

eThekwini Municipality

Annual Financial Statements for the year ended 30 June 2011

INDEX

ABBREVIATIONS

| | |
|-------|---|
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| GAAP | Generally Accepted Accounting Practice |
| MFMA | Municipal Finance Management Act |
| HDF | Housing Development Fund |
| CRR | Capital Replacement Reserve |
| COID | Compensation for Occupational Injuries and Diseases |
| VAT | Value Added Taxation |
| PPE | Property Plant and Equipment |
| SALGA | South African Local Government Authority |
| GEPF | Government Employees Pension Fund |
| NJMP | Natal Joint Municipal Pension |
| DBSA | Development Bank of South Africa |
| IMFO | Institute of Municipal Finance Officers |
| MIG | Municipal Infrastructure Grant (previously CMIP) |
| MEs | Municipal Entities |
| SALA | South African Local Authority Pension Fund |
| INK | Inanda / Ntuzuma / Kwamashu |

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

| Figures in Rand thousand | Note(s) | 2011 | 2010 |
|---|---------|-------------------|-------------------|
| NET ASSETS AND LIABILITIES | | | |
| NET ASSETS | | | |
| Housing development fund | 2 | 278,807 | 341,225 |
| Accumulated Surplus | | 22,629,894 | 20,342,195 |
| | | 22,908,701 | 20,683,420 |
| LIABILITIES | | | |
| Non-Current Liabilities | | | |
| Long-term liabilities | 3 | 9,418,040 | 8,150,386 |
| Non-current provisions | 4 | 255,950 | 263,376 |
| Retirement benefit obligations | 5 | 1,610,806 | 1,634,468 |
| | | 11,284,796 | 10,048,230 |
| Current Liabilities | | | |
| Deposits | 6 | 936,733 | 789,263 |
| Current portion of Retirement benefit obligations | 5 | 137,356 | 140,874 |
| Current provisions | 4 | 33,018 | 31,528 |
| Creditors | 7 | 4,314,105 | 4,657,232 |
| Unspent conditional grants and receipts | 8 | 793,932 | 672,725 |
| Bank overdraft | 9 | 542,364 | 379,843 |
| Current portion of long-term liabilities | 3 | 692,416 | 524,300 |
| | | 7,449,924 | 7,195,765 |
| Total Liabilities | | 18,734,720 | 17,243,995 |
| Total Net Assets | | 41,643,421 | 37,927,415 |
| ASSETS | | | |
| Non-Current Assets | | | |
| Property, plant and equipment | 10 | 30,788,906 | 28,455,688 |
| Intangible assets | 11 | 347,001 | 328,648 |
| Investment properties | 12 | 263,081 | 267,141 |
| Investments in municipal entities | 13 | 679,571 | 724,499 |
| Investment in joint venture | 15 | 70,610 | 137,089 |
| Long-term Receivables | 17 | 282,442 | 276,767 |
| | | 32,431,611 | 30,189,832 |
| Current Assets | | | |
| Inventories | 18 | 211,406 | 224,145 |
| Investments | 14 | 2,450,000 | 327,044 |
| Consumer debtors | 19 | 2,569,788 | 2,219,123 |
| Debtors | 20 | 2,732,430 | 2,743,461 |
| VAT | 22 | 42,182 | 375,850 |
| Current portion of Long-term Receivables | 17 | 5,962 | 27,254 |
| Call investment deposits | 21 | 650,504 | 1,430,751 |
| Bank balances and cash | 9 | 549,538 | 389,955 |
| | | 9,211,810 | 7,737,583 |
| Total Assets | | 41,643,421 | 37,927,415 |

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STATEMENT OF FINANCIAL PERFORMANCE

| Figures in Rand thousand | Note(s) | 2011 | 2010 |
|---|---------|--------------------------|--------------------------|
| Revenue | | <u>18,010,316</u> | <u>17,082,141</u> |
| Property rates | 23 | 4,073,638 | 3,979,179 |
| Property rates - penalties imposed and collection charges | | 81,854 | 150,210 |
| Service charges | 24 | 9,917,959 | 7,863,974 |
| Rental of facilities and equipment | | 355,545 | 343,343 |
| Fines | | 110,209 | 80,143 |
| Licences and permits | | 29,640 | 28,109 |
| Grants and subsidies | 25 | 2,590,929 | 3,733,257 |
| Public contributions and donations | | 9,876 | 31,978 |
| Housing: Development Income | | 840,666 | 871,948 |
| Other income | | <u>1,837,424</u> | <u>1,664,689</u> |
| Other income | 26 | 1,557,141 | 1,260,844 |
| Interest earned - external investments | | 125,809 | 187,933 |
| Interest earned - outstanding debtors | | 85,955 | 101,913 |
| Gains on disposal of property, plant and equipment | | 48,655 | 78,943 |
| Reversal of Impairment - PPE | | 3,576 | - |
| Donations - PPE | | 1,166 | - |
| Reversal of Loss on Impairment of Loans | | 1,561 | 198 |
| Fair value adjustments | 40 | 13,561 | 34,858 |
| Total Revenue | | <u>19,847,740</u> | <u>18,746,830</u> |
| Expenditure | | | |
| Employee related costs | 27 | 4,822,931 | 4,540,518 |
| Remuneration of councillors | 28 | 77,919 | 73,969 |
| Bad debts | | 324,315 | 572,984 |
| Depreciation - Property, Plant and Equipment | 10 | 1,331,555 | 1,098,807 |
| Amortisation of intangible assets | 11 | 97,043 | 94,132 |
| Repairs and maintenance | | 1,215,007 | 1,965,682 |
| Finance costs | 29 | 687,345 | 480,942 |
| Bulk purchases | 30 | 5,495,517 | 4,531,944 |
| Contracted Services | | 874,755 | 817,435 |
| Grants and subsidies paid | 31 | 142,621 | 149,977 |
| Housing: Development Expenditure | | 840,666 | 871,948 |
| General expenses | 39 | 1,688,214 | 1,526,998 |
| Impairment - Property, Plant and Equipment | | 3,006 | 46,488 |
| Loss on disposal of property, plant and equipment and Investment Property | | 329 | 56,000 |
| Depreciation - Investment Properties | 12 | 1,805 | 1,829 |
| Loss on Impairment of Investment in Municipal Entity | 13 | 56,929 | 2,889 |
| Fair value adjustment | 40 | - | 65,848 |
| Total Expenditure | | <u>17,659,957</u> | <u>16,898,390</u> |
| Operating surplus | | <u>2,187,783</u> | <u>1,848,440</u> |
| Share of Income from Joint Venture | | 3,521 | 5,238 |
| Surplus for the year | | <u>2,191,304</u> | <u>1,853,678</u> |

Refer to Appendix C(1) for comparison with the approved budget

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STATEMENT OF CHANGES IN NET ASSETS

| Figures in Rand thousand | Housing Development Fund | Accumulated Surplus | Net Assets |
|---|--------------------------------|------------------------|-------------------|
| Opening balance as previously reported | 495,012 | 18,452,171 | 18,947,183 |
| Adjustments: | | | |
| Prior year adjustments (prior to 2009/10) | | (83,464) | (83,464) |
| Balance at 01 July 2009 as restated | 495,012 | 18,368,707 | 18,834,157 |
| Transfer to Housing Development Fund | (202,787) | 202,787 | - |
| Surplus for the year as previously reported | | 1,853,678 | 1,853,678 |
| Opening balance | 292,225 | 20,573,705 | 20,831,953 |
| Adjustments: | | | |
| Prior year adjustments (2009/10) | 49,000 | (197,533) | (148,533) |
| Balance at 01 July 2010 as restated | 341,225 | 20,376,172 | 20,683,420 |
| Transfer to Housing Development Fund | (62,418) | 62,418 | - |
| Surplus for the year | | 2,191,304 | 2,191,304 |
| Balance at 30 J | 278,807 | 22,629,894 | 22,908,701 |

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Cash Flow Statement

| Figures in Rand thousand | Note(s) | 2011 | 2010 |
|--|----------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Cash receipts from ratepayers, government and other | | 19,168,974 | 17,014,055 |
| Cash paid to suppliers and employees | | (15,181,806) | (14,297,986) |
| Cash generated from operations | 32 | 3,987,168 | 2,716,069 |
| Interest income | | 211,764 | 289,846 |
| Finance Costs | | (687,345) | (480,942) |
| Net cash from operating activities | | 3,511,587 | 2,524,973 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 10 | (3,664,343) | (6,436,730) |
| Proceeds on disposal of property, plant and equipment, Investment properties and Intangible assets | 10,11&12 | 79,105 | 103,521 |
| Purchase of other intangible assets | 11 | (108,637) | (66,311) |
| Decrease (Increase) in current investments | | (2,122,956) | 2,111,607 |
| Decrease (Increase) in non current investments | | - | 288,321 |
| Decrease (Increase) in Loans to Municipal Entities | | - | 198 |
| Decrease (Increase) in non-current receivables | | 26,730 | 21,685 |
| Increase in Investment in Municipal Entities | | (10,440) | (19,999) |
| Property, plant and Equipment - Acquired via Donation | | 1,166 | - |
| Decrease in Joint Venture loan account | | 70,000 | 25,000 |
| Net cash from investing activities | | (5,733,823) | (3,972,708) |
| Cash flows from financing activities | | | |
| Loans repaid | | (564,230) | (295,635) |
| New loans raised | | 2,000,000 | 2,900,000 |
| Net cash from financing activities | | 1,435,770 | 2,604,365 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (783,185) | 1,156,630 |
| Cash and cash equivalents at the beginning of the year | | 1,440,863 | 284,233 |
| Cash and cash | 9 | 657,678 | 1,440,863 |

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ACCOUNTING POLICIES

1. Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP). The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below.

Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the following Standards of GRAP:

| | |
|----------|---|
| GRAP 1 | Presentation of Financial Statements |
| GRAP 2 | Cash Flow Statements |
| GRAP 3 | Accounting Policies, Changes in Accounting Estimates and Errors |
| GRAP 4 | The Effects of Changes in Foreign Exchange Rates |
| GRAP 5 | Borrowing Costs |
| GRAP 6 | Consolidated and Separate Financial Statements |
| GRAP 7 | Investments in Associates |
| GRAP 8 | Investment in Joint Ventures |
| GRAP 9 | Revenue from Exchange Transactions |
| GRAP 10 | Financial Reporting in Hyperinflationary Economies |
| GRAP 11 | Construction Contracts |
| GRAP 12 | Inventories |
| GRAP 13 | Leases |
| GRAP 14 | Events After the Reporting Date |
| GRAP 16 | Investment Property |
| GRAP 17 | Property, Plant and Equipment |
| GRAP 19 | Provisions, Contingent Liabilities and Contingent Assets |
| GRAP 100 | Non-current Assets Held for Sale and Discontinued Operations |
| GRAP 101 | Agriculture |
| GRAP 102 | Intangible Assets |

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

Directives issued and effective:

- Directive 1 Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
- Directive 2 Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions.
- Directive 3 Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities.
- Directive 4 Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities.
- Directive 5 Determining the GRAP reporting framework.

Directive 7 The Application of Deemed Cost on the Adoption of Standards of GRAP

Interpretations of the Standards of GRAP

IGRAP Applying the Probability Test on Initial Recognition of Exchange Revenue

Approved guidelines of Standards of GRAP:

Guide 1 Guideline on Accounting for Public Private Partnerships

Effective accrual based IPSAS's considering the provisions in paragraphs .15 to .19 of the Directive:

IPSAS 20 Related Party Disclosures

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Effective IFRS's and IFRIC's that are applied considering the provisions in paragraphs .20 to .26 of the Directive:

IFRS 3 (AC 140) Business Combinations
IFRS 4 (AC 141) Insurance Contracts
IFRS 6 (AC 143) Exploration for and Evaluation of Mineral Resources
IAS 12 (AC 102) Income Taxes
SIC - 21 (AC 421) Income Taxes - Recovery of Revalued Non-Depreciable Assets
SIC - 25 (AC 425) Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
SIC - 29 (AC 429) Service Concession Arrangements - Disclosures
IFRIC 4 (AC 437) Determining whether an Arrangement contains a Lease
IFRIC 12 (AC 445) Service Concession Arrangements
IFRIC 13 (AC 446) Customer Loyalty Programmes
IFRIC 15 (AC 448) Agreements for the Construction of Real Estate
IFRIC 17 (AC 450) Distributions of Non-cash Assets to Owners
IFRIC 18 (AC 451) Transfer of Assets from Customers

Standards of GRAP approved but, for which the Minister of Finance has not yet determined an effective date, that have been early adopted by the Municipality:

GRAP 21 Impairment of Non-cash-generating Assets
GRAP 25 Employee Benefits
GRAP 26 Impairment of Cash-generating Assets
GRAP 104 Financial Instruments

Standards of GRAP used to interpret the requirements of other Standards of GRAP:

GRAP 24 Presentation of Budget Information in Financial Statements

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous year, unless otherwise stated.

1.1 Presentation of currency

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

1.2 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

1.3 Standards, amendments to standards and interpretations issued but not yet effective

GRAP 18: Segment Reporting – issued March 2005:

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the entity's past performance and to identify the resources allocated to support the major activities of the entity.

GRAP 23: Revenue from Non-Exchange Transactions (Taxes and Transfers) – issued February 2008:

Non-exchange transactions in which the entity receives services without directly giving approximately equal value in exchange, has not been accounted for as revenue. These transactions are minimal and are considered immaterial. Refer to paragraph 1.17 for compliance in current year.

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ACCOUNTING POLICIES

1.3 Standards, amendments to standards and interpretations issued but not yet effective (continued)

GRAP 24: Presentation of Budget Information in Financial Statements – issued November 2007:

Compliance with this standard would have had an effect on the presentation only. The budget information is currently disclosed in the appendices.

GRAP 103: Heritage Assets – issued July 2008:

Compliance with this standard will not have an impact on the current financial information as the recognition and measurement requirements of the standard have already been adopted.

1.4 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

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ACCOUNTING POLICIES

1.5 Investment properties

Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in surplus or deficit in the period of the retirement or disposal.

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

Subsequent Measurement

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. Transfers to or from investment property are made when and only when there is a change in use.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| Item | Useful life |
|-------------------------------------|--------------|
| Property - land | indefinite |
| Property - buildings(2009:30 years) | 10 - 80years |

ACCOUNTING POLICIES

1.6 Property, plant and equipment

Initial Recognition

Property, plant and equipment are stated at cost less accumulated depreciation. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives.

Land is not depreciated as it is deemed to have an indefinite life.

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.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Subsequent Measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and Impairment:-

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. Depreciation is calculated as soon as the asset becomes available for use. The annual depreciation rates are based on the following estimated asset lives:-

| Details | Years |
|--------------------------------------|---------------|
| Infrastructure | |
| • Rivers and Coastal Engineering | 20 - 80 years |
| • Roads and Motorways | 20 - 80 years |
| • Economic Development | 20 years |
| • Traffic Equipment | 10 - 80 years |
| • Stormwater Drainage | 20 - 80 years |
| • Airport Infrastructure | 15 - 80 years |
| • Solid Waste | 3 - 30 years |
| • Water and Sanitation | 20 - 80 years |
| • Major Substations: Buildings | 30 - 50 years |
| • Transformers and Related Equipment | 30 - 45 years |
| • Mains | 30 - 55 years |
| • Street Lighting | 20 - 30 years |
| • Conventional and Prepaid Metering | 15 - 25 years |
| Community | |
| • Buildings | 20 - 80 years |
| • Recreational Facilities | 10 - 80 years |
| Other property, plant and equipment | |
| • Buildings | 20 - 80 years |
| • Markets and Informal Markets | 15 - 30 years |
| • Fire Engines | 20 years |
| • Landfill Sites | 3 - 30 years |
| • Car Parks | 15 years |
| • Fencing | 20 years |
| • Lifts (2010: 10 years) | 20 years |
| • Building Improvements | 10 years |
| • Heavy and Mobile Plant | 7 - 10 years |
| • Furniture and fittings | 7 years |
| • Vehicles | 5 years |
| • Bins and containers | 5 years |
| • Plant – General | 5 years |
| • Security Systems | 5 - 15 years |
| • Office equipment | 5 - 7 years |
| • Airconditioning | 5 - 15 years |
| • Public Address Systems | 15 years |
| • Turnstiles | 15 years |

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ACCOUNTING POLICIES

1.6 Property, plant and equipment (continued)

- | | |
|--|---------------|
| • Electrical | 20 years |
| • Mechanical | 20 years |
| • Hostels | 20 - 80 years |
| • Library Books | 5 - 10 years |
| • Other items of Plant and Equipment (2010: 5 - 7 years) | 3 - 5 years |

All assets are considered to have a nil residual value.

In the prior years the acquisition costs of library books were expensed. In the current year the Municipality changed its policy. Library books are capitalized on acquisition in the current year. Comparative information has been restated to reflect the retrospective application of the change in accounting policy.

Included under the category of "Other" are transport vehicles which are currently leased to a third party - see Accounting Policy 1.19 on Leases.

Derecognition:

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting Policy 1.15 on Provisions.

The residual value, the remaining useful life of an asset and the depreciation method is reviewed annually and any changes are recognized as a change in accounting estimate in the Statement of Financial Performance.

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.7 Intangible assets

Initial Recognition.

Intangible assets are initially recognised at cost and comprise of software and servitudes.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale.
- it is technically feasible to complete the intangible asset.
- the municipality has the resources to complete the project.
- it is probable that the municipality will receive future economic benefits or service potential.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

Servitudes are classified as intangible assets. Rights consist of servitudes. Rights are not amortised as they have an indefinite useful life. A servitude is granted for an indefinite period.

Subsequent Measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test. Expenditure on an intangible asset is recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria.

ACCOUNTING POLICIES

1.7 Intangible assets (continued)

Residual value of intangible assets is estimated to be nil.

Amortisation and Impairment

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives, using the straight line method as follows :-.

Computer Software 5 - 10 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition:

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

1.8 Impairment of Cash-generating and Non-cash-generating assets

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

1.9 Financial instruments

Initial recognition

Financial instruments are initially recognised at fair value.

Subsequent Measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

Loans to (from) municipal entities

These include loans to municipal entities and recognised at cost.

