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

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
Speaker	W Harmse
Councillors	N Peters
	SM Khoza
	OS Tumodi
	TG Diloke
	RP Selogilwe
	E Meyer
	MP Mohale
	SM Mokgobo
	MA van Wyk
	LA Le roux
	VL Janki
	GG Halter
	TKG Mocumie
	MT van Wyk
	NS Pitso
	MM Setlhogomi
	E Davies
Accounting Officers	Mr M Vilakazi (Acting since 21 July 2023)
	Mr B. Marima (Acting from 30 June 2023 to 10 July 2023)
	Mr Z Nikani - Appointed from May 2023 to June 2023
	Ms B Mgaguli - Acting from July 2022 to May 2023
Chief Finance Officer (CFO)	Mrs TP Mmusi (Acting from July 2022 to February 2023) and (From 14 June 2023 to current)
	Ms K Modise (Acting from March to May 2023)
Registered office	24 Hertzog Street Hartswater 8570
Postal address	Private Bag X3 Hartswater 8570
Bankers	Standard Bank of South Africa ABSA Bank Limited
Auditors	The Auditor General of South Africa
Attorneys	Towell and Goenewaldt Van de Wall and Partners Liezel van De Merwe

General Information

Members of the audit committee	Sechaba Thole (Chairperson) Maisaka Pule Letlhogonolo Berend
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

Index

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

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 2024 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on 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 18 September 2023 and were signed on its behalf by:

Mr M Vilakazi
Acting Municipal Manager

Accounting Officers' Report

The accounting officers submit their report for the year ended 30 June 2023.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community within the Phokwane Municipal area and operates principally in South Africa.

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

- The operating net surplus (deficit) of R 263 273 682 (2022: deficit R 159 032 472).
- The municipality's current liabilities exceed its current assets by R (570 725 850) (2022: R (375 656 835)).
- Debtors days grew to 1465 days from (2022: 1432 days).

2. Going concern

Notwithstanding that municipality had an accumulated surplus (deficit) of R 263 273 682 (2022: deficit R 159 032 472) and that the municipality's total assets exceeded its liabilities by the said R (570 725 850) (2022: R (375 656 835)); 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 2024 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 it's 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 managements assumptions with respect to the applicability of the going concern assumption refer to note 42.

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 43 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
Mr M Vilakazi	South African	Acting since 21 July 2023
Mr BB Marima	South African	Acting from 30 June 2023 to 10 July 2023
Mr Z Nikani	South African	Appointed May 2023 to June 2023
Ms B Mgaguli	South African	Acting from July 2022 to May 2023

Accounting Officers' Report

7. Auditors

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

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	4 678 161	5 669 678
Other receivables from exchange transactions	4	34 231 805	41 294 003
Statutory receivables from non-exchange transactions	5	19 149 862	14 815 380
Other receivables from non-exchange transactions	6	814 307	1 335 589
Statutory receivables from exchange transactions	7	37 377 097	26 475 273
Receivables from exchange transactions	8	52 919 782	54 369 698
Cash and cash equivalents	9	5 096 739	28 257 472
		154 267 753	**172 217 093**
Non-Current Assets			
Investment property	10	15 369 773	14 735 885
Property, plant and equipment	11	1 105 373 542	1 165 803 635
Intangible assets	12	3 036 657	3 996 855
Heritage assets	13	7 635 063	7 635 063
		1 131 415 035	**1 192 171 438**
Total Assets		**1 285 682 788**	**1 364 388 531**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	682 190 455	498 558 894
Consumer deposits	15	4 414 263	3 985 401
Employee benefit obligation	16	1 776 000	1 394 000
Unspent conditional grants and receipts	17	36 612 885	43 935 633
		724 993 603	**547 873 928**
Non-Current Liabilities			
Employee benefit obligation	16	22 293 000	18 682 000
Provisions	18	133 664 125	129 826 864
		155 957 125	**148 508 864**
Total Liabilities		**880 950 728**	**696 382 792**
Net Assets		**404 732 060**	**668 005 739**
Accumulated surplus		404 732 060	668 005 739
Total Net Assets		**404 732 060**	**668 005 739**

* See Note 50

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	146 980 371	154 690 335
Rental of facilities and equipment	21	20 003	1 091 546
Interest received (trading)	19	58 337 743	33 056 086
Licences and permits	49	1 775 651	1 807 727
Commissions received	22	660 773	606 790
Discount received		-	301 529
Other income	22	263 074	524 823
Interest received - investment	23	1 211 299	1 623 236
Total revenue from exchange transactions		**209 248 914**	**193 702 072**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	40 002 053	30 328 625
Transfer revenue			
Government grants & subsidies	25	176 097 749	141 153 994
Fines, Penalties and Forfeits	26	100 688	47 309
Interest received (trading)	19	14 705 118	7 612 728
Total revenue from non-exchange transactions		**230 905 608**	**179 142 656**
Total revenue	19	**440 154 522**	**372 844 728**
Expenditure			
Employee related costs	27	(117 329 431)	(97 557 649)
Remuneration of councillors	28	(7 812 680)	(7 033 816)
Depreciation and amortisation	29	(52 507 987)	(68 069 003)
Finance costs	30	(37 044 276)	(20 369 208)
Debt Impairment	31	(147 095 398)	(106 355 410)
Bulk purchases	32	(82 782 251)	(81 563 619)
General Expenses	33	(185 210 851)	(151 895 111)
Total expenditure		**(629 782 874)**	**(532 843 816)**
Operating deficit		**(189 628 352)**	**(159 999 088)**
(Loss) gain on disposal of assets and liabilities		(37 118 152)	158 142
Fair value adjustments	34	731 894	274 761
Actuarial gains/losses	16	1 621 400	533 713
Impairment loss		(38 880 472)	-
		(73 645 330)	**966 616**
Deficit for the year		**(263 273 682)**	**(159 032 472)**

* See Note 50

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	829 547 193	829 547 193
Adjustments		
Correction of errors 50	(2 508 982)	(2 508 982)
Balance at 01 July 2021 as restated*	**827 038 211**	**827 038 211**
Changes in net assets		
Surplus for the year	(159 032 472)	(159 032 472)
Total changes	(159 032 472)	(159 032 472)
Restated* Balance at 01 July 2022	**668 005 742**	**668 005 742**
Changes in net assets		
Surplus for the year	(263 273 682)	(263 273 682)
Total changes	(263 273 682)	(263 273 682)
Balance at 30 June 2023	**404 732 060**	**404 732 060**

* See Note 50

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		40 717 141	36 032 902
Grants		168 775 001	138 464 998
Interest income		74 254 160	42 292 050
		283 746 302	216 789 950
Payments			
Employee costs		(119 527 711)	(102 579 759)
Suppliers		(83 339 922)	(97 877 509)
Finance costs		(28 338 426)	(11 011 581)
		(231 206 059)	(211 468 849)
Net cash flows from operating activities	36	**52 540 243**	**5 321 101**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(75 672 534)	(36 024 396)
Purchase of other intangible assets	12	(28 442)	(672 778)
Net cash flows from investing activities		**(75 700 976)**	**(36 697 174)**
Net increase/(decrease) in cash and cash equivalents		**(23 160 733)**	**(31 376 073)**
Cash and cash equivalents at the beginning of the year		28 257 472	59 633 545
Cash and cash equivalents at the end of the year	9	**5 096 739**	**28 257 472**

The accounting policies on pages 18 to 51 and the notes on pages 52 to 110 form an integral part of the annual financial statements.

