

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

For the year ended

30 June 2016

I am responsible for the preparation of these financial statements, which are set out on pages 1 to 95, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs' determination in accordance with the Act.



JOHANN METTLER
CITY MANAGER (ACTING)

31 August 2016
Date

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2016

General Information

Legal form of entity	It is a Metropolitan Municipality established in terms of section 155 of the Constitution of the Republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Local Government
	The principal activities are:
	- To provide democratic and accountable government to the local communities;
	- To ensure sustainable service delivery to communities;
	- To promote social and economic development;
	- To promote a safe and healthy environment; and
	- Encourage the involvement of communities and community organisations in the matters of local government.
	The Municipality's operations are governed by the Municipal Finance Management Act (Act 56 of 2003), the Municipal Structures Act (Act 117 of 1998), the Municipal Systems Act (Act 32 of 2000) and various other acts and regulations.
Executive Mayor	Cllr D.A Jordaan
Deputy Executive Mayor	Cllr P.S Ndoni
Speaker	Cllr M.E Hermans
Chief Whip	Cllr L Suka
Members of the Mayoral Committee	Cllr A.C.G Mfunda (Infrastructure and Engineering and Electricity and Energy) Cllr B Lobishe (Roads and Transport) Cllr F Sibeko (Corporate Services) Cllr F Desi (Safety and Security) Cllr Z Jodwana (Economic Development, Tourism and Agriculture) Cllr A Mama (Sports, Recreation Arts and Culture) Cllr J Seale (Public Health) Cllr N Tontsi (Human Settlements) Cllr R Riordan (Budget and Treasury)
Accounting Officer (Acting City Manager)	J Mettler
Chief Financial Officer (CFO)	J.T Harper
Chief Operating Officer (COO)	M Clay

Chief of Staff	M Ncane
Metro Police Chief	P Mathabathe
Executive Directors	V Zitumane (Acting - Corporate Services) A Qaba (Economic Development, Tourism and Agriculture) N Nqwazi (Sports, Recreation, Arts and Culture) A Tolom (Public Health) M George (Acting - Human Settlements) P Nielson (Acting - Electricity and Energy) EW Shaidi (Infrastructure and Engineering) L Mti (Safety and Security)
Members of the Audit Committee	Mr G Billson (Chairperson) Ms T Cumming Mr J Neves Dr M Nicholls Ms L Smith
Registered Office	1 st Floor City Hall Govan Mbeki Avenue Port Elizabeth 6001
Business Address	1 st Floor City Hall Govan Mbeki Avenue Port Elizabeth 6001
Postal Address	P O Box 116 Port Elizabeth 6000
Bankers	ABSA
Auditors	Auditor-General (SA)
Physical Address of Auditors	69 Frere Road Vincent East London 5247
Postal Address of Auditors	P O Box 13252 East London 5217

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS AS AT 30 JUNE 2016**

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NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note	Actual 2016 R	Restated 2015 R
NET ASSETS AND LIABILITIES			
Net Assets			
Total Accumulated Funds		12 619 801 941	11 923 399 975
Non-current Liabilities			
		3 311 165 763	3 171 083 574
Long-term Liabilities	3	1 376 718 616	1 471 966 017
Employee Benefit Obligation	4.1	1 472 243 701	1 369 345 626
Non-current Provisions	4.2	462 203 446	329 771 931
Current Liabilities			
		2 162 682 590	2 169 889 106
Current Employee Benefit Obligation	5.1	77 250 866	72 246 987
Current Provisions	5.2	47 776 422	85 649 120
Consumer Deposits	6	123 959 190	111 852 356
Creditors - Exchange Transactions	7	1 599 432 059	1 624 739 164
Unspent Conditional Grants and Receipts	8	201 682 477	171 308 712
VAT Payable	17	18 661 838	0
Current Portion of Long-term Liabilities	3	93 919 738	104 092 767
Total Net Assets and Liabilities		18 093 650 294	17 264 372 655
ASSETS			
Non-current Assets			
		14 647 284 270	14 045 818 148
Property, Plant and Equipment (PPE)	9	14 096 834 861	13 479 714 614
Heritage Assets	10	210 475 219	205 280 893
Intangible Assets	11	121 307 639	144 354 830
Investment Property	12	194 359 730	198 168 885
Long-term Receivables - Exchange Transactions	13	13 346 342	9 033 206
Long-term Receivables - Non-exchange Transactions	13	10 960 479	9 265 720
Current Assets			
		3 446 366 024	3 218 554 507
Current Portion of Long-term Receivables - Exchange Transactions	13	80	80
Inventory	14	124 019 665	124 216 338
Consumer Debtors - Exchange Transactions	15	1 037 542 429	912 635 081
Consumer Debtors - Non-exchange Transactions	15	269 584 746	229 399 410
Other Debtors - Exchange Transactions	16	429 151 542	506 180 557
VAT Refund	17	10 664 660	34 927 107
VAT Receivable	17	0	16 299 576
Short-term Investments	18	2 469 871	2 714 566
Short-term Investment Deposits	18	1 365 337 861	1 252 493 987
Bank Balances and Cash	19	207 595 170	139 687 805
Total Assets		18 093 650 294	17 264 372 655

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2016

Restated 2015 R		Actual 2016 R	Approved Original Budget 2016 R	Adjustments 2016 R	Approved Final Budget 2016 R	Variance between Final Budget and Actual R	%	No.	
REVENUE									
Exchange revenue									
4 059 652 974	Service Charges	21.1	4 646 027 311	4 817 334 270	19 088 000	4 836 422 270	190 394 959	4%	
79 844 022	Interest earned - Investments		109 602 562	66 845 280	11 225 130	78 070 410	(31 287 456)	-40%	1
117 386	Interest earned - Fair Value Adjustment		(244 696)	0	0	0	0		
100 678 758	Interest raised - Outstanding Debtors		106 336 043	104 543 530	(20 000)	104 523 530	(1 812 513)	-2%	
9 695 407	Licences and Permits		9 332 097	11 963 160	(352 250)	11 610 910	2 278 813	20%	2
18 378 235	Rental of Facilities and Equipment		20 717 550	23 342 190	57 540	23 399 730	2 682 180	11%	3
2 246 476	Income for Agency Services		2 345 495	2 428 460	0	2 428 460	82 965	3%	
472 774 032	Other Income	23	405 258 157	430 686 230	4 048 690	434 734 920	29 476 763	7%	
829 981	Gain on disposal of Property Plant and Equipment	35.9	27 900	0	28 000	28 000	100	0%	
Non-exchange revenue									
1 332 134 909	Property Rates	20	1 519 447 232	1 504 945 280	65 500 000	1 570 445 280	50 998 048	3%	
50 391 214	Interest raised - Outstanding Debtors		54 345 480	54 783 280	0	54 783 280	437 800	1%	
40 884 562	Fines	21.2	223 579 941	11 861 110	214 975 950	226 837 060	3 257 119	1%	
1 486 059 536	Government Grants and Subsidies - Operating	22	1 143 608 332	1 320 241 070	188 093 980	1 508 335 050	364 726 718	24%	4
784 204 088	Government Grants and Subsidies - Capital	22	777 512 325	941 156 740	(180 814 035)	760 342 705	(17 169 620)	-2%	
459 329 000	Fuel levy	23	472 552 000	472 952 010	119 990	473 072 000	520 000	0%	
64 974 026	Public Contributions	23	43 971 951	53 000 000	0	53 000 000	9 028 049	17%	5
1 771 237	Interest earned - SARS		0	0	0	0	0	0%	
290 665	Dividends received		76 692	0	0	0	(76 692)	100%	6
8 964 256 508	Total Revenue		9 534 496 372	9 816 082 610	321 950 995	10 138 033 605	603 537 233		
EXPENDITURE									
2 165 084 707	Employee Related Costs	24	2 268 609 899	2 274 783 500	(30 664 950)	2 244 118 550	(24 491 349)	-1%	
58 161 095	Remuneration of Councillors	25	62 195 844	64 428 880	(1 143 090)	63 285 790	1 089 946	2%	
407 361 185	Impairment - receivables	26	625 533 331	379 333 790	5 078 270	384 412 060	(241 121 271)	-63%	7
0	Collection Costs		0	0	0	0	0	0%	
179 901 285	Finance cost	27	166 488 260	168 258 460	2 534 620	170 793 080	4 304 820	3%	
26 694 718	Interest and Penalties	27	0	0	0	0	0	0%	
2 455 085 768	Bulk Purchases	28	2 814 366 370	2 742 168 860	63 645 820	2 805 814 680	(8 551 690)	0%	
56 964 123	Grants and Subsidies Paid	29	65 715 056	507 605 200	(10 264 650)	497 340 550	431 625 494	87%	8
349 464 756	Contracted Services	30.1	480 559 795	333 353 370	130 010 460	463 363 830	(17 195 965)	-4%	
1 056 134 291	General Expenses	30.2	789 701 441	966 483 260	156 375 510	1 122 858 770	333 157 329	30%	9
556 103 320	Repairs and Maintenance		407 111 901	524 729 090	(9 586 000)	515 143 090	108 031 189	21%	10
802 955 151	Depreciation - Property, Plant and Equipment	31.1	795 140 247	873 646 470	(13 696 190)	859 950 280	(13 976 456)	-2%	
6 131 885	Depreciation - Investment Property	31.2	8 996 771	0	0	0	0	0%	
59 079 996	Amortisation	31.3	69 789 718	0	0	0	0	0%	
33 516 372	Impairment - Other	35.7	240 224 890	0	190 996 140	190 996 140	(49 228 750)	-26%	11
512 929	Loss on Disposal of Property Plant and Equipment	35.8	43 660 883	0	0	0	(43 660 883)	100%	12
8 213 151 581	Total Expenditure		8 838 094 406	8 834 790 880	483 285 940	9 318 076 820	479 982 414		
751 104 927	Surplus for the year		696 401 966	981 291 730	(161 334 945)	819 956 785	123 554 819		

Refer to Note 53 of the Financial Statements for explanation of variances

(Please note: Surplus for the year R696 401 966 less Government Grants and Subsidies - Capital R777 512 325 = True Loss for the year in the amount of R81 110 357)

NELSON MANDELA BAY MUNICIPALITY	
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2016	
	<u>Accumulated Surplus</u>
	R
Balance at 01 July 2014 as previously reported	11 158 594 675
Restatements (Refer note 40.2)	13 700 373
Restated Balance at 01 July 2014	11 172 295 048
Surplus for the year as previously reported	770 865 490
Decrease in Surplus (Refer note 40.1.1)	(19 760 563)
Restated Surplus for the year	751 104 927
Restated Balance at 30 June 2015	11 923 399 975
Balance at 01 July 2015	11 923 399 975
Surplus for the year	696 401 966
Balance at 30 June 2016	12 619 801 941

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
THE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	Actual 2016 R	Restated 2015 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		9 311 681 650	8 525 144 295
- Sale of goods and services, fines and taxes levied		6 903 014 265	6 132 947 000
- Grants		2 138 306 608	2 172 707 958
- Dividends received		76 692	290 665
- Interest received		270 284 085	219 198 672
Cash paid to suppliers and employees		(7 509 166 306)	(7 119 723 189)
- Employee Costs		(2 098 963 863)	(2 049 945 574)
- Suppliers		(5 241 364 499)	(4 861 182 762)
- Finance Cost	27	(168 837 944)	(208 594 853)
CASH GENERATED FROM OPERATIONS	32	1 802 515 344	1 405 421 106
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of PPE		(1 460 301 369)	(1 406 619 820)
Proceeds on Disposal of PPE		29 928	829 981
Loss on Disposal of PPE		0	(512 930)
Purchase of Intangible assets		(47 017 954)	(36 246 184)
Purchase of Investment Property		(5 187 617)	(6 056 124)
Purchase of Heritage Assets		(5 194 326)	(1 701 530)
NET CASH FLOW FROM INVESTING ACTIVITIES		(1 517 671 338)	(1 450 306 607)
CASH FLOWS FROM FINANCING ACTIVITIES			
Decrease in Non-current Liabilities (external loan funding)		0	0
Repayment of Non-current Liabilities (external loan funding)	33	(104 092 767)	(112 968 099)
NET CASH FLOW FROM FINANCING ACTIVITIES		(104 092 767)	(112 968 099)
NET CHANGE IN CASH AND CASH EQUIVALENTS		180 751 239	(157 853 600)
Cash and cash equivalents at the beginning of the year		1 392 181 792	1 550 035 393
Cash and cash equivalents at the end of the year	34	1 572 933 031	1 392 181 792

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
RESERVES GOVERNED BY AN ACT: Note 1 and Note 2		
1 HOUSING DEVELOPMENT FUND		
Housing Revolving Fund	109 731 779	108 605 509
Housing Reserves	0	1 126 270
Total Housing Development Fund	109 731 779	109 731 779

The amount for this note has been included in the Total Accumulated Funds.