An impairment loss is recognised in profit or loss when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Debtors

Debtors are recognised at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

An estimate is made for doubtful debts based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end.

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ACCOUNTING POLICIES

1.9 Financial instruments (continued) Creditors

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

These are initially and subsequently recorded at fair value.

For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects and the book value is disclosed at amortised cost.

Other financial liabilities are carried at amortised cost.

Loans and receivables

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in profit or loss for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality has the positive intention and ability to hold to maturity.

In the current year, investments are carried at cost which represents the fair value of the investments as all investments have a maturity date less than 12 months.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

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ACCOUNTING POLICIES

1.10 Investments

Investments are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in profit or loss for the period.

The Municipality classifies its investments in the following categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Investments held for less than 12 months are not fair-valued.

1.10.1

1.11 Investments in municipal entities

Investments in municipal entities are carried at cost less any accumulated impairment.

Investments in municipal entities under the ownership control of the Municipality are carried at cost. Separate consolidated financial statements are prepared to account for the Municipality's share of net assets and post acquisition results of these investments.

1.12 Investment in joint venture

An investment in a joint venture is carried at cost less any accumulated impairment.

The Municipality's share of profits or losses, resulting from operations of the joint venture, is recognised on the accrual basis and is capitalised to the cost of the investment.

1.13 Inventories

Initial Recognition

Inventories are initially recognized at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Subsequent Measurement

Consumable stores, maintenance materials and water stock are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average method.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

In the prior periods borrowing costs were recognised as an expense in the period in the Statement of Financial Performance.

ACCOUNTING POLICIES

1.15 Provisions

Provisions are recognised when:

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

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate.

Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

1.16 Retirement Benefits

1.16.1 Defined contribution plans

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

1.16.2 Pension obligations

The municipality and its employees contribute to 8 different Pension Funds, of which 2 (Durban Pension Fund and the KZN Pension Fund) cater for more than 95% of staff.

The Durban Pension Fund is a defined benefit fund and is actuarially valued on an interim basis each year with a statutory valuation undertaken every three years.

The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds.

The Natal Joint Provident Fund, Multi Linked and South African Local Authority are defined contribution funds.

The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

The Municipality has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a pension plan under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability/asset recognized in the statement of financial position in respect of defined benefit pension plans is equal to the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using 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 to the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligations are spread to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in income.

For defined contribution plans, the Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are

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Annual Financial Statements for the year ended 30 June 2011

ACCOUNTING POLICIES

1.16 Retirement Benefits (continued)

due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.16.3 Other post-employment benefit obligations

The municipality provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional 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 using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to income in the year that they arise.

1.17 Revenue

Revenue comprises of the consideration received or receivable for the sale of goods and services in the ordinary course of the Municipality's activities. Revenue is shown net of value added tax, estimated returns, rebates and discounts and after eliminated revenue within departments of the Municipality. Revenue is recognised as follows:

Revenue from Exchange Transactions

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced.

Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property based on category of property and the property value.

Service charges from sewerage and sanitation are based on water consumption and are levied monthly.

Interest and rentals are recognised on a time proportion basis.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportion basis.

Revenue from the sale of goods is recognised when the risk is passed to the consumer.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

All other revenue is recognised as it accrues.

Revenue from non-exchange transactions

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received. There is uncertainty regarding recoverability of outstanding fines and summonses. Spot fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is

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ACCOUNTING POLICIES

1.17 Revenue (continued)

enforceable. In respect of summonses the Public Prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the consideration received or receivable.

Contributed property, plant and equipment is recognised when ownership of the items of property, plant and equipment is transferred to the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.18 Grants, transfers and donations

Income received from conditional grants, donations and subsidies is recognised 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 and funds are invested until utilised.

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

Grants and receipts of a revenue nature: Income is transferred as revenue to the Statement of Financial Performance to the extent that the criteria, conditions or obligations have been met.

1.19 Leases

Operating leases - The Municipality as lessor

Assets leased to third parties under operating leases are included in investment properties and property, plant and equipment in the statement of financial position.

They are depreciated over their expected useful lives on a basis consistent with similar owned investment properties and property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised over the lease term.

Operating leases – The Municipality as lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of financial performance on a straight-line basis over the period of the lease.

1.20 Tax

The Municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

1.21 Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. Where unauthorised expenditure is not approved, it is recovered from the responsible person and the amount received is accounted for as revenue in the Statement of Financial Performance.

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ACCOUNTING POLICIES

1.22 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority it is treated as a current asset until it is recovered or written off as irrecoverable in the Statement of Financial Performance.

1.23 Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. If the expenditure is not condoned by the relevant authority it is accounted for as a current asset in the Statement of Financial Position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the Statement of Financial Performance.

1.24 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

1.25 Comparatives Information

1.25.1 Current year comparatives

Budgeted amounts have been included in an annexure to these financial statements for the current financial year only.

1.25.2 Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. 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.

1.26 Long Service Awards

Provision for long service awards represents the present value of the estimated future cash outflows to be made by the Municipality resulting from employee services provided up to Statement of Financial position date. The provision comprises amounts that the Municipality has a present obligation to pay resulting from employees services provided up to Statement of Financial position date.

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2. HOUSING DEVELOPMENT FUND

Housing Development Fund

| | | |
|--|----------------|----------------|
| Accumulated Surplus | 11,828 | 74,246 |
| Loans extinguished by Government on 1 April 1998 | 266,979 | 266,979 |
| Total | 278,807 | 341,225 |

The Housing Development Fund is represented by the following assets and liabilities:

| | | | |
|-------------------------------|----|----------------|----------------|
| Property, plant and equipment | 10 | 74,503 | 77,859 |
| Housing selling scheme loans | | 130,761 | 139,621 |
| Housing rental Debtors | | 34,053 | 31,342 |
| Housing other debtors | | 6,121 | 24,187 |
| Housing inventory | | 137 | 136 |
| Investments | | 12,398 | 98,501 |
| Investment properties | | 17,544 | 17,909 |
| Bank and cash | | 92,130 | 54,009 |
| Intangible Assets | | 9 | 9 |
| Sub-total | | 367,656 | 443,573 |
| Long-term liabilities | | (391) | (467) |
| Unspent Conditional Grants | | (58,754) | - |
| Creditors | | (9,885) | (82,062) |
| Government Grant Reserve | | (19,819) | (19,819) |
| Total Housing I | | 278,807 | 341,225 |

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|---|-------------------|------------------|
| 3. LONG-TERM LIABILITIES | | |
| Annuity Loans | 10,110,256 | 8,651,486 |
| Non Annuity Loans | - | 23,000 |
| Local Registered Stock Loans | 200 | 200 |
| Sub-total | 10,110,456 | 8,674,686 |
| Current portion of long term liabilities | | |
| Annuity Loans | 692,416 | 501,300 |
| Non Annuity Loans | - | 23,000 |
| Sub-total | 692,416 | 524,300 |
| Non-current liabilities | | |
| Long term Portion | 9,418,040 | 8,150,386 |

The fair value of all long term loan approximates their book values.

Refer to Note 50 for more detail on long-term liabilities.

Nil (2010: R27m) has been invested specifically in a ring-fenced account for the repayment of long-term liabilities. See note 41 for more detail.

DBSA Phase 2 and Phase 3 loans of R400million each are separately secured, each by a cession of an acceptable revenue stream of R20 million p.a. as security. The DBSA Phase 2 loan of R400million is a floating interest rate contract, and in order to mitigate the floating interest rate exposure, the Municipality entered into a fixed interest rate swap agreement with Standard Corporate & Merchant Bank.

DBSA Phase 5 of R300m is separately secured by a cession of an acceptable revenue stream of R15 million p.a. as security .

AFD Calyon of R58.7m is separately secured by a cession of carbon credit income in the event of default or non-payment. The income is estimated to be R9.9m to the year 2013.

All other loans are unsecured.

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4. PROVISIONS

Reconciliation of provisions - 2011

| | Opening Balance | Additions / (Prior year overprovision) | Utilised during the year | Interest charged | Total |
|--|-----------------|--|--------------------------|------------------|----------------|
| Current | | | | | |
| Clearance of Alien Vegetation | 6,830 | 7,893 | (5,490) | - | 9,233 |
| Performance bonus | 16,906 | 4,448 | (6,146) | - | 15,208 |
| Long service awards | 7,792 | 1,591 | (806) | - | 8,577 |
| Non-current | | | | | |
| Environmental rehabilitation: Landfill sites | 48,640 | 7,733 | - | 4,378 | 60,751 |
| Clearance of Alien Vegetation | 17,878 | 2,170 | - | - | 20,048 |
| Long service awards | 196,858 | (21,707) | - | - | 175,151 |
| | 294,904 | 2,128 | (12,442) | 4,378 | 288,968 |

Reconciliation of provisions - 2010

| | Opening Balance | Additions | Utilised during the year | Interest charged | Total |
|--|-----------------|---------------|--------------------------|------------------|----------------|
| Current | | | | | |
| Clearance of Alien Vegetation | 4,570 | 6,973 | (4,713) | - | 6,830 |
| Performance bonus | 15,458 | 7,424 | (5,976) | - | 16,906 |
| Long service awards | 12,206 | (3,864) | (550) | - | 7,792 |
| Non-current | | | | | |
| Environmental rehabilitation: Landfill sites | 44,399 | (156) | (43) | 4,440 | 48,640 |
| Clearance of Alien Vegetation | 13,655 | 4,223 | - | - | 17,878 |
| Long service awards | 123,012 | 73,846 | - | - | 196,858 |
| | 213,300 | 88,446 | (11,282) | 4,440 | 294,904 |

| | | |
|-------------------------|----------------|----------------|
| Non-current liabilities | 255,950 | 263,376 |
| Current liabilities | 33,018 | 31,528 |
| | 288,968 | 294,904 |

Environmental Rehabilitation: Landfill sites

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 9%. The Municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The 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, and any impairment loss is recognised in surplus or deficit.

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4. Provisions (continued)

The following assumptions were used to calculate the provision:

- (1) Discount rate of 9% (2010: 10%);
- (2) Inflation rate of 5% (2010: 4.2%);
- (3) Total area expected to be rehabilitated: 738 000 square metres;
- (4) Rate per square metre: R117 escalating every year by inflation rate;
- (5) Total area to be rehabilitated can be reconciled to the different sites as follows:

| | |
|--------------|---------|
| Bisasa | 368 000 |
| Maranhill | 140 000 |
| Wyebank | 50 000 |
| Shallcross | 50 000 |
| Buffelsdraai | 130 000 |

Each of the landfill sites have a different lifespan for rehabilitation ranging from 3 years to 59 years and are best estimates provided for by the respective landfill site engineers.

The total rehabilitation can be reconciled as follows:

| Name | O/ Balance | Interest | Additions | C/ Balance |
|----------------|---------------|--------------|--------------|---------------|
| Bisasa | 34 162 | 3 075 | 3 139 | 40 376 |
| Maranhill | 8 086 | 728 | 2 033 | 10 847 |
| Wyebank | 3 219 | 290 | 667 | 4 176 |
| Shallcross | 2 592 | 233 | 770 | 3 595 |
| Buffelsdraai | 581 | 52 | 1 124 | 1 757 |
| TOTALS: | 48 640 | 4 378 | 7 733 | 60 751 |

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4. Provisions (continued)

Long service awards

Employees who achieve 15 years service will be granted 10 days paid leave (once off) together with a service certificate signed by the Head of Department.

Employees who achieve 25 years service will be granted 15 days paid leave (once off) together with an engraved gold watch to a maximum value of R2000 (value reviewable every five (5) years) and service certificate signed by Head of Department.

Employees who achieve 40 years service will be granted 20 days paid leave (once off) and a scroll duly signed by the Mayor in recognition of loyal service rendered to the Council.

The abovementioned leave is granted in addition to the annual leave entitlement and maximum accumulation granted in terms of the National Conditions of Service, and may be taken, converted to cash in full, or partially, or accumulated.

The abovementioned leave is only applicable to those employees who achieve the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2011 (2010: 30 June 2010). It has been assumed that the staff turnover rate will be insignificant based on historical data. A discount rate of 9% (2010: 11%) was used based on internal rate of return.

Clearance of Alien Vegetation

The clearing of alien vegetation is required in terms of the Conservation of Agricultural Resources Act, 1983 (Act No. 43 of 1983). The Municipality has therefore made a provision for its obligation, based on future estimated costs for the next 3 years. This provision will be reviewed annually to reflect the fair value of the obligation.

Provision for invasive alien plant control / eradication is based on reliable data for growth rates, infestation rates and density. A detailed analysis, based on current costs of alien plant clearing, was undertaken. Input from numerous field staff was obtained with regard to the level of infestation of currently managed areas.

Data used for calculations:

Municipal owned land within the municipal area: 18 000 Ha

Municipal owned open space currently managed (prioritised): 2 200 Ha

Current approximate cost of clearing very high infestations of IAP's: R5 200.00 / Ha
(2010: R 4 995.00 / Ha).

Performance Bonus

All employees who are employed in accordance with provisions of section 57 of the Municipal Systems Act are required, in terms of their employment contracts, to sign a performance agreement and performance plan in terms of which their performance is assessed annually. The criteria in terms of which they are assessed is linked to the I.D.P. 8-point plan. Strategic focus areas and key performance indicators are set out in the plan, together with targets and weightings for each target. Employees are assessed quarterly and against these targets and a final assessment is conducted at the end of the financial year. The performance bonus paid to each employee is dependant on the overall score achieved in this assessment and is subject to the approval of the City Manager.

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5. RETIREMENT BENEFIT OBLIGATIONS

5.1. Defined benefit plan

Statement of Financial Position obligation for:

| | | |
|----------------------------------|------------------|------------------|
| Post-employment medical benefits | 2,067,082 | 1,892,056 |
| Pension benefits | (318,920) | (116,714) |
| Balance at end | 1,748,162 | 1,775,342 |

Statement of Financial Performance obligation for:

| | | |
|----------------------------------|-------------------|----------------|
| Post-employment medical benefits | 175,026 | 302,883 |
| Pension Benefits: | | |
| Defined Benefit Funds | 110,780 | 111,662 |
| Defined Contribution Funds | 530,809 | 553,465 |
| Total, included | 27 816,615 | 968,010 |

5.1.1. Post-Retirement Medical Aid Plan

The municipality operates on 6 accredited medical aid schemes, namely Global Health, Hosmed, Munimed, Bonitas, Samwumed and LA Health. Pensioners continue on the option they belonged to on the day of their retirement.

Movement in the defined benefit obligation is as follows:

| | | |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 1,892,056 | 1,589,173 |
| Current service cost | 85,949 | 64,122 |
| Interest cost | 171,672 | 147,959 |
| Actuarial (gains) losses | (13,736) | 151,079 |
| Benefit payments | (68,859) | (60,277) |
| Balance at end | 2,067,082 | 1,892,056 |

Net expense recognised in the Statement of financial performance

| | | |
|--------------------------|-------------------|----------------|
| Current service cost | 85,949 | 64,122 |
| Interest cost | 171,672 | 147,959 |
| Actuarial (gains) losses | (13,736) | 151,079 |
| Benefit payments | (68,859) | (60,277) |
| Total, included | 27 175,026 | 302,883 |

Trend Information

Disclosure Requirement Paragraph 120A(p) of IAS 19 (AC116)

Health Care Cost Inflation

| | 30 Jun 2007 | 30 Jun 2008 | 30 Jun 2009 | 30 Jun 2010 | 30 Jun 2011 |
|--|------------------|------------------|------------------|------------------|------------------|
| Present Value of Obligations | 1,311,873 | 1,394,452 | 1,589,173 | 1,892,056 | 2,067,082 |
| Fair Value of Plan Assets | - | - | - | - | - |
| Present Value of Obligations in excess of Plan Assets | 1,311,873 | 1,394,452 | 1,589,173 | 1,892,056 | 2,067,082 |

Experience Adjustments (Actuarial Gain/(Loss) before Changes in Assumptions)

| | | | | | |
|--|----------|--------|----------|-----------|--------|
| In respect of Present Value of Obligations | (24,040) | 29,795 | (46,905) | (151,079) | 13,736 |
|--|----------|--------|----------|-----------|--------|

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5. Retirement benefit obligations (continued)

Sensitivity Results

Disclosure Requirement Paragraph 120A(o) of IAS 19 (AC116)

| | Central Assumption 6.90% | Health Care Cost Inflation | |
|--|-----------------------------|----------------------------|-----------|
| | | -1% | +1% |
| Accrued Liability 30 June 2011 | 2,067,082 | 1,769,792 | 2,439,632 |
| % Change | | -14.4 % | 18.0 % |
| Current Service Cost + Interest Cost 2011/12 | 258,607 | 214,910 | 314,825 |
| % Change | | -16.9 % | 21.7 % |
| Sensitivity Results from Previous Valuation | | | |
| | Central Assumption 7.75% | -1% | +1% |
| Accrued Liability 30 June 2010 | 1,892,056 | 1,616,687 | 2,230,372 |
| % Change | | -14.6 % | 17.9 % |
| Current Service Cost + Interest Cost 2010/11 | 257,621 | 214,063 | 312,204 |
| % Change | | -16.9 % | 21.2 % |

The Municipality's best estimate of contributions expected to be paid to the plan during the annual period beginning after the end of the current reporting period amounts to R88.4 million.

Key assumptions used

The principal actuarial assumptions used were as follows:

| | | |
|--|----------|----------|
| Discount rates used | 8.40 % | 9.25 % |
| General increases to medical aid contributions | 6.90 % | 7.75 % |
| Salary Inflation | 6.00 % | 7.25 % |
| Expected retirement age | 63 | 63 |
| Proportion continuing membership at retirement | 100.00 % | 100.00 % |
| Proportion of retiring members who are married | 100.00 % | 100.00 % |

Other assumptions:

| | | |
|---------------------------------|---|--|
| Age of spouse | - | Husbands 5 years older than wives |
| Mortality of in-service members | - | Mortality table based on durban Pension Fund experience |
| Mortality of pensioners | - | a(m) and a(f) ultimate tables plus 0.50% improvement per annum |

(No explicit assumption was made about additional mortality or health care costs due to AIDS).