* See Note 50

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	154 867 000	2 665 000	**157 532 000**	146 980 371	**(10 551 629)**	53,x1
Rental of facilities and equipment	524 000	26 000	**550 000**	20 003	**(529 997)**	53,x2
Interest received (trading)	32 081 000	27 920 000	**60 001 000**	58 337 743	**(1 663 257)**	53,x3
Licences and permits	-	-	-	1 775 651	**1 775 651**	53,x4
Commissions received	-	-	-	660 773	**660 773**	53,x5
Other income	10 000	104 000	**114 000**	263 074	**149 074**	53,x6
Interest received - investment	3 158 000	-	**3 158 000**	1 211 299	**(1 946 701)**	53,x7
Total revenue from exchange transactions	**190 640 000**	**30 715 000**	**221 355 000**	**209 248 914**	**(12 106 086)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	28 759 000	8 692 000	**37 451 000**	40 002 053	**2 551 053**	53,x8
Transfer revenue						
Government grants & subsidies	174 671 000	(8 300 000)	**166 371 000**	176 097 749	**9 726 749**	53,x9
Fines, Penalties and Forfeits	283 000	8 000	**291 000**	100 688	**(190 312)**	53,x10
Interest received (trading)	-	-	-	14 705 118	**14 705 118**	53,x11
Total revenue from non-exchange transactions	**203 713 000**	**400 000**	**204 113 000**	**230 905 608**	**26 792 608**	
Total revenue	**394 353 000**	**31 115 000**	**425 468 000**	**440 154 522**	**14 686 522**	
Expenditure						
Personnel	(103 365 000)	(1 861 000)	**(105 226 000)**	(117 329 431)	**(12 103 431)**	53,x12
Remuneration of councillors	(5 329 000)	(1 229 000)	**(6 558 000)**	(7 812 680)	**(1 254 680)**	53,x13
Depreciation and amortisation	(70 948 000)	-	**(70 948 000)**	(52 507 987)	**18 440 013**	53,x14
Impairment loss/ Reversal of impairments	-	-	-	(38 880 472)	**(38 880 472)**	53,x15
Finance costs	(82 000)	-	**(82 000)**	(37 044 276)	**(36 962 276)**	53,x16
Debt Impairment	(87 476 000)	(15 865 000)	**(103 341 000)**	(147 095 398)	**(43 754 398)**	53,x17
Bulk purchases	(76 000 000)	-	**(76 000 000)**	(82 782 251)	**(6 782 251)**	53,x18
Transfers and Subsidies	(1 375 000)	-	**(1 375 000)**	-	**1 375 000**	53,x19
General Expenses	(99 628 000)	(98 500 000)	**(198 128 000)**	(185 210 851)	**12 917 149**	53,x20
Total expenditure	**(444 203 000)**	**(117 455 000)**	**(561 658 000)**	**(668 663 346)**	**(107 005 346)**	
Operating deficit	**(49 850 000)**	**(86 340 000)**	**(136 190 000)**	**(228 508 824)**	**(92 318 824)**	
Loss on disposal of assets and liabilities	-	-	-	(37 118 152)	**(37 118 152)**	53,x21
Fair value adjustments	-	-	-	731 894	**731 894**	53,x22
Actuarial gains/losses	-	-	-	1 621 400	**1 621 400**	53,x23
	-	-	-	**(34 764 858)**	**(34 764 858)**	
Deficit before taxation	**(49 850 000)**	**(86 340 000)**	**(136 190 000)**	**(263 273 682)**	**(127 083 682)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(49 850 000)**	**(86 340 000)**	**(136 190 000)**	**(263 273 682)**	**(127 083 682)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2 826 000	-	**2 826 000**	4 678 161	**1 852 161**	53,x24
Other receivables from exchange transactions	47 956 000	18 000	**47 974 000**	34 231 805	**(13 742 195)**	53,x25
Statutory receivables from non-exchange transactions	-	-	-	19 149 862	**19 149 862**	53,x26
Statutory receivables	-	-	-	814 307	**814 307**	53,x27
VAT receivable	-	-	-	(46 324 667)	**(46 324 667)**	53,x28
Consumer debtors	157 542 000	46 791 000	**204 333 000**	52 919 782	**(151 413 218)**	53,x29
Cash and cash equivalents	2 653 000	(27 108 000)	**(24 455 000)**	5 096 739	**29 551 739**	53,x30
	210 977 000	**19 701 000**	**230 678 000**	**70 565 989**	**(160 112 011)**	
Non-Current Assets						
Investment property	36 986 000	-	**36 986 000**	15 369 773	**(21 616 227)**	53,x31
Property, plant and equipment	1 225 617 000	24 044 000	**1 249 661 000**	1 105 373 542	**(144 287 458)**	53,x32
Intangible assets	5 195 000	-	**5 195 000**	3 036 657	**(2 158 343)**	53,x33
Heritage assets	7 635 000	-	**7 635 000**	7 635 063	**63**	53,x34
Other receivables from exchange transactions	2 689 000	-	**2 689 000**	-	**(2 689 000)**	53,x35
	1 278 122 000	**24 044 000**	**1 302 166 000**	**1 131 415 035**	**(170 750 965)**	
Total Assets	**1 489 099 000**	**43 745 000**	**1 532 844 000**	**1 201 981 024**	**(330 862 976)**	
Liabilities						
Current Liabilities						
Finance lease obligation	190 000	-	**190 000**	-	**(190 000)**	53,x36
Payables from exchange transactions	86 651 000	130 085 000	**216 736 000**	682 190 459	**465 454 459**	53,x37
VAT payable	-	-	-	(83 701 764)	**(83 701 764)**	53,x38
Consumer deposits	3 928 000	(7 856 000)	**(3 928 000)**	4 414 263	**8 342 263**	53,x39
Employee benefit obligation	-	-	-	1 776 000	**1 776 000**	53,x40
Unspent conditional grants and receipts	-	-	-	36 612 885	**36 612 885**	53,x41
Provisions	863 000	(1 726 000)	**(863 000)**	-	**863 000**	53,x42
	91 632 000	**120 503 000**	**212 135 000**	**641 291 843**	**429 156 843**	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	22 293 000	**22 293 000**	53,x43
Provisions	146 303 000	-	**146 303 000**	133 664 125	**(12 638 875)**	53,x44
	146 303 000	**-**	**146 303 000**	**155 957 125**	**9 654 125**	
Total Liabilities	**237 935 000**	**120 503 000**	**358 438 000**	**797 248 968**	**438 810 968**	
Net Assets	**1 251 164 000**	**(76 758 000)**	**1 174 406 000**	**404 732 056**	**(769 673 944)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 251 164 000	(76 758 000)	**1 174 406 000**	404 732 060	**(769 673 940)**	

Phokwane Local Municipality
(Registration number NC094)
Annual Financial Statements for the year ended 30 June 2023

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
2023											
Financial Performance											
Property rates	28 759 000	8 692 000	37 451 000	-		37 451 000	40 002 053		2 551 053	107 %	139 %
Service charges	154 867 000	2 665 000	157 532 000	-		157 532 000	146 980 371		(10 551 629)	93 %	95 %
Investment revenue	-	-	-	-		-	1 211 299		1 211 299	DIV/0 %	DIV/0 %
Transfers recognised - operational	118 133 000	(8 300 000)	109 833 000	-		109 833 000	130 399 000		20 566 000	119 %	110 %
Other own revenue	36 056 000	28 058 000	64 114 000	-		64 114 000	78 216 344		14 102 344	122 %	217 %
Total revenue (excluding capital transfers and contributions)	**337 815 000**	**31 115 000**	**368 930 000**	**-**		**368 930 000**	**396 809 067**		**27 879 067**	**108 %**	**117 %**
Employee costs	(103 365 000)	(1 861 000)	(105 226 000)	-	-	(105 226 000)	(117 329 431)	-	(12 103 431)	112 %	114 %
Remuneration of councillors	(5 329 000)	(1 229 000)	(6 558 000)	-	-	(6 558 000)	(7 812 680)	-	(1 254 680)	119 %	147 %
Depreciation and asset impairment	(158 424 000)	(15 865 000)	(174 289 000)			(174 289 000)	55 706 939	-	229 995 939	(32)%	(35)%
Finance charges	(82 000)	-	(82 000)	-	-	(82 000)	(37 044 276)	-	(36 962 276)	45 176 %	45 176 %
Inventory consumed and bulk purchases	(62 818 000)	(51 751 000)	(114 569 000)	-	-	(114 569 000)	(82 782 251)	-	31 786 749	72 %	132 %
Transfers and grants	(1 375 000)	-	(1 375 000)	-	-	(1 375 000)	-	-	1 375 000	- %	- %
Other expenditure	(112 810 000)	(46 749 000)	(159 559 000)	-	-	(159 559 000)	(222 329 003)	-	(62 770 003)	139 %	197 %
Total expenditure	**(444 203 000)**	**(117 455 000)**	**(561 658 000)**	**-**	**-**	**(561 658 000)**	**(411 590 702)**	**-**	**150 067 298**	**73 %**	**93 %**
Surplus/(Deficit)	**(106 388 000)**	**(86 340 000)**	**(192 728 000)**	**-**		**(192 728 000)**	**(14 781 635)**		**177 946 365**	**8 %**	**14 %**

Phokwane Local Municipality
(Registration number NC094)
Annual Financial Statements for the year ended 30 June 2023

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 and subsidies - capital (monetary allocations) (National / Provincial and District)	56 538 000	-	56 538 000	-		56 538 000	45 698 749		(10 839 251)	81 %	81 %
Surplus (Deficit) after capital transfers and contributions	**(49 850 000)**	**(86 340 000)**	**(136 190 000)**	**-**		**(136 190 000)**	**30 917 114**		**167 107 114**	**(23)%**	**(62)%**
Surplus/(Deficit) for the year	**(49 850 000)**	**(86 340 000)**	**(136 190 000)**	**-**		**(136 190 000)**	**30 917 114**		**167 107 114**	**(23)%**	**(62)%**

Capital expenditure and funds sources

Total capital expenditure	-	-	-	-		-	66 365 923		66 365 923	DIV/0 %	DIV/0 %

Accounting Policies

Figures in Rand	Note(s)	2023	2022

1. Significant accounting polices

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

1.1 Basis of preparations

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

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

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 Significant judgements and sources of estimation uncertainty

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

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.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

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 1.6. 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.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 16.

Allowance for doubtful debts

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

1.5 Investment property

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

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

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

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

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

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

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

Accounting Policies

1.5 Investment property (continued)

Fair value

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

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

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

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

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

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

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.

1.6 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.6 Property, plant and equipment (continued)

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 quary sites, is not depreciated as it has an indefinate useful life.

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

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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 Infrstructure	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.

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).

Accounting Policies

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

1.8 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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.

Accounting Policies

1.8 Intangible assets (continued)

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.

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).

1.9 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.

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.

Accounting Policies

1.9 Heritage assets (continued)

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.

1.10 Financial instruments

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

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

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

Accounting Policies

1.10 Financial instruments (continued)

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.

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.

Accounting Policies

1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.10 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 exchamge 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 liabilites	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:

1.11 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

1.11 Statutory receivables (continued)

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

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

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

Accounting Policies

1.11 Statutory receivables (continued)

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

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

1.12 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.

Accounting Policies

1.13 Inventories

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

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

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

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

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

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

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

The cost of inventories is assigned using the 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.

1.14 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash at bank (including call deposits).

Cash equivalents are short term and highly liquid investments, readily convertible into known amounts of cash, that are held with registered institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks net of bank overdrafts.

The municipality categorises cash and cash equivalents as financial assets at amortised cost.

1.15 Impairment of cash-generating assets

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

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.

1.15 Impairment of cash-generating assets (continued)

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

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

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

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

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

Designation

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

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

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

Identification

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

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

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

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.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

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.

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.15 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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.

1.16 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

1.16 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.

Accounting Policies

1.16 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.

Accounting Policies

1.16 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.

1.17 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.

Accounting Policies

1.17 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.

Accounting Policies

1.17 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.

Accounting Policies

1.17 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).

Accounting Policies

1.17 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.

Accounting Policies

1.17 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-endfor each employee.

1.18 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.

Accounting Policies

1.18 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 39.

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

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

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

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.

Accounting Policies

1.18 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.

1.19 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.

1.20 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.

Accounting Policies

1.20 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.

1.21 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.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

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.

Accounting Policies

1.21 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.