Housing Revolving Fund

Balance at the beginning of the year	108 605 509	108 605 509
Transfer from Housing Reserves	1 126 270	0
Balance at the end of the year	109 731 779	108 605 509

The purpose of the Housing Revolving Fund is to provide bridging financing for Provincial Housing Board approved housing developments. Contributions consist of cash received from the Provincial Housing Board.

HOUSING RESERVES

Community Facilities	0	160 631
Replacement and Renewals	0	965 639
Balance at the end of the year	0	1 126 270

Community Facilities

Balance at the beginning of the year	160 631	160 631
Transfer to Housing Revolving Fund	(160 631)	0
Balance at the end of the year	0	160 631

Replacement and Renewals

Balance at the beginning of the year	965 639	965 639
Transfer to Housing Revolving Fund	(965 639)	0
Restated Balance at beginning of year	0	965 639

The housing reserves are required in terms of National Housing Fund regulations. The housing reserves can only be utilised to maintain housing stock.

2 COID RESERVE

Balance at the beginning of the year	24 831 196	21 413 380
Premiums received - transfer from accumulated surplus	5 437 233	5 136 637
Expenditure funded during the year - transfer to accumulated surplus	(1 710 869)	(1 718 821)
Balance at the end of the year	28 557 560	24 831 196

The amount for this note has been included in the Total Accumulated Funds.

The COID Reserve is required in terms of Section 84 of the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993) as the Nelson Mandela Bay Municipality (NMBM) has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
3. LONG-TERM LIABILITIES		
Financial Liabilities:		
Development Bank of Southern Africa (DBSA)	382 915 356	411 715 278
Amalgamated Banks of South Africa (ABSA)	45 000 000	75 000 000
Rand Merchant Bank	424 725 205	436 262 056
Nedbank	601 402 307	637 507 985
Total External Loans	1 454 042 868	1 560 485 319
Brookes Bequest	16 595 486	15 573 465
Total Long-term Liabilities	1 470 638 354	1 576 058 784
Less : Current portion transferred to current liabilities	93 919 738	104 092 767
Development Bank of Southern Africa (DBSA)	12 406 679	28 081 918
Amalgamated Banks of South Africa (ABSA)	30 000 000	30 000 000
Rand Merchant Bank	12 750 812	11 200 036
Nedbank	38 762 247	34 810 813
	1 376 718 616	1 471 966 017

The Financial liabilities are measured at amortised cost taking into account relevant interest rates.

In line with Chapter 6 of the MFMA, no loans are secured.

ABSA

The loan was taken up during the 2007/08 financial year and is repayable over 10 years in 20 half-yearly instalments, by 31 December 2017, at a fixed interest rate of 11.85% per annum. The loan was used to finance various electricity reticulation projects. A capital amount of R30 000 000 and interest of R8 025 534 was repaid during the financial year. (2015: Capital repaid R30 000 000 and Interest paid R11 561 0555)

DBSA

Various loans were consolidated into one single loan amounting to R238 297 599 with effect from 30 September 2005, repayable over 10 years in 20 half-yearly instalments, by 30 September 2015, including accrued interest. There are two choices of variable interest rate linked to the 6 month JIBAR or to the 3 month JIBAR and a fixed interest rate linked to Government Bond R157. From 1 October 2005 to 30 September 2006 the interest was calculated linked to the six month JIBAR, but on 1 October 2006 the interest rate was fixed, linked to the Government Bond R157 at 9.38%. Council has the right to amend the interest rate between variable or fixed. A capital amount of R17 107 749 and interest of R804 552 was repaid during the financial year. (2015: Capital repaid R31 952 612 and Interest paid R3 871 989)

A further loan of R420 000 000 was taken up during the 2008/09 financial year and is repayable over 20 years in 38 half yearly instalments of R27 651 367, by 30 September 2029, at a fixed interest rate of 11.62% per annum with a final payment of R27 651 367. The loan was used for various capital projects. A capital amount of R10 974 169 and interest of R44 328 564 was repaid during the financial year. (2015: Capital repaid R9 909 502 and Interest paid R45 393 231)

NEDBANK

The loan of R745 000 000 was taken up during the 2009/10 financial year and is repayable over 15 years in 30 half yearly instalments of R52 372 749, by 31 January 2025, at a fixed interest rate of 11.7% per annum. The loan was used for various capital projects. A capital amount of R34 810 813 and interest of R69 957 185 was repaid during the financial year. (2015: Capital repaid R30 512 922 and Interest paid R74 255 075)

RAND MERCHANT BANK

The loan of R470 000 000 was taken up during the 2010/11 financial year and is repayable over 20 years in 40 half yearly instalments of R27 779 027, by 31 May 2031, at a fixed interest rate of 10.24% per annum. The loan was used for various capital projects. A capital amount of R11 200 036 and interest of R44 358 018 was repaid during the financial year. (2015: Capital repaid R10 593 062 and Interest paid R44 964 992)

BROOKES BEQUEST

Brookes bequest represents a long-term creditor. The funds can only be utilised by the NMBM when the two remaining Trustees approve the donation of funds to the NMBM. The funds may be utilised for capital projects related to the development of Humewood. The fund bears interest at an average of 6.37% per annum.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
4.1 EMPLOYEE BENEFIT OBLIGATION		
Gratuity Benefit	30 673 874	30 859 879
Post Retirement Benefits	1 324 956 140	1 223 674 216
Long Service Awards and Long Service Bonus	116 613 687	114 811 531
Total Employee Benefit Obligation	1 472 243 701	1 369 345 626

Refer to Note 47 for the full reconciliation and disclosures.

Gratuity Benefit

This obligation is in respect of the long-term liability relating to gratuities payable to employees that were not previously members of a pension fund.

Balance at beginning of year	30 859 879	32 597 454
Movement in Obligation	(186 005)	(1 737 575)
Balance at end of year	30 673 874	30 859 879

Post Retirement Benefits

The past service liability in respect of post retirement benefits relates to ill-health retirements and medical aid contributions, and ex-gratia pensions which have been actuarially assessed at R1 324 956 140.

Balance at beginning of year	1 223 674 216	1 162 816 000
Movement in Obligation	101 281 924	60 858 216
Balance at end of year	1 324 956 140	1 223 674 216

Long Service Awards and Long Service Bonus

This obligation is in respect of the long service award and long service bonus which the Municipality offers to its current employees and which become payable at certain pre-determined intervals.

Balance at beginning of year	114 811 531	109 268 000
Contributions to Obligation	1 802 156	5 543 531
Balance at end of year	116 613 687	114 811 531

4.2 NON-CURRENT PROVISIONS

Rehabilitation of Landfill sites	380 585 851	284 015 733
Rehabilitation of Swartkops River	81 617 595	45 756 198
Total Non-current Provisions	462 203 446	329 771 931

Rehabilitation of landfill sites

In terms of the licensing conditions of the landfill refuse sites, Council will incur rehabilitation costs of R191 520 191 for the Arlington Tip site, R82 454 114 for the Koedoeskloof Tip site and R106 611 546 for the Ibhayi Tip site determined at net present value to restore the sites at the end of their useful lives estimated to be in 2027 (Arlington) and 2020 (Koedoeskloof). Squatters are currently occupying the Ibhayi Landfill site that is already closed as a tip site. Provision has been made for the rehabilitation of the landfill sites based on the net present value of cost. For Arlington and Koedoeskloof landfill sites, the cost factors as determined have been applied and projected at an inflation rate of 6.3%. The projected amounts are discounted to the present value at the long term Treasury Bond rate of 2.25%, for Arlington and at an average borrowing cost of 10.27% for Koedoeskloof. The determined cost to rehabilitate IBhayi landfill site represents the present value.

Balance at beginning of year	284 015 733	267 291 647
Contributions to Provision	96 570 118	16 724 086
Balance at end of year	380 585 851	284 015 733

Rehabilitation of Swartkops River

Balance at beginning of year	45 756 198	43 941 439
Contributions to Provision - unwinding of discount factor	35 861 397	1 814 759
Balance at end of year	81 617 595	45 756 198

The provision is in relation to the Municipality's obligation to address the environmental pollution of the Swartkops River.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
5 EMPLOYEE BENEFITS AND PROVISIONS		
5.1 CURRENT EMPLOYEE BENEFIT OBLIGATION		
Gratuity Liability	6 070 535	4 842 003
Post Retirement Benefits	50 411 574	46 856 876
Performance Bonus Liability	1 425 663	3 117 531
Long service awards and long service bonuses	19 343 094	17 430 577
Total Current Employee Benefit Obligation	77 250 866	72 246 987

Refer to Note 47 for the full reconciliation and disclosures.

Gratuity Obligation

This obligation is in respect of the short-term liability relating to gratuities payable to employees that were not previously members of a pension fund.

Balance at beginning of year	4 842 003	5 788 043
Contributions to Obligation	4 506 629	2 923 074
Expenditure incurred	(3 278 097)	(3 869 114)
Balance at end of year	6 070 535	4 842 003

Post Retirement Benefits

The obligation is in respect of the short-term liabilities attributable to ill-health retirements, medical aid contributions and ex-gratia pensions.

Balance at beginning of year	46 856 876	48 887 000
Contributions to Obligation	62 020 683	53 233 258
Expenditure incurred	(58 465 985)	(55 263 382)
Balance at end of year	50 411 574	46 856 876

Performance bonus liability

This obligation is in respect of the short-term liability relating to performance bonuses payable to Section 57 employees, based on a maximum of 14% of their all-inclusive remuneration package paid as per regulation 32(2) of the Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, 2006.