Percentage of in-service members withdrawing before retirement:

| | | |
|---------|--------|--------|
| Age 20 | 7.85 % | 7.85 % |
| Age 25 | 5.67 % | 5.67 % |
| Age 30 | 4.20 % | 4.20 % |
| Age 35 | 3.31 % | 3.31 % |
| Age 40 | 2.23 % | 2.23 % |
| Age 45 | 1.21 % | 1.21 % |
| Age 50 | 0.55 % | 0.55 % |
| Age 55+ | 0.00 % | 0.00 % |

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5. Retirement benefit obligations (continued) 5.1.2. Pension benefits

The amounts recognised in the Statement of Financial Position were determined as follows:

| | | |
|--|------------------|------------------|
| Present value of funded obligations | 7,369,519 | 7,066,557 |
| Present value of the defined benefit obligation-partially or wholly funded | (8,824,562) | (8,226,174) |
| Asset not recognised due to future surplus policy not yet established | 1,136,123 | 1,042,903 |
| Liability (Surpl) | (318,920) | (116,714) |

Movement in the defined benefit obligation is as follows:

| | | |
|--|------------------|------------------|
| Balance at beginning of the year | (116,714) | (70,929) |
| Current service cost | 110,780 | 111,662 |
| Contributions by plan participants | 27,576 | 25,606 |
| Actuarial losses | (11,157) | 385,752 |
| Interest cost | 649,868 | 656,977 |
| Benefit payments | (474,105) | (470,336) |
| Obligation not recognised due to future surplus policy not yet established | (505,168) | (755,446) |
| Balance at end | (318,920) | (116,714) |

Movement in the fair value of plan assets is as follows:

| | | |
|---|-----------|-----------|
| Actuarial gains (losses) | 185,120 | 1,019,721 |
| Employer contributions | 70,361 | 67,461 |
| Employee contributions | 27,576 | 25,606 |
| Benefit payments | (474,105) | (470,336) |
| Expected return on assets | 789,436 | 757,776 |
| Transfers out | - | (678,987) |
| Asset not recognised due to future surplus policy not yet established | (598,388) | (721,241) |
| Balance at end | - | - |

The amounts recognised in the Statement of Financial Performance were as follows:

| | | |
|---|----------------|----------------|
| Current service cost - Defined Benefit Funds | 110,780 | 111,662 |
| Current service cost - Defined Contribution Funds | 530,809 | 553,465 |
| Total included | 641,589 | 665,127 |

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5. Retirement benefit obligations (continued)

Key assumptions used

The principal actuarial assumptions used were as follows:

| | | |
|--------------------------------|--------|--------|
| Discount rate | 8.75 % | 9.25 % |
| Expected return on plan assets | 9.25 % | 9.75 % |
| Future salary increases | 6.75 % | 6.75 % |
| Future pension increases | 4.07 % | 4.55 % |

Examples of mortality rates used were as follows:

Active members (All):

| | | |
|--------|--------|--------|
| Age 20 | 0.13 % | 0.13 % |
| Age 25 | 0.18 % | 0.18 % |
| Age 30 | 0.25 % | 0.25 % |
| Age 35 | 0.37 % | 0.37 % |
| Age 40 | 0.52 % | 0.52 % |
| Age 45 | 0.72 % | 0.72 % |
| Age 50 | 0.99 % | 0.99 % |
| Age 55 | 1.37 % | 1.37 % |
| Age 60 | 1.89 % | 1.89 % |

All Councillors and employees belong to 8 retirement funds. The KZN Municipal Pension Fund is a defined contribution fund and became operational from 2001-11-01.

The results for the year ended 2005-06-30 (per the Fund Valuator) revealed that the fund was in sound financial position.

The Durban Pension Fund is a defined benefit fund administered by the eThekwini Municipality. The rules of the Fund require that the financial condition of the Fund be investigated and reported on by the Fund's actuary annually. The valuation as at 2011-01-01 revealed that the Fund was 100% funded. The actuarial value of assets and liabilities was determined to be R8.56 billion. Members and the employer contribute at the rate of 7.5% and 19.68% respectively with the balance of the required contributions being funded by the contribution stabilization reserve account and the employer surplus account. In compliance with the Fund's rules an amount of R70.1 million was contributed by Council in respect of retirement funding during the period under review.

Certain members and Council contribute to the Natal Joint Superannuation, Retirement and Provident Funds (NJMP), SALA, Multi Linked and GEPF. Employees of eThekwini Municipality make up less than 1% of the total members of the NJMPF. eThekwini's liability in these funds could not be determined owing mainly to the assets not being allocated to each employer and one set of financials being compiled for each fund and not for each employer.

An interim valuation carried out on the NJMP Superannuation fund (defined benefit) at 31 March 2006 concluded that the surcharge of 6% be retained for the year to 30 June 2007 and thereafter at 4.5%.

The latest statutory valuation of the NJMP Retirement fund (defined benefit) as at 31 March 2007 reflected a fund deficit of R229.8 million in respect of members. The total contribution rate payable, including the total surcharge of 14% will eliminate the deficit by the year 2010.

The latest statutory valuation of the NJMP Provident Fund (defined contribution) as at 31 March 2007 revealed that the Fund was in a sound financial position.

| | | |
|-------------------------|------------------|------------------|
| Non-current liabilities | 1,610,806 | 1,634,468 |
| Current liabilities | 137,356 | 140,874 |
| | 1,748,162 | 1,775,342 |

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|--------------------------|----------------|----------------|
| 6. DEPOSITS | | |
| Electricity | 686,868 | 575,685 |
| Water | 194,976 | 163,415 |
| Interest | 54,889 | 50,163 |
| Total Deposits | 936,733 | 789,263 |

Included in deposits is an accrual of interest at an effective interest rate of 3% per annum (2010: 3%) which is paid to consumers when deposits are refunded.

7. CREDITORS

| | | |
|---|------------------|------------------|
| Trade payables | 1,955,925 | 2,230,730 |
| Payments received in advance | 964,926 | 977,087 |
| Retentions | 119,191 | 144,111 |
| Bank Deposits not yet receipted | 135,545 | 164,014 |
| Staff leave | 280,742 | 261,483 |
| Other payables | 849,243 | 876,620 |
| Deferred Expenditure | 23,634 | 15,458 |
| Adjustment for fair value at amortised cost | (15,101) | (12,271) |
| Total Creditors | 4,314,105 | 4,657,232 |

8. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Conditional Grants from other spheres of Government:

| | | |
|---|----------------|----------------|
| Electricity Demand Side Management Grant | 3,279 | 8,000 |
| Department of Provincial and Local Government | 2,000 | 2,250 |
| Department of Local Government and Traditional Affairs | 7,311 | 8,213 |
| Department of Transport and Public Transport Infrastructure | 317,859 | 335,273 |
| Department of Economic Activity and various Industries | 1,557 | 2,295 |
| Expanded Public Works Incentive Grant | 22,860 | 43,243 |
| Equitable Share | - | 3,089 |
| Neighbourhood Development Partnership Grant | 2,091 | 9,003 |
| 2010 KZN Government Grant | 14,789 | - |
| Vuna Awards | 2,898 | 2,945 |
| Municipal Infrastructure Grant | 26,194 | 14,330 |
| Grant Accreditation | 299 | 315 |
| Metropolitan Transport Authority - Taxi Ranks | 32 | 32 |
| Department of Housing | 198,132 | 63,353 |
| Lamontville and R293 Trf Deeds/Admin | 1,556 | 1,556 |
| Other Conditional Receipts | | |
| European Union | 9,923 | 13,819 |
| Donations and Public Contributions | 129,866 | 120,110 |
| Danida | - | 831 |
| D Moss Interest and Land Sales | 8,362 | 8,362 |
| Other Grants and Subsidies | 44,924 | 35,706 |
| Total Conditional Grants and Receipts | 793,932 | 672,725 |

These amounts are invested in a ring-fenced investment until utilised. See note 25 for more detail. No grants or subsidies were withheld during the year.

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|---|----------------|------------------|
| 9. CASH AND CASH EQUIVALENTS | | |
| Refer to note 50 for details on Bank accounts and balances. | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 7,165 | 10,093 |
| Bank balances | 542,373 | 379,862 |
| Bank balances and cash | 549,538 | 389,955 |
| Bank overdraft | (542,364) | (379,843) |
| | 7,174 | 10,112 |
| Call Investment Deposits | 650,504 | 1,430,751 |
| Cash and cash | 657,678 | 1,440,863 |

10. PROPERTY, PLANT AND EQUIPMENT

| | 2011 | | | 2010 | | |
|--------------------------|-------------------|--------------------------|-------------------|-------------------|--------------------------|-------------------|
| | Cost | Accumulated depreciation | Carrying value | Cost | Accumulated depreciation | Carrying value |
| Land and Buildings | 3,357,033 | (512,539) | 2,844,494 | 3,119,686 | (430,816) | 2,688,870 |
| Infrastructure | 24,723,723 | (4,380,115) | 20,343,608 | 22,201,119 | (3,832,405) | 18,368,714 |
| Community | 4,899,512 | (586,211) | 4,313,301 | 4,380,519 | (442,399) | 3,938,120 |
| Other | 5,353,340 | (2,150,332) | 3,203,008 | 5,033,609 | (1,669,365) | 3,364,244 |
| Heritage | 9,992 | - | 9,992 | 17,881 | - | 17,881 |
| Housing Development Fund | 135,843 | (61,340) | 74,503 | 138,405 | (60,546) | 77,859 |
| Total | 38,479,443 | (7,690,537) | 30,788,906 | 34,891,219 | (6,435,531) | 28,455,688 |

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

| | Opening Balance | Additions | Disposals | Transfers | Work-in- progress | Depreciation | Impairment deficit | Total |
|--------------------------|--------------------|------------------|-----------------|----------------|----------------------|--------------------|-----------------------|-------------------|
| Land and Buildings | 2,688,870 | 75,357 | (19) | 132,654 | 28,915 | (81,283) | - | 2,844,494 |
| Infrastructure | 18,368,714 | 2,732,300 | (23,206) | (624,185) | 308,634 | (420,143) | 1,494 | 20,343,608 |
| Community | 3,938,120 | 113,494 | (84) | 449,533 | (48,954) | (136,260) | (2,548) | 4,313,301 |
| Other | 3,364,244 | 489,891 | (4,498) | 35,237 | 7,685 | (691,175) | 1,624 | 3,203,008 |
| Heritage | 17,881 | 1,123 | - | (10) | (9,002) | - | - | 9,992 |
| Housing Development Fund | 77,859 | 44 | (699) | (7) | - | (2,694) | - | 74,503 |
| | 28,455,688 | 3,412,209 | (28,506) | (6,778) | 287,278 | (1,331,555) | 570 | 30,788,906 |

Reconciliation of property, plant and equipment - 2010

| | Opening Balance | Additions | Disposals | Transfers | Work-in- progress | Depreciation | Impairment deficit | Total |
|--------------------------|--------------------|------------------|-----------------|---------------|----------------------|--------------------|-----------------------|-------------------|
| Land and Buildings | 2,649,563 | 45,121 | (3,653) | 53,184 | 18,970 | (73,712) | (603) | 2,688,870 |
| Infrastructure | 15,121,000 | 4,007,175 | (44,340) | 14,615 | (246,852) | (456,874) | (26,010) | 18,368,714 |
| Community | 3,498,053 | 3,250,666 | (1,541) | (12,675) | (2,682,153) | (97,029) | (17,201) | 3,938,120 |
| Other | 1,865,554 | 1,972,354 | (9,376) | (16,757) | 23,844 | (468,701) | (2,674) | 3,364,244 |
| Heritage | 6,552 | 262 | - | - | 11,067 | - | - | 17,881 |
| Housing Development Fund | 51,604 | 44,974 | (7,383) | (93) | (8,752) | (2,491) | - | 77,859 |
| | 23,192,326 | 9,320,552 | (66,293) | 38,274 | (2,883,876) | (1,098,807) | (46,488) | 28,455,688 |

Included in Property, Plant and Equipment above are items that are still in use and that have a historical cost of R199.9m (2010: R43.1m) but are fully depreciated.

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11. INTANGIBLE ASSETS

| | 2011 | | | 2010 | | |
|-------------------|----------------|--------------------------|----------------|----------------|--------------------------|----------------|
| | Cost | Accumulated amortisation | Carrying value | Cost | Accumulated amortisation | Carrying value |
| Servitudes | 47,882 | - | 47,882 | 47,634 | - | 47,634 |
| Computer software | 710,110 | (410,991) | 299,119 | 575,335 | (294,321) | 281,014 |
| Total | 757,992 | (410,991) | 347,001 | 622,969 | (294,321) | 328,648 |

Reconciliation of intangible assets - 2011

| | Opening Balance | Additions | Disposals | Transfers | Work in Progress | Amortisation | Total |
|-------------------|-----------------|----------------|-------------|--------------|------------------|-----------------|----------------|
| Servitudes | 47,634 | 248 | - | - | - | - | 47,882 |
| Computer software | 281,014 | 123,509 | (20) | 6,779 | (15,120) | (97,043) | 299,119 |
| | 328,648 | 123,757 | (20) | 6,779 | (15,120) | (97,043) | 347,001 |

Reconciliation of intangible assets - 2010

| | Opening Balance | Additions | Disposals | Transfers | Work in Progress | Amortisation | Total |
|-------------------|-----------------|---------------|-------------|-------------|------------------|-----------------|----------------|
| Servitudes | 42,985 | 4,789 | - | (140) | - | - | 47,634 |
| Computer software | 313,533 | 54,195 | (17) | 108 | 7,327 | (94,132) | 281,014 |
| | 356,518 | 58,984 | (17) | (32) | 7,327 | (94,132) | 328,648 |

Intangible assets disclosed relate to servitudes registered by the electricity department of the municipality. The balance of the servitudes are disclosed in Property, Plant and Equipment. It has been the municipality's policy to capitalise servitudes to projects which are currently disclosed as Infrastructure costs.

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12. INVESTMENT PROPERTIES

| | 2011 | | | 2010 | | |
|------------------------|----------------|--------------------------|----------------|----------------|--------------------------|----------------|
| | Cost | Accumulated depreciation | Carrying value | Cost | Accumulated depreciation | Carrying value |
| Revenue Generating | 90,803 | (37,095) | 53,708 | 90,803 | (35,290) | 55,513 |
| Non-revenue Generating | 209,373 | - | 209,373 | 211,628 | - | 211,628 |
| Total | 300,176 | (37,095) | 263,081 | 302,431 | (35,290) | 267,141 |

Reconciliation of investment properties - 2011

| | Opening Balance | Disposals | Depreciation | Total |
|------------------------|-----------------|----------------|----------------|----------------|
| Revenue Generating | 55,513 | - | (1,805) | 53,708 |
| Non-revenue Generating | 211,628 | (2,255) | - | 209,373 |
| | 267,141 | (2,255) | (1,805) | 263,081 |

Reconciliation of investment properties - 2010

| | Opening Balance | Additions | Disposals | Transfers | Depreciation | Total |
|------------------------|-----------------|---------------|----------------|-----------------|----------------|----------------|
| Revenue Generating | 57,492 | - | (150) | - | (1,829) | 55,513 |
| Non-revenue Generating | 236,225 | 15,514 | (1,922) | (38,189) | - | 211,628 |
| | 293,717 | 15,514 | (2,072) | (38,189) | (1,829) | 267,141 |

The fair value of the above properties is R1.3 billion (2010: R1.3 billion). Investment properties have been valued in accordance with current market conditions.

13. INVESTMENTS IN MUNICIPAL ENTITIES

| Name of company | % holding 2011 | % holding 2010 | Carrying amount 2011 | Carrying amount 2010 |
|--|----------------|----------------|----------------------|----------------------|
| ICC Durban (Proprietary) Limited | 100 % | 100 % | 2 | 1 |
| Durban Marine Theme Park (Proprietary) Limited | 99.8 % | 99.8 % | 872,996 | 860,996 |
| | | | 872,998 | 860,997 |
| Impairment of investment in municipal entity | | | (193,427) | (136,498) |
| | | | 679,571 | 724,499 |

At its meeting on 19 July 2011, and taking cognizance of the International Convention Centre and Durban Marine Theme Park operating at a break-even level, excluding depreciation and finance charges, the Council's Finance and Procurement Committee confirmed its commitment to ensuring the future financial viability of the International Convention Centre and the Durban Marine Theme Park and more specifically to meet any funding shortfalls that may compromise their ability to continue trading as a "going concern".

On 26 May 2011, 124 additional shares were acquired in Durban Marine Theme Park (Pty) Ltd.

In the prior year, on 31 January 2010, 206 additional shares were acquired in Durban Marine Theme Park (Pty) Ltd. Refer to note 16 for further details.

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13. Investments in municipal entities (continued)

| As at 30th June 2011 | ICC Durban (Proprietary) Limited | Durban Marine Theme Park (Proprietary) Limited |
|--|---|---|
| Issued Share Capital (R'000) | 1 | 9,384 |
| Percentage owned by Council (%) | 100 | 99 |
| Indebtedness of Municipal Entities (R'000)- Non Interest Bearing | 226,590 | - |
| Loss on Impairment of Loans | (226,590) | - |
| Electricity Income Received (R'000) | 7,782 | 13,876 |
| Water Income Received (R'000) | 886 | 3,721 |
| Gross Rates Income Received (R'000) | 17,536 | - |
| Grant-in-Aid (Rates) (R'000) | (10,500) | - |
| Refuse Removal (R'000) | 418 | - |
| | | |
| As at 30th June 2010 | ICC Durban (Proprietary) Limited | Durban Marine Theme Park (Proprietary) Limited |
| Issued Share Capital (R'000) | 1 | 9,260 |
| Percentage owned by Council (%) | 100 | 99 |
| Indebtedness of Municipal Entities (R'000)- Non Interest Bearing | 226,590 | 1,560 |
| Loss on Impairment of Loans | (226,590) | (1,560) |
| Electricity Income Received (R'000) | 6,255 | 11,773 |
| Water Income Received (R'000) | 574 | 3,851 |
| Gross Rates Income Received (R'000) | 17,790 | - |
| Grant-in-Aid (Rates) (R'000) | (10,500) | - |

14. INVESTMENTS

Financial Instruments - Held to Maturity

| | | |
|-------------------------------|------------------|----------------|
| General Investments | - | 27,044 |
| Fixed and Negotiable Deposits | 2,450,000 | 300,000 |
| | 2,450,000 | 327,044 |
| Total Cash Investments | 2,450,000 | 327,044 |
| | | |
| Current assets | | |
| Held to Maturity | 2,450,000 | 327,044 |

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14. Investments (continued)

Investments are non-derivative financial assets and are classified at fair value and are held to maturity. Investments will mature within two to four months, therefore cost equates fair value. The Municipality does not hold its investments for trading purpose. Management determines the classification of its investments at the time of acquisition and re-evaluates such declaration on an annual basis.