Accounting Policies

1.22 Investment income

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

1.23 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.

1.24 Current year comparatives

Where the presentation of classification of items in the Annual Financial Statements is amended, prior period comparative amounts are also reclassified and restated unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason of such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparative are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year in consistent with prior periods.

1.25 Comparative figures

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

1.26 Unauthorised expenditure

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

All expenditure relating to unauthorised expenditure 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.

1.27 Fruitless and wasteful expenditure

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

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

1.28 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

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

Accounting Policies

1.29 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.

1.30 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.

1.31 Segment information

A segment is an activity that generates economic benefits or service potential, whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity in assessing its performance and for which separate financial information is available. The objective of segment reporting is to provide information about the specific operational objectives and major activities of the municipality as well as the resources devoted to and costs of these objectives and activities.

The municipality operates solely in its area of jurisdiction as determined by the Municipal Demarcation Board. Although the municipality operates in a number of geographical areas, it is irrelevant for users of the financial statements to make decisions about the municipality as the goods or services provided are substantially the same within these geographical areas.

The reportable segments of the municipality are the actual segments which are used for internal reporting requirements which is based on a directorate level within the municipal structure. The identified segments of the municipality is as follows, Community and Social Services, Energy Sources, Environmental Protection, Executive and Council, Finance and Administration, Planning and Development, Public Safety, Road Transport, Waste Management, Waste Water Management and Water Management.

The factors used to identify reportable segments include the nature as well and the reporting lines and allocation of responsibilities within the municipality. Segments were aggregated for reporting purposes. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources.

The disclosure of information about these segments is also considered appropriate for external reporting purposes. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Segmental information on total assets and liabilities, as well as income and expenditure per identified segment is set out on note 52, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury.

1.32 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 2022/07/01 to 2023/06/30.

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

Accounting Policies

1.32 Budget information (continued)

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.

1.33 Related parties

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

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

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

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

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

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

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

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

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

1.34 Events after reporting date

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

1.35 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.

1.36 Accumulated surplus

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations 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 2023 or later periods:

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 2023.

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

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

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 2023.

The municipality expects to adopt the revisions for the first time in the 2022/2023 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.

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 2023.

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

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 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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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
- 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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 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 2023 or later periods but are not relevant to its operations:

GRAP 103 (as revised): Heritage Assets

Background

The Accounting Standards Board (the Board) completed its post-implementation review of the Standard of GRAP on Heritage Assets (GRAP 103) (hereafter referred to as "the review") in 2020. Based on the feedback received as part of the review, the Board agreed to reconsider certain principles in GRAP 103.

The objective of the project was to revise and clarify principles in GRAP 103 following feedback received from the review and actions agreed by the Board.

Key amendments to GRAP 103

The Board agreed that the definition of a heritage asset in GRAP 103 should be reconsidered to better align it with the legislative explanation of a heritage resource in the National Heritage Resources Act, 1999, and the classification by the South African Heritage Resources Agency.

The proposed definition focuses on assets that have "cultural significance" and defines a heritage asset as "an asset that has cultural significance, and is held indefinitely for the benefit of present and future generations". "Cultural significance" has also been defined and described in GRAP 103 based on legislation.

The characteristics displayed by heritage assets, and the range of assets that could be heritage assets, have also been aligned with legislation.

The amendments further relate to the Classification of dual purpose heritage assets, Determining a reliable value for a heritage asset, Protective rights imposed on heritage assets, Re-assessing if a reliable value becomes available subsequently, Aggregation of individually insignificant heritage assets, Impairment of heritage assets, Mandatory disclosures of heritage assets borrowed or on loan.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The effective date of the standard is for years beginning on or after 01 April 2023.

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.

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 2098/2099 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
- 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 does not envisage the adoption of the revisions until such time as it becomes applicable to the municipality's operations.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

3. Inventories

Water - at cost	3 159 424	3 173 199
Consumable stores	1 518 737	2 496 479
	4 678 161	**5 669 678**

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	34 231 805	41 294 003

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 trade and other receivables 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

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2023, R 34 231 805 (2022: R 39 477 185) were past due but not impaired.

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

3 months past due	34 231 805	39 477 185

5. Statutory receivables from non-exchange transactions

Gross balances		
Property rates	192 492 247	157 899 344
Traffic fines	18 905	18 905
	192 511 152	**157 918 249**
Less: Allowance for impairment		
Property Rates	(173 361 290)	(143 102 869)
Net balance		
Property rates	19 130 957	14 796 475
Traffic fines	18 905	18 905
	19 149 862	**14 815 380**
Propery Rates		
Current (0 -30 days)	4 489 837	3 509 701
31 - 60 days	3 791 795	2 999 579
61 - 90 days	3 608 551	2 889 248
91 days +	180 602 063	148 500 816
Less: impairment	(173 361 289)	(143 102 869)
	19 130 957	**14 796 475**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

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)	1 792 150	946 818
31 - 60 days	1 509 752	830 402
61 - 90 days	1 420 839	783 136
91 days +	78 113 196	75 624 601
	82 835 937	78 184 957
Less: Allowance for impairment	(72 014 419)	(69 471 166)
	10 821 518	**8 713 791**

Industrial/ commercial		
Current (0 -30 days)	2 603 535	2 516 229
31 - 60 days	2 193 205	2 122 724
61 - 90 days	2 099 157	2 059 862
91 days +	94 038 491	9 271 799
	100 934 388	15 970 614
Less: Allowance for impairment	(98 012 397)	(13 797 481)
	2 921 991	**2 173 133**

National and provincial government		
Current (0 -30 days)	94 152	46 655
31 - 60 days	88 838	46 453
61 - 90 days	88 554	46 250
91 days +	8 450 377	60 829 771
	8 721 921	60 969 129
Less: Allowance for impairment	(3 334 473)	(59 834 272)
	5 387 448	**1 134 857**

Total		
Current (0 -30 days)	4 489 837	3 509 701
31 - 60 days	3 791 795	2 999 579
61 - 90 days	3 608 551	2 889 248
91 days +	180 602 064	148 500 815
	192 492 247	157 899 343
Less: Allowance for impairment	(173 361 289)	(143 102 869)
	19 130 958	**14 796 474**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(143 102 869)	(112 208 018)
Contributions to allowance	(30 258 420)	(30 894 851)
	(173 361 289)	**(143 102 869)**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

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 2023, R 192 492 247 (2022: R 14 796 475) were past due but not impaired.

Statutory receivables from non-exchange transactions impaired

As of 30 June 2023, statutory receivables from non-exchange transactions of R 173 361 289 (2022: R 143 102 869) were impaired and provided for.

6. Other receivables from non-exchange transactions

Deposits paid	484 314	1 003 562
Other sundry receivables	329 993	332 027
	814 307	**1 335 589**

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, 2023, R 814 307 (2022: R 1 335 589) were past due but not impaired.

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

3 months past due	814 307	1 335 589

7. Statutory receivables from exchange transactions

VAT	37 377 097	26 475 273

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

8. Receivables from exchange transactions

	2023	2022
Gross balances		
Electricity	87 725 485	76 059 544
Water	376 446 868	330 554 230
Sewerage	228 230 270	195 313 858
Refuse	149 972 806	128 054 326
Sundry	24 417 491	21 423 899
	866 792 920	**751 405 857**
Less: Allowance for impairment		
Electricity	(70 466 364)	(65 750 444)
Water	(352 596 352)	(311 928 231)
Sewerage	(225 500 877)	(184 413 324)
Refuse	(148 613 612)	(121 915 935)
Sundry	(16 695 933)	(13 028 225)
	(813 873 138)	**(697 036 159)**
Net balance		
Electricity	17 259 121	10 309 100
Water	23 850 516	18 625 999
Sewerage	2 729 393	10 900 534
Refuse	1 359 194	6 138 391
Sundry	7 721 558	8 395 674
	52 919 782	**54 369 698**
Electricity		
Current (0 -30 days)	6 442 637	7 116 112
31 - 60 days	2 545 756	3 409 746
61 - 90 days	2 522 304	4 634 217
91 days +	76 214 788	60 899 469
Less: impairment	(70 466 364)	(65 750 444)
	17 259 121	**10 309 100**
Water		
Current (0 -30 days)	6 188 385	14 801 143
31 - 60 days	6 167 100	4 072 317
61 - 90 days	7 084 979	14 793 669
91 days +	357 006 404	296 887 102
Less: impairment	(352 596 352)	(311 928 232)
	23 850 516	**18 625 999**
Sewerage		
Current (0 -30 days)	3 296 730	2 555 270
31 - 60 days	3 113 454	2 463 396
61 - 90 days	3 065 301	2 427 519
91 days +	218 754 785	187 867 672
Less: impairment	(225 500 877)	(184 413 323)
	2 729 393	**10 900 534**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

8. Receivables from exchange transactions (continued)

Refuse		
Current (0 -30 days)	2 220 719	1 729 713
31 - 60 days	2 083 795	1 656 704
61 - 90 days	2 049 228	1 623 680
91 days +	143 619 064	123 044 228
Less: impairment	(148 613 612)	(121 915 934)
	1 359 194	**6 138 391**

Sundry		
Current (0 -30 days)	235 388	149 216
31 - 60 days	225 068	149 551
61 - 90 days	225 459	148 524
91 days +	23 731 576	20 976 609
Less: impairment	(16 695 933)	(13 028 226)
	7 721 558	**8 395 674**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	12 713 081	18 165 152
31 - 60 days	11 462 178	8 590 702
61 - 90 days	12 158 769	17 210 353
91 days +	675 581 166	646 332 688
	711 915 194	690 298 895
Less: Allowance for impairment	(686 340 947)	(640 036 161)
	25 574 247	**50 262 734**

Industrial/ commercial		
Current (0 -30 days)	3 675 165	4 120 924
31 - 60 days	877 817	2 019 576
61 - 90 days	752 935	3 514 715
91 days +	34 944 504	10 854 251
	40 250 421	20 509 466
Less: Allowance for impairment	(36 090 038)	(18 671 664)
	4 160 383	**1 837 802**