Balance at beginning of year	3 117 531	3 603 490
Movement in Obligation	(1 691 868)	(485 959)
Expenditure incurred	0	0
Balance at end of year	1 425 663	3 117 531

Long service awards and long service bonuses

The obligation is in respect of long service awards and long service bonuses

Balance at beginning of year	17 430 577	23 327 000
Movement in Obligation	1 912 517	(5 896 423)
Balance at end of year	19 343 094	17 430 577

5.2 CURRENT PROVISIONS

Provision for Litigation and Claims	47 776 422	85 649 120
Total Current Provisions	47 776 422	85 649 120

Provision for Litigation and Claims

The provision is in respect of probable claims against the NMBM, pending the outcome of court decisions - See note 45(b).

Balance at the beginning of the year	85 649 120	78 479 629
Provision utilised	(47 281 519)	(30 766 137)
Contributions to Provision	9 408 821	37 935 628
Balance at end of year	47 776 422	85 649 120

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
6 CONSUMER DEPOSITS		
Electricity and Water	122 595 098	110 379 842
Interest	1 364 092	1 472 514
	123 959 190	111 852 356

Guarantees held in lieu of Electricity and Water Deposits

Consumer deposits bear interest and are only refunded once the consumers' accounts are closed.

15 465 278

11 568 314

7 CREDITORS - EXCHANGE TRANSACTIONS

Trade creditors	1 193 829 526	1 193 943 076
Payments Received in Advance	67 896 939	86 734 136
Staff leave	145 906 536	176 279 015
Other Creditors	3 943 532	5 869 960
Retentions	187 317 921	161 363 544
Operating Leases	537 605	549 433
Total Creditors	1 599 432 059	1 624 739 164

Refer Restatement Note no. 40.2.2

Financial liabilities:

Trade creditors are non-interest bearing and are normally settled on 30-day terms, except for retention amounts of R187 317 921, which could be settled within the next 12 months.

No creditors are secured

8 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

8.1 Conditional Grants from other spheres of Government

Conditional Grants in terms of the Division of Revenue Act (DORA):

Municipal Human Settlements Capacity Grant (See Note 22.5.2)

Public Transport Infrastructure Grant (See Note 22.7.1)

Public Transport Networks Operations Grant (See Note 22.7.2)

Neighbourhood Partnership Development Grant (See Note 22.15)

Infrastructure Skills Development Grant (See Note 22.17)

Off-Grid Electrification Grant (See Note 22.22)

Other Grants:

PHB Subsidies (See Note 22.1)

Smart Grid initiative Grant (See Note 22.4)

Provincial Department of Human Settlements: Accreditation Grant (See Note 22.5.1)

EU Sector Policy Support Project (See Note 22.9)

Other Grants (See Note 22.11)

National Lotteries Grant (See Note 22.13)

CDC Walmer Intervention Funding Grant (See Note 22.14)

Integrated City Development Grant (See Note 22.20)

Vuna Awards (See Note 22. 21)

LGSETA Discretionary Learnership Funding (See Note 22.25)

Provincial Department Agency: Communication Grant (See Note 22.26)

7 752 924	23 235 275
25 836 082	61 482 240
123 614 211	0
0	1 118 343
576 932	248 644
2 839 425	22 000 000
8 069 417	9 752 718
711 836	1 809 900
8 140 756	13 973 784
9 610 068	10 366 174
1 273 445	17 087 514
1 660 389	4 693 537
5 546 957	0
1 722 774	0
0	15 294
3 454 479	5 525 289
872 782	0
201 682 477	171 308 712

Total Unspent Conditional Grants and Receipts

The unspent portion on grants represent cash.

9 PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2016

	R	R	R
	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	1 923 626 317	218 954 924	1 704 671 393
Infrastructure Assets	14 269 374 737	5 029 327 010	9 240 047 727
Community Assets	3 305 757 203	775 050 581	2 530 706 622
Other Assets	1 338 138 910	716 729 791	621 409 119
	20 836 897 167	6 740 062 306	14 096 834 861

No assets were pledged as security

A detailed register of Property, plant and equipment is maintained and is available for inspection.

Refer to Note 48 for reconciliation.

As at 30 June 2015

	R	R	R
	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	1 846 654 821	182 370 554	1 664 284 267
Infrastructure Assets	13 215 070 813	4 511 126 770	8 703 944 043
Community Assets	3 217 593 698	619 570 239	2 598 023 459
Other Assets	1 166 959 156	653 496 311	513 462 845
	19 446 278 488	5 966 563 874	13 479 714 614

Refer Restatement Note no. 40.2.3

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

10 HERITAGE ASSETS

As at 30 June 2016

Heritage Assets

	R	R	R
	Cost	Accumulated Impairment	Carrying Value
Heritage Assets	210 475 219	0	210 475 219
	210 475 219	0	210 475 219

Refer to Note 49 for reconciliation.

As at 30 June 2015

Heritage Assets

	Cost	Accumulated Impairment	Carrying Value
Heritage Assets	205 280 893	0	205 280 893
	205 280 893	0	205 280 893

11 INTANGIBLE ASSETS

As at 30 June 2016

Computer Software

	Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software	618 404 315	497 096 676	121 307 639
	618 404 315	497 096 676	121 307 639

No assets were pledged as security

Refer to Note 50 for reconciliation.

As at 30 June 2015

Computer Software

	Cost	Accumulated Amortisation/ Impairment	Carrying Value
Computer Software	579 512 808	435 157 978	144 354 830
	579 512 808	435 157 978	144 354 830

12 INVESTMENT PROPERTY

As at 30 June 2016

Land & Buildings

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	253 810 809	59 451 079	194 359 730
	253 810 809	59 451 079	194 359 730

No assets were pledged as security

Refer to Note 51 for reconciliation.

As at 30 June 2015

Land & Buildings

	Cost	Accumulated Depreciation/ Impairment	Carrying Value
Land & Buildings	248 623 193	50 454 308	198 168 885
	248 623 193	50 454 308	198 168 885

Description of Investment Property:

Nelson Mandela Bay Logistics Park	102 300 000	102 300 000
Kings Beach	30 400 000	30 400 000
Springs Resort	2 141 000	2 141 000
Telkom Park	45 200 000	45 200 000
Mc Arthur Bath	12 290 000	12 290 000
Willows Resort	246 430 000	246 430 000
Beachview Resort	6 250 000	6 250 000
Van Stadens Resort	5 250 000	5 250 000
St Georges Park Resort and Wells estate	117 500 000	117 500 000
Motherwell Depot	15 000 000	15 000 000
Africa Timbers in Korsten	1 990 000	1 990 000
Mercado centre	22 830 000	22 830 000
Fresh Produce Market	5 500 000	5 500 000
Incinerator and Gas works	26 730 000	26 730 000
Something Good	4 200 000	4 200 000
Korsten Depot	1 600 000	1 600 000
Port Elizabeth RD Steeledale Reinforcing	980 000	980 000
PE Central Shop	490 000	490 000
North End Workshop	66 000	66 000
Moselville Old Post Office	1 250 000	1 250 000
Market Value of Investment Property	648 397 000	648 397 000

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

12 INVESTMENT PROPERTY (Continued)	2016 R	Restated 2015 R
Additional Disclosure:		
The NMBM applies the Cost Model		
The Market Value was determined by professional valuers of the NMBM who are experts in this field as at 30 June 2016:		
The depreciated replacement cost method of valuation was applied in determining the valuation of the property. This method of valuation is usually applied to properties that do not often change hands in the open market. The depreciated replacement cost method of valuation is calculated by determining the replacement cost of the improvements, as at the date of the valuation, less a depreciation factor, which comprises physical deterioration, functional obsolescence and location deterioration. The value of land is determined by means of comparable sales of similar properties in the area. The two values are added together to arrive at the valuation of the property.		
Rental revenue included in surplus for following Investment Property:		
Beachview resort	240 000	240 000
Van Stadens Resort	240 000	240 000
Direct Operating expenses that generated rental revenue	0	0
13 LONG-TERM RECEIVABLES		
Sporting and Other Bodies	100	180
Other Debtors	50 315	50 315
Consumer Debtors	24 256 486	18 248 511
Rate and General	10 960 479	9 265 720
Electricity	4 271 747	3 590 679
Water	3 713 297	2 195 112
Refuse	2 070 677	1 132 893
Sewerage	3 030 091	1 846 402
Insurance	210 195	217 705
	24 306 901	18 299 006
Less current portion:		
Sporting and Other Bodies	80	80
Current Portion of Long-term Receivables	80	80
Long-term Receivables	24 306 821	18 298 926
Long-term Receivables - Exchange Transactions	13 346 342	9 033 206
Long-term Receivables - Non-exchange Transactions	10 960 479	9 265 720
	24 306 821	18 298 926
No collateral is held for receivables		
In the event of defaults on arrangements, the consumers may enter into a fresh arrangement upon making certain down payments.		
LONG-TERM RECEIVABLES - CONSUMER DEBTORS		
Financial Assets - Receivables:		
Consumer Debtors have a fixed repayment term per individual consumer and interest is calculated on monthly basis at 9% per annum.		
CONSUMER DEBTORS		
The current portion is disclosed in note 15 - Consumer Debtors.		
14 INVENTORY		
Raw Materials	126 092 988	125 682 541
Finished Goods	80 507	98 809
Water Finished Goods - at cost (refer to note 28 for cost of inventory sold)	95 996 842	95 106 709
Consumable Goods	14 892 822	11 038 673
	15 122 817	19 438 350
Less: Provision for Obsolete Stock	(2 073 323)	(1 466 203)
	124 019 665	124 216 338
No inventory was pledged as security		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

15 CONSUMER DEBTORS

	R	R	R
	Gross Balances	Impairment Allowance	Carrying Amount
As at 30 June 2016			
Service Debtors	3 324 107 667	(2 020 941 866)	1 303 165 801
Rates and General	927 077 284	(657 492 538)	269 584 746
Electricity	1 018 118 126	(384 039 639)	634 078 487
Water	747 626 752	(514 097 711)	233 529 041
Refuse	264 336 221	(205 666 635)	58 669 586
Sanitation	366 949 284	(259 645 343)	107 303 941
House Rentals	24 033 130	(20 071 756)	3 961 374
Total	3 348 140 797	(2 041 013 622)	1 307 127 175

Consumer debtors are made up as follows:

Consumer debtors - Non-exchange Transactions	269 584 746
Consumer debtors - Exchange Transactions	1 037 542 429
	1 307 127 175

No consumer debtors were pledged as security.

In the event of defaults services are disconnected until such time that the outstanding debt has been paid or an arrangement entered into.