Market valuation of listed investments

15. INVESTMENT IN JOINT VENTURE

| Name of company | Unlisted | % holding 2011 | % holding 2010 | Carrying amount 2011 | Carrying amount 2010 |
|-----------------------|----------|----------------|----------------|----------------------|----------------------|
| Effingham Development | | 66.74 % | 66.74 % | 70,610 | 137,089 |

This represents a 66.74% investment in Effingham Development (Joint Venture)

The Effingham Development Joint Venture is a joint venture entered into with Moreland Developments (Pty) Ltd. The joint venture was formed with the objective of developing and marketing the serviced sites of the Effingham / Avoca (Riverhorse Valley Business Estate) land and Phoenix South (Bridge City) land.

Summary of the municipality's interest in the joint venture

| Assets | | | |
|--|--|---------------|----------------|
| Township Property | | 44,096 | 57,232 |
| Current assets - Debtors | | 21,971 | 123,148 |
| Current assets - Cash on hand | | 28,024 | 14,311 |
| TOTAL ASSETS | | 94,091 | 194,691 |
| Equity and Liabilities | | | |
| Members Loan Accounts | | 70,610 | 137,089 |
| Current liabilities - Creditors | | 23,481 | 57,602 |
| TOTAL EQUITY AND LIABILITIES | | 94,091 | 194,691 |
| RECONCILIATION OF INVESTMENT IN JOINT VENTURE | | | |
| Balance at beginning of year | | 137,089 | 156,851 |
| Share of Income for the year | | 3,521 | 5,238 |
| Payment received | | (70,000) | (25,000) |
| BALANCE AT END OF YEAR | | 70,610 | 137,089 |

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|--|-----------|-----------|
| 16. LOANS TO MUNICIPAL ENTITIES | | |
| Durban Marine Theme Park (Proprietary) Limited | - | 1,561 |
| ICC Durban (Proprietary) Limited | 226,590 | 226,590 |
| Subtotal | 226,590 | 228,151 |
| Impairment of loans to municipal entities | (226,590) | (228,151) |
| | - | - |

Loans to Municipal Entities are fully impaired as they are considered to be irrecoverable in the short-term.

On 26 May 2011 the loan of R1.5m to Durban Marine Theme Park (Pty) Ltd. was converted into ordinary shares in the municipal entity. This loan was previously impaired. The reversal of the loan impairment as at 30 June 2010 amounting to R1.5m was recognised as revenue in the current financial year.

17. RECEIVABLES

| Long-term receivables | | |
|---|----------------|----------------|
| Loan: DIDT | 140,402 | 136,237 |
| Fair Value Adjustment | (11,593) | (22,706) |
| Housing Selling scheme loans | 130,761 | 139,621 |
| First Metro Housing loans | 15,975 | 18,067 |
| Land sales | 999 | 21,255 |
| Education Loans | 10,787 | 9,167 |
| Sporting bodies loans | 1,073 | 2,328 |
| Car Loans | - | 1 |
| Housing Bonds | - | 51 |
| | 288,404 | 304,021 |
| Less: Current portion transferred to current receivables | | |
| Housing Selling scheme loans | 3,786 | 4,451 |
| First Metro Housing loans | 848 | 959 |
| Land sales | 999 | 21,255 |
| Education Loans | 115 | 98 |
| Sporting bodies loans | 214 | 465 |
| Car Loans | - | 1 |
| Housing Bonds | - | 25 |
| | 5,962 | 27,254 |
| Non-current assets | | |
| Long-term receivables | 282,442 | 276,767 |
| Current assets | | |
| Long-term receivables | 5,962 | 27,254 |

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Car loans

Senior staff are entitled to car loans which attract interest at 8.5% (2010:8.5%) per annum and which are repayable over a maximum period of 1 year. These loans were repayable in the year 2010.

Sewerage connection loans

To encourage property owners to connect to the reticulation system, low interest rate loans are made to provide the necessary financial assistance. These loans attracted interest at a rate of 11% - 14% per annum and are repayable over a maximum period of 1 year.

Sporting Bodies Loans

These loans attract interest of 11% - 14% (2010:11% - 14%) per annum and are repayable over 20 to 50 years.

Housing selling scheme loans

Housing loans are granted to qualifying individuals in terms of the provincial administration housing programme. These loans attract interest in terms of the State Directives and Guidelines and are repayable over 20 years. These loans will be repaid by the year 2011.

Housing First Metro loan

These loans attract interest at a fixed rate of 10% and are repayable over 20 years.

18. INVENTORIES

| | | |
|-----------------------------------|----------------|----------------|
| Unsold Properties held for resale | 6 | - |
| Consumable stores | 202,670 | 215,984 |
| Maintenance materials | 137 | 136 |
| Water | 8,593 | 8,025 |
| | 211,406 | 224,145 |

The cost of inventories recognised as an expense during the period in respect of water sales was R1 080.9m (2010: R1 077.5m).

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| 19. CONSUMER DEBTORS | | |
| Gross Balances | | |
| Rates | 2,180,525 | 2,231,599 |
| Electricity | 937,728 | 770,136 |
| Water | 1,206,749 | 984,806 |
| Refuse | 61,558 | 46,197 |
| Regional services levies | 4,659 | 11,071 |
| Housing rental | 66,624 | 58,399 |
| Waste water | 100,730 | 11,155 |
| Total | 4,558,573 | 4,113,363 |
| Less Provision for bad debts | | |
| Rates | (1,059,306) | (1,124,622) |
| Electricity | (204,567) | (190,050) |
| Water | (657,395) | (534,798) |
| Refuse | (5,403) | (6,642) |
| Regional services levies | (4,659) | (11,071) |
| Housing rental | (32,571) | (27,057) |
| Waste water | (24,884) | - |
| Total | (1,988,785) | (1,894,240) |
| Net Balance | | |
| Rates | 1,121,219 | 1,106,977 |
| Electricity | 733,161 | 580,086 |
| Water | 549,354 | 450,008 |
| Refuse | 56,155 | 39,555 |
| Housing rental | 34,053 | 31,342 |
| Waste water | 75,846 | 11,155 |
| Total | 2,569,788 | 2,219,123 |
| Rates | | |
| Current (0 -30 days) | 440,142 | 633,790 |
| 31 -60 days | 62,361 | 62,368 |
| 61 - 90 days | 49,076 | 46,561 |
| 91 - 120 days | 17,525 | 40,608 |
| >120 days | 1,056,850 | 745,530 |
| > 365 days | 554,571 | 702,742 |
| Total | 2,180,525 | 2,231,599 |
| Electricity, Water, Solid Waste and Waste Water | | |
| Current (0 -30 days) | 945,150 | 683,175 |
| 31 -60 days | 67,524 | 140,199 |
| 61 - 90 days | 62,925 | 47,623 |
| 91 - 120 days | 199,531 | 67,054 |
| >120 days | 1,031,635 | 874,243 |
| Total | 2,306,765 | 1,812,294 |

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| Figures in Rand thousand | 2011 | 2010 |
|-------------------------------------|------------------|------------------|
| Regional services levies | | |
| > 365 days | 4,659 | 11,071 |
| Housing rental | | |
| Current (0 -30 days) | 1,928 | 2,089 |
| 31 -60 days | 1,108 | 1,034 |
| 91 - 120 days | 31,018 | 28,219 |
| >120 days | 32,570 | 27,057 |
| Total | 66,624 | 58,399 |
| 20. DEBTORS | | |
| Other Debtors | 923,986 | 1,118,780 |
| Fair Value Adjustment | (813) | (431) |
| Provision for bad debts | (79,425) | (127,270) |
| Insurance debtor | 160,598 | 128,492 |
| Accruals | 1,714,788 | 1,603,411 |
| Payments made in advance | 13,296 | 20,479 |
| | 2,732,430 | 2,743,461 |
| 21. CALL INVESTMENT DEPOSITS | | |
| 30 Day deposits | 650,504 | 1,430,751 |
| 22. VAT | | |
| VAT reconciliation | | |
| VAT receivable | 42,182 | 375,850 |
| Net Vat | 42,182 | 375,850 |

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

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Notes to the Annual Financial Statements

Figures in Rand thousand

23. PROPERTY RATES

Rates received

| | | |
|---------------------------------------|------------------|------------------|
| Residential | 1,564,253 | 1,614,499 |
| Agricultural | 3,288 | 2,256 |
| Agricultural - Prior Year adjustments | - | (3,274) |
| Vacant Land | 465,344 | 475,173 |
| Industrial | 801,572 | 743,903 |
| Business & Commercial | 1,224,825 | 1,122,105 |
| Public Service Infrastructure | 14,072 | 24,395 |
| Unauthorised / illegal Development | 284 | 122 |
| Total Assessm | 4,073,638 | 3,979,179 |

Valuations

| | | |
|------------------------------------|--------------------|--------------------|
| Residential | 247,376,234 | 243,346,560 |
| Agricultural | 1,536,156 | 1,417,895 |
| Vacant Land | 17,976,729 | 22,069,993 |
| Industrial | 33,859,744 | 34,265,683 |
| Business & Commercial | 81,444,791 | 77,390,069 |
| Public Service Infrastructure | 10,106,936 | 8,846,659 |
| Unauthorised / Illegal Development | 202,816 | 36,305 |
| Total Property | 392,503,406 | 387,373,164 |

The following are the rate randages that were applied to the valuations in respect of the various categories: Residential - R 0.00852 (2010:R 0.009); Agriculture - R 0.00213 (2010:R0.0024); Vacant Land - R 0.0408 (2010:R0.0378); Industrial - R 0.02493 (2010:R 0.0258); Business and Commercial - R 0.01932 (2010:R 0.0201); Public Service Infrastructure - R 0.00213 (2010:R0.0024). The year-on-year increases in the rate randages were minimal due to the previously rated sewerage element becoming tariff-based with effect from 1 July 2010. All residential property owners are exempt from paying rates on the first R120 000 (2010: R120 000) of their property value. Pensioners, child-headed households, disability grantees and the medically boarded are exempt from paying rates on the first R400 000 (2010:R400 000) of their property value (inclusive of the R120 000 referred to earlier). No rates are levied on the first R30 000 (2010: R30 000) value of vacant land.

24. SERVICE CHARGES

| | | |
|---------------------------------|------------------|------------------|
| Sale of electricity | 7,022,871 | 5,619,105 |
| Sale of water | 1,833,505 | 1,719,533 |
| Solid waste | 374,399 | 342,925 |
| Sewerage and sanitation charges | 559,237 | 68,133 |
| Other service charges | 127,947 | 114,278 |
| Total service cl | 9,917,959 | 7,863,974 |

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2011

2010

25. GRANTS AND SUBSIDIES

| | | |
|---|------------------|------------------|
| Equitable share | 1,417,624 | 1,126,955 |
| Municipal infrastructure grant | 584,048 | 494,811 |
| Expanded Public Works Programme Incentive | 38,042 | - |
| European Union | 4,605 | 29,655 |
| Provincial health subsidies | 51,388 | 50,745 |
| Department of Transport and Public Transport Infrastructure | 147,414 | 539,758 |
| Department of Economic Activities and Various Industries | 2,925 | 2,568 |
| Vuna Awards | 47 | 111 |
| 2010 KZN Provincial grant | 76,497 | 700,419 |
| Department of Minerals and Energy Affairs | 29,721 | 1,800 |
| Tsogo Sun | - | 95,476 |
| Other grants | 68,937 | 83,502 |
| Public Contributions | 3,104 | 47,715 |
| D Moss Land Sales | - | 74 |
| Neighbourhood Development Partnership | 32,693 | 188,765 |
| Department of Housing | 104,622 | 343,229 |
| Danida | 10,703 | 19,363 |
| Grant Accreditation | 16 | 95 |
| Department of Local Government and Traditional Affairs | 17,702 | 4,954 |
| Provincial grants: Library Books | - | 706 |
| Metropolitan Transport Authority - Taxi ranks | 591 | 1,881 |
| A1 Grand Prix | - | 644 |
| Department of Provincial and Local Government | 250 | 31 |
| Total grants an | 2,590,929 | 3,733,257 |

Equitable share

| | | |
|---|-------------|--------------|
| Balance unspent at beginning of year | 3,089 | 3,048 |
| Current-year receipts | 1,414,535 | 1,126,996 |
| Conditions met - transferred to revenue | (1,417,624) | (1,126,955) |
| Conditions still | - | 3,089 |

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. Unspent portion will be used to provide infrastructure development and job creation in INK as an urban regeneration programme.

Municipal infrastructure grant

| | | |
|---|---------------|---------------|
| Balance unspent at beginning of year | 14,330 | 191 |
| Current-year receipts | 595,912 | 508,950 |
| Conditions met - transferred to revenue | (584,048) | (494,811) |
| Conditions still | 26,194 | 14,330 |

This grant was used to construct roads and sewerage infrastructure.

D Moss Land Sales

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 8,362 | 8,436 |
| Conditions met - transferred to revenue | - | (74) |
| Conditions still | 8,362 | 8,362 |

The above relates to funding for the acquisition of DMoss land.

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Disaster Fund

Funding received for the financing of storm damage.

Department of Economic Activities and Various Industries

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 2,295 | 2,778 |
| Current-year receipts | 2,187 | 2,085 |
| Conditions met - transferred to revenue | (2,925) | (2,568) |
| Conditions still | 1,557 | 2,295 |

Funding was obtained from various sources and local industries for the implementation of the South Durban Basin Multi Point Plan. The expenditure is incurred over a multi year period based on the rollout of the projects per programme. Further funding will be expended based on the outcome of the Air Quality Management Plan which is currently underway.

Department of Transport and Public Transport Infrastructure

| | | |
|---|----------------|----------------|
| Balance unspent at beginning of year | 335,273 | 298,105 |
| Current-year receipts | 130,000 | 576,926 |
| Conditions met - transferred to revenue | (147,414) | (539,758) |
| Conditions still | 317,859 | 335,273 |

The funds received and utilised relates to funding for subsidy for traffic and pedestrian planning as well as the Tansnat (2009: Remant Alton) Bus Operating subsidy. Unutilised funds will be expended in the forthcoming year.

Neighbourhood Development Partnership

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 9,003 | 25,216 |
| Current-year receipts | 25,781 | 172,552 |
| Conditions met - transferred to revenue | (32,693) | (188,765) |
| Conditions still | 2,091 | 9,003 |

Focus of the grant is to stimulate and accelerate investment in poor underserved residential neighbourhoods.

European Union

| | | |
|---|--------------|---------------|
| Balance unspent at beginning of year | 13,819 | 42,136 |
| Current-year receipts | 709 | 1,338 |
| Conditions met - transferred to revenue | (4,605) | (29,655) |
| Conditions still | 9,923 | 13,819 |

The Municipality has an Area-based Management Programme that focuses on key areas of the Council and enhances service delivery and stimulates job and income generation to these basic areas. The European Union formed a partnership with the Council on condition that the funds provided are to be utilised only in these specific areas.

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| Figures in Rand thousand | 2011 | 2010 |
|---|---------------|---------------|
| Other grants | | |
| Balance unspent at beginning of year | 35,706 | 19,472 |
| Current-year receipts | 76,591 | 99,322 |
| Current-year accruals | - | 414 |
| Conditions met - transferred to revenue | (68,937) | (83,502) |
| Conditions still | 43,360 | 35,706 |

Other Grants and subsidies were utilised during the year to fund various Council projects.

Department of Housing

| | | |
|---|----------------|---------------|
| Balance unspent at beginning of year | 63,353 | 101,328 |
| Current-year receipts | 239,401 | 305,254 |
| Conditions met - transferred to revenue | (104,622) | (343,229) |
| Conditions still | 198,132 | 63,353 |

Funding for the administration of Hostels in KwaZulu Natal.

Lamontville and R293 transfer Deeds

| | | |
|--------------------------------------|-------|-------|
| Balance unspent at beginning of year | 1,556 | 1,556 |
|--------------------------------------|-------|-------|

This grant was used to fund the maintenance of the Lamontville houses as well as the transfer of the R293 township houses to the beneficiaries .

Danida

| | | |
|---|----------|------------|
| Balance unspent at beginning of year | 831 | 1,973 |
| Current-year receipts | 9,872 | 17,621 |
| Current-year accruals | - | 600 |
| Conditions met - transferred to revenue | (10,703) | (19,363) |
| Conditions still | - | 831 |

These funds are used to enhance existing capacity in Urban Environmental Management. This programme prioritizes poverty reduction and building institutional capacity for enhanced local level delivery of environmentally sustainable services.

Grant Accreditation

| | | |
|---|------------|------------|
| Balance unspent at beginning of year | 315 | 410 |
| Conditions met - transferred to revenue | (16) | (95) |
| Conditions still | 299 | 315 |

These funds are for the administrative support provided for RDP houses.

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Department of Local Government and Traditional Affairs

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 8,213 | 12,167 |
| Current-year receipts | 16,800 | 1,000 |
| Conditions met - transferred to revenue | (17,702) | (4,954) |
| Conditions still | 7,311 | 8,213 |

Funding provided for the implementation of projects identified through the KZN Corridor Development Programme and to unlock strategic economic development opportunities within the Northern Municipal Planning Region (NMPR) of the city.

Public Contributions

| | | |
|--|----------------|----------------|
| Balance unspent at beginning of year | 120,110 | 142,130 |
| Current-year receipts | 12,860 | 13,656 |
| Transfer from Creditors (Incorrect classification in prior year) | - | 12,039 |
| Conditions met - transferred to revenue | (3,104) | (47,715) |
| Conditions still | 129,866 | 120,110 |

The grants were received from various organisations to finance various developments. In the current year this includes development of Nandi Drive and Hillcrest Roads. The prior year balance includes a grant to fund the Bayhead Bridge Development Project.

2010 KZN Provincial grant

| | | |
|---|---------------|-----------|
| Balance unspent at beginning of year | - | 125,026 |
| Current-year receipts | 91,286 | 575,393 |
| Conditions met - transferred to revenue | (76,497) | (700,419) |
| Conditions still | 14,789 | - |

The grant was received for the building of the stadium and other constructions in preparation for 2010 FIFA World Cup.

Provincial grants: Library Books

| | | |
|---|----------|----------|
| Current-year receipts | - | 706 |
| Conditions met - transferred to revenue | - | (706) |
| Conditions still | - | - |

This grant was utilised to fund the acquisition of library materials.

Metropolitan Transport Authority - Taxi ranks

| | | |
|---|-----------|-----------|
| Balance unspent at beginning of year | 32 | 32 |
| Current-year accruals | 591 | 1,881 |
| Conditions met - transferred to revenue | (591) | (1,881) |
| Conditions still | 32 | 32 |

Funding from eThekwini Transport fund to contribute towards the upgrading of Taxi Ranks.

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Notes to the Annual Financial Statements

| Figures in Rand thousand | 2011 | 2010 |
|---|----------|----------|
| A1 Grand Prix | | |
| Balance unspent at beginning of year | - | 644 |
| Conditions met - transferred to revenue | - | (644) |
| Conditions still | - | - |

Funding received for the A1 Grand Prix related roadwork.

| | | |
|---|----------|----------|
| Tsogo Sun | | |
| Balance unspent at beginning of year | - | 72,476 |
| Current-year receipts | - | 23,000 |
| Conditions met - transferred to revenue | - | (95,476) |
| Conditions still | - | - |

This amount was received from Tsogo Sun for the Suncoast precinct upgrade and Inner-City distribution.

| | | |
|--|--------------|--------------|
| Department of Minerals and Energy Affairs | | |
| Balance unspent at beginning of year | 8,000 | - |
| Current-year receipts | 25,000 | 9,800 |
| Conditions met - transferred to revenue | (29,721) | (1,800) |
| Conditions still | 3,279 | 8,000 |

The grant was used to finance the gas to electricity capital project.

| | | |
|--|--------------|--------------|
| Department of Provincial and Local Government | | |
| Balance unspent at beginning of year | 2,250 | 2,281 |
| Conditions met - transferred to revenue | (250) | (31) |
| Conditions still | 2,000 | 2,250 |

Grant to be utilised for the Shembe Development Precinct (Rural ABM) and the acquisition of land for the Bridge City Project (INK).

| | | |
|---|----------|----------|
| Provincial health subsidies | | |
| Inventory received | 6,848 | 8,133 |
| Current-year receipts | 44,540 | 42,612 |
| Conditions met - transferred to revenue | (51,388) | (50,745) |
| Conditions still | - | - |

The Municipality renders health services on behalf of the Provincial Government. This grant has been used exclusively to fund clinic services (included in the public health vote in Appendix D. The conditions of the grant have been met.

| | | |
|--|---------------|---------------|
| Expanded Public Works Programme Incentive | | |
| Balance unspent at beginning of year | 43,243 | - |
| Current-year receipts | 17,659 | - |
| Conditions met - transferred to revenue | (38,042) | - |
| Current-year receipts, Conditions still to be met - transferred to liabilities | - | 43,243 |
| Conditions still | 22,860 | 43,243 |

This grant is to be used for job creation and poverty alleviation incentives.

eThekwini Municipality

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| Figures in Rand thousand | 2011 | 2010 |
|---|--------------|--------------|
| Vuna Awards | | |
| Balance unspent at beginning of year | 2,945 | 3,056 |
| Conditions met - transferred to revenue | (47) | (111) |
| Conditions still | 2,898 | 2,945 |

The Vuna Awards is an initiative of the Department of Provincial and Local Government, together with its partners in the coordination of development in local government, the South African Local Government Association, Development Bank of Southern Africa and the National Productivity Institute. The Vuna awards, as the awards are called, reward the municipalities that provide communities excellent services and governance.

26. OTHER INCOME

| | | |
|---------------|------------------|------------------|
| Sundry Income | 409,887 | 365,396 |
| Fuel Levy | 1,147,254 | 895,448 |
| | 1,557,141 | 1,260,844 |

27. EMPLOYEE RELATED COSTS

| | | |
|--|------------------|------------------|
| Employee related costs-Salaries and Wages | 3,316,079 | 2,908,792 |
| Medical Aid and Pension Benefits | 5 816,615 | 968,010 |
| UIF | 26,460 | 22,951 |
| Leave pay provision contribution | 69,774 | 204,151 |
| Travel, motor car, accommodation, subsistence and other allowances | 134,493 | 111,978 |
| Overtime payments | 337,280 | 351,614 |
| Housing benefits and allowances | 19,298 | 24,293 |
| Holiday Bonus | 220,808 | 183,610 |
| Other | 30,244 | 20,581 |
| Less: Employee costs capitalised to PPE | (148,120) | (255,462) |
| | 4,822,931 | 4,540,518 |

There were no advances to employees. Loans to employees are set out in note 17.

Included in the employee related costs are the following:

Remuneration of the Municipal Manager

| | | |
|---|--------------|--------------|
| Annual Remuneration | 1,545 | 1,416 |
| Car Allowance | 102 | 102 |
| Market Allowance | 382 | 382 |
| Contributions to UIF, Medical Aid and Pension Funds | 21 | 1 |
| Total | 2,050 | 1,901 |

Remuneration of the Chief Finance Officer

| | | |
|---|--------------|--------------|
| Annual Remuneration | 1,096 | 1,009 |
| Car Allowance | 351 | 317 |
| Market Allowance | 242 | 242 |
| Contributions to UIF, Medical Aid and Pension Funds | 238 | 203 |
| Total | 1,927 | 1,771 |

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| Figures in Rand thousand | 2011 | 2010 |
|--|--------------|--------------|
| Safety and Security | | |
| Annual Remuneration | 1,463 | 1,349 |
| Contributions to UIF, Medical and Pension Funds | 17 | 1 |
| Total | 1,480 | 1,350 |
| Health and Social Services | | |
| Annual Remuneration | 1,283 | 684 |
| Contributions to UIF, Medical and Pension Funds | 42 | 12 |
| Car Allowance | 120 | 70 |
| Total | 1,445 | 766 |
| In the prior-year the above post was vacant for 5 months during the year | | |
| Governance | | |
| Annual Remuneration | 1,096 | 1,009 |
| Car Allowance | 351 | 316 |
| Market Allowance | 121 | 121 |
| Contributions to UIF, Medical Aid and Pension Funds | 235 | 198 |
| Total | 1,803 | 1,644 |
| Procurements and Infrastructure | | |
| Annual Remuneration | 1,492 | 1,365 |
| Car Allowance | 120 | 120 |
| Market Allowance | 210 | 210 |
| Contributions to UIF, Medical Aid and Pension Funds | 51 | 30 |
| Total | 1,873 | 1,725 |

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Figures in Rand thousand

Sustainable Development & City Enterprises

| | 2011 | 2010 |
|---|--------------|--------------|
| Annual Remuneration | 1,014 | 1,004 |
| Car Allowance | 150 | 180 |
| Contributions to UIF, Medical and Pension Funds | 48 | 28 |
| Total | 1,212 | 1,212 |

28. REMUNERATION OF COUNCILLORS

| | | |
|-----------------------------------|---------------|---------------|
| Mayor | 950 | 866 |
| Deputy Mayor | 669 | 708 |
| Mayoral Committee Members | 5,370 | 3,465 |
| Speaker | 685 | 705 |
| Councillors | 64,328 | 62,506 |
| Councillors' pension contribution | 5,917 | 5,719 |
| Total Councillors | 77,919 | 73,969 |

In-kind Benefits:

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

29. FINANCE COSTS

| | | |
|----------------------------|----------------|----------------|
| Non-current borrowings | 674,922 | 460,118 |
| Consumer Deposits | 10,352 | 8,781 |
| Other interest paid | 2,071 | 12,043 |
| Total Finance Costs | 687,345 | 480,942 |

An amount of R226.1m (2010: R230.7m) relating to borrowing costs was capitalised to work-in-progress with 8.73% (2010: 8.75%) being the weighted average cost of funds borrowed generally by the municipality.

30. BULK PURCHASES

| | | |
|-----------------------------|------------------|------------------|
| Electricity | 4,414,590 | 3,454,403 |
| Water | 1,080,927 | 1,077,541 |
| Total Bulk Purchases | 5,495,517 | 4,531,944 |

31. GRANTS AND SUBSIDIES PAID

| | | |
|--|----------------|----------------|
| Grant paid: Durban Arts Association | 2,805 | 2,805 |
| Grant paid: Enhanced Extended Discount Benefit | 15,052 | 33,719 |
| Grant paid: Sporting Organisations | 35,969 | 33,216 |
| Grant paid: Playhouse Company | 2,913 | 2,809 |
| Grant paid: Natal Philharmonic Orchestra | 6,752 | 6,752 |
| Grant paid: Tourism Indaba | 9,574 | 10,289 |
| Grant paid: Trade Point Durban | 965 | 1,096 |
| Grant paid: Food Aid Program | 6,985 | 87 |
| Grant paid: Other | 61,606 | 59,204 |
| Total Grants and Subsidies Paid | 142,621 | 149,977 |

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| Figures in Rand thousand | 2011 | 2010 |
|---|------------------|------------------|
| 32. CASH GENERATED FROM OPERATIONS | | |
| Surplus for the year | 2,191,304 | 1,853,678 |
| Adjustments for: | | |
| Depreciation - property, plant and equipment | 1,331,555 | 1,098,807 |
| Amortisation of intangibles | 97,043 | 94,132 |
| Donations received:PPE | (1,166) | - |
| Depreciation of investment properties | 1,805 | 1,829 |
| Surplus on sale of assets | (48,655) | (78,943) |
| Deficit on sale of assets | 329 | 56,000 |
| Contribution to bad debt provision | 324,315 | 572,984 |
| Reversal of Loss on Impairment: PPE | (3,575) | (198) |
| Share of income from joint venture | (3,521) | (5,238) |
| Reversal of Loss on Impairment: Loans to Municipal Entities | (1,561) | - |
| Interest earned - other | (211,764) | (289,846) |
| Finance Costs | 687,345 | 480,942 |
| Fair value adjustments | (13,561) | 30,990 |
| Loss on impairment of Property, plant and equipment | 3,006 | 46,488 |
| Loss on Impairment of Investment in Municipal Entity | 56,930 | 2,889 |
| Movements in retirement benefit assets and liabilities | (27,180) | 257,098 |
| Contributions to provisions - non current | (7,426) | 82,310 |
| Contributions to provisions - current | 1,490 | (706) |
| Changes in working capital: | | |
| Inventories | 12,739 | (3,597) |
| Decrease/(increase) in other debtors | 10,649 | (526,046) |
| Decrease/(increase) in consumer debtors | (674,980) | (788,054) |
| Creditors | (340,297) | (76,553) |
| Increase in deposits | 147,470 | 124,848 |
| (Decrease)/Increase in VAT | 333,668 | (78,067) |
| Unspent conditional grants and receipts | 121,207 | (139,678) |
| | 3,987,169 | 2,716,069 |

33. COMMITMENTS

33.1 Commitments in respect of capital expenditure

| | | |
|--|------------------|------------------|
| Approved and contracted for | | |
| • Infrastructure | 539,455 | 561,299 |
| • Community | 41,857 | 39,965 |
| • Land and buildings | 28 | 7,096 |
| • Other assets | 20,452 | 30,384 |
| Approved but not yet contracted for | | |
| • Infrastructure | 752,385 | 884,882 |
| • Community | 48,250 | 117,525 |
| • Other | 4,388 | 16,164 |
| • Land and Buildings | 110 | 1,450 |
| Total | 1,406,925 | 1,658,765 |

33.2 Operating leases – as lessee (expenditure)

The future minimum lease payments payable under operating leases are as follows:

| | | |
|-------------------------------------|----------------|----------------|
| - within one year | 30,881 | 27,914 |
| - in second to fifth year inclusive | 111,398 | 83,744 |
| - later than five years | 102,714 | 33,184 |
| | 244,993 | 144,842 |

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| | 2011 | 2010 |
|--|------|------|
|--|------|------|

34. CONTINGENCIES

| | | |
|----------------------|-------|---|
| Contractual Disputes | 1,123 | - |
|----------------------|-------|---|

Various departments within the municipality have price disputes with certain contractors.

| | | |
|------------------------|--------|--------|
| Self Insurance Reserve | 25,759 | 47,676 |
|------------------------|--------|--------|

Various claims submitted to the Insurance department of the municipality are under dispute. The estimated liability of such claims is disclosed.

| | | |
|----------------|--------|--------|
| Property Rates | 60,009 | 52,314 |
|----------------|--------|--------|

During the implementation of the Municipal Property Rates Act (MPRA), ratepayers were given the opportunity to object to the property valuations used in the computation of their property rates charge. These objections were investigated and resolved. Ratepayers that were dissatisfied with the results of the response may lodge an appeal in terms of the MPRA. The appeals process will commence in the near future, once an appeals board has been established by Provincial Treasury to resolve appeals. The valuers from eValuations will be required to attend the appeals hearing in terms of Section 75(3) of the MPRA and their contract. If the ratepayers are successful in their appeal, the above rates revenue recognised for the year will have to be reversed.

| | | |
|-----------------|--------|--------|
| Bank Guarantees | 15,509 | 15,508 |
|-----------------|--------|--------|

These guarantee's are issued in favour of the following:

- The Member(s), Jeena's Warehouse Close Corporation: R3.6m (Standard Bank) dated 11 November 1998;
- S.A. Post Office: R76 000 (Standard Bank) dated 11 December 1998;
- S.A. Post Office: R1.9m (Standard Bank) dated 11 August 2004;
- ESKOM Holdings: R7 800 (First National Bank);
- Durban Marine Theme Park: R10m (First National Bank) dated 29 January 2009.

| | | |
|--------------|---------|-------|
| Legal Claims | 150,665 | 1,250 |
|--------------|---------|-------|

Various claims submitted to the legal department of the municipality are in the process of being resolved. The estimated liability of such claims, should the claimant be successful, is disclosed

Legal disputes relate to:

Rental charge R4.1m (possible legal claim)

Value of compensation in respect of expropriation of various properties R13.2m

Price charged in respect of AC Relay Project R108.9m

Various claims for Damages: R4.4m

Cancellation of Contract R20m

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| Figures in Rand thousand | 2011 | 2010 |
|--|--|----------------|
| 35. RELATED PARTIES | | |
| Relationships | | |
| Municipal Entities | Durban Marine Theme Park (Proprietary) Limited I.C.C. Durban (Proprietary) Limited Refer to note 13 | |
| Joint Venture | Ethekewini Transport Authority Riverhorse Valley Joint Venture Refer to note 15 | |
| Councillors / Official with significant influence | Durban Infrastructural Development Trust Trustees: G.M. Borman - Councillor R.D. Macpherson - Councillor V.G. Reddy - Councillor J. Balwanth - Council Official M. Tembe - Independent 3rd party P. Ngcobo - Independent 3rd party K. Ragunandan - Independent 3rd party | |
| Councillors / Officials with significant influence | Metro Club Trust Fund Trustees: Z.R.T. Gumede - Councillor V.G. Reddy - Councillor B.N. Magwaza - Council Official S.O. Cele - Council Official | |
| Related party balances | | |
| Loan accounts - Owing by related parties | | |
| I.C.C. Durban (Proprietary) Limited | 226,590 | 226,590 |
| Loans impaired | (226,590) | (228,151) |
| Durban Infrastructural Development Trust | 140,402 | 136,237 |
| | 140,402 | 134,676 |
| Amounts included in Trade Receivable regarding related parties | | |
| I.C.C. Durban (Proprietary) Limited | 1,467 | 984 |
| Durban Marine Theme Park (Proprietary) Limited | 1,388 | 316 |
| Metro Club Trust Fund | 2,422 | 2,422 |
| | 5,277 | 3,722 |
| Amounts included in Trade Payable regarding related parties | | |
| I.C.C. Durban (Proprietary) Limited | 4,040 | 1,375 |
| Durban Marine Theme Park (Proprietary) Limited | 172 | 337 |
| Ethekewini Transport Authority | 50,973 | 62,548 |
| | 55,185 | 64,260 |
| Amounts included in Consumer Deposits regarding related parties | | |
| Durban Marine Theme Park (Proprietary) Limited | 492 | - |

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|--|---------------|---------------|
| 35. Related parties (continued) | | |
| Related party transactions | | |
| Sales to related parties | | |
| I.C.C. Durban (Proprietary) Limited: | | |
| Electricity | 7,782 | 6,255 |
| Water | 886 | 574 |
| Refuse | 418 | 394 |
| Operating Lease Rentals - Centrum Parking | - | 144 |
| Gross Rates | 17,536 | 17,790 |
| Grant-in-Aid (Rates) | (10,500) | (10,500) |
| Durban Marine Theme Park (Proprietary) Limited | | |
| Electricity | 13,876 | 11,773 |
| Water | 3,721 | 3,851 |
| Riverhorse Valley Joint Venture | | |
| Electricity and Water | 42 | 25 |
| Income from Joint Venture | 3,521 | 5,328 |
| | 37,282 | 35,634 |
| Purchases from related parties | | |
| I.C.C. Durban (Proprietary) Limited | | |
| General Expenses | 12,582 | 7,818 |
| Durban Marine Theme Park (Proprietary) Limited | | |
| General Expenses | 1,774 | 2,295 |
| Ethekekwini Transport Authority | | |
| General Expenses | 2,500 | 10,489 |
| | 16,856 | 20,602 |

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36. POST REPORTING DATE EVENTS

Performance Bonus

The Section 57 employee's performance bonuses of R6 759 795.44 were paid on the 25th of October 2011. The amount excludes the City Manager's bonus which has not yet been approved to be paid in October 2011. The performance bonuses were included in the provision for Performance Bonuses (note 4) at 30 June 2011.

Employment Contract of the City Manager

The employment contract of the City Manager - Dr MO Sutcliffe has been extended on a month to month basis. The position has been advertised.

The Durban Transport Authority contract

The Durban Transport contract with effect from 1 October 2010 for Public Transport Service is currently managed on a month to month basis. The new Contract has been prepared and will go out on tender once approval has been obtained from the Executive Committee.

Western Aqueduct Project

All work on the Western Aqueduct project has been suspended, notice of appeal has been filed, and we are engaging with Senior Counsel on the grounds for appeal. The process is being given due urgency and will be completed before 30 November 2011.

37. TRAFFIC FINES

Traffic fines issued but not yet recovered at year end. 1,118,032 1,022,657

38. COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure's E(1) and E(2).

39. GENERAL EXPENSES

| | | |
|------------------------------------|------------------|------------------|
| General Expenses | 1,579,262 | 1,388,427 |
| Stadium: Operator costs | 63,309 | 44,229 |
| 2010 World Cup costs | 34,864 | 70,891 |
| Stadium: Hire of temporary seating | 10,779 | 23,451 |
| | 1,688,214 | 1,526,998 |

40. FAIR VALUE ADJUSTMENTS

| | | |
|--|---------------|-----------------|
| Fair Value Adjustment - Creditors | 2,830 | 81,407 |
| Fair Value Adjustment - Debtors | (382) | (852) |
| Fair Value Adjustments - Long-term Receivables | 11,113 | (76,687) |
| Investments - Financial Instruments | - | (34,858) |
| | 13,561 | (30,990) |

41. COMPARATIVE FIGURES

Certain comparative figures have been restated (refer note 45 for details).

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42. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

| | | |
|--|--------------|-------------|
| Long-term liabilities | 10,110,456 | 8,674,686 |
| Used to finance property, plant and equipment – at cost | (10,110,456) | (8,674,686) |
| | - | - |
| Cash set aside for the repayment of long-term liabilities | - | 27,044 |

43. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

Cases reported during the 2010/11 year are included below:

| | | |
|--|---------|---------|
| Supplier double charges on VAT resulting in overpayment | - | 1,035 |
| Supplier overcharging of 10% administration fee | - | 49 |
| Supplier irregular invoicing resulting in overcharges | - | 121 |
| Payments without any invoice | - | 17 |
| Irregular awarding of refurbishing work and repairs to Metro Police Vehicles | - | 43 |
| The irregular expenditure relating to Housing was awarded to contractors / consultants in accordance with Council's delegated authority to the Head of Housing dated 11/11/1997, to enter into contracts for housing development in terms of National Housing Programs. This expenditure is deemed to be irregular as the expenditure was not reported to the Accounting Officer for disclosure purposes. In the procurement of these goods and services due care was taken to ensure that Council received value for money without compromising quality and with minimum risk to Council. | 576,905 | 428,869 |
| Parks, Recreation & Culture: Non-compliance with S.C.M. - splitting of orders | 2,247 | 6,820 |
| Non-compliance with S.C.M. - various | 612,014 | - |
| Awards made to entities whose directors / members / principal shareholders / stakeholders were in the service of eThekwini municipality | 37,546 | 6,831 |
| 107 awards made to 122 entities whose directors / members / principal shareholders / stakeholders were in the service of other State institutions | 84,650 | 44,265 |
| Awards made to entities whose directors / members / principal shareholders / stakeholders were in the service of eThekwini municipality as Councillors | 5,526 | 11,436 |
| Consultant appointment non-compliance with SCM: variation order | - | 10,813 |

Investigations are still in progress regarding 13 other cases (2010: 15), the details of which are summarised as follows:

- 11 cases (2010: 8) relating to non-compliance with Supply Chain Management policy totalling R2.1million (2010: R38.9million).
- 2 cases (2010: 2) relating to contractual overpayments totalling R1.5million to R1.9million. (2010: R0.4million).

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| Figures in Rand thousand | 2011 | 2010 |
|--|----------------|----------------|
| Irregular expenditure | | |
| Reconciliation of irregular expenditure | | |
| Opening balance | 874,315 | 364,526 |
| Irregular expenditure current year | 1,318,888 | 510,299 |
| Recoveries/Condonements current year | (1,731,440) | (510) |
| Irregular expen | 461,763 | 874,315 |

A number of interventions have been introduced to improve monitoring controls in Supply Chain Management and the bid process prior to the awarding of contracts to service providers

Disciplinary action has been instituted against 39 employees that have transacted with the municipality and the services of 6 employees have been terminated.

A report, in terms of section 170 (2) of the Municipal Finance Management Act No.56 of 2003, has been submitted to National Treasury for the condonation of irregular expenditure

44. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

| | | |
|--|----------|----------|
| Contributions to organized local government | | |
| Council subscriptions | 9,100 | 6,000 |
| Amount paid - current year | (9,100) | (6,000) |
| Balance unpaic | - | - |

| | | |
|------------------------------|----------|----------|
| Audit fees | | |
| Current year audit fee | 2,858 | 1,690 |
| Previous years audit fee | 11,675 | 8,976 |
| Amount paid - current year | (2,858) | (1,690) |
| Amount paid - previous years | (11,675) | (8,976) |
| Balance unpaic | - | - |

| | | |
|----------------------------------|---------|---------|
| VAT | | |
| VAT received (paid) for the year | 619,177 | 649,910 |

| | | |
|---------------------------------|-----------|-----------|
| PAYE and UIF | | |
| Current year payroll deductions | 668,821 | 563,332 |
| Amount paid - current year | (668,821) | (563,332) |
| Balance unpaic | - | - |

| | | |
|---|-------------|-------------|
| Pension and Medical Aid Deductions | | |
| Current year payroll deductions and Council Contributions | 1,131,640 | 1,002,383 |
| Amount paid - current year | (1,131,640) | (1,002,383) |
| Balance unpaic | - | - |

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Councillors arrears

The following Councillors had arrear accounts outstanding for more than 90 days at any point during the respective financial years:

| | <u>Amount Outstanding Rands</u> |
|--|---|
| 30 June 2011 | |
| Councillor Bayeni M | 2,472 |
| Councillor Moyo F | 7,293 |
| | <hr/> 9,765 <hr/> |
| 30 June 2010 | |
| Councillor Mabaso M | 1,554 |
| Councillor Majola | 1,936 |
| Councillor Ngwane B | 420 |
| Councillor Hoosman N | 17,149 |
| Councillor Shabalala A | 2,774 |
| Councillor Gangile T | 364 |
| Councillor Zwane P | 272 |
| Councillor Cele G | 5,605 |
| Councillor Bhengu M | 3,323 |
| Councillor Magubane Z.E. (amount in dispute) | 52,764 |
| Councillor Magwaza T.D. (amount in dispute) | 8,815 |
| | <hr/> 94,976 <hr/> |

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45. PRIOR YEAR ADJUSTMENTS

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality:

VAT:

City Fleet VAT adjustment on capital acquisitions in the period prior to 2009/10.

Debtors:

Reversal of over-provision of grant accrual in 2009/10.
Under-provision of rental accruals.

Unspent Conditional Grants:

Reclassification of Housing unspent conditional grant previously included in Creditors.

Creditors:

Reclassification of Housing unspent conditional grant previously included in Creditors.

Consumer Debtors:

Adjustments as a result of valuation appeals.

Housing Development Fund:

Additional contribution from Accumulated Surplus to H.D.F. in respect of 2009/10.

Property, Plant and Equipment, Intangible Assets and Investment Properties:

In compliance with GRAP 17 useful lives of these assets were reviewed resulting in re-calculation of depreciation and amortisation amounts applicable to prior years.

Library books were capitalised for the first time which resulted in prior-year adjustments.
Correction of error: Moveable assets that were not recorded in the fixed asset register have been recorded at fairvalue.

The comparative statements for the 2010 year have been restated to recognise the amendments relating to all of the above. The effects of the changes are detailed below:

| | 2011 | 2010 |
|--|------|------------------|
| VAT | | |
| Balance previously reported | - | 378,284 |
| City Fleet - PPE Capitalisation adjustment | - | (2,434) |
| | - | 375,850 |
| Consumer Debtors | | |
| Balance previously reported | - | 2,492,460 |
| Rates adjustments - prior to 2009/10 | - | (159,073) |
| Rates adjustments - 2009/10 | - | (114,264) |
| | - | 2,219,123 |
| Debtors | | |
| Balance previously reported | - | 2,764,856 |
| Reversal of Accrual for M.I.G. Grant - 2009/10 | - | (21,740) |
| Rental of Facilities adjustment - prior to 2009/10 | - | 298 |
| Rental of Facilities adjustment - 2009/10 | - | 47 |
| | - | 2,743,461 |
| Creditors | | |
| Balance previously reported | - | 4,707,287 |
| Reclassification to Unspent Conditional Grants | - | (50,055) |
| | - | 4,657,232 |

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| Figures in Rand thousand | 2011 | 2010 |
|---|----------|-------------------|
| 45. PRIOR YEAR ADJUSTMENTS (continued) | | |
| Housing Development Fund | | |
| Balance previously reported | - | 292,225 |
| Transfer from Accumulated Surplus | - | 49,000 |
| | - | 341,225 |
| Unspent Conditional Grants | | |
| Balance previously reported | - | 622,668 |
| Reclassification from Creditors | - | 50,057 |
| | - | 672,725 |
| Intangible Assets | | |
| Balance previously reported | - | 324,838 |
| Accumulated Amortisation adjustment - prior to 2009/10 | - | 4,566 |
| Amortisation adjustment - 2009/10 | - | (756) |
| | - | 328,648 |
| Investment Properties | | |
| Balance previously reported | - | 296,285 |
| Accumulated Depreciation adjustment - prior to 2009/10 | - | (27,706) |
| Depreciation adjustment - 2009/10 | - | (1,438) |
| | - | 267,141 |
| Property, Plant and Equipment | | |
| Balance previously reported | - | 28,399,160 |
| Accumulated Depreciation adjustment - prior to 2009/10 | - | 42,534 |
| Depreciation adjustment - 2009/10 | - | (11,525) |
| Capitalisation of Library Books (cost) - prior to 2009/10 | - | 92,484 |
| Capitalisation of Library Books (cost) - 2009/10 | - | 9,319 |
| Capitalisation of Library Books (depreciation) - prior to 2009/10 | - | (70,541) |
| Capitalisation of Library Books (depreciation) - 2009/10 | - | (8,177) |
| City Fleet - VAT Capitalisation adjustment - prior to 2009/10 | - | 2,434 |
| | - | 28,455,688 |
| Accumulated Surplus | | |
| Balance previously reported | - | 20,657,169 |
| Accumulated Depreciation adjustment: PPE - prior to 2009/10 | - | 3,809 |
| Depreciation adjustment: PPE - 2009/10 | - | (6,777) |
| Capitalisation of Library Books: General Expenses - prior to 2009/10 | - | 92,484 |
| Capitalisation of Library Books: General Expenses - 2009/10 | - | 9,319 |
| Capitalisation of Library Books: Depreciation - prior to 2009/10 | - | (70,541) |
| Capitalisation of Library Books: Depreciation - 2009/10 | - | (8,177) |
| Accumulated Depreciation adjustment: Investment Properties - prior to 2009/10 | - | (27,706) |
| Depreciation adjustment: Investment Properties - 2009/10 | - | (1,438) |
| Accumulated Amortisation adjustment: Intangibles - prior to 2009/10 | - | 4,566 |
| Amortisation adjustment: Intangibles - 2009/10 | - | (756) |
| Transfer to Housing Development Fund - 2009/10 | - | (49,000) |
| Reversal of M.I.G. Grant recognised as revenue - 2009/10 | - | (21,740) |
| Debtors: Rental of Facilities adjustment - prior to 2009/10 | - | 298 |
| Debtors: Rental of Facilities adjustment - 2009/10 | - | 47 |
| Consumer Debtors: Rates Income adjustment - prior to 2009/10 | - | (159,075) |
| Consumer Debtors: Rates Income adjustment - 2009/10 | - | (114,264) |

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|--|------|-------------------|
| 45. PRIOR YEAR ADJUSTMENTS (continued) | | |
| Fair Value of moveable assets - prior to 2009/10 | - | 33,977 |
| | - | 20,342,195 |

46. LEASES (INCOME) - LESSOR

Rental income recognised from operating leases have not been accounted for on the straight-line basis over the lease terms for the following reasons:

Approximately 50% of lease income is short term ie. the lease is terminable at 1 to 3 months notice;
Approximately 45% of long term lease income is based on turnover ie.subjective and not fixed.

Lease income is recognised as it accrues. The straight-lining of lease income is considered not to provide a fair reflection of income from leases.

47. DISCLOSURE IN TERMS OF SUPPLY CHAIN MANAGEMENT POLICY

During the year there were contracts awarded of more than R2 000 to various employees of council or people who are spouse's, children or parents of people in the service of the municipality amounting to R37.5million (2010: R85.7 million) and awards of R5.5million(2010: R11.4million) to companies of which councillor's or close family members of councillor's are shareholders or directors.

Contract awards in terms of Section 36 (Deviation from, and ratification of minor breaches of, procurement processes) of the Supply Chain Management Policy amounted to R469 million (2010: R1.049 billion).

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48. FINANCIAL INSTRUMENTS

Exposure to interest rate, credit risk and liquidity risks arise in the normal course of the municipality's operations.

Financial Risk Management

The Municipality has exposure to the following risks from its use of Financial Instruments:

- Liquidity risk
- Interest rate risk
- Credit risk

This note presents information about the Municipality's exposure to each of the above risks and the Municipality's objectives, policies and processes for measuring and managing risks.

Further quantitative disclosures are included throughout these financial statements.

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the Municipality's activities.

The Municipality, through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations.

As part of managing the municipality's liquidity risk Promissory notes have been issued to facilitate the timeous repayment of the borrowings. No further terms and conditions are attached to these promissory notes other than the normal repayment terms and conditions of the loan repayment.

Categories of Financial Instruments :

| | 2011 R | 2010 R |
|------------------------------------|------------|-----------|
| Financial Assets: | | |
| Investments and Receivables | | |
| Investments | 2,450,000 | 327,044 |
| Cash and cash equivalents | 657,678 | 1,440,863 |
| Long-term receivables | 288,404 | 304,021 |
| Consumer Debtors | 2,569,788 | 2,219,123 |
| Debtors | 2,732,149 | 2,743,461 |
| | <hr/> | <hr/> |
| Financial Liabilities: | | |
| Liabilities and Creditors | | |
| Long-term liabilities | 10,110,456 | 8,674,686 |
| Creditors | 4,314,105 | 4,707,289 |
| | <hr/> | <hr/> |

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48. FINANCIAL INSTRUMENTS (continued)

Fair values versus carrying amounts:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

| | 2011 Carrying amount R | 2011 Fair value R |
|-----------------------|---|--------------------------------------|
| Investments | 2,450,000 | 2,450,000 |
| Long-term receivables | 299,997 | 288,404 |
| Consumer Debtors | 2,569,788 | 2,569,788 |
| Debtors | 2,733,233 | 2,732,430 |
| Long-term Liabilities | 10,110,456 | 10,110,456 |
| Creditors | 4,329,206 | 4,314,105 |

Basis for determining fair value:

The following summarises the significant methods and assumptions used in estimating the fair values of the Financial Instruments reflected in the tables above:

Debtors and Creditors:

The fair value of Debtors and Creditors is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

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48. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will encounter in raising funds to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The following are the contractual maturities of financial liabilities:

| Details | Amount R | | |
|---|--------------------|------------------------------------|--------------------------------------|
| Standard Bank: | | | |
| Ethekewini Municipality - Derivative Trading | 70,000,000 | | |
| Ethekewini Municipality - Letter of Credit | 1,500,000 | | |
| Ethekewini Municipality - Performance guarantee | 6,000,000 | | |
| Ethekewini Municipality - Overdraft | 200,000,000 | | - |
| Ethekewini Municipality - Business Card | 10,000 | | |
| Total Facilities: | 277,510,000 | | |
| | | 12 months or less R | More than 12 months R |
| 30 June 2011 | | | |
| Long-term Liabilities | | 692,416 | 9,418,040 |
| Creditors | | 4,258,437 | 55,668 |
| 30 June 2010 | | | |
| Long-term Liabilities | | 524,300 | 8,150,386 |
| Creditors | | 4,555,017 | 102,215 |

Interest rate risk

The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on surplus. All long-term debt is at fixed rates.

The municipality's income and operating cash are substantially independent of changes in market rates. The municipality has no significant interest bearing assets.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. The Municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

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

- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.

Long term Receivables and Other Debtors are individually evaluated annually at balance sheet date for impairment or discounting.

The maximum credit and interest risk exposure in respect of the relevant financial instrument is as follows:

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|---|------------------|------------------|
| 48. FINANCIAL INSTRUMENTS (continued) | | |
| | 2011 | 2010 |
| Consumer Debtors | 2,569,788 | 2,219,123 |
| Other Debtors | 2,732,430 | 2,743,461 |
| Cash and Cash Equivalents | 657,678 | 1,440,863 |
| The ageing of trade receivables at the reporting date was as follows: | | |
| Consumer Debtors: | | |
| Gross | | |
| 0 - 30 days | 1,387,220 | 1,319,054 |
| 31 - 120 days | 491,068 | 433,666 |
| More than 120 days | 2,680,285 | 2,360,643 |
| Less: Provision for Bad Debts | (1,988,785) | (1,894,240) |
| Net Consumer | 2,569,788 | 2,219,123 |
| Movement in the provision for Bad Debts: | | |
| Balance at beginning of year | 2,021,510 | 1,919,680 |
| Contribution | 324,315 | 572,984 |
| Bad debts written off | (277,615) | (471,154) |
| Balance at year | 2,068,210 | 2,021,510 |

49. MATERIAL LOSSES

Water:

Significant water losses of 104,321,876 kl (2010: 124,847,528 kl) occurred during the year under review, which resulted in material revenue losses to the municipality. The estimated water losses amounting to R360,4m (2010: R406,2m) were due mainly to deterioration in the water reticulation system and water theft. The acceptable norm in developing countries is a water loss of 20%. The loss above the norm amounts to R143.3m (2010: R189.6m). Since the 2007 financial year the municipality has embarked on an AC-Mains replacement programme to replace ageing infrastructure, which was completed in the 2011 financial year. In addition other water loss interventions have been implemented, namely Pressure Reduction Valves, Advanced Pressure Management, Leak detection and Repair Regularising of Illegal Connections and Informal Area Metering to reduce water loss.

Electricity:

Significant electricity losses of 630,883,534 kWh (2010: 567,719,675 kWh) occurred during the year under review which resulted in material revenue losses to the municipality. These estimated electricity losses amounted to R262.8m (2010: R160.4m). The norm for electricity losses is 3% which is as a result of transmission losses. The loss incurred by the municipality is 5.5% (2010: 5.2%) and is therefore due to a combination of transmission losses and losses due to illegal connections.

Bad Debts written off:

Debt of R271m (2010: 456m) was written off during the year. 30% of the debt written off was interest raised on prescribed debt. Only the capital amount was written off in the previous year, in the current year interest relating to this debt was written off. Prescribed debt is debt that cannot be legally recovered. The Municipality took steps to write-off this debt which is considered irrecoverable so that efforts can be focused on debt that can still be recovered. This debt was written off in terms of Prescription Act which forbids the Municipality to recover prescribed debt as advised by our legal advisor. 38% of the debt written off was rental debt owed by Hostel residents.

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50. BANK BALANCES

| Account number - Bank - Account Description | Cash Book Balance 30June 2011 | Bank Statement balance 30June 2011 | Cash Book Balance 30June 2010 | Bank Statement balance 30June 2010 |
|---|-------------------------------|------------------------------------|-------------------------------|------------------------------------|
| 62085728106 - FNB - Main Expenditure | - | - | 57,547 | (361,867) |
| 050134353 - Standard Bank - Main Expenditure | 3,872 | (59,644) | - | - |
| 62085728263 - FNB - Main Expenditure EFT | - | - | 33 | (758,878) |
| 050133535 - Standard Bank - Main Expenditure EFT | (975) | (843,485) | - | - |
| 62085720722 - FNB - Direct Deposits Account | - | 2,066 | 10,179 | 290,851 |
| 050133969 - Standard Bank - Direct Deposits Account | 8,884 | 280,413 | - | - |
| 62085725855 - FNB - Electronic Deposits Account | - | 4,274 | 26,384 | 1,343,203 |
| 050134116 - Standard Bank - Electronic Deposits Account | 23,897 | 1,527,204 | - | - |
| 62085729948 - FNB - Cashiers Deposit Account | - | - | (8,892) | 156,139 |
| 050134132 - Standard Bank - Cashiers Deposit Account | (5,948) | 476,770 | - | - |
| 62085730119 - FNB - Government Deposit Account | - | - | 25,190 | 595,304 |
| 050134140 - Standard Bank - Government Deposit Account | 6,759 | 80,233 | - | - |
| 62085721952 - FNB - Electricity Income Account | - | - | 1,899 | 9,984 |
| 050134655 - Standard Bank - Electricity Income Account | 2,062 | 6,958 | - | - |
| 62085721481 - FNB - Electricity Prepaid Vendor Deposits | - | - | 10,267 | 54,525 |
| 050134671 - Standard Bank - Electricity Prepaid Vendor Deposits | 2,830 | 48,979 | - | - |
| 62085729071 - FNB - SARS E-Filing Account | - | - | - | - |
| 050134469 - Standard Bank - SARS E-Filing Account | 6,102 | 6,102 | - | - |
| 62085725996 - FNB - Dishonoured Cheques Account | - | - | (1,103) | (2,196) |
| 050134442 - Standard Bank - Dishonoured Cheques Account | (2,383) | (999) | - | - |
| 050073117 - Standard Bank - Main Expenditure Bank | 20 | 20 | 262 | 262 |
| 62085721332 - FNB - Direct Debit Collections Account | - | - | - | 54,431 |
| 050133993 - Standard Bank - Direct Debit Collections Account | - | 67,509 | - | - |
| 62116972599 - FNB - Housing Operating Account | - | - | - | - |
| 62085721275 - FNB - Mayors Relief Account | - | - | - | - |
| 62085721762 - FNB - Transwitch Account | - | - | 81 | 99,390 |
| 050134019 - Standard Bank - Transwitch Account | (1,588) | 118,401 | - | - |
| 62085722546 - FNB - Agents Deposit Account | - | - | 21,804 | 84,484 |
| 050134094 - Standard Bank - Agents Deposit Account | 1,778 | 77,055 | - | - |
| 62085722877 - FNB - Metro Police Deposit Account | - | - | - | 3,882 |
| 050134213 - Standard Bank - Metro Police Deposit Account | - | 3,937 | - | - |
| 62085729790 - FNB - Metro Police Transwitch Deposit Account | - | - | - | 1,016 |
| 050134183 - Standard Bank - Metro Police Transwitch Deposit Account | - | 590 | - | - |
| 62085723495 - FNB - Parks, Recreation and Culture Deposit Acc. | - | - | 211 | (1,106) |

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Figures in Rand thousand

| | | | | |
|---|-----------|-----------|-----------|-----------|
| 050134248 - Standard Bank - Parks, Recreation and Culture Deposit Account | 457 | 2,647 | - | - |
| 62085723776 - FNB - City Engineers Account | - | - | 398 | 3,187 |
| 050134264 - Standard Bank - City Engineers Account | 365 | 4,204 | - | - |
| 62085724992 - FNB - Durban Tourism Deposit Account | - | - | 105 | 151 |
| 050134272 - Standard Bank - Durban Tourism Deposit Account | - | 158 | - | - |
| 050134531 - Standard Bank - Central Foreign Rand Account | - | (975) | - | - |
| 050134574 - Standard Bank - Water Foreign Rand Account | - | 253,041 | - | - |
| 62085729534 - FNB - Virginia Airport Account | - | - | 1 | 434 |
| 050134299 - Standard Bank - Virginia Airport Account | 21 | 819 | - | - |
| 62116972755 - FNB - Department of Housing Account | - | - | 825 | 8,521 |
| 050134329 - Standard Bank - Department of Housing Account | 2 | 92,114 | - | - |
| 62085728908 - FNB - Sundry PAYE Account | - | - | 472 | 472 |
| 050134450 - Standard Bank - Sundry PAYE Account | 458 | 485 | - | - |
| 62085729245 - FNB - Cash Payments Account | - | - | 91 | (752) |
| 050134507 - Standard Bank - Cash Payments Account | 25 | (1,167) | - | - |
| 62088851764 - FNB - Refunds Expenditure Account | - | - | 4,543 | 218 |
| 050134426 - Standard Bank - Refunds Expenditure Account | 29,338 | 844 | - | - |
| 62085724542 - FNB - Water and Sanitation Services Expenditure Acc. | - | - | 365 | (928) |
| 050134582 - Standard Bank - Water and Sanitation Services Expenditure Account | 457 | (1,208) | - | - |
| 62085724732 - FNB - Water and Sanitation Services EFT Account | - | - | 3 | (306,256) |
| 050133616 - Standard Bank - Water and Sanitation Services EFT Account | (307) | (542,174) | - | - |
| 62085722348 - FNB - Electricity Expenditure Account | - | - | (7,255) | (7,256) |
| 050134701 - Standard Bank - Electricity Expenditure Account | (714) | (616) | - | - |
| 62085722463 - FNB - Electricity EFT Account | - | - | (362,593) | (362,593) |
| 050133608 - Standard Bank - Electricity EFT Account | (530,421) | (530,421) | - | - |
| 62085738750 - FNB - Salaries Account | - | - | - | (201,285) |
| 050133586 - Standard Bank - Salaries Account | 48,494 | (335,960) | - | - |
| 62085727661 - FNB - Durban Fresh Produce Market Account | - | - | 10,594 | 10,508 |
| 050134590 - Standard Bank - Durban Fresh Produce Market Account | 13,040 | 13,016 | - | - |
| 62151500496 - FNB - CIFAL Durban Account | - | - | 1,336 | 1,336 |
| 050134515 - Standard Bank - CIFAL Durban Account | 20 | 20 | - | - |
| 62085727116 - FNB - General Bank Account | - | - | 115,986 | (662,710) |
| 050134493 - Standard Bank - General Bank Account | 391,782 | (692,687) | - | - |
| 62085729378 - FNB - Bank Charges Account | - | - | - | (1,285) |
| 050134434 - Standard Bank - Bank Charges Account | (28) | 271 | - | - |
| 62246569191 - FNB - 2010 Host City Operating Account | - | - | 26,000 | 26,000 |
| 62121186705 - FNB - 2010 Soccer Grant Account | - | - | 65,286 | 8,567 |
| 050134345 - Standard Bank - 2010 Soccer Grant Account | 1,710 | 1,710 | - | - |

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Annual Financial Statements for the year ended 30 June 2011

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Figures in Rand thousand

Totals: ETHEKWINI MUNICIPALITY

| | | | | |
|----------------|-----------|-------------|-----------|-------------|
| Bank balances | 542,373 | 3,089,640 | 379,862 | 2,752,865 |
| Bank overdraft | (542,364) | (3,009,336) | (379,843) | (2,667,112) |

eThekweni Municipality

Annual Financial Statements for the year ended 30 June 2011

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50: EXTERNAL LOANS FOR THE YEAR ENDED 30 JUNE 2011

| Description | Loan Number | Interest Rate | Date Repayable | Balance at 30/06/10 | Received during the year | (Redeemed) / Interest Capitalised during this period | Balance at 30/06/11 |
|--------------------------------|-------------|---------------|----------------|---------------------|--------------------------|--|---------------------|
| | | <u>%</u> | | <u>R'000</u> | <u>R'000</u> | <u>R'000</u> | <u>R'000</u> |
| LONG TERM LOANS | | | | | | | |
| Stock Loan | K34 | 14.6 | 30/06/2013 | 200 | 0 | 0 | 200 |
| Total Stock Loans | | | | 200 | 0 | 0 | 200 |
| FRB PN | 1/58 | Variable | 30/06/2016 | 203,075 | 0 | (13,872) | 189,203 |
| INCA INDWA | 1/66 | 9.52 | 30/06/2020 | 402,486 | 0 | (25,582) | 376,904 |
| Nedbank Ltd | 1/67 | 8.47 | 31/03/2021 | 764,600 | 0 | (44,389) | 720,211 |
| DBSA Ph 1 | P1 | 13.5 | 30/09/2017 | 481,330 | 0 | (39,957) | 441,373 |
| DBSA Ph 2 | P2 | Variable | 31/03/2016 | 219,723 | 0 | (31,854) | 187,869 |
| DBSA Ph 3 | P3 | 12.9 | 30/09/2017 | 324,987 | 0 | (25,215) | 299,772 |
| DBSA Ph 4 | P4 | 10.4 | 30/06/2019 | 432,668 | 0 | (31,010) | 401,658 |
| DBSA Ph 5 | P5 | 8.9 | 30/06/2020 | 251,995 | 0 | (15,351) | 236,644 |
| DBSA Ph 6 | P5 | 8.75 | 30/06/2022 | 710,385 | 0 | (35,438) | 674,947 |
| DBSA Ph 7 | P7 | 8.3 | 02/01/2028 | 2,780,340 | 0 | (71,055) | 2,709,285 |
| Nedbank Ltd 7 yrs | 1/70 | 10.09 | 28/02/2017 | 516,724 | 0 | (53,768) | 462,956 |
| Nedbank Ltd 5 yrs | 1/71 | 9.21 | 30/04/2015 | 507,696 | 0 | (84,176) | 423,520 |
| RMB | 1/72 | 10.28 | 30/06/2025 | 1,000,000 | 0 | (30,190) | 969,810 |
| AFD Calyon | 1/68 | 9.52 | 31/12/2018 | 55,477 | 0 | (6,527) | 48,950 |
| ABSA 7 yrs | 1/73 | 8.73 | 29/09/2017 | | 1,000,000 | (32,846) | 967,154 |
| ABSA 7 yrs | 1/68 | 9.52 | 31/02/2018 | | 1,000,000 | | 1,000,000 |
| Total Annuity Loans | | | | 8,651,486 | 2,000,000 | (541,230) | 10,110,256 |
| ABSA | 1/64 | Variable | 31/10/2010 | 23,000 | 0 | (23,000) | 0 |
| Total Non Annuity Loans | | | | 23,000 | 0 | (23,000) | 0 |
| TOTAL EXTERNAL LOANS | | | | 8,674,686 | 2,000,000 | (564,230) | 10,110,456 |

eThekweni Municipality

Annual Financial Statements for the year ended 30 June 2011

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Figures in Rand thousand

NOTE 51: STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

| Description | Current Year 2010/11 | | | | | | | | |
|--|----------------------|------------------|--------------------|-------------------|----------------|--------------------------|--------------|-------------------------------------|---|
| | R thousands | Original Budget | Budget Adjustments | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | Actual Outcome as % of Final Budget | Actual; Outcome as a % of Original Budget |
| Financial Performance | | | | | | | | | |
| Property rates | 4 212 852 | 132 700 | 4 345 552 | 4 073 638 | | (271 914) | 94% | 97% | |
| Service charges | 10 483 983 | 14 691 | 10 498 674 | 9 917 959 | | (580 715) | 94% | 95% | |
| Investment revenue | 169 023 | 44 222 | 213 245 | 211 764 | | (1 481) | 99% | 125% | |
| Transfers recognised - operational | 1 595 398 | 151 214 | 1 746 612 | 1 598 043 | | (148 568) | 91% | 100% | |
| Other own revenue | 2 078 272 | (66 025) | 2 012 247 | 3 053 450 | | 1 041 203 | 152% | 147% | |
| Total Revenue (excluding capital transfers and contributions) | 18 539 528 | 276 802 | 18 816 330 | 18 854 854 | | 38 524 | 100% | 102% | |
| Employee costs | 5 005 002 | 36 738 | 5 041 740 | 4 822 931 | | 218 809 | 96% | 96% | |
| Remuneration of councillors | 74 596 | – | 74 596 | 77 919 | | (3 323) | 104% | 104% | |
| Debt impairment | 359 935 | (6 000) | 353 935 | 324 315 | | 29 620 | 92% | 90% | |
| Depreciation & asset impairment | 1 428 494 | – | 1 428 494 | 1 433 409 | | (4 915) | 100% | 100% | |
| Finance charges | 889 490 | 222 147 | 1 111 637 | 687 345 | | 424 292 | 62% | 77% | |
| Materials and bulk purchases | 5 998 643 | 7 000 | 6 005 643 | 5 495 517 | | 510 126 | 92% | 92% | |
| Transfers and grants | 159 516 | 7 603 | 167 119 | 142 621 | | 24 498 | 85% | 89% | |
| Other expenditure | 4 588 258 | 17 711 | 4 605 970 | 4 675 900 | | (69 930) | 102% | 102% | |
| Total Expenditure | 18 503 935 | 285 200 | 18 789 135 | 17 659 957 | | 1 129 178 | 94% | 95% | |
| Surplus/(Deficit) | 35 593 | (8 398) | 27 195 | 1 194 897 | | (1 167 702) | 4394% | 3357% | |
| Transfers recognised - capital | – | 2 046 646 | 2 046 646 | 992 886 | | 1 053 760 | 49% | 0% | |
| Contributions recognised - capital & contributed as | – | – | – | – | | – | | | |
| Surplus/(Deficit) after capital transfers & contributions | 35 593 | 2 038 248 | 2 073 841 | 2 187 783 | | 113 942 | 105% | 6147% | |
| Share of surplus/ (deficit) of associate | – | – | – | 3 521 | | 3 521 | 0% | 0% | |
| Surplus/(Deficit) for the year | 35 593 | 2 038 248 | 2 073 841 | 2 191 304 | | 117 463 | 106% | 6157% | |

eThekweni Municipality

Annual Financial Statements for the year ended 30 June 2011

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Figures in Rand thousand

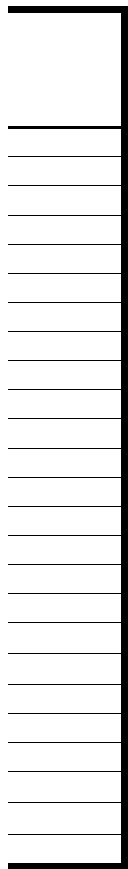
NOTE 51: STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION FOR THE YEAR ENDED 30 JUNE 2011

| Description | Current Year 2010/11 | | | | | | | Actual Outcome as % of Final Budget | Actual; Outcome as a % of Original Budget |
|--|----------------------|------------------|--------------------|------------------|----------------|--------------------------|------------|-------------------------------------|---|
| | R thousands | Original Budget | Budget Adjustments | Final Budget | Actual Outcome | Unauthorised Expenditure | Variance | | |
| Capital expenditure & funds sources | | | | | | | | | |
| Capital expenditure | 5 149 546 | (23 774) | 5 125 772 | 3 908 875 | | 1 216 897 | 76% | 76% | |
| Transfers recognised - capital | 2 070 420 | (23 774) | 2 046 646 | 992 886 | | 1 053 760 | 49% | 48% | |
| Public contributions & donations | – | – | – | 9 876 | | (9 876) | | | |
| Borrowing | 2 000 000 | – | 2 000 000 | 2 000 000 | | – | 100% | 100% | |
| Internally generated funds | 1 079 126 | – | 1 079 126 | 906 113 | | 173 013 | 84% | 84% | |
| Total sources of capital funds | 5 149 546 | (23 774) | 5 125 772 | 3 908 875 | | 1 216 897 | 76% | 76% | |
| Cash flows | | | | | | | | | |
| Net cash from (used) operating | 3 316 082 | 884 430 | 4 200 512 | 3 511 587 | | 688 925 | 84% | 106% | |
| Net cash from (used) investing | (5 301 929) | 244 751 | (5 057 178) | (5 733 823) | | 676 645 | 113% | 108% | |
| Net cash from (used) financing | 1 868 263 | 224 614 | 2 092 877 | 1 435 770 | | 657 107 | 69% | 77% | |
| Cash/cash equivalents at the year end | 2 717 218 | 286 900 | 3 004 118 | 657 678 | | 2 346 440 | 22% | 24% | |

eThekwini Municipality

APPENDIX B: ETHEKWINI MUNICIPALITY : SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

| 2010 Actual Income R'000 | 2010 Actual Expenditure R'000 | 2010 Surplus/ (Deficit) R'000 | | 2011 Actual Income R'000 | 2011 Actual Expenditure R'000 | 2011 Surplus/ (Deficit) R'000 |
|-----------------------------------|--|--|---------------------------------------|-----------------------------------|--|--|
| 35,404 | 211,972 | (176,568) | Executive & Council | 36,654 | 228,077 | (191,423) |
| 6,221,046 | 2,484,714 | 3,736,332 | Finance & Admin | 7,156,212 | 2,329,428 | 4,826,784 |
| 1,140,327 | 648,311 | 492,016 | Planning & Development | 226,888 | 630,376 | (403,488) |
| 51,593 | 276,190 | (224,597) | Health | 52,178 | 300,172 | (247,994) |
| 48,783 | 472,231 | (423,448) | Community & Social Services | 48,988 | 518,264 | (469,276) |
| 1,393,987 | 1,659,980 | (265,993) | Housing | 1,061,088 | 1,342,051 | (280,963) |
| 113,649 | 864,509 | (750,860) | Public Safety | 136,383 | 962,006 | (825,623) |
| 59,663 | 785,301 | (725,638) | Sport & Recreation | 85,401 | 862,424 | (777,023) |
| 10,115 | 106,472 | (96,357) | Environmental Protection | 8,109 | 111,294 | (103,185) |
| 1,196,259 | 1,699,945 | (503,686) | Waste Management | 1,790,823 | 1,831,951 | (41,128) |
| 1,342,859 | 1,443,928 | (101,069) | Road Transport | 620,021 | 1,455,239 | (835,218) |
| 2,733,012 | 2,669,202 | 63,810 | Water | 2,938,748 | 2,584,584 | 354,164 |
| 6,162,466 | 5,303,341 | 859,125 | Electricity | 7,486,745 | 6,266,595 | 1,220,150 |
| 74,726 | 109,353 | (34,627) | Other | 71,576 | 109,570 | (37,994) |
| 20,583,889 | 18,735,449 | 1,848,440 | Sub Total | 21,719,814 | 19,532,031 | 2,187,783 |
| 5,238 | | | Share of Income from Joint Venture | 3,521 | | |
| (1,837,059) | (1,837,059) | 0 | Less Inter-Dep charges | (1,872,074) | (1,872,074) | 0 |
| 18,752,068 | 16,898,390 | 1,853,678 | Total | 19,851,261 | 17,659,957 | 2,191,304 |



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APPENDIX C(1) : ETHEKWINI MUNICIPALITY : ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

| | 2011 Actual | 2011 Budget | 2011 Variance | 2011 Variance | Explanation of Significant Variances greater than 10% versus Budget |
|---|-------------------|-------------------|--------------------|------------------|--|
| | R'000 | R'000 | R'000 | % | |
| REVENUE | | | | | |
| Property rates | 4,073,638 | 4,194,800 | (121,162) | (3) | |
| Property rates - penalties imposed and collection charges | 81,854 | 150,752 | (68,898) | (46) | For reasons refer to annexure C(1A): 1 |
| Service Charges | 9,917,959 | 10,520,750 | (602,791) | (6) | |
| Rental of facilities and equipment | 355,545 | 315,803 | 39,742 | 13 | For reasons refer to annexure C(1A): 2 |
| Interest earned - external investments | 125,809 | 213,245 | (87,436) | (41) | For reasons refer to annexure C(1A): 3 |
| Interest earned - outstanding debtors | 85,955 | 97,279 | (11,324) | (12) | |
| Fines | 110,209 | 164,247 | (54,038) | (33) | For reasons refer to annexure C(1A): 4 |
| Licences and permits | 29,640 | 27,478 | 2,162 | 8 | |
| Government grants and subsidies | 2,590,929 | 3,658,109 | (1,067,180) | (29) | For reasons refer to annexure C(1A): 5 |
| Public contributions and donations | 9,876 | 9,000 | 876 | 0 | |
| Other income | 2,397,807 | 1,448,381 | 949,426 | 66 | For reasons refer to annexure C(1A): 6 |
| Fair Value Adjustment | 13,561 | 0 | 13,561 | 0 | |
| Gains on disposal of property, plant and equipment | 48,655 | 23,010 | 25,645 | 0 | |
| Reversal of Impairment-PPE | 3,576 | 0 | 3,576 | 0 | |
| Donations PPE | 1,166 | 0 | 1,166 | 0 | |
| Reversal of Loss : Loan Impairment | 1,561 | 0 | 1,561 | 0 | |
| TOTAL REVENUE | 19,847,740 | 20,822,854 | (975,114) | | |
| EXPENDITURE | | | | | |
| Executive & Council | 228,077 | 234,626 | (6,549) | (3) | |
| Finance & admin | 2,329,428 | 2,548,664 | (219,236) | (9) | |
| Planning & Development | 630,376 | 774,569 | (144,193) | (19) | For reasons refer to annexure C(1A): 7 |
| Health | 300,172 | 315,921 | (15,749) | (5) | |
| Community & Social Services | 518,264 | 578,233 | (59,969) | (10) | |
| Housing | 1,342,051 | 561,738 | 780,313 | 139 | For reasons refer to annexure C(1A): 8 |
| Public Safety | 962,006 | 942,095 | 19,911 | 2 | |
| Sport & Recreation | 862,424 | 890,873 | (28,449) | (3) | |
| Environmental Protection | 111,294 | 119,884 | (8,590) | (7) | |
| Waste Management | 1,831,952 | 1,961,456 | (129,504) | (7) | |
| Road Transport | 1,455,239 | 1,656,851 | (201,612) | (12) | For reasons refer to annexure C(1A): 9 |
| Water | 2,584,583 | 2,990,855 | (406,272) | (14) | |
| Electricity | 6,266,594 | 7,247,805 | (981,211) | (14) | |
| Other | 109,571 | 123,348 | (13,777) | (11) | |
| Inter-departmental charges | (1,872,074) | (1,852,957) | (19,117) | 0 | |
| TOTAL EXPENDITURE | 17,659,957 | 19,093,961 | (1,434,004) | | |
| Share of Income from Joint Venture | 3,521 | 0 | 0 | | |
| SURPLUS FOR THE YEAR | 2,191,304 | 1,728,893 | 462,411 | | |

ETHEKWINI MUNICIPALITY

APPENDIX C(1A) : - ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

1. Property Rates - Penalties Imposed and Collection Charges - Decrease

The decrease is due to the write-off of prescribed debt

2. Rental of Facilities and Equipment - Increase

The increase is mainly attributable to an increase in the number of facilities generating rental income. The budget was reduced based on the low usage of public buses, the bus usage has since increased resulting in the increase in income.

3. Interest Earned - External Investments - Decrease

The decrease is due to lower interest rates and utilisation of internal funds to meet accelerated capital expenditure.

4. Fines - Decrease

Metro police - Despite various initiatives in place to encourage payment of fines, poor economic conditions & apathy of offenders to pay has resulted in a decline in income.

5. Government Grants and Subsidies - Decrease

The decrease is due mainly to the delay in the implementation of various projects funded by the EPWP grant.

6. Other Income - Increase

The Increase is mainly due to VAT refunds on the apportionment VAT adjustment, an increase in Security Income and income from Urban Improvement Rates.

7. Planning & Development - Decrease

- a. Decreases in the employee related costs due to non filling of vacancies
- b. R 2m in respect of a three year project to be utilised in the next year
- c. Delays in the implementation in Economic Development Programme due to MOA's not finalised.

8. Housing - Increase

The increase is due mainly to the increase in Provision of bad debts being adjusted to account for the total arrears accounts of R 32.57m in terms of the debtors age analysis (120 days and more).

9. Road Transport - Decrease

The decrease is due mainly to no major repairs and maintenance undertaken at the bus depots due to the planned capital upgrades.

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APPENDIX C (2):ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY,PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2011- MUNICIPALITY

| Output Unit | 2011 Actual | 2011 Under Construction | 2011 Total Additions | Revised Budget | 2011 Variance | 2011 Variance % | Explanation of Significant Variances greater than 5% versus Budget |
|---|------------------|-------------------------|----------------------|------------------|-----------------|-----------------|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | % | |
| Procurement and Infrastructure | | | | | | | |
| Housing | 53,127 | -11,210 | 41,917 | 141,581 | -99,664 | -70 | Under- spending is due to the delays in Contracts for hostels upgrade. |
| Engineering | 568,709 | 423,671 | 992,380 | 1,042,156 | -49,776 | -5 | |
| EtheKwini Transport Authority | 45,353 | -31,655 | 13,698 | 200,903 | -187,205 | -93 | Savings are due to the delay in the implementation of Warwick Development pending finalisation of court case with market traders. |
| Sanitation | 552,410 | -202,717 | 349,693 | 369,226 | -19,533 | -5 | |
| Solid Waste | 47,043 | 19,134 | 66,177 | 95,308 | -29,131 | -31 | Decrease due to a delay in the appointment of contractors and problems in projects (Electron road transfer |
| Water | 1,146,035 | -51,729 | 1,094,306 | 884,026 | 210,280 | 24 | The increase is additional expenditure in respect of the Pipe Replacement programme. |
| Electricity Service | 416,203 | 169,105 | 585,308 | 772,944 | -187,636 | -24 | The decrease is as a result of slow progress in the awarding of tenders due to delays in the SCM processes. |
| Health and Safety | | | | | | | |
| Parks, Recreation, Cemeteries & Culture | 52,399 | -4,913 | 47,486 | 71,800 | -24,314 | -34 | The decrease is due to incomplete projects and projects not yet commenced. |
| Health | 1,715 | 3,095 | 4,810 | 9,550 | -4,740 | -50 | The decrease is as a result of slow progress in the awarding of tenders due to delays in the SCM processes. |
| Safety Social and Security | | | | | | | |
| Emergency Services | 31,766 | 811 | 32,577 | 33,900 | -1,323 | -4 | The decrease is as a result of delays in shipment and assembling of fire engines. |
| Sustainable Development and City Enterprises | | | | | | | |
| Sustainable Development and City | 211,426 | -72,669 | 138,757 | 163,528 | -24,771 | -15 | Saving is due to late appointment of contractors for Umnini MPCC project and Ezimbuzini Hive Development. |
| Treasury | | | | | | | |
| Internal Control & Business systems | 4,522 | 0 | 4,522 | 5,443 | -921 | -17 | Under-expenditure is attributable to the delays in commencement of the 9th Floor building upgrade (Florence Mkhize Building) |
| Office of DCM: Treasury | 0 | 0 | 0 | 0 | 0 | 0 | |
| Finance and Major Project | 0 | 0 | 0 | 0 | 0 | 0 | |
| Income | 52,779 | 0 | 52,779 | 57,120 | -4,341 | -8 | Savings realised as a result of the lower RMS costs for the year, as well as delays in procurement of the Note Counting Machines |
| INK | 12,480 | 0 | 12,480 | 11,900 | 580 | 5 | |
| Finance | 0 | 0 | 0 | 0 | 0 | 0 | |
| Real Estates | 336 | 0 | 336 | 400 | -64 | -16 | Under-spending is due to the delays in procuring Department's plant & equipment requirements. |
| Durban Transport | 30,829 | | 30,829 | 112,047 | -81,218 | -72 | Under-spending is due to a delay in the procurement of "Rear Engine" buses to be acquired in the next financial year(2011/2012). |
| City Fleet | 61,502 | -1,471 | 60,031 | 57,030 | 3,001 | 5 | |
| Durban Energy Office | 7,196 | 22,570 | 29,766 | 34,500 | -4,734 | -14 | Under-expenditure is due to the reduction in grant funding from the Department of Minerals & Energy for the Energy Projects. |
| Governance | | | | | | | |
| Governance | 2,794 | 19,949 | 22,743 | 36,190 | -13,447 | -37 | The contract for lifts refurbishment commenced later than anticipated. |
| Corporate Human Resources | | | | | | | |
| Human Resources | 19,148 | -15,119 | 4,029 | 5,537 | -1,508 | -27 | Under-expenditure is due to a delay in the implementation of other HR payroll system modules |
| City Manager's Office | | | | | | | |
| Strategic Projects | 92,996 | -1,597 | 91,399 | 121,152 | -29,753 | -25 | The under expenditure resulted from the late start of the other projects and projects being funded late through Adjustment |
| Information Technology | 91,215 | 6,900 | 98,115 | 119,531 | -21,416 | -18 | The decrease is as a result of slow progress in the awarding of tenders due to delays in the SCM processes. |
| Total | 3,501,983 | 272,155 | 3,774,138 | 4,345,772 | -571,634 | -13 | |

eThekwini Municipality

APPENDIX D : GRANTS AND SUBSIDIES RECEIVED - 30 JUNE 2011

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 MFMA.56 OF 2003

| NAME OF GRANTS | NAME OF ORGAN OF STATE OR MUNICIPAL ENTITY | QUARTELY RECEIPTS | | | | | QUARTELY EXPENDITURE | | | | | GRANTS AND SUBSIDIES DELAYED/ WITHHELD | | | | REASON FOR DELAY OF FUNDS | DID YOUR MUNICIPALITY COMPLY WITH THE GRANT CONDITIONS IN TERMS OF GRANT | REASON FOR NON COMPLIANCE |
|--|--|-------------------|-----------|-----------|-----------|-------------|----------------------|-----------|-----------|-----------|------------|--|-----------|-----------|--------|---------------------------|--|---------------------------|
| | | Sept R'000 | Dec R'000 | Mar R'000 | Jun R'000 | Total R'000 | Sept R'000 | Dec R'000 | Mar R'000 | Jun R'000 | Sept R'000 | Dec R'000 | Mar R'000 | Jun R'000 | Yes/No | | | |
| Financial Management Grant | National Treasury | 1,000 | 0 | 0 | 0 | 1,000 | 1,000 | 0 | 0 | 0 | 1,000 | 0 | 0 | 0 | 0 | N/A | Yes | |
| Municipal Infrastructure Grant | National Treasury | 148,978 | 148,978 | 148,978 | 148,978 | 595,912 | 94,227 | 189,946 | 58,331 | 253,408 | 595,912 | 0 | 0 | 0 | 0 | | Yes | N/A |
| Equitable Share/Subsidy | National Treasury | 579,830 | 463,864 | 347,898 | | 1,391,592 | 579,830 | 463,864 | 347,898 | | 1,391,592 | | | | | | | |
| Equitable Share - INK | National Treasury | 9,559 | 7,647 | 5,736 | | 22,942 | 9,559 | 7,647 | 5,736 | | 22,942 | | | | | | Yes | N/A |
| Vuna Awards | National Treasury | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | 47,417 | 47,417 | 0 | 0 | 0 | 0 | | Yes | N/A |
| DEAT | Provincial Government | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 259,923 | 259,923 | 0 | 0 | 0 | 0 | | Yes | N/A |
| NDPG | National Treasury | 11,385 | 4,660 | 9,736 | 0 | 25,781 | 14,020 | 6,869 | 3,846 | 1,046 | 25,781 | 0 | N/A | N/A | N/A | N/A | Yes | N/A |
| COGTA | National Treasury | 16,800 | 0 | 0 | 0 | 16,800 | 0 | 2,899 | 5,208 | 5,208 | 13,315 | 0 | | | | | Yes | N/A |
| Govt Subs - Primary Health | KZN of Health - State | 0 | 0 | 44,540 | 6,848 | 51,388 | 11,217 | 11,134 | 11,134 | 11,394 | 44,879 | 0 | 0 | 0 | 0 | | Yes | N/A |
| Capital Grants - Dwaf | DWAF | 0 | 6,422 | 4,077 | 2,863 | 13,362 | 0 | 6,422 | 4,077 | 2,863 | 13,362 | 0 | 0 | 0 | 0 | N/A | Yes | N/A |
| NDOT | National /Provincial Treasury | 330,000 | 0 | 0 | 0 | 330,000 | 29,341 | 50,338 | 12,068 | 19,973 | 111,720 | 0 | 0 | 0 | 0 | | Yes | N/A |
| Department of Arts and Culture | Provincial Government | 0 | 2,502 | 0 | 0 | 2,502 | 226 | 291 | 1,100 | 1,676 | 3,293 | 0 | 0 | 0 | 0 | | Yes | N/A |
| Office of the Premier | Provincial Government | 0 | 0 | 142 | 0 | 142 | 0 | 0 | | 142 | 142 | 0 | 0 | 0 | 0 | | Yes | N/A |
| 2010 World Cup Host City - Operating | National | | 26,000 | | | 26,000 | 26,000 | | | | | | | | | | Yes | N/A |
| 2010 FIFA World Cup Stadiums Development | National | | 54,476 | 10,810 | | 65,286 | 8,962 | 16264 | 14,899 | 10,372 | | | | | | | Yes | N/A |
| Intergrated National Electrification Program | National Treasury | | 7,000 | 21,000 | 7,000 | 35,000 | 16,767 | 16,557 | 16,164 | 23,864 | 73,352 | | | | | | Yes | N/A |
| NRF | National Research Foundation | 0 | 0 | 49 | 0 | 49 | 0 | 0 | 8 | 32 | 40 | 0 | 0 | 0 | 0 | | Yes | N/A |
| Department of Housing | Provincial Government | 0 | 0 | 60,000 | 0 | 60,000 | 0 | 0 | 0 | 1,247 | 1,247 | 0 | 0 | 0 | | | Yes | N/A |
| Expanded Public Work Incentive Grant | National Treasury | 0 | 0 | 17,321 | 0 | 17,321 | 114 | 3,950 | 9,658 | 13,722 | 27,444 | 0 | 0 | 0 | 0 | | Yes | N/A |
| Grand Total | | 1,097,552 | 721,549 | 670,287 | 165,689 | 2,655,077 | 791,263 | 776,181 | 490,127 | 652,287 | 2,633,361 | 0 | 0 | 0 | 0 | | | |