National and provincial government		
Current (0 -30 days)	1 995 613	3 746 737
31 - 60 days	1 795 178	1 058 418
61 - 90 days	2 035 567	2 653 758
91 days +	108 800 946	33 138 583
	114 627 304	40 597 496
Less: Allowance for impairment	(91 442 153)	(37 427 732)
	23 185 151	**3 169 764**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

8. Receivables from exchange transactions (continued)

	2023	2022
Total		
Current (0 -30 days)	18 383 858	26 032 813
31 - 60 days	14 135 173	11 668 696
61 - 90 days	14 947 271	23 378 825
91 days +	819 326 618	690 325 524
	866 792 920	751 405 858
Less: Allowance for impairment	(813 873 138)	(697 036 160)
	52 919 782	**54 369 698**

	2023	2022
Less: Allowance for impairment		
Current (0 -30 days)	(13 296 106)	(9 914 740)
31 - 60 days	(12 506 353)	(12 068 826)
61 - 90 days	(13 407 033)	(9 673 445)
91 days +	(774 663 646)	(665 379 148)
	(813 873 138)	**(697 036 159)**

	2023	2022
Reconciliation of allowance for impairment		
Balance at beginning of the year	(697 036 159)	(621 575 602)
Contributions to allowance	(116 836 979)	(75 460 557)
	(813 873 138)	**(697 036 159)**

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

Receivables from exchange transactions past due but not impaired

Receivables from exchange trasnactions which are less than 3 months past due are not considered to be impaired. At 30 June 2023, R 52 919 781 (2022: R 53 584 036) were past due but not impaired.

	2023	2022
Current (0 - 30 days):	5 087 752	16 118 072
31 - 60 days:	1 628 820	3 384 925
61 - 90 days:	1 540 238	9 134 665
91 days +	44 662 971	24 946 374

Receivables from exchange transactions impaired

As of 30 June 2023, receivables from exchange trasnactions of R (813 873 138) (2022: R (697 036 159)) were impaired and provided for.

	2023	2022
Current (0 - 30 days):	13 296 106	9 914 741
31 - 60 days:	12 506 353	8 283 771
61 - 90 days:	13 407 033	13 458 500
91 days:	774 663 646	665 379 150

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2023	2022
Bank balances	5 040 109	16 213 954
Short-term deposits	56 630	12 043 518
	5 096 739	**28 257 472**

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 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
ABSA BANK - 1930000309 (Primary Account)	345 920	16 213 954	30 244 609	345 920	16 213 954	30 244 609
FNB - 63038580949 (Primary Account)	4 694 189	-	-	4 694 189	-	-
ABSA Bank - 911851699 (General Call Account)	56 630	12 043 518	29 388 936	56 630	12 043 518	29 388 936
Total	**5 096 739**	**28 257 472**	**59 633 545**	**5 096 739**	**28 257 472**	**59 633 545**

Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

	2023			2022		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	15 369 773	-	15 369 773	14 735 885	-	14 735 885

Reconciliation of investment property - 2023

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	14 735 885	(98 006)	731 894	15 369 773

Reconciliation of investment property - 2022

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	14 587 085	(125 961)	274 761	14 735 885

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.

10. Investment property (continued)

Property valuations were performed by an independent , Mr Tinus Nel (registered with South African Council of Property Valuers (Pty) Ltd. i@Consulting (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, nuanced with the national house price index, was used to value investment properties. The sales comparison approach compares the subject property to similar properties that have sold under similar market conditions, and in the absence of comparable properties that were sold, the national house price index (FNB), moderated to local conditions, were used.

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.

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2023			2022		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	31 679 261	(5 186 489)	26 492 772	31 679 261	(5 559)	31 673 702
Buildings	86 941 487	(62 131 387)	24 810 100	83 244 744	(60 477 110)	22 767 634
Infrastructure	2 354 631 346	(1 530 179 222)	824 452 124	2 402 080 011	(1 460 924 673)	941 155 338
Community	143 070 283	(115 850 872)	27 219 411	139 515 575	(112 863 680)	26 651 895
Other property, plant and equipment	43 613 430	(26 546 562)	17 066 868	45 022 220	(25 398 901)	19 623 319
Work in progress	185 332 267	-	185 332 267	123 931 747	-	123 931 747
Total	**2 845 268 074**	**(1 739 894 532)**	**1 105 373 542**	**2 825 473 558**	**(1 659 669 923)**	**1 165 803 635**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	31 673 702	-	-	-	-	-	(5 180 930)	-	26 492 772
Buildings	22 767 634	4 436 003	(167 109)	-	-	(1 858 279)	(368 149)	-	24 810 100
Infrastructure	941 155 338	1 069 250	(40 396 830)	4 261 595	(4 868 589)	(44 211 754)	(32 629 243)	72 357	824 452 124
Community	26 651 895	3 801 358	(60 798)	-	-	(2 513 825)	(702 150)	42 931	27 219 411
Other property, plant and equipment	19 623 319	703 808	(327 124)	-	-	(2 941 582)	-	8 447	17 066 868
Work in progress	123 931 747	65 662 115	-	(4 261 595)	-	-	-	-	185 332 267
	1 165 803 635	**75 672 534**	**(40 951 861)**	**-**	**(4 868 589)**	**(51 525 440)**	**(38 880 472)**	**123 735**	**1 105 373 542**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Transfers received	Other changes, movements	Depreciation	Total
Land	31 673 702	-	-	-	-	31 673 702
Buildings	25 178 534	-	-	-	(2 410 900)	22 767 634
Infrastructure	951 824 548	-	54 954 782	(8 975 494)	(56 648 498)	941 155 338
Community	29 955 756	-	-	-	(3 303 861)	26 651 895
Other property, plant and equipment	22 112 972	1 229 808	-	-	(3 719 461)	19 623 319
Work in progress	144 091 941	34 794 588	(54 954 782)	-	-	123 931 747
	1 204 837 453	**36 024 396**	**-**	**(8 975 494)**	**(66 082 720)**	**1 165 803 635**

Pledged as security

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

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

11. Property, plant and equipment (continued)

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

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

	2023	2022
Pampierstad: Bulk Water Infrastructure Phase 2	26 112 781	26 112 781
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	2 628 875
Highmast Lighting 65056524020IGNEZZWM	275 140	275 140
Repairs & maintenance works to Phokwane Water Treatment Facilities	10 207 736	-
	101 865 479	**91 657 743**

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Total
Opening balance	121 302 871	2 628 875	123 931 746
Additions/capital expenditure	65 662 115	-	65 662 115
Transferred to completed items	(4 261 594)	-	(4 261 594)
	182 703 392	**2 628 875**	**185 332 267**

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**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

	2023	2022
Infrastructure	2 473 306	341 772
Community assets and buildings	69 964 756	53 741 849
	72 438 062	**54 083 621**

Deemed cost

Deemed cost was determined using depreciated replacement cost.

Notes to the Annual Financial Statements

Figures in Rand

12. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	6 473 434	(3 436 777)	3 036 657	6 897 780	(2 900 925)	3 996 855

Reconciliation of intangible assets - 2023

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	3 996 855	28 442	(6 093)	(982 547)	3 036 657

Reconciliation of intangible assets - 2022

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

Pledged as security

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

Notes to the Annual Financial Statements

Figures in Rand

13. Heritage assets

	2023			2022		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	17 728	-	17 728	17 728	-	17 728
Historical buildings, monuments and conservation areas	7 617 335	-	7 617 335	7 617 335	-	7 617 335
Total	**7 635 063**	**-**	**7 635 063**	**7 635 063**	**-**	**7 635 063**

Reconciliation of heritage assets 2023

	Opening balance	**Total**
Art Collections, antiquities and exhibits	17 728	17 728
Historical buildings, monuments and conservation areas	7 617 335	7 617 335
	7 635 063	**7 635 063**

Reconciliation of heritage assets 2022

	Opening balance	**Total**
Art Collections, antiquities and exhibits	17 728	17 728
Historical buildings, monuments and conservation areas	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.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

13. Heritage assets (continued)

Deemed costs

Deemed cost was determined using depreciated replacement cost.

14. Payables from exchange transactions

	2023	2022
Trade payables	591 496 168	419 848 883
Payments received in advanced	40 424 634	40 252 649
Retentions	10 345 154	5 650 848
Unallocated deposits	21 567 978	19 928 055
Staff leave accrual	15 146 270	10 339 567
Staff bonus accrual	3 151 692	2 340 274
Payroll control account	58 559	198 618
	682 190 455	**498 558 894**

15. Consumer deposits

	2023	2022
Electricity	1 083 160	872 823
Water	2 589 898	2 591 295
Housing rental	741 205	521 283
	4 414 263	**3 985 401**

16. Employee benefit obligations

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

	2023	2022
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(17 450 000)	(13 791 000)
Present value of the defined benefit obligation-partly or wholly funded	(6 619 000)	(6 285 000)
	(24 069 000)	**(20 076 000)**
Non-current liabilities	(22 293 000)	(18 682 000)
Current liabilities	(1 776 000)	(1 394 000)
	(24 069 000)	**(20 076 000)**

Benefits

	2023	2022
Post-retirement medical aid benefit	(16 785 000)	(13 272 000)
Long service awards	(5 508 000)	(5 410 000)
	(22 293 000)	**(18 682 000)**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

16. Employee benefit obligations (continued)

Post retirement benefits

Post Retirement Medical Aid Benefit		
Balance 1 July	(13 791 000)	(12 971 000)
Contribution for the year	(3 737 000)	(445 000)
Interest cost	(1 598 000)	(1 274 000)
Benefits paid during the year	602 576	529 074
Actuarial gains/(losses)	1 073 424	369 926
	(17 450 000)	(13 791 000)
Less: Transfer to current portion	665 000	519 000
	(16 785 000)	**(13 272 000)**

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

Members		
Current (In service) members	114	96
Continuation members (pensioners)	12	10
	126	**106**

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

Liability		
Current (In service) members	11 233 000	9 271 000
Continuation members (pensioners)	6 217 000	4 520 000
	17 450 000	**13 791 000**

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	12,50%	11,81%
CPI (Consumer Price Inflation)	6,61%	6.92%
Health Care Cost Inflation Rate	8,11%	8,42%

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.

Consequently, a discount rate of 12.50% per annum has been used. The corresponding index-linked yield at this term is 5.06%. 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 2023..

16. Employee benefit obligations (continued)

These yields were obtained by calculating the duration of the total liability and then taking the fixed-interest and index-linked yields from the respective yield curves at that duration using an iterative process (because the yields depend on the duration, which in turn depends on the liability). The two main components of the liability, and their respective durations, are shown in table below.

Component	Duration (Years)
In-service members' retirement liability	21,13
Continuation members' liability	7,99
Liability-weighted average	**16,50**

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 8.11% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.61%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 4.06% which derives from ((1+12.50%)/(1+8.11%))-1.

The inflation assumption of 6.61% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (5.06%) and those of fixed interest bonds (12.50%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+12.50%-0.50%)/(1+5.06%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2024.

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.

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

Withdrawal rates:

Age Band	Withdrawal rate males

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

16. Employee benefit obligations (continued)

20 - 24	9%
25 - 29	8%
30 - 34	6%
35 - 39	5%
40 - 44	5%
45 - 49	4%
50 - 54	3%
55+	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.

Proportion of Eligible In-Service Non-Members Joining a Scheme by Retirement

It has been assumed that 0% of eligible in-service non-members will be on a medical scheme by retirement (should they not exit employment before then) and continue with the subsidy at and after 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

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

16. Employee benefit obligations (continued)

Assumption	Change	% Change	Eligible employees	Continuation members	Total liability
Central assumptions			11 233 000	6 217 000	17 450 000
Health care inflation rate	+1%	15%	13 309 000	6 705 000	20 014 000
Health care inflation	-1%	-12%	9 564 000	5 784 000	15 348 000
Discount rate	+1%	-12%	9 635 000	5 803 000	15 438 000
Discount rate	-1%	14%	13 239 000	6 689 000	19 928 000
Post-employment mortality	+1%	-3%	10 950 000	5 990 000	16 940 000
Post-employment mortality	-1%	3%	11 512 000	6 445 000	17 957 000
Average retirement age	-1%	6%	12 300 000	6 217 000	18 517 000
Membership continuation	-10%	-9%	9 736 000	6 217 000	15 953 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2023:

Assumption	Change	% Change	Current service cost	Interest cost	Total liability
Central assumptions			461 000	1 598 000	2 059 000
Health care inflation rate	+1%	5%	490 000	1 662 000	2 152 000
Health care inflation	-1%	-7%	417 000	1 507 000	1 924 000
Discount rate	+1%	-7%	384 000	1 540 000	1 924 000
Discount rate	-1%	8%	557 000	1 661 000	2 218 000
Post-employment mortality	+1%	-3%	448 000	1 550 000	1 998 000
Post-employment mortality	-1%	3%	473 000	1 644 000	2 117 000
Average retirement age	-1%	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	(6 285 000)	(5 627 000)
Current service cost	(649 000)	(613 000)
Interest cost	(637 000)	(488 000)
Benefits paid during the year	397 931	279 213
Actuarial gains/(losses)	554 069	163 787
Subtotal	(6 619 000)	(6 285 000)
Less: Transfer to current portion	1 111 000	875 000
Balance 30 June	**(5 508 000)**	**(5 410 000)**

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

Figures in Rand	2023	2022

16. Employee benefit obligations (continued)

Total eligible		
As at year end, the following number of employees were eligible for long service bonuses	341	330

Key actuarial assumptions used:

Discount rate	11,15%	10,87%
General earnings inflation rate	6,50%	7,33%
Net Effective Discount Rate	4,36%	3,30%

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 assumations

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%

Sensetivity 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.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

16. Employee benefit obligations (continued)

Sensitivity Analysis on the Accrued Liability

Assumption	Change	% Change	Liability
Central assumptions			6 619 000
General earnings inflation rate	+1%	5%	6 965 000
General earnings inflation rate	-1%	-5%	6 300 000
Discount rate	+1%	-5%	6 294 000
Discount rate	-1%	5%	6 977 000
Average retirement age	+2% yr	8%	7 120 000
Average retirement age	-2% yr	-11%	5 864 000
Withdrawal rates age	x2	-17%	5 471 000
Withdrawal rates age	x0,5	11%	7 379 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2023:

Assumption	Change	% Change	Current service cost	Interest cost	Total liability
Central assumptions			649 000	637 000	1 286 000
General earnings inflation rate	+1%	6%	694 000	674 000	1 368 000
General earnings inflation rate	-1%	-6%	609 000	602 000	1 211 000
Discount rate	+1%	-1%	613 000	657 000	1 270 000
Discount rate	-1%	1%	689 000	613 000	1 302 000
Average retirement age	+2% yr	7%	691 000	687 000	1 378 000
Average retirement age	-2% yr	-11%	592 000	557 000	1 149 000
Withdrawal rates	x2	-22%	493 000	513 000	1 006 000
Withdrawal rates	x0,5	15%	759 000	720 000	1 479 000

17. 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
Water Service Operating Grant (WSOG)	8 404 450	8 433 822
INEP	870 194	1 389 825
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)	22 940 724	23 020 420
Expanded Public Works Program (EPWP)	10 530	10 530
Disaster Management Grant	-	3 843 698
	36 612 885	**43 935 633**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

17. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	43 935 633	46 624 627
Additions during the year	189 386 000	158 465 001
Income recognition during the year	(176 097 748)	(141 153 995)
Income recognition during the year	(20 611 000)	(20 000 000)
	36 612 885	**43 935 633**

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 25 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

18. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	129 826 864	(8 676 568)	12 513 829	133 664 125

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

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 the following landfill sites namely Ganspan. These landfill sites currently in use and the Municipality 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 (2022 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 markert closed on 30 June 2023 (2022) reduced by the contract price adjustment index (CPAF) as obtained from the South African Forum of Civil Engineering Contractors (SAFCEC).

Municipal site	Year	2023 Provision	2022 Provision	2021 Provision
Old Hartswater	2016	36 072 925	34 105 665	34 429 032
New Hartswater	2021	5 254 110	6 099 414	5 785 327
Jan Kempdorp	2015	13 482 392	13 103 640	12 547 306
Ganspan	2016	70 250 885	66 601 461	67 274 037
Pampierstad	2016	8 603 813	9 916 687	9 409 032
		133 664 125	**129 826 867**	**129 444 734**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

19. Revenue

Service charges	146 980 371	154 690 335
Rental of facilities and equipment	20 003	1 091 546
Interest received (trading)	58 337 743	33 056 086
Licences and permits	1 775 651	1 807 727
Commissions received	660 773	606 790
Discount received	-	301 529
Other income	263 074	524 823
Interest received - investment	1 211 299	1 623 236
Property rates	40 002 053	30 328 625
Government grants & subsidies	176 097 749	141 153 994
Fines, Penalties and Forfeits	100 688	47 309
Interest received (trading)	14 705 118	7 612 728
	440 154 522	**372 844 728**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	146 980 371	154 690 335
Rental of facilities and equipment	20 003	1 091 546
Interest received - Receivable from exchange transactions	58 337 743	33 056 086
Licences and permits	1 775 651	1 807 727
Commissions received	660 773	606 790
Discount received	-	301 529
Other income	263 074	524 823
Interest received - investment	1 211 299	1 623 236
	209 248 914	**193 702 072**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	40 002 053	30 328 625
Transfer revenue		
Government grants & subsidies	176 097 749	141 153 994
Fines, Penalties and Forfeits	100 688	47 309
Interest received - Receivables from non-exchange transactions	14 705 118	7 612 728
	230 905 608	**179 142 656**

20. Service charges

Sale of electricity	80 792 349	81 589 303
Sale of water	33 094 539	42 327 413
Sewerage and sanitation charges	19 618 414	18 274 319
Refuse removal	13 475 069	12 499 300
	146 980 371	**154 690 335**

21. Rental of facilities and equipment

Premises		
Premises	20 003	1 091 546

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

22. Other revenue

Commissions received	660 773	606 790
Discount received	-	301 529
Other income	263 074	524 823
	923 847	**1 433 142**

23. Investment revenue

Interest revenue		
Bank	373 172	788 361
Deposits	838 127	834 875
	1 211 299	**1 623 236**

24. Property rates

Rates received

Residential	8 052 061	7 243 611
Commercial	17 127 069	9 125 727
State	385 246	393 044
Small holdings and farms	14 437 677	13 566 243
	40 002 053	**30 328 625**

Valuations

Residential	1 578 020 200	1 823 388 300
Commercial	751 175 400	1 046 756 000
State	836 052 200	326 917 000
Small holdings and farms	6 685 818 100	6 529 357 000
	9 851 065 900	**9 726 418 300**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

25. Government grants & subsidies

Operating grants		
Equitable share	126 099 000	114 939 000
Finance Management Grant	3 100 000	723 198
Library grant	1 200 000	-
	130 399 000	**115 662 198**
Capital grants		
Municipal Infrastructure Grant (MIG)	24 604 133	3 894 953
Disaster Management Grant	-	2 613 302
Intergrated National Electrification Grant	14 129 806	5 467 317
Water Systems Operating Grant	6 964 810	13 516 224
	45 698 749	**25 491 796**
	176 097 749	**141 153 994**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	49 998 749	26 214 994
Unconditional grants received	126 099 000	114 939 000
	176 097 749	**141 153 994**

Equitable Share

Current-year receipts	105 488 000	94 939 000
Conditions met - transferred to revenue	(126 099 000)	(114 939 000)
Surrendered	20 611 000	20 000 000
	-	**-**

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	169 582	169 582

Conditions still to be met - remain liabilities (see note 17).

COGHSTA Grant

Balance unspent at beginning of year	42 778	42 778

Conditions still to be met - remain liabilities (see note 17).

Finance Management Grant

Balance unspent at beginning of year	2 850 351	1 089 387
Current-year receipts	3 100 000	3 000 000
Conditions met - transferred to revenue	(3 100 000)	(723 198)
Surrendered	(2 850 351)	(515 838)
	-	**2 850 351**

Conditions still to be met - remain liabilities (see note 17).

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

25. Government grants & subsidies (continued)

Water System Operating Grant

Balance unspent at beginning of year	8 433 822	11 301 376
Current-year receipts	14 449 000	16 000 000
Conditions met - transferred to revenue	(6 964 810)	(13 516 224)
Surrendered	(7 513 562)	(5 351 330)
	8 404 450	**8 433 822**

Conditions still to be met - remain liabilities (see note 17).

Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	1 389 825	3 527 412
Current-year receipts	15 000 000	5 000 000
Conditions met - transferred to revenue	(14 129 806)	(5 467 317)
Surrendered	(1 389 825)	(1 670 270)
	870 194	**1 389 825**

Conditions still to be met - remain liabilities (see note 17).

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 17).

Library Grant

Balance unspent at beginning of year	2 399 126	2 399 126
Current-year receipts	1 200 000	-
Conditions met - transferred to revenue	(1 200 000)	-
	2 399 126	**2 399 126**

Conditions still to be met - remain liabilities (see note 17).

NC Public Works Grant

Balance unspent at beginning of year	312 375	312 375

Conditions still to be met - remain liabilities (see note 17).

Municipal Infrastructure Grant

Balance unspent at beginning of year	23 020 420	26 299 467
Current-year receipts	29 538 000	13 069 000
Conditions met - transferred to revenue	(24 604 133)	(3 894 953)
Surrendered	(5 013 563)	(12 453 094)
	22 940 724	**23 020 420**

Conditions still to be met - remain liabilities (see note 17).

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

25. Government grants & subsidies (continued)

Expanded Public Works Programme Grant

Balance unspent at beginning of year	10 530	20 000
Surrendered	-	(9 470)
	10 530	**10 530**

Conditions still to be met - remain liabilities (see note 17).

Disaster management grant

Balance unspent at beginning of year	3 843 698	-
Current-year receipts	-	6 457 000
Conditions met - transferred to revenue	-	(2 613 302)
Surrendered	(3 843 698)	-
	-	**3 843 698**

Conditions still to be met - remain liabilities (see note 17).

26. Fines, Penalties and Forfeits

Building Fines	100 688	47 309

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

27. Employee related costs

Basic	74 081 525	65 707 123
Bonus	6 304 675	5 265 745
Medical aid - company contributions	7 498 201	3 676 813
UIF	693 169	630 739
SDL	816 500	742 044
Other payroll levies	45 230	42 797
Leave pay provision charge	5 528 772	988 718
Travel, motor car, accommodation, subsistence and other allowances	2 354 136	2 561 339
Overtime payments	6 619 253	5 457 927
Long-service awards	649 000	613 000
Acting allowances	656 267	419 839
Housing benefits and allowances	147 718	135 996
Termination benefits	11 934 985	11 315 569
	117 329 431	**97 557 649**

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

Acting allowance	-	57 358
Car Allowance	-	87 909
Contributions to UIF, Medical and Pension Funds	-	1 419
	-	**146 686**

Remuneration of the Acting Municipal Manager - Me BP Mgaguli: (Oct 2021 - June 2022):

Acting Allowance	85 720	77 148
Car Allowance	377 867	228 011
Contributions to UIF, Medical and Pension Funds	4 919	2 541
Other	15 000	13 500
	483 506	**321 200**

Remuneration of the Municipal Manager - Mr Z Nikani: (May 2023 - June 2023):

Annual Remuneration	123 862	-
Car Allowance	37 131	-
Remote allowance	7 606	-
Contributions to UIF, Medical and Pension Funds	26 388	-
	194 987	**-**

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

Acting Allowance	55 818	68 056
Annual Remuneration	642 091	613 335
Car allowance	95 779	127 705
Contributions to UIF, Medical and Pension Funds	185 501	172 708
Other	6 000	6 000
	985 189	**987 804**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

27. Employee related costs (continued)

Remuneration of the Acting Chief Financial Office - Ms KP Modise: (March 2023 - May 2023):

Acting allowance	16 360	-
Annual Remuneration	581 378	-
Car allowance	31 926	-
Contributions to UIF, Medical and Pension Funds	157 615	-
Other	6 000	-
	793 279	**-**

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

Annual Remuneration	136 284	428 371
Car Allowance	-	126 363
Remote allowance	-	25 359
Contributions to UIF, Medical and Pension Funds	1 363	113 981
Other	-	20 400
	137 647	**714 474**

Remuneration of the Director of Acting Corporate Services - Mr BB Marima: (1 July 2021 - 30 June 2023):

Acting	93 250	-
Annual Remuneration	852 000	695 807
Car Allowance	150 494	53 033
Remote allowance	6 018	-
Contributions to UIF, Medical and Pension Funds	185 205	173 832
Other	5 136	558 464
	1 292 103	**1 481 136**

28. Remuneration of councillors

Councillors	7 812 680	7 033 816

Remuneration of the Mayor: OS Tumodi

Mayoral Allowance	-	464 698
Transport Allowance	-	22 140
Telephone Allowance	-	31 943
Contributions to pension, medical and SDL	-	10 495
	-	**529 276**

Remuneration of the Speaker: RP Selogilwe

Speaker Allowance	-	594 629
Telephone Allowance	-	35 397
	-	**630 026**

Remuneration of the Mayor: TB Afrika

Mayoral Allowance	909 788	-
Transport Allowance	34 945	-
Telephone Allowance	37 200	-
Contributions to pension, medical and SDL	17 468	-
	999 401	**-**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

28. Remuneration of councillors (continued)

Remuneration of the Speaker: W Harmse		
Mayoral Allowance	125 698	-
Telephone Allowance	16 913	-
Contributions to pension, medical and SDL	19 954	-
	162 565	**-**

Remuneration of the Councillors:		
Councillor Allowance	5 472 753	4 936 098
Transport Allowance	65 655	6 860
Telephone Allowance	668 857	754 788
Contributions to pension, medical and SDL	443 448	176 768
	6 650 713	**5 874 514**

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

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

29. Depreciation and amortisation

Property, plant and equipment	51 525 440	66 082 720
Intangible assets	982 547	1 986 283
	52 507 987	**68 069 003**

30. Finance costs

Employee benefit obligation	2 235 000	1 762 000
Landfill provision	12 513 829	9 641 752
Trade and other payables	22 295 447	8 965 456
	37 044 276	**20 369 208**

31. Debt impairment

Debt impairment	147 095 398	106 355 410

32. Bulk purchases

Electricity - Eskom	82 782 251	81 563 619

Notes to the Annual Financial Statements

Figures in Rand		2023	2022

33. General expenses

Advertising		510 109	1 454 034
Auditors remuneration	35	7 795 109	3 733 931
Bank charges		316 180	752 119
Commission paid		223 229	511 544
Computer expenses		-	160 160
Consulting and professional fees		20 839 506	18 908 784
Entertainment		417 700	-
Hire		575 123	435 269
Insurance		20 309	2 963 084
Motor vehicle expenses		348 428	467 275
Printing and stationery		62 417	87 422
Protective clothing		807 700	3 291 487
Inventory consumed - water bulk purchases		60 783 469	55 839 812
Inventory consumed		72 438 062	54 083 621
Security (Guarding of municipal property)		17 285 994	6 363 606
Subscriptions and membership fees		965 845	1 022 769
Telephone and fax		302 267	1 179 253
Training		172 578	80 447
Travel - local		1 113 291	338 926
Expense 1		59 722	-
Sample analysis		173 813	221 568
		185 210 851	**151 895 111**

34. Fair value adjustments

Investment property (Fair value model)	731 894	274 761

35. Auditors' remuneration

Fees	7 795 109	3 733 931

36. Cash generated from operations

Deficit	(263 273 682)	(159 032 472)
Adjustments for:		
Depreciation and amortisation	52 507 987	68 069 003
Gain on sale of assets and liabilities	40 932 225	125 982
Fair value adjustments	(731 894)	(274 761)
Impairment deficit	38 880 472	-
Debt impairment	147 095 398	106 355 410
Movements in retirement benefit assets and liabilities	3 993 000	1 478 000
Movements in provisions	8 705 850	9 357 627
Changes in working capital:		
Inventories	991 517	(402 684)
Other receivables from exchange transactions	7 062 198	(36 512 675)
Consumer debtors	(145 645 482)	(136 207 227)
Other receivables from non-exchange transactions	(4 334 482)	8 952 292
Statutory receivables	521 282	-
Payables from exchange transactions	183 631 564	135 983 890
VAT	(10 901 824)	10 113 311
Unspent conditional grants and receipts	(7 322 748)	(2 688 996)
Consumer deposits	428 862	4 401
	52 540 243	**5 321 101**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

37. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	34 231 805	34 231 805
Receivables from exchange transactions	52 919 782	52 919 782
Cash and cash equivalents	5 096 739	5 096 739
	92 248 326	**92 248 326**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	682 190 455	682 190 455
Consumer deposits	4 414 263	4 414 263
	686 604 718	**686 604 718**

2022

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	41 294 003	41 294 003
Receivables from exchange transactions	54 369 698	54 369 698
Cash and cash equivalents	28 257 472	28 257 472
	123 921 173	**123 921 173**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	498 558 894	498 558 894
Consumer deposits	3 985 401	3 985 401
	502 544 295	**502 544 295**

38. Commitments

Authorised capital expenditure

	2023	2022
Already contracted for but not provided for		
• Property, plant and equipment	15 420 624	22 024 206
Total capital commitments		
Already contracted for but not provided for	15 420 624	22 024 206

The commitments are exclusive of VAT.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

39. Contingencies

Contingent liabilities

The following litigations have been raised against the municipality:

	2023	2022
CCG (Pty) Ltd vs Phokwane Local Muncipality The Municipality terminated the contract on the basis of affordability of the Mscoa System	8 000 000	8 000 000
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
Dephetogo Security Services vs Phokwane Local Municipality Contract terminated without lawful reason	3 600 000	3 600 000
UMS vs Phokwane Local Municipality Breah of contract	3 200 000	3 200 000
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 non-compliance with environmental legislation, Health and Safety. Sewer spilling into business premises. Business closed as a result. Demanding Imprisonment of Accounting Officer	5 000 000	5 000 000
Mokgalagadi vs Phokwane Local Muncipality Alleged unfair dismissal, fixed contract ended and claims permanent employment	-	800 000
Adv. MC Mogale vs Phokwane Local Muncipality Unfair dismisal, claiming reinstatement	-	-
Moya vs Phokwane Local Muncipality Unfair dismisal, claiming compensation	-	-
Monnaemeng Trading vs Phokwane Local Municipality Alleged breach of contract	220 000	-
VJB Trading & Projects vs Phokwane Local Municipality Alleged breach of contract	184 198	-
Phage & Moadi vs Phokwane Local Municipality Alleged breach of contract	208 502	-
Total	**30 812 700**	**31 000 000**

Notes to the Annual Financial Statements

Figures in Rand		2023	2022

40. Related parties

Relationships

Interest in related parties	Councillors and /or management of the municipality
Services rendered to related parties	The services rendered to related parties are charged at the approved tarrifs that were advertised to the public. We have disclosed this information under the heading councillors arrear consumer accounts. Refer to 47
Compensation of related parties	Compensation of key management personnel 27
Compensation of related parties	Compensation of councillors 28
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 reationship 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

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

Remuneration of management

Management class: Executive management

2023

Name	Acting allowance	Annual remuneration	Car allowance	Remote Allowance	Contribution to UIF, Medical and pension funds	Other allowance	Total
Senior Management	251 148	2 335 615	693 198	18 543	556 071	32 136	3 886 711

2022

Name	Acting allowance	Annual remuneration	Car allowance	Remote Allowance	Contribution to UIF, Medical and pension funds	Other allowance	Total
Senior Management	202 561	1 737 514	623 021	25 359	464 482	598 364	3 651 301

Notes to the Annual Financial Statements

41. 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.

2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	4 414 263	-	-	-
Employee benefit obligation	1 776 000	-	-	-
Payables from exchange transactions	682 190 455	-	-	-
Unspent conditional grants and receipts	36 612 885	-	-	-
	724 993 603	**-**	**-**	**-**

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 oblgation	1 394 000	-	-	-
Payables from exchange transactions	498 558 894	-	-	-
Unspent conditional grants and receipts	43 935 633	-	-	-
	547 873 928	**-**	**-**	**-**

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, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

41. Risk management (continued)

Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

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.

42. Going concern

We draw attention to the fact that at 30 June 2023, the municipality's current liabilities exceeds it's current assets by R 570 725 850 (2022: R 375 656 835). Further, the municipality recorded a deficit of R 263 273 682 (2022: deficit R 159 032 472) for financial period ended 30 June 2023. The major contributors to the deficits are increases in depreciation, finance costs, debt impairment and employee related costs.

We would also want to draw attention to the fact that at 30 June 2023, the following additional factors, among others, existed at the reporting date. These factors do not, however, cause any material uncertainty regarding the ability of the municipality to continue as a going concern. Management decided to include them to provide more information to the users.

1. The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.
2. There were rollover applications that were rejected by National Treasury. The main reasons for the rejection were the municipality's failure to (a) submit the AFS by the legislated date, (b) spend conditional grant and (c) appoint senior managers. As such, some of the unspent grants were taken back to the fiscus. Submission of the AFS has since been rectified and processes to appoint senior managers are currently progressing well. There has also been an improvement regarding capital grant spending by the municipality.
3. The municipality experienced cash flow problems during the year, which resulted in major creditors e.g. Eskom not being paid timeously.
4. Electricity distribution losses (technical and non-technical) have increased to 57% (2022: 57%) and the water distribution losses has decreased to 76% from (2022: 67%).

Due to the fact that there is no material uncertainty about 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.

It should, however, be noted that the ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality. Furthermore the municipality should ensure that they embark 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 (credit control and cost containment measures), minimising distribution losses and Council approved initiatives.

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.

43. Events after the reporting date

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

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

44. Unauthorised expenditure

Opening balance as previously reported	1 264 829 982	1 100 592 360
Add: Unauthorised expenditure - current	333 563 207	164 237 622
Less: Amount recovered - current	-	-
Less: Amount recovered - prior period	-	-
Less: Approved/condoned/authorised by council	-	-
Closing balance	**1 598 393 189**	**1 264 829 982**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

45. Fruitless and wasteful expenditure

	2023	2022
Opening balance as previously reported	45 130 235	36 163 103
Add: Fruitless and wasteful expenditure identified - current	22 295 447	8 967 132
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	**67 425 682**	**45 130 235**

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	2023	2022
Interest on late payments	Management is initiating an investigation into the cause for fruitless and wasteful expenditure as disclosed and as required in the MFMA	22 295 447	8 967 132

46. Irregular expenditure

	2023	2022
Opening balance as previously reported	342 530 781	307 886 647
Add: Irregular expenditure - current	34 117 187	34 644 134
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	**376 647 968**	**342 530 781**

Notes to the Annual Financial Statements

Figures in Rand		2023	2022

46. 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 Supply chain management regulation in terms MFMA	Management is initiating an investigation to cause for irregular expenditure in line with MFMA requirements.	34 117 187	34 644 134

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 016 341	-
Current year subscription / fee	1 104 972	1 016 341
Amount paid - previous years	(1 016 341)	-
	1 104 972	**1 016 341**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

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

Material losses

	2023	2022
Electricity distribution losses (KWh)		
KWh purchased	41 419 808	47 606 182
KWh sold	(17 774 792)	(20 331 460)
KWh losses	**23 645 016**	**27 274 722**
% losses	57	57
Average cost per KWh unit	1.16	1,07
Loss in Rand value	**27 428 219**	**29 355 156**
Water distribution losses (Mega litres)		
Mega litres purchased	5 398 269	5 242 943
Mega litres sold	(1 311 727)	(1 735 941)
Mega litres losses	**4 086 542**	**3 507 002**
% losses	76	67
Average cost per unit	5,25	4,97
Loss in Rand value	**21 545 346**	**17 415 338**

Audit fees

	2023	2022
Opening balance	-	26 343
Current year subscription / fee	7 077 594	4 307 610
Amount paid - current year	(6 304 743)	(4 307 610)
Amount paid - previous years	-	(26 343)
	772 851	-

PAYE and UIF

	2023	2022
Current year subscription / fee	13 960 528	10 150 790
Amount paid - current year	(13 960 528)	(10 150 790)
	-	-

Pension and Medical Aid Deductions

	2023	2022
Current year subscription / fee	25 117 903	22 334 256
Amount paid - current year	(25 117 903)	(22 334 256)
	-	-

VAT

	2023	2022
VAT receivable	37 377 097	26 475 273

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

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

47. 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 2023:

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor TB Afrika	1 408	16 744	18 152
Councillor W Harmse	5 337	138 510	143 847
Councillor E Davies	12 446	-	12 446
Councillor MT van Wyk	4 750	62 462	67 212
Councillor RP Selogilwe	4 897	169 365	174 262
Councillor MA va Wyk	5 019	160 779	165 798
Councillor NS Pitso	4 465	108 814	113 279
Councillor MM Setlhogomi	1 656	48 425	50 081
Councillor GG Halter	1 518	18 024	19 542
Councillor OS Tomudi	1 056	6 283	7 339
Councillor N Peters	2 039	65 520	67 559
Councillor SM Khosa	1 561	30 100	31 661
Councillor TK Mocumi	2 224	65 320	67 544
Councillor SM Mokgobo	3 656	135 253	138 909
Councillor MP Mohale	6 128	107 539	113 667
Councillor E Meyer	154	2 690	2 844
Councillor LA le Roux	(4 361)	-	(4 361)
Councillor TG Diloke	-	(210)	(210)
	53 953	**1 135 618**	**1 189 571**

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	1 506	61 399	62 905
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
	38 391	**771 777**	**810 168**

Figures in Rand	2023	2022

48. 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.

2023	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000	Total
Emergency	-	883 586	29 490 212	30 373 798
Other	-	941 229	6 563 005	7 504 234
	-	**1 824 815**	**36 053 217**	**37 878 032**

2022	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000	Total
Emergency	-	528 907	9 537 617	10 066 524
Other	-	725 386	17 212 423	17 937 809
	-	**1 254 293**	**26 750 040**	**28 004 333**

49. Licences and permits

	2023	2022
Motor vehicle licenses and permits	1 775 651	1 807 727

50. Prior period errors

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

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

50.1. Prior period error - Overstatement of payables from exchange transactions

During the period under review it was noted that payables from exchange transactions were overstated to creditors that were incorrectly raised as they were already paid during the yerar. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in payables from exchange transactions	1 779 845
Decrease in VAT receivable	(168 175)
	1 611 670
Statement of financial performance	
Decrease in general expenses	(1 611 670)

50.2. Prior period error - Overstatement of finance lease obligations

During the period under review it was noted that finance lease obligation was overstated with finance leases that had been settled at 30 June 2021. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

50. Prior period errors (continued)

Statement of financial position	
Decrease finance lease obligation	103 949
Increase in accumulated surplus	(103 949)
	-

50.3. Prior period error - Inventory misstated due to differerence between inventory sub-ledger and general ledger

During the period under review it was noted that a difference existed between the inventory sub-ledger and the inventory control accounts in the general ledger at 30 June 2021. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in inventories	(19 298)
Decrease in accumulated surplus	19 298
	-

50.4. Prior period error - Infrastructure asset register misstated due to ommissions / incorrect inclusions of certain assets:

During the period under review it was noted that the infrastructure asset register was misstated due to the ommission and incorrect inclusion of certain municipal and non-municipal assets at 30 June 2021. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in infrastructure assets	178 833
Increase in accumulated surplus	(388 633)
	(209 800)
Statement of financial performance	
Increase in depreciation and amortisation	209 800

50.5. Prior period error - Community asset register misstated due to ommissions / incorrect inclusions of certain assets:

During the period under review it was noted that the community asset register was misstated due to the ommission and incorrect inclusion of certain municipal and non-municipal assets at 30 June 2021. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in community assets	4 079 106
Increase in accumulated surplus	(4 271 755)
	(192 649)
Statement of financial performance	
Increase in depreciation and amortisation	192 649

50.6. Prior period error - Investment property register misstated due incorrect recognition of land which is not in the name of the muniicipality:

Figures in Rand	2023	2022

50. Prior period errors (continued)

During the period under review it was noted that the investment property register for the year ended 30 June 2021 was misstated due to the incorrect inclusion of items sold prior to 30 June 2021 along with the incorrect inclusion of land not in the name of the municipality at 30 June 2021. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in investment property	(9 706 284)
Decrease in accumulated surplus	9 399 340
	(306 944)
Statement of financial performance	
Decrease in fair value adjustments	180 981
Increase in gain / (loss) on disposal of assets and liabilities	125 963
	306 944

50.7. Prior period error - Buildings register misstated due ommissions of certain assets:

During the period under review it was noted that the building asset register was misstated due to the ommission of certain municipal assets at 30 June 2021. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in buildings	2 030 967
Increase in accumulated surplus	(2 145 321)
	(114 354)
Statement of financial performance	
Increase in depreciation and amortisation	114 354

50.8. Prior period error - Other receivables from exchange transactions were misstated for the year ended 30 June 2022:

During the period under review it was noted that other receivables from exchange transactions were misstated due to certain suspnese account items not being cleared. The comparative statements for 2021/22 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in other receivables from exchange transactions	1 816 818
Statement of financial performance	
Increase in license and permits	(1 471 883)
Increase in commission received	(344 935)
	(1 816 818)

51. Compensation received for agency activities

Commission	375 946	344 936

Reconciliaiton of Agency Funds and Disbursements - 2023

Principal name	Total agency funds received	Amount remitted to the principal	Variance
Department of transport	4 211 329	(3 835 383)	375 946

The reason for the above variance is due to 12% commission witheld by the municipality.

Reconciliaiton of Agency Funds and Disbursements - 2022

Principal name	Total agency funds received	Amount remitted to the principal	Variance
Department of transport	3 870 969	(3 526 033)	344 936

The reason for the above variance is due to 12% commission witheld by the municipality.

52. Segment information

General information

Identification of segments

The municipality is organised according to functions and reports on a monthly basis on their actuals. Decisions are made regularly regarding resources to be allocated to different functions. Segments are therefore identified as the different municipal functions as on Schedule B of the budget.

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

Aggregated segments

The municipality operates throughout the Hartswater, Jan Kempdorp and Pampierstad area. Segments have been aggregated based on the organisational structure as on the budget.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment	**Goods and/or services**
Executive and Council	Governing the municipality
Finance and Administration	Providing support functions to the municipality
Community and Social Services	Providing other services to the community
Public Safety	Ensuring public safety and providing services such as traffic law enforcement.
Planning and Development	Town planning and administration
Road Transport	Economic development and protections services
Environmental Protection	Enviromental protecion services
Energy Sources	Providing basic services to the community such as water, electricity, sewerage and refuse.
Waste Management	Providing basic services to the community such as water, electricity, sewerage and refuse.
Waste Water Management	Providing basic services to the community such as water, electricity, sewerage and refuse.
Water Management	Providing basic services to the community such as water, electricity, sewerage and refuse.

Information about geographical areas:

The municipality's operations are in the Hartswater, Jan Kempdorp and Pampierstad area.

The municipality does not regularly review nor report on the results of the different areas within Hartswater, Jan Kemp Dorp or Pampiersatd, therefore there are no reportable segments relating to geography.

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52. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Executive and Council	Finance and Administration	Community and Social Services	Planning and Development	Public Safety	Environmental Protection	Road Transport	Energy Sources	Water, Waste & Waste water management	Total
Revenue										
Revenue from exchange transactions	-	6 470 402	75	-	1 775 651	34 765	-	87 211 046	117 564 956	213 056 895
Revenue from non-exchange transactions	-	57 807 170	127 365 188	-	34 500	-	24 604 133	14 129 806	6 964 810	230 905 607
Total segment revenue	**-**	**64 277 572**	**127 365 263**	**-**	**1 810 151**	**34 765**	**24 604 133**	**101 340 852**	**124 529 766**	**443 962 502**
Entity's revenue										**443 962 502**
Expenditure										
Remuneration of Council	7 812 680	-	-	-	-	-	-	-	-	7 812 680
Salaries and wages	72 243 107	10 196 779	1 725 950	-	-	-	12 131 871	7 189 800	11 157 104	114 644 611
Bulk purchases	-	-	-	-	-	-	-	82 782 251	898 800	83 681 051
Debt impairment	-	-	-	-	-	-	-	-	147 095 398	147 095 398
Depreciation and amortisation	982 547	2 941 582	-	-	-	-	4 372 104	44 211 754	-	52 507 987
Contracted services	6 335 553	22 082 228	17 287 729	215 098	-	-	-	223 229	59 722	46 203 559
General expenses	3 709 463	2 531 951	70 027 173	-	-	-	1 644 510	-	62 880 215	140 793 312
Finance costs	-	37 044 276	-	-	-	-	-	-	-	37 044 276
Gains and losses	(731 894)	(1 302 723)	98 006	-	-	-	-	45 505 402	33 884 519	77 453 310
Total segment expenditure	**90 351 456**	**73 494 093**	**89 138 858**	**215 098**	**-**	**-**	**18 148 485**	**179 912 436**	**255 975 758**	**707 236 184**
Total segmental surplus/(deficit)	**(90 351 456)**	**(9 216 521)**	**38 226 405**	**(215 098)**	**1 810 151**	**34 765**	**6 455 648**	**(78 571 584)**	**(131 445 992)**	**(263 273 682)**

Notes to the Annual Financial Statements

Figures in Rand

52. Segment information (continued)

Management does not evaluate the assets and liabilities of the relevant sections, nor makes decisions about allocating resources, therefore assets and liabilities do not meet the definition of a segment in terms of GRAP 18.

2022

	Executive and Council	Finance and Administration	Community and Social Services	Public Safety	Environmental Protection	Road Transport	Energy Sources	Water, Waste & Waste water management	Total
Revenue									
Revenue from exchange transactions	-	3 146 096	1 042 178	1 753 434	35 245	-	85 557 001	102 366 070	193 900 024
Revenue from non-exchange transactions	-	41 277 854	114 986 309	86 172	-	3 894 953	5 467 317	13 516 224	179 228 829
Total segment revenue	**-**	**44 423 950**	**116 028 487**	**1 839 606**	**35 245**	**3 894 953**	**91 024 318**	**115 882 294**	**373 128 853**
Entity's revenue									**373 128 853**
Expenditure									
Remuneration of Council	7 033 816	-	-	-	-	-	-	-	7 033 816
Salaries and wages	65 029 237	5 553 602	1 989 757	-	-	11 500 949	5 558 054	6 634 463	96 266 062
Bulk purchases	-	-	-	-	-	-	81 563 619	55 839 812	137 403 431
Debt impairment	-	-	-	-	-	-	-	106 355 410	106 355 410
Depreciation and amortisation	1 986 283	-	-	-	-	307 003	209 800	65 565 917	68 069 003
Contracted services	8 735 171	12 992 576	6 365 324	-	-	243 100	511 544	580 000	29 427 715
General expenses	1 574 414	4 489 322	53 829 270	-	-	6 995 548	-	1 030 615	67 919 169
Finance costs	-	20 369 209	-	-	-	-	-	-	20 369 209
Gains and losses	(274 761)	(533 713)	125 963	-	-	-	-	21	(682 490)
Total segment expenditure	**84 084 160**	**42 870 996**	**62 310 314**	**-**	**-**	**19 046 600**	**87 843 017**	**236 006 238**	**532 161 325**
Total segmental surplus/(deficit)	**(84 084 160)**	**1 552 954**	**53 718 173**	**1 839 606**	**35 245**	**(15 151 647)**	**3 181 301**	**(120 123 944)**	**(159 032 472)**

Management does not evaluate the assets and liabilities of the relevant sections, nor makes decisions about allocating resources, therefore assets and liabilities do not meet the definition of a segment in terms of GRAP 18.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

53. 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.

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: License and perrmits not budget for.

x5: Commission not budgted for.

x6: Other income is difficult to predict as it is based on the frequency of unpredictable events.

x7: Management had planned to put more funds in investment accounts.

X8: Annual increase not taken into account on budget amount.

x9: Grant budget did not take into account the funds withheld.

x10: Fines and penalties are difficult to predict as it is based on the frequency of unpredictable events.

x11: Due to constant increase in receivable balances.

x12: Due to annual increases not taken into account on budgeted.

x13: Due to annual increases not taken into account on budgeted.

x14: Management ancipacipated most projects to be capitalized.

x15: Impairment reversals not budgeted for.

x16: Interest on outstanding payables not correctly budgeted.

x17: Management anticipated increase in collections.

x18: Management anticipated increased load shedding.

x19: Not correctly budget for.

x20: Due to cost cutting measures.

x21: Year end adjustment, not budgeted for.

x22: Year end adjustment, not budgeted for.

x23: Year end adjustment, not budgeted for.

x24: Inventory not correctly budgeted for.

x25: Due to management clearing some of the suspense account items.

x26: Not budgeted for.

x27: Not budgeted for.