As at 30 June 2015

	Gross Balances	Impairment Allowance	Carrying Amount
As at 30 June 2015			
Service Debtors	2 917 474 100	(1 779 155 689)	1 138 318 411
Rates and General	788 704 395	(559 304 985)	229 399 410
Electricity	1 031 363 720	(417 123 714)	614 240 006
Water	572 456 769	(410 151 769)	162 305 000
Refuse	221 296 570	(176 025 922)	45 270 648
Sanitation	303 652 646	(216 549 299)	87 103 347
House Rentals	22 933 207	(19 217 127)	3 716 080
Total	2 940 407 307	(1 798 372 816)	1 142 034 491

Consumer debtors are made up as follows:

Consumer debtors - Non-exchange Transactions	229 399 410
Consumer debtors - Exchange Transactions	912 635 081
	1 142 034 491

Rates and General: Ageing

Current (0-30 days)	107 788 793	97 401 007
31 - 60 Days	17 774 527	38 946 251
61 - 90 Days	24 774 031	22 528 982
Over 90 Days	776 739 933	629 828 155
Total	927 077 284	788 704 395

Electricity: Ageing

Current (0-30 days)	530 525 948	481 412 632
31 - 60 Days	62 494 179	59 162 278
61 - 90 Days	44 350 814	40 962 246
Over 90 Days	380 747 185	449 826 564
Total	1 018 118 126	1 031 363 720

Water: Ageing

Current (0-30 days)	125 191 225	91 624 396
31 - 60 Days	68 588 762	32 878 319
61 - 90 Days	50 782 153	24 684 913
Over 90 Days	503 064 612	423 269 141
Total	747 626 752	572 456 769

Refuse: Ageing

Current (0-30 days)	25 009 805	20 240 186
31 - 60 Days	5 869 049	12 025 924
61 - 90 Days	10 541 626	5 902 003
Over 90 Days	222 915 741	183 128 457
Total	264 336 221	221 296 570

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

15 CONSUMER DEBTORS (Continued)	2016 R	Restated 2015 R
Sanitation: Ageing		
Current (0-30 days)	50 118 430	43 086 448
31 - 60 Days	22 883 172	19 569 964
61 - 90 Days	15 843 673	14 861 978
Over 90 Days	278 104 009	226 134 256
Total	366 949 284	303 652 646

Housing Rentals: Ageing

Current (0-30 days)	791 722	650 387
31 - 60 Days	127 099	947 153
61 - 90 Days	892 640	4 991 231
Over 90 Days	22 221 669	16 344 436
Total	24 033 130	22 933 207

Summary of Debtors by Customer Classification

	R	R	R
	<u>Residential Consumers</u>	<u>Industrial / Commercial</u>	<u>National and Provincial Government</u>
30 June 2016			
Current (0-30 days)	190 231 530	618 634 166	30 557 113
31 - 60 Days	79 496 908	64 640 196	33 599 683
61 - 90 Days	66 765 511	55 773 713	24 645 712
Over 90 Days	1 450 584 025	713 854 418	19 357 822
Gross Consumer Debtors by Customer classification	1 787 077 974	1 452 902 493	108 160 330
Gross Consumer Debtors			3 348 140 797
Less: Impairment allowance			(2 041 013 622)
Net Consumer Debtors for the period ended 30 June 2016			1 307 127 175

Summary of Debtors by Customer Classification

	R	R	R
	<u>Residential Consumers</u>	<u>Industrial / Commercial</u>	<u>National and Provincial Government</u>
30 June 2015			
Current (0-30 days)	177 471 316	540 074 365	16 869 375
31 - 60 Days	81 460 573	75 741 758	6 327 558
61 - 90 Days	54 873 285	55 696 190	3 361 878
Over 90 Days	1 210 359 519	693 807 333	24 364 157
Gross Consumer Debtors by Customer classification	1 524 164 693	1 365 319 646	50 922 968
Gross Consumer Debtors			2 940 407 307
Less: Impairment allowance			(1 798 372 816)
Net Consumer Debtors for the year ended 30 June 2015			1 142 034 491

	2016 R	Restated 2015 R
Reconciliation of the Impairment Allowance		
Balance at beginning of year	1 798 372 815	1 610 798 114
Contributions to Impairment allowance	655 956 758	444 667 158
	2 454 329 573	2 055 465 272
Bad debts written off against the Impairment allowance	(413 315 952)	(257 092 457)
Balance at end of year	2 041 013 621	1 798 372 815

Financial Assets have been classified as loans and receivables

The consumer debtors are billed interest at 9% per annum on overdue accounts.

Consumer Debtors not past due nor impaired therefore no impairment allowance raised:

	2016 R	Restated 2015 R
Neither past due nor impaired		
Current (0-30 days)	1 307 127 175	1 142 034 491

Consumer Debtors for which an impairment allowance was raised

Provision (based on the collection of outstanding debts and debtors handed over to attorneys)	2 041 013 621	1 798 372 815
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NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

16 OTHER DEBTORS - Exchange Transactions	2016	Restated 2015
	R	R
Government Grants and Subsidies - Housing	154 992 960	236 016 565
Government Grants and Subsidies - Public Health	17 878 258	14 544 383
Government Grants and Subsidies - CDC Walmer Intervention	0	49 453 043
Government Grants and Subsidies - Smart Grid Initiative	2 250 000	0
Interest on External Investments	15 207 338	13 385 624
Operating lease accruals	2 143 428	2 549 888
Sundry Debtors	188 141 385	160 160 729
Entity - MBDA	48 538 173	48 362 452
	429 151 542	524 472 684
Provision for Bad Debts - Uitesco	0	(18 292 127)
	429 151 542	506 180 557

Refer Restatement Note no. 40.2.5

Amounts due from Government and external debtors are normally settled within 30 days and bear no interest.

The liquidation for Uitesco has been approved during this year.

17 VAT Refund / VAT (Payable)/ Receivable

VAT Refund	10 664 660	34 927 107
VAT (Payable)/ Receivable	(18 661 838)	16 299 576

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

The VAT Receivable account is used to record VAT on revenue and expenses incurred but for which no payment has been received or made.

Refer Restatement Note no. 40.2.6 and 40.2.7

18 SHORT-TERM INVESTMENTS & INVESTMENT DEPOSITS

DEPOSITS

ABSA Investment Account - interest receivable on monthly basis at the average annual interest rate of 2016: 7.20% (2015: 6.03%) during the current audit period.

310 000 000 275 000 000

First National Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2016: 7.12% (2015: 6.02%) during the current audit period.

310 000 000 275 000 000

Investec Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2016: 6.75% (2015: 5.50 %) during the current audit period.

115 426 205 105 607 152

Nedbank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2016: 6.60% and 7.31% (2015: 6.20%) during the current audit period.

315 500 000 300 500 000

Standard Bank Investment Account - interest receivable on monthly basis at the average annual interest rate of 2016: 7.37% (2015: 6.37%) during the current audit period.

314 152 000 296 152 000

Standard Bank Stanlib Investment Account - interest receivable on monthly basis at the average annual interest rate of 2016: 7.65%.

259 656 234 835

1 365 337 861 1 252 493 987

Refer Restatement Note no. 40.2.1

FINANCIAL INSTRUMENTS - INVESTMENTS

Sanlam Shares	2 469 871	2 714 566
	2 469 871	2 714 566

No Investments were pledged as security

The Investments are committed as follows:

Unspent Conditional Grants and Receipts	201 682 477	171 308 712
Current Portion of Long-term Liabilities	93 919 738	104 092 767
COVID Reserve	28 557 560	24 831 196
Self Insurance Reserve	102 980 606	96 391 064
Capital Replacement Reserve	0	91 370 086
Housing Revolving Fund	109 731 779	109 731 779
	536 872 160	597 725 604

The balance is available for Creditors - Exchange Transactions

828 465 701 654 768 383

The Municipality's Investment Policy and Investment Regulations, require local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.

The NMBM is the holder of 40 919 shares in Sanlam Ltd received or allotted for no cost, of which the market value was R2 469 871 (2015: R 2 714 566) determined on the open market share price as at 30 June 2016. The shares were awarded to the NMBM as the beneficiary of an insurance endowment policy, which matured during October 1998.

All deposits are invested in call accounts with all of the above banks as per the above-mentioned interest rate options. Short-term investment deposits form part of cash and cash equivalents for purposes of the cash flow statement.

Short-term Investment Deposits amounting to R93 919 738 (2015: R104 092 767) are ring-fenced and attributable to repaying long-term loans.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
19 BANK BALANCES AND CASH		
The NMBM operates various current accounts with ABSA. The details are as follows:		
BANK: ABSA		
ACCOUNT NUMBER: 4079534961		
BRANCH: Greenacres		
BRANCH CODE: 632005		
Cash Book balance at beginning of the year	139 687 805	128 555 305
Cash Book balance at end of the year	<u>207 595 170</u>	<u>139 687 805</u>
Bank Balance at beginning of the year	114 066 794	179 170 678
Bank Balance at end of the year	<u>200 857 162</u>	<u>114 066 794</u>
Which are disclosed in the Statement of Financial Position as follows:		
Bank balances and cash	<u>207 595 170</u>	<u>139 687 805</u>
In terms of GRAP 23 - Revenue from non-exchange transactions, the following Cash and Cash equivalents relates to restrictive agreements for which no commitment exist but can only be used for the following:		
Transportation levies received: Upkeep of roads or any roads related projects.	31 997 669	836 189
Refer Restatement Note no. 40.2.4		
20 PROPERTY RATES		
<u>Actual</u>		
Residential	694 417 955	607 505 821
Commercial	637 608 998	562 055 291
State	121 231 052	101 969 829
Other	66 189 227	60 603 968
	<u>1 519 447 232</u>	<u>1 332 134 909</u>
As per the Municipal Property Rates Act, the date of valuation was 1 July 2012, with the implementation date being 1 July 2013.		
The Municipality is in the process of a property valuation in line with the Municipal Property Rates Act and the results thereof will be implemented w.e.f 01 July 2017.		
*Other includes Agricultural, Public Service Infrastructure and Vacant Properties. These amounts are reflected excluding VAT.		
Valuations	R'000	R'000
Residential	85 101 884	84 317 736
Commercial	38 177 437	36 483 208
State	5 707 338	5 783 429
Other	6 506 342	6 445 702
	<u>135 493 001</u>	<u>133 030 075</u>
21.1 SERVICE CHARGES		
Sale of Electricity	3 463 791 052	3 085 501 834
Sale of Water	660 223 228	519 527 626
Service delivery - sale of inventory	<u>4 124 014 280</u>	<u>3 605 029 460</u>
Refuse Removal	144 592 019	130 907 080
Sewerage and Sanitation charges	377 421 012	323 716 434
Service delivery - sale of services	<u>522 013 031</u>	<u>454 623 514</u>
	<u>4 646 027 311</u>	<u>4 059 652 974</u>
Refer Restatement Note no. 40.1.12		
21.2 FINES		
Fines (Library and Traffic)	<u>223 579 941</u>	<u>40 884 562</u>
Included in Fines above are Traffic fines shown as follows:		
Fines issued for the year	243 281 414	36 831 810
Impaired, based on collection rate	(154 403 489)	(31 144 372)
Net fines collected	<u>88 877 925</u>	<u>5 687 438</u>
Refer Restatement Note no. 40.1.15		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

22 GOVERNMENT GRANTS AND SUBSIDIES	2016	Restated 2015
	R	R
PHB Subsidies (See Note 22.1)	222 588 906	428 289 586
Equitable Share Allocation (See Note 22.2)	774 616 583	761 606 000
Finance Management Grant (See Note 22.3)	1 034 464	1 202 266
Provincial Department of Human Settlements: Accreditation Grant (See Note 22.5.1)	5 833 027	2 556 654
Municipal Human Settlements Capacity Grant (See Note 22.5.2)	24 849 541	13 648 697
Provincial Government Grants: Library Services (See Note 22.6)	9 752 000	7 390 000
Public Transport Networks Operations Grant (See Note 22.7.2)	22 343 382	67 871 622
EU Sector Policy Support Project (See Note 22.9)	756 107	2 814 922
Energy Efficiency & Demand Side Management (See Note 22.10)	0	9 313 581
Other Grants (See Note 22.11)	433 263	754 446
Government Grant Revenue (See Note 22.12)	777 512 325	784 204 088
National Lotteries Grant (See Note 22.13)	3 033 148	1 010 012
CDC Walmer Intervention Funding Grant (See Note 22.14)	0	49 453 043
Urban Settlements Development Grant (See Note 22.16)	22 924 967	69 167 779
Infrastructure Skills Development Grant (See Note 22.17)	8 594 209	8 251 887
EPWP Incentive Grant (See Note 22.18)	8 361 831	17 454 850
Groen Sebenza (SANBI) Grant (See Note 22.19)	37 533	581 196
Integrated City Development Grant (See Note 22.20)	3 576 573	3 682 231
VUNA Awards (See Note 22.21)	15 294	0
Off-Grid Electrification Grant (See Note 22.22)	19 160 575	0
Department of Roads and Public Works Grant (See Note 22.23)	0	3 357 583
Post Disaster Recovery Grant (See Note 22.24)	0	25 315 563
LGSETA Discretionary Learnership Funding (See Note 22.25)	9 985 035	8 277 535
Provincial Department Agency: Communication Grant (See Note 22.26)	2 378 019	0
Health Subsidies (See Note 22.27)	3 333 875	4 060 083
	1 921 120 657	2 270 263 624

Refer Restatement Note no. 40.1.10

Government Grants and Subsidies are made up as follows:

Government Grants and Subsidies - Operating	1 143 608 332	1 486 059 536
Government Grants and Subsidies - Capital	777 512 325	784 204 088
	1 921 120 657	2 270 263 624

22.1 PHB Subsidies

This Grant is received from Provincial Government and is used for the construction of low cost housing.

Balance at beginning of year	9 752 718	129 994 741
Current year receipts	220 761 021	221 857 807
Interest received	663 376	3 144 027
Debtor raised	236 161 150	236 016 565
Reversal of prior year accrual	(236 016 565)	(145 387 788)
Interest paid over to Provincial Treasury	(663 376)	(7 583 048)
Conditions met - Transferred to revenue	(222 588 906)	(428 289 586)
Conditions still to be met - transferred to liabilities	8 069 418	9 752 718

22.2 Equitable Share

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

Balance unspent at beginning of year	0	0
Current year receipts	774 616 583	761 606 000
Transferred to revenue	(774 616 583)	(761 606 000)
Conditions met	0	0

22.3 Finance Management Grant

This grant is used in the financial reform project under the guidance of National Treasury.

Balance unspent at beginning of year	0	0
Current year receipts	1 050 000	1 250 000
Conditions met - Transferred to Other Income - VAT portion	(15 536)	(47 734)
Conditions met - Transferred to revenue	(1 034 464)	(1 202 266)
Conditions met	0	0

22.4 Smart Grid Initiative

This Grant is used to develop innovative, interactive and improved technological solutions to deal with revenue enhancement.

Balance unspent at beginning of year	1 809 900	0
Current year receipts	10 500 000	2 250 000
Conditions met - Transferred to revenue - capital	(13 848 064)	(440 100)
Debtor raised	2 250 000	0
Conditions still to be met - transferred to liabilities	711 836	1 809 900

22.5.1 Provincial Department of Human Settlements: Accreditation Grant

This Grant is used for capacity building of level 3 accreditation in the preparation of NMBM in the Human Settlements matters.

Balance unspent at beginning of year	13 973 784	7 870 175
Current year receipts	0	8 660 263
Conditions met - Transferred to revenue	(5 833 027)	(2 556 654)

Conditions still to be met - transferred to liabilities

8 140 757

13 973 784

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

22 GOVERNMENT GRANTS AND SUBSIDIES (Continued)	2016 R	Restated 2015 R
22.5.2 Municipal Human Settlements Capacity Grant		
This Grant is used to ensure effective management of Human Settlements programmes at the local government level in line with the Accreditation framework.		
Balance unspent at beginning of year	23 235 275	0
Current year receipts	9 847 000	37 707 000
Conditions met - Transferred to revenue	(24 849 541)	(13 648 697)
Conditions met - Transferred to Other Income - VAT portion	(479 810)	(823 028)
Conditions still to be met - transferred to liabilities	7 752 924	23 235 275
22.6 Provincial Government Grants: Library Services		
This grant is received from the Provincial Government and used to subsidise Libraries.		
Balance at beginning of year	0	0
Current year receipts	9 752 000	7 390 000
Conditions met - Transferred to revenue	(9 752 000)	(7 390 000)
Conditions met	0	0
22.7.1 Public Transport Infrastructure Grant		
This Grant is to provide for accelerated planning, construction and improvement of public and non-motorised transport infrastructure.		
Balance unspent at beginning of year	61 482 240	0
Current year receipts	36 128 000	167 500 000
Conditions met - Transferred to revenue - capital	(9 027 998)	(92 998 035)
Conditions met - Transferred to Other Income - VAT portion	(1 263 920)	(13 019 725)
Transfer to E-Share	(61 482 240)	0
Conditions still to be met - transferred to liabilities	25 836 082	61 482 240
22.7.2 Public Transport Networks Operations Grant		
This grant is to provide supplementary operational funding to Municipalities in order to operationalise the IPTS project within NMBM.		
Balance unspent at beginning of year	0	9 468 389
Current year receipts	150 000 000	62 500 000
Conditions met - Transferred to Other Income - VAT portion	(4 042 407)	(4 096 767)
Conditions met - Transferred to revenue	(22 343 382)	(67 871 622)
Conditions still to be met - transferred to liabilities	123 614 211	0
22.8 Integrated National Electrification Programme Grant		
This Grant is used to fund electricity connections and upon application also the upgrade of the Electricity infrastructure in order to install these electricity connections.		
Balance unspent at beginning of year	0	0
Current year receipts	35 500 000	18 000 000
Conditions met - Transferred to revenue - capital	(31 140 350)	(15 789 480)
Conditions met - Transferred to Other Income - VAT portion	(4 359 650)	(2 210 520)
Conditions met	0	0
22.9 EU Sector Policy Support Project		
This Grant is received from the European Union to fund various authorised developmental projects within certain designated targeted areas of the NMBM (i.e Motherwell).		
Balance unspent at beginning of year	10 366 174	13 446 128
Current year receipts	0	0
Conditions met - Transferred to revenue	(756 107)	(2 814 922)
Conditions met - Transferred to revenue - capital	0	(265 032)
Conditions still to be met - transferred to liabilities	9 610 067	10 366 174
22.10 Energy Efficiency & Demand Side Management		
This Grant is used to fund Energy Efficient Electricity Projects		
Balance unspent at beginning of year	0	0
Current year receipts	0	10 000 000
Conditions met - Transferred to Other Income - VAT portion	0	(686 419)
Conditions met - Transferred to revenue	0	(9 313 581)
Conditions met	0	0
22.11 Other Grants		
These are grants received by the NMBM for various purposes.		
Balance unspent at beginning of year	17 087 514	27 037 511
Transfer to LGSETA Discretionary Funding (See Note 22.25)	0	(8 049 571)
Restated Opening Balance	17 087 514	18 987 940
Current year receipts	549 195	855 308
Conditions met - Transferred to revenue - capital	0	(2 001 288)
Transfer to Other Income - GRAP 23	(15 930 000)	0
Conditions met - Transferred to revenue	(433 263)	(754 446)

Conditions still to be met - transferred to liabilities

1 273 446

17 087 514

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
22.12 Government Grant Revenue		
Relates to the Funding of Capital Projects financed by Government Grants which are disclosed under Government Grants and Subsidies.	777 512 325	784 204 088
22.13 National Lotteries Grant		
This grant is used to fund Art and Culture programmes		
Balance unspent at beginning of year	4 693 537	5 703 549
Current year receipts	0	0
Conditions met - Transferred to revenue	(3 033 148)	(1 010 012)
Conditions still to be met - transferred to liabilities	1 660 389	4 693 537
22.14 CDC Walmer Intervention Funding Grant		
This grant is used to speed up service delivery intervention in Walmer Gqebera township.		
Balance unspent at beginning of year	0	0
Current year receipts	5 546 957	0
Debtor raised	0	49 453 043
Conditions met - Transferred to revenue	0	(49 453 043)
Conditions still to be met - transferred to liabilities	5 546 957	0
22.15 Neighbourhood Partnership Development Grant		
This grant is used for the urban renewal of certain targeted / designated townships.		
Balance unspent at beginning of year	1 118 343	7 134 879
Transfer to E-share	-	(7 134 808)
Current year receipts	0	9 000 000
Debtor raised	0	0
Conditions met - Transferred to revenue - capital	-	(6 913 799)
Conditions met - Transferred to Other Income - VAT	-	(967 929)
Transfer to E-Share	(1 118 343)	0
Conditions still to be met - transferred to liabilities	0	1 118 343
22.16 Urban Settlements Development Grant		
This grant is used to improve urban land production to the benefit of poor households as well as improving spatial integration and densities.		
Balance unspent at beginning of year	0	0
Current year receipts	846 480 000	828 863 000
Conditions met - Transferred to revenue - capital	(720 672 961)	(665 796 355)
Conditions met - Transferred to Other Income - VAT portion	(102 882 072)	(93 898 866)
Conditions met - Transferred to revenue	(22 924 967)	(69 167 779)
Conditions met	0	0
22.17 Infrastructure Skills Development Grant		
This grant is used for skills development in certain targeted service delivery directorates.		
Balance unspent at beginning of year	248 644	560 285
Current year receipts	9 000 000	8 000 000
Conditions met - Transferred to revenue	(8 594 209)	(8 251 887)
Conditions met - Transferred to Other Income - VAT portion	(77 503)	(59 754)
Conditions still to be met - transferred to liabilities	576 932	248 644
22.18 EPWP Incentive Grant		
This grant is used to implement expanded public works programme.		
Balance unspent at beginning of year	0	5 528 976
Current year receipts	8 664 000	13 439 000
Conditions met - Transferred to revenue	(8 361 831)	(17 454 850)
Conditions met - Transferred to Other Income - VAT portion	(302 169)	(1 513 126)
Conditions met	0	0
22.19 Groen Sebenza (SANBI) Grant		
This grant is used to provide training material and to cover operational expenditure of the SANBI staff.		
Balance unspent at beginning of year	0	0
Current year receipts	215 875	440 392
Debtor raised	(140 804)	140 804
Additional debtor reversed	(37 538)	0
Conditions met - Transferred to revenue - GRAP 23	(37 533)	(581 196)
Conditions met	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
22 GOVERNMENT GRANTS AND SUBSIDIES (Continued)		
22.20 Intergrated City Development Grant		
This grant is used for the development of more inclusive, liveable, productive and sustainable urban built environments in the metropolitan municipalities.		
Balance unspent at beginning of year	0	3 193 000
Transfer to E-share	0	(3 193 000)
Current year receipts	5 708 000	4 133 000
Conditions met - Transferred to revenue	(3 576 573)	(3 682 231)
Conditions met - Transferred to Other Income - VAT portion	(408 653)	(450 769)
Conditions still to be met - transferred to liabilities	1 722 774	0
22.21 VUNA Awards		
This award is used for training within the Revenue Management Directorate and was won by NMBM from Provincial COGTA due to performance.		
Balance unspent at beginning of year	15 294	15 294
Current year receipts	0	0
Conditions met - Transferred to revenue - GRAP 23	(15 294)	0
Conditions still to be met - transferred to liabilities	0	15 294
22.22 Off-Grid Electrification Grant		
This grant is used to promote the socio-economic development of previously disadvantaged communities through household and institutional electrification and the electrification of associated community value-adding facilities.		
Balance unspent at beginning of year	22 000 000	22 000 000
Current year receipts	0	0
Conditions met - Transferred to revenue	(19 160 575)	0
Conditions still to be met - transferred to liabilities	2 839 425	22 000 000
22.23 Department of Roads and Public Works Grant		
This grant is used to fund the maintenance of Provincial roads in the Metropolitan area		
Balance unspent at beginning of year	0	0
Current year receipts	0	3 502 936
Conditions met - Transferred to revenue	0	(3 357 583)
Conditions met - Transferred to Other Income	0	(145 353)
Conditions met	0	0
22.24 Post Disaster Recovery Grant		
This grant is used for the maintenance of Infrastructure Assets due to damage caused in the event of disasters.		
Balance unspent at beginning of year	0	28 803 272
Current year receipts	0	0
Conditions met - Transferred to revenue	0	(25 315 563)
Conditions met - Transferred to Other Income - VAT portion	0	(3 487 709)
Conditions met - Transferred to revenue - capital	0	0
Conditions met	0	0
22.25 LGSETA Discretionary Learnership Funding		
This grant is used to facilitate access to skills development, education and training in the local government sector and community in general.		
Balance unspent at beginning of year	5 525 289	0
Transfer from Other Grants (See Note 22.11)	0	8 049 571
Restated Opening Balance	5 525 289	8 049 571
Current year receipts	7 914 225	5 753 253
Conditions met - Transferred to revenue	(9 985 035)	(8 277 535)
Conditions still to be met - transferred to liabilities	3 454 479	5 525 289
22.26 Provincial Department Agency: Communication Grant		
This grant is used for the roll out of public Wi-Fi to all Municipal Libraries, Customer Care centres and Traffic Licensing centres.		
Balance unspent at beginning of year	0	0
Current year receipts	6 073 752	0
Conditions met - Transferred to revenue	(2 378 019)	0
Conditions met - Transferred to revenue - capital	(2 822 951)	0
Conditions still to be met - transferred to liabilities	872 782	0
22.27 Health Subsidies		
This grant is received from the Provincial Government and used in the Health function.		
Balance unspent at beginning of year	0	0
Conditions met - Transferred to revenue	(3 333 875)	(4 060 083)
Debtor raised	3 333 875	4 060 083
Conditions met	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
	R	R
23 OTHER INCOME		
Fees and Charges	129 864 869	125 460 058
Grave Income	9 639 907	7 088 794
Fees - Licences and Permits	9 170 188	10 612 105
GRAP 23 Revenue	32 008 051	1 350 965
Legal Costs Received	14 668 738	13 376 526
Government Grants - VAT recognised	113 831 721	120 984 155
Settlement - New Billing system	0	46 100 000
Settlement - NMBM Stadium	0	76 845 262
Other Income	96 074 683	70 956 167
	405 258 157	472 774 032
Public Contributions and Donations Revenue	43 971 951	64 974 026
Fuel Levy	472 552 000	459 329 000
	921 782 108	997 077 058
Refer Restatement Note no. 40.1.7		
24 EMPLOYEE RELATED COSTS		
Employee related costs - Salaries and Wages	1 376 326 807	1 353 908 864
Employee related costs - Contributions for UIF, pensions and medical aids	538 514 969	495 016 951
Travel, motor car, accommodation, subsistence and other allowances	139 662 032	123 939 255
Housing benefits and allowances	10 879 786	7 187 979
Overtime payouts	134 053 670	122 405 672
Performance bonus	28 784 966	27 045 511
Long-service Awards	40 387 669	35 580 475
	2 268 609 899	2 165 084 707
Refer Restatement Note no. 40.1.5		
Remuneration of the Current Acting City Manager		
Annual Remuneration	0	0
The Current Acting City Manager is being paid directly by COGTA in the amount of R1 638 000.		
Remuneration of the former City Manager (Mr M Mbambisa)		
Annual Remuneration	666 667	2 000 000
Labour Settlement	1 047 000	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	160 000	244 987
Total	1 873 667	2 244 987
Remuneration of the former City Manager (Dr. L Msengana-Ndlela)		
Labour Settlement	0	3 170 128
Total	0	3 170 128
Remuneration of the Chief Financial Officer		
Annual Remuneration	1 871 100	1 800 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	4 575	179 970
Total	1 875 675	1 979 970
Remuneration of the Chief Operating Officer		
Annual Remuneration	1 871 100	1 800 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	599	16 883
Total	1 871 699	1 816 883
Remuneration of the former Chief of Staff		
Annual Remuneration	1 330 117	1 254 828
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	108 067
Total	1 330 117	1 362 895
Remuneration of the Chief of Police		
Annual Remuneration	1 162 580	1 268 270
Car allowance	0	120 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	38 048	53 489
Total	1 200 628	1 441 759
Remuneration of Individual Executive Directors		
Corporate Services - Acting Executive Director		
Annual Remuneration	0	0
The Municipality paid The Local Government Development and Support Institute an amount of R1 343 973 for the period November 2015 to 30 June 2016.		
The Acting Executive Director is being paid by the Local Government Development and Support Institute.		
Corporate Services - Executive Director		
Annual Remuneration	1 600 000	1 600 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	51 418
Total	1 600 000	1 651 418
Economic Development, Tourism and Agriculture		
Annual Remuneration	1 488 000	1 408 000
Car Allowance	192 000	192 000

Travel, Subsistence, UIF, Medical, Pension Funds, Other

2 335	73 458
<u>1 682 335</u>	<u>1 673 458</u>

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

24 EMPLOYEE RELATED COSTS (Continued)	2016 R	Restated 2015 R
Infrastructure and Engineering		
Annual Remuneration	1 680 000	1 600 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	17 054
	1 680 000	1 617 054
Electricity		
Annual Remuneration	970 667	1 456 000
Car Allowance	96 000	144 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	119 695	149 225
	1 186 362	1 749 225
Safety and Security		
Annual Remuneration	920 103	1 460 992
Car Allowance	57 457	139 008
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	20 706
	977 560	1 620 706
Human Settlements		
Annual Remuneration	611 667	1 468 000
Labour settlement	600 000	0
Car Allowance	55 000	132 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	103 907	81 335
	1 370 574	1 681 335
Sports, Recreation, Arts and Culture		
Annual Remuneration	1 500 000	1 420 000
Car Allowance	180 000	180 000
Travel, Subsistence, UIF, Medical, Pension Funds, Other	0	51 535
	1 680 000	1 651 535
Public Health		
Annual Remuneration	933 333	0
Travel, Subsistence, UIF, Medical, Pension Funds, Other	153 937	0
	1 087 270	0
25 REMUNERATION OF COUNCILLORS		
Mayor's Remuneration	1 374 759	1 030 099
Deputy Mayor's Remuneration	1 003 393	931 757
Speaker's Remuneration	1 003 393	951 083
Mayoral Committee members	10 264 988	8 459 276
Other Councillors' Remuneration	45 946 718	43 846 492
Telephone Allowances	2 541 418	2 516 988
3G Allowance	61 175	425 400
	62 195 844	58 161 095

In-kind Benefits

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

The Executive Mayor has the use of a Council owned vehicle for official duties driven by a chauffeur employed by the Council.

In accordance with the Councillors' remuneration package; the structure is an all-inclusive package, with the exception of a Telephone Allowance and a 3G Allowance. The package is within the upper limits of the framework as envisaged in section 219 of the Constitution.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
26 IMPAIRMENT - RECEIVABLES		
Bad debts consists of the following:		
Bad debts expense	232 377 736	259 808 374
ATTP and Miscellaneous fees and charges	227 831 987	257 092 457
Miscellaneous	4 545 749	2 715 917
Net Contribution to doubtful debts	393 155 595	147 552 811
Contribution to doubtful debts (inclusive of VAT)	655 956 758	444 667 158
Less: VAT portion	66 426 887	40 021 890
Contribution to doubtful debts (excluding VAT)	589 529 871	404 645 268
Less: Bad debts as above	196 374 276	257 092 457
	393 155 595	147 552 811
	625 533 331	407 361 185
27 FINANCE COSTS		
Interest on External Loans	165 124 168	177 174 212
Interest on Other	1 364 092	2 727 073
Finance Cost	166 488 260	179 901 285
Interest and Penalties	0	26 694 718
Total Finance Cost	166 488 260	206 596 003
Finance cost accrued / Prior year accrual reversals	(2 349 684)	(1 998 850)
Finance cost paid	168 837 944	208 594 853
28 BULK PURCHASES		
Electricity	2 720 304 070	2 362 484 236
Water	94 062 300	92 601 532
	2 814 366 370	2 455 085 768
Refer Restatement Note no. 40.1.6		
29 GRANTS AND SUBSIDIES PAID		
Grants in aid	14 123 340	7 257 400
Grants to Entities	32 054 531	31 352 919
Grants to Other Organisations	19 537 185	18 353 804
	65 715 056	56 964 123
30 SIGNIFICANT ITEMS IN THE STATEMENT OF FINANCIAL PERFORMANCE		
30.1 Contracted Services		
Is made up as follows:		
Contract Security	95 898 912	93 512 848
Grass Cutting and environmental cleanup	25 298 751	19 954 380
Meter reading contracts	9 240 002	11 459 262
Stadium Management fee/ Operational Cost	97 933 340	58 704 708
Transport Operations - IPTS	11 359 025	54 300 760
Edams system	6 660 357	6 674 631
Contractors - Other	27 988 919	35 082 243
Outsourced Services - Other	60 985 773	5 277 608
Consultants and Other Professional services	75 379 175	2 334 886
Other minor contracts	69 815 541	62 163 430
	480 559 795	349 464 756
Refer Restatement Note no. 40.1.4		
30.2 General Expenses		
Is made up as follows:		
Cellphone and Telephone	31 475 387	30 509 981
Fleet management services and Other Vehicle hire	131 718 199	82 859 080
Petrol, oil and lubricants	49 621 279	52 465 844
Consultants	4 902 905	70 627 893
Insurance	15 631 987	740 681
Building and Equipment rentals	24 143 939	25 442 666
External computer services	13 627 782	11 132 776
Subscriptions to Associations	12 974 711	13 127 823
Legal Expenses incurred	0	35 313 574
Legal Expenses - Provision for litigation claims	0	39 168 383
Prepaid Vending Commission	16 329 731	15 376 743
Special Projects	16 178 325	7 758 305
Litter Picking project	22 181 346	28 282 854
RDP Housing - Top structures	218 329 024	396 800 406
Audit Fees - Auditor General	11 316 349	12 046 474
Hiring of equipment and machinery	48 133 051	23 227 076
Operating levies funded projects	32 357 878	51 167 522
Electricity - Dams, treatment works and pump stations	24 453 149	30 574 799
Industry capacity building expenses	0	20 151 616
RDP Housing - Toilet structures	23 101 021	63 597 887
Chemicals	70 577 940	36 141 638
Other Sundry General Expenses	22 647 438	9 620 270
	789 701 441	1 056 134 291
The variances in the above are due to changes in categories as a result of mSCOA.		
Refer Restatement Note no. 40.1.2		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
31 DEPRECIATION AND AMORTISATION		
31.1 Depreciation - Property, Plant and Equipment	795 140 247	802 955 151
31.2 Depreciation - Investment Property	8 996 771	6 131 885
31.3 Amortisation	69 789 718	59 079 996
	<u>795 140 247</u>	<u>802 955 151</u>
	<u>8 996 771</u>	<u>6 131 885</u>
	<u>69 789 718</u>	<u>59 079 996</u>
32 CASH GENERATED FROM OPERATIONS		
Surplus for the year	R 696 401 966	R 751 104 927
Adjustment for:		
Interest accrued (net movement)	1 761 906	1 897 755
Interest earned - SARS	0	(1 771 237)
Loss on disposal of PPE	43 663 092	0
Impairment of receivables	224 348 679	187 574 701
Write down to net realisable value	607 120	(272 987)
Dividend Accrued	0	(70 432)
Depreciation - Property, plant and equipment	795 140 247	802 955 151
Depreciation - Investment Property	8 996 771	6 131 885
Amortisation	69 789 718	59 079 996
Finance cost accrued (net movement)	(2 349 684)	(1 998 850)
Contribution to provisions/ employee benefit obligation - non-current	235 329 590	83 203 017
Contribution to provisions/ employee benefit obligation - current	(32 868 819)	(2 189 055)
Unrealised gain to Sanlam shares	(244 696)	(117 387)
Impairment of PPE/ Heritage Assets	4 653 212	2 350 957
Operating Surplus before working capital changes	2 045 229 102	1 887 878 441
(Increase) / Decrease in Inventory	(410 447)	(19 669 776)
Increase in Consumer Debtors	(407 733 490)	(293 293 794)
Increase in Other Debtors	95 321 142	(145 284 260)
Decrease / (Increase) in VAT	59 223 861	88 913 329
Decrease in Unspent conditional grants and receipts	30 373 765	(89 447 488)
(Decrease) / Increase in Creditors	(13 480 694)	(17 467 670)
(Increase) / Decrease in Long-term Receivables	(6 007 895)	(6 207 676)
	<u>1 802 515 344</u>	<u>1 405 421 106</u>
33 MOVEMENT IN LONG-TERM LOANS (EXTERNAL)		
Loans raised	0	0
Loans repaid	(104 092 767)	(112 968 099)
	<u>(104 092 767)</u>	<u>(112 968 099)</u>
34 CASH AND CASH EQUIVALENTS		
Short-term Investment Deposits	1 365 337 861	1 252 493 987
Bank balances and cash	207 595 170	139 687 805
Total Cash and Cash Equivalents	<u>1 572 933 031</u>	<u>1 392 181 792</u>
35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
35.1 Contributions to organised local government		
Opening balance	0	0
Council subscriptions	11 210 000	10 541 200
Amount paid - current year	(11 210 000)	(10 541 200)
Balance unpaid (included in creditors)	0	0
35.2 Audit Fees		
Opening balance	915 069	0
Current year audit fee	11 316 349	12 046 474
Amount paid - current year	(11 279 247)	(11 131 405)
Amount paid - previous year	(915 069)	0
Balance unpaid (included in creditors)	37 102	915 069

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

35 DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT	2016	Restated 2015
	R	R
35.3 VAT		
The Net effect of the VAT inputs and VAT output are shown in note 17. All VAT returns have been submitted by the due date throughout the year.		
35.4 PAYE and UIF		
Opening balance	24 403 606	21 992 449
Current year payroll deductions	321 835 983	283 015 827
Amount paid - current year	(295 796 292)	(258 612 221)
Amount paid - previous year	(24 403 606)	(21 992 449)
Balance unpaid (included in creditors)	26 039 691	24 403 606
35.5 PENSION AND MEDICAL DEDUCTIONS		
Opening balance	0	0
Current year payroll deductions and Council Contributions	556 928 817	534 712 959
Amount paid - current year	(556 928 817)	(534 712 959)
Balance unpaid (included in creditors)	0	0
35.6 SKILLS DEVELOPMENT LEVY		
Opening balance	1 413 758	1 371 717
Current year payroll deductions	18 491 054	17 192 213
Amount paid - current year	(16 966 591)	(15 778 455)
Amount paid - previous year	(1 413 758)	(1 371 717)
Balance unpaid (included in creditors)	1 524 463	1 413 758
OTHER ADDITIONAL DISCLOSURES:		
35.7 IMPAIRMENT - OTHER		
Impairment - land and buildings	4 628 979	1 638 757
Impairment - Moveable assets	24 233	733 243
Impairment - Traffic Fines	154 403 489	31 144 372
Impairment - Housing Debtors	81 168 189	0
	240 224 890	33 516 372
Refer Restatement Note no. 40.1.9		
The Impairment of Land relates to a reduction in market values as per the valuation roll and Moveable assets relate to assets which have become redundant.		
The Impairment of Traffic Fines was based on the collection rate of fines. Refer Note 21.2 for more details.		
The Impairment of Housing Debtors relates to claims which have been repudiated by the MEC Human Settlements, in respect of the rectification of extended houses.		
35.8 LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		
Loss on disposal of property, plant and equipment	43 660 883	512 929
Relates to disposal of various redundant property, plant and equipment.		
35.9 GAIN ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT		
Sale of motor vehicles	27 900	829 981
Relates to the disposal of motor vehicles which are past their useful lives.		
35.10 WATER LOSSES		
The NMBM suffered water losses of 47,736 megalitres (43.4%) amounting to R178 million (2015: 46,643 megalitres (42.7%) amounting to R148 million) during the year. The value of the water losses have been based on cost for both years. Various water demand management interventions are being implemented during the 2015/16 financial year to curb water losses.		
35.11 ELECTRICITY LOSSES		
The NMBM suffered electricity losses of 12.5% amounting to total accumulative losses of R291,1 million (2015: 12% amounting to R244.4 million). Various electricity management interventions are being implemented to curb these losses are being implemented.		
The Electricity losses as defined above are separated between technical (6%), Public Lighting (1,5%) and non-technical losses (5%). Technical losses are inherent losses in a distribution system and these includes copper losses, Iron losses and heat losses due to current flow. Public lighting includes traffic signals, Highmast and Streetlights. Non-Technical Losses can be attributed to theft that is illegal connections, meter tampering and non billed revenue due to faulty meters.		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

36 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

36.1 Councillors' arrear consumer accounts

Councillors had arrear accounts outstanding for more than 90 days as at:

30 June 2016

	R	R
	<u>Arrangements</u>	<u>Outstanding more than 90 days</u>
Councillor S Baartman	-	8
Councillor NC Benya	-	9
Councillor XC Bisset	-	12
Councillor VG Dyantyi	-	6 175
Councillor TM Jacobs	1 658	-
Councillor ZW Jodwana	-	2 306
Councillor RC Kayser	-	9 339
Councillor XT Klaas	3 184	-
Councillor LN Mettavainio (nee Gxavu)	-	105
Councillor LC Mtwana	-	11
Councillor GM Ncamani	1 722	-
Councillor PS Ndoni	15 715	-
Councillor NJ Quluba	-	3 673
Councillor LM Stemele	-	4
	<u>22 280</u>	<u>21 642</u>

Councillors had arrear accounts outstanding for more than 90 days as at:

30 June 2015

	<u>Arrangements</u>	<u>Outstanding more than 90 days</u>
Councillor TP Adams	-	13
Councillor XC Bisset	-	12
Councillor MS Jodwana	-	281
Councillor ZW Jodwana	-	8
Councillor RC Kayser	-	665
Councillor XT Klaas	-	7
Councillor V Knoetze	-	88
Councillor MC Mtanga	-	644
Councillor LC Mtwana	-	15
Councillor KG Ntshanyana	-	127
Councillor NJ Quluba	-	274
Councillor LM Stemele	-	4
Councillor L Troon	2 734	-
	<u>2 734</u>	<u>2 138</u>

36.2 List of Entities and related transactions

1 Solely-controlled entities

The following entity is solely controlled by the NMBM and have received the following grants:

	2016 R	Restated 2015 R
Mandela Bay Development Agency (excluding VAT)	<u>76 727 098</u>	<u>78 131 720</u>

Although a related party relationship does exist, the transactions were made in the ordinary course of business and as such the transactions do not constitute related party transactions as per the definition per IPSAS 20 on related parties. However these amounts have been included as the additional disclosure is required by the MFMA.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

36 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)	2016 R	Restated 2015 R
36.2 List of Entities and related transactions (Continued)		
2 Section 57 Employees (See note 24)		
3 Other Organisations		
The Organisations have received the following grants / payments:		
1. Uitenhage Despatch Development Initiative	6 961 760	6 567 690
2. Nelson Mandela Bay Tourism	12 393 240	11 691 730
3. Surf lifesaving Club	182 185	94 385
Grants / payments to Other Organisations	19 537 185	18 353 805

Although a related party relationship does exist, the transactions were made in the ordinary course of business and as such the transactions do not constitute related party transactions as per the definition per IPSAS 20 on related parties. However these amounts have been included as the additional disclosure is required by the MFMA.

36.3 Suppliers in which close family members of employees, councillors/ directors or Mayor has an interest

Name of Individual	Name of Company	Interest in Company	Payments made	
			2016	Restated 2015
S Brophy	To Dine for Trading	Child is a member of the CC	43 475	98 060
ME Jarvis (Councillor)	Keypoint Consulting CC	Spouse is a member of the CC	0	54 606
Family of employees who have an interest in a supplier			27 760 584	29 372 742
			27 804 059	29 525 408

Although a related party relationship does exist as awards were made to suppliers in which close family members of employees have an interest, these transactions were in the ordinary course of business at market related rates. However this disclosure has been included as required by SCM regulation 45.

Although a related party relationship does exist, contracts were awarded to certain councillors and officials in which they have an interest. These transactions were made in the ordinary course of business at market related rates. However this disclosure has been included as required by SCM regulation 44.

12 959 138 10 086 822

36.4 Supply Chain Management Policy

The Municipal Manager has the power to authorise deviations from the normal Procurement Process. The deviations for the 2015/16 financial year are detailed as follows in terms of section 39 (1) (a) of the Supply Chain Management Policy:

		2016	2015
Deviations: Supply Chain Management Policy		Payments made	Payments made
(i)	In an emergency;	0	2 112 233
(ii)	If such goods or services are produced or available from a single provider only;	1 928 973	2 946 816
(iii)	For the acquisition of special works of art, artistic services or historical objects where specifications are difficult to compile;	0	0
(v)	In any other exceptional cases where all possible options have been explored, and it is still impractical or impossible to follow the official procurement processes	2 226 193	1 631 572
	39 (1) (b) - Ratify any minor breaches of the procurement processes.	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

37 CAPITAL COMMITMENTS	2016	Restated 2015
	R	R
Approved and contracted for	375 593 426	653 598 737
Land and Buildings	36 479 637	0
Infrastructure	291 036 211	634 359 414
Community	25 307 686	19 239 323
Intangible	19 699 986	0
Other	3 069 906	0
Approved but not yet contracted for	80 667 464	9 933 738
Infrastructure	80 092 032	0
Community	575 432	9 933 738
Other	0	0
Total	456 260 890	663 532 475
This expenditure will be financed from:		
Fuel Levy	75 946 706	43 456 587
Equitable Share (E-Share)	21 958 893	22 059 473
Walmer Intervention Grant	13 702 793	0
Neighbourhood Development Partnership Grant	12 054	0
Urban Settlements Development Grant (USDG)	325 731 424	594 308 661
Capital Replacement Reserve	18 909 020	3 707 754
Total	456 260 890	663 532 475
38 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
Long-term liabilities (See Note 3)	1 454 042 868	1 560 485 319
Used to Finance property, plant and equipment - at cost	1 454 042 868	1 560 485 319
Sub-total	0	0
Cash set aside for the repayment of long-term liabilities (See Note 3) - This is only the capital portion of the loan.	93 919 738	104 092 767

39 FINANCIAL RISK MANAGEMENT

There have been no significant changes in the risks below from the prior year to current. The risks have remained the same.

Interest rate risk

The NMBM is not exposed to interest rate risk on its financial liabilities. All of the NMBM's interest-bearing external loan liabilities, as detailed in Note 3 are fixed interest loans. No interest rate swap agreements have been entered into. The NMBM invests its surplus funds in fixed interest rate deposits with banks for fixed terms not exceeding one year.

Liquidity risk

The liquidity risk is the risk that the NMBM is not able to settle its obligations. The NMBM manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. The NMBM has secured standby credit facilities in the form of an overdraft facility with its banker in order to cater for any unexpected temporary shortfall in operating funds. The maximum exposure to liquidity risk is the trade creditors and long term borrowings. Consumer deposits have a low exposure to liquidity risk.

The following table details the NMBMs remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the NMBM can be required to pay. The table includes both estimated interest and principal cash flows. A sensitivity analysis was not considered to be necessary.

Trade payables		
1-3 months	1 193 829 526	1 193 943 076
> 3 months	187 317 921	161 363 544
Other payables		
1-3 months	0	0
> 3 months	3 943 532	5 869 960
Long term borrowings		
< 12 months	93 919 738	104 092 767
> 12 months	1 376 718 616	1 471 966 017

Credit risk

The NMBM manages credit risk in its borrowing and investing activities by dealing with only A-rated financial institutions, and by spreading its exposure over a range of such institutions in accordance with its approved Cash Management and Investments Policy. Credit risk relating to consumer debtors is managed in accordance with NMBM's credit control and debt collection policy. The NMBM's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in Note 15 to the financial statements. The maximum exposure to credit risk is the consumer debtors, which may reduce as a result of non-payment by debtors.

Refer to note 52 for table.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

39 FINANCIAL RISK MANAGEMENT (Continued)

Fair value interest risk

The NMBM is exposed to fair value interest rate risk on its external loan liabilities, which are all fixed interest rates. The fair value of financial assets and liabilities are disclosed and compared with their carrying values. See note 52 for fair values of all financial liabilities. SANLAM shares is the only financial instrument and has a very low risk exposure and have been disclosed at the Market value of the share as at 30 June.

Currency risk

There were no currency risk exposure in the current and prior year.

40 RESTATED PRIOR YEAR COMPARATIVES

**Restated 2015
R**

Prior Period Errors:

Net effect of changes - see details below

(19 760 563)

Net effect on surplus

(19 760 563)

Statement of Financial Performance

40.1.1 Surplus for the year

Balance as per audited financial statements (as previously reported)

770 865 490

Net effect on surplus

(19 760 563)

General Expenses (Refer 40.1.2)	(10 244 386)
Collection Costs (Refer 40.1.3)	2 970 073
Contracted Services (Refer 40.1.4)	(25 779 513)
Employee Related costs (Refer 40.1.5)	(701 011)
Bulk Purchases (Refer 40.1.6)	(646 487)
Other Income (Refer 40.1.7)	1 797 385
Repairs and Maintenance (Refer 40.1.8)	(558 890)
Impairment - Other (Refer 40.1.9)	(21 043)
Government Grants and Subsidies - Operating (Refer 40.1.10)	4 060 083
Dividends received (Refer 40.1.11)	70 432
Service Charges (Refer 40.1.12)	7 550 769
Interest raised - Outstanding Debtors (Refer 40.1.13)	20 253
Rental of Facilities and Equipment (Refer 40.1.14)	480 867
Fines (Refer 40.1.15)	1 240 905

Restated surplus for 2014/15

751 104 927

40.1.2 General expenses

Expense as per Audited financial statements (as previously reported)

1 045 889 905

Transfer from Creditors	8 166 510
Transfer to Other Debtors	(657 362)
Transfer from Collection Costs	2 970 073
Transfer to Short term Investments	(234 835)
	1 056 134 291

General Expenses in the amount of R8 166 510 (net effect) relates to both creditors not previously accrued for or creditors that have been double accrued for.

Stanlib Investment in the amount of R234 835, which was retained by the bank

In terms MSCOA, Collection costs, in the amount of R2 970 073 does not exist anymore but forms part of General Expenses

Other Debtors in the amount of R657 362 raised in the 2016 financial year which relates to 2015 financial year.

40.1.3 Collection Costs

Expense as per Audited financial statements (as previously reported)

2 970 073

Transfer to General Expenses	(2 970 073)
	0

In terms MSCOA, Collection costs, in the amount of R2 970 073 does not exist anymore but forms part of General Expenses

40.1.4 Contracted Services

Expense as per Audited financial statements (as previously reported)

323 685 243

Transfer from Creditors	403 768
Transfer from Creditors / Other Debtors	25 375 745
	349 464 756

Contracted services in the amount of R25 779 513, which was not previously accrued for.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Restated 2015 R
40.1.5 Employee Related Costs	
Expense as per Audited financial statements (as previously reported)	2 164 383 696
Transfer from Other Debtors	2 906
Transfer from Creditors	698 105
	<u>2 165 084 707</u>
Employee related expenditure / deductions in the amount of R704 105 (net effect) not accrued for previously.	
Other Debtors in the amount of R3 094 raised in the 2016 financial year which relates to 2015 financial year.	
40.1.6 Bulk Purchases	
Income as per Audited financial statements (as previously reported)	2 454 439 281
Transfer from Creditors	646 487
	<u>2 455 085 768</u>
Bulk Purchases in the amount of R646 487 which was not previously accrued for.	
40.1.7 Other Income	
Income as per Audited financial statements (as previously reported)	470 976 647
Transfer to Other Debtors	1 451 483
Transfer from Bank Balances and Cash	67 476
Transfer from Creditors	278 426
	<u>472 774 032</u>
Debtors in the amount of R1 451 483 (net effect) previously accrued/ not accrued relating to Other Income but not reversed.	
Income in the amount of R67 476, received before year end, but only received after year end.	
Long outstanding creditors in the amount of R278 426, transferred to Other Income.	
40.1.8 Repairs and Maintenance	
Expense as per Audited financial statements (as previously reported)	555 544 430
Transfer from Creditors	558 890
	<u>556 103 320</u>
Repairs and Maintenance in the amount of R558 890, not accrued for previously.	
40.1.9 Impairment - Other	
Income as per Audited financial statements (as previously reported)	33 495 329
Transfer from Creditors	21 043
	<u>33 516 372</u>
Impairment of moveable assets in the amount of R21 043.	
40.1.10 Government Grants and Subsidies - Operating	
Income as per Audited financial statements (as previously reported)	1 481 999 453
Transfer from Other Debtors	4 060 083
	<u>1 486 059 536</u>
Government Debtor in respect of Public Health for financial year 2015 amounts to R4 060 083.	
40.1.11 Dividends received	
Income as per Audited financial statements (as previously reported)	220 233
Transfer to Other Debtors	70 432
	<u>290 665</u>
Dividend relating to financial year 2015 received in financial year 2016 in the amount of R70 432.	

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Restated 2015 R
40.1.12 Service Charges	
Income as per Audited financial statements (as previously reported)	4 052 102 205
Transfer to Other Debtors	7 550 769
	<u>4 059 652 974</u>
Other Debtors raised in the 2016 financial year which relates to 2015 financial year.	
40.1.13 Interest raised - Outstanding Debtors	
Income as per Audited financial statements (as previously reported)	100 658 505
Transfer to Other Debtors	20 253
	<u>100 678 758</u>
Other Debtors raised in the 2016 financial year which relates to 2015 financial year.	
40.1.14 Rental of Facilities and Equipment	
Income as per Audited financial statements (as previously reported)	17 897 368
Transfer to Other Debtors	480 867
	<u>18 378 235</u>
Other Debtors raised in the 2016 financial year which relates to 2015 financial year.	
40.1.15 Fines	
Income as per Audited financial statements (as previously reported)	39 643 657
Transfer to Other Debtors	1 240 905
	<u>40 884 562</u>
Other Debtors raised in the 2016 financial year which relates to 2015 financial year.	
<u>Statement of Financial Position</u>	
40.2 Accumulated Surplus	
Closing Balance as per audited financial statements (as previously reported)	4 903 393 803
Decrease in Surplus (Refer to Note 40.1.1)	(19 760 563)
	13 700 373
Transfer to VAT Refund	5 960 285
Transfer from Other Debtors	7 740 088
	<u>4 897 333 613</u>
40.2.1 Short-term Investment Deposits	
Balance as per Audited financial statements (as previously reported)	1 252 259 152
Transfer from General Expenses	234 835
	<u>1 252 493 987</u>
Stanlib Investment, which was retained by the bank	
40.2.2 Creditors - Exchange Transactions	
Balance as per Audited financial statements (as previously reported)	1 608 835 915
Transfer from Various Expenditure and VAT	12 702 255
Transfer from Property Plant and Equipment	8 356 292
Transfer to Contracted Services	(5 155 298)
	<u>1 624 739 164</u>
Expenditure in the amount of R7 546 957 (net effect) relates to creditors not previously accrued for or incorrectly accrued for.	
Property Plant and Equipment in the amount of R8 356 292, which was not previously accrued for.	
40.2.3 Property, plant and equipment	
Balance as per Audited financial statements (as previously reported)	13 464 550 262
Transfer from Creditors	8 356 292
Transfer from Other Debtors	6 977 800
	<u>13 479 884 354</u>
Property Plant and Equipment in the amount of R15 334 092, which was not previously accrued for.	
40.2.4 Bank Balances and Cash	
Balance as per Audited financial statements (as previously reported)	139 620 329
Transfer to Other Income	67 476
	<u>139 687 805</u>

Income received before year end, but only receipted after year end.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

40 RESTATED PRIOR YEAR COMPARATIVES (Continued)	Restated 2015 R
40.2.5 Other Debtors	
Balance as per Audited financial statements (as previously reported)	518 406 817
Transfer to Other Income	(4 173 381)
Transfer from Accumulated Surplus	5 826 469
Dividends received	70 432
Transfer from Government Grants and Subsidies - Operating	4 060 083
Transfer to Employee Related Costs	(6 000)
Transfer from Various Income and Expenditure	17 491 733
Transfer to Contracted Services and PPE	(35 495 596)
	<u>506 180 557</u>

Debtors in the amount of R4 173 381 previously accrued relating to Other Income but not reversed.

Government Debtor in respect of Public health for financial years 2013 and 2014 amounts to R5 831 969.

Government Debtor in respect of Public health for financial years 2015 amounts to R4 060 083.

Dividend relating to financial year 2015 received in financial year 2016 in the amount of R70 432.

Recovery of overpayment of salary in the amount of R5 500 relating to 2014 and R6 000 relating to 2015.

Contracted services and property, plant and equipment in the amount of R35 495 596 incorrectly included as Other Debtors.

Various Income and Expenditure in the amount of R17 491 733 raised in the 2016 financial year which relates to 2015 financial year.

40.2.6 Vat Refund	
Balance as per Audited financial statements (as previously reported)	28 966 822
Transfer from Accumulated Surplus	5 960 285
	<u>34 927 107</u>

This relate to an additional VAT refