444 days from (2021: 1420 days).
5. Electricity distribution losses (technical and non-technical) have increased to 57% (2021: 37%) and the water distribution losses has decreased to 67% from (2021: 45%).
6. The municipality's current liabilities exceeds its current assets by R 408 108 183 (2018: R 287 382 903) 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 161 637 213 (2021: deficit R 129 777 603), 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.

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45. Going concern (continued)

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.

46. Events after the reporting date

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

47. Unauthorised expenditure

Opening balance as previously reported	1 100 592 360	906 838 584
Add: Unauthorised expenditure - current	208 265 243	193 753 776
Less: Amount recovered - current	-	-
Less: Amount recovered - prior period	-	-
Less: Approved/condoned/authorised by council	-	-
Closing balance	1 308 857 603	1 100 592 360

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48. Fruitless and wasteful expenditure			
Opening balance as previously reported		42 308 328	37 053 909
Add: Fruitless and wasteful expenditure identified - current		8 965 456	5 254 419
Add: Fruitless and wasteful expenditure identified - prior period		-	-
Less: Amount recovered - current		-	-
Less: Amount recovered - prior period		-	-
Less: Amount written off - current		-	-
Less: Amount written off - prior period		-	-
Closing balance		51 273 784	42 308 328
Fruitless and wasteful expenditure is presented inclusive of VAT			
Expenditure identified in the current year include those listed below:			
Interest on late payments	Disciplinary steps taken/criminal proceedings		
	Management is initiating an investigation into the cause for fruitless and wasteful expenditure as disclosed and as required in the MFMA	8 965 456	5 254 419
49. Irregular expenditure			
Opening balance as previously reported	307 886 647	301 765 525	
Add: Irregular expenditure - current	34 644 134	6 121 122	
Add: Irregular expenditure - prior period	-	-	
Less: Amount recovered - current	-	-	
Less: Amount recovered - prior period	-	-	
Less: Amount written off - current	-	-	
Less: Amount written off - prior period	-	-	
Closing balance	342 530 781	307 886 647	

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49. Irregular expenditure (continued)

Incidents/cases identified/reported in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Procurement in contravention of municipal	Management is initiating an investigation to cause for irregular expenditure in	34 644 134	6 121 122
Supply chain management regulation in terms	line with MFMA requirements.		
MFMA			

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 016 341	963 737
Amount paid - current year	-	(963 737)
	<u>1 016 341</u>	<u>-</u>

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Figures in Rand	2022	2021
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Material losses		
Electricity distribution losses (KWh)		
KWh purchased	47 606 182	49 983 800
KWh sold	(20 590 591)	(31 580 403)
KWh losses	27 015 591	18 403 397
% losses	57	16
Average cost per KWh unit	1,06	0,90
Loss in Rand value	28 609 462	16 571 738
Water distribution losses (Mega litres)		
Mega litres purchased	5 242 943	4 573 230
Mega litres sold	1 735 941	(2 536 588)
Mega litres losses	6 978 884	2 036 642
% losses	67	45
Average cost per unit	4,97	4,83
Loss in Rand value	17 415 338	9 829 064
Audit fees		
Opening balance	26 343	19 424
Current year subscription / fee	4 307 610	4 025 090
Amount paid - current year	(4 307 610)	(3 998 747)
Amount paid - previous years	(26 343)	(19 424)
	-	26 343
PAYE and UIF		
Current year subscription / fee	10 150 790	9 958 261
Amount paid - current year	(10 150 790)	(9 958 261)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	22 334 256	22 012 234
Amount paid - current year	(22 334 256)	(22 012 234)
	-	-
VAT		
VAT receivable	(47 428 725)	(26 419 726)
VAT payable	(45 030 011)	(33 966 148)
	(92 458 736)	(60 385 874)

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor OS Tomudi	1 368	44 678	46 046
Councillor RP Selogilwe	5 928	150 096	156 024
Councillor N Pieters	1 422	59 978	61 400
W Harmse	11 116	99 587	110 703
MP Mohale	2 675	95 876	98 551
SM Mokgobo	2 730	123 054	125 784
LA Le Roux	1 485	-	1 485
TK Mocumi	1 553	57 640	59 193
NS Pitso	2 362	96 912	99 274
MM Setlhogomi	1 315	42 535	43 850
E Davies	6 353	-	6 353
	38 307	770 356	808 663

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor OS Tumodi	1 669	39 193	40 862
Councillor RP Selogilwe	4 182	133 547	137 729
Councillor PJ Majahe	1 182	12 382	13 564
Councillor SS Lewis	3 721	9 066	12 787
	10 754	194 188	204 942

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

51. 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 officers and includes a note to the annual financial statements.

Incidents

Emergency	12 910 990	-
Sole supplier	169 764	-
Strip & quote	219 085	-
Other	14 704 494	-
	28 004 333	-

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52. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

All variances greater / less than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2022.

X1: Management anticipated that proper controls are implemented to ensure billing is correct and done on a monthly basis.

X2: Rental of facilities is difficult to predict as it is based on the frequency of unpredictable events.

X3: Due to constant increase in receivable balances.

X4: Commission not budgeted for.

X5: Other income is difficult to predict as it is based on the frequency of unpredictable events.

X6: Management had planned to put more funds in investment accounts.

X7: Management anticipated that proper controls are implemented to ensure billing is correct and done on a monthly basis.

X8: Grant budget did not take into account the funds withheld.

X9: Fines and penalties are difficult to predict as it is based on the frequency of unpredictable events.

X10: Grants budget did not take into account the funds withheld.

X11: Due to annual increases not taken into account on budgeted.

X12: Due to annual increases not taken into account on budgeted.

X13: Depreciation not correctly budgeted as the fixed asset register was redone.

X14: Impairment loss reversals not budgeted for.

X15: Interest on outstanding payables not correctly budgeted.

X16: Due to decrease in collections.

X17: Decrease mainly due to load shedding.

X18: Contracted services included as part of general expenses.

X19: No transfer and subsidies cost during the year.

X20: Due to cost cutting measures.

X21: Year end adjustment, not budgeted for.

X22: Year end adjustment, not budgeted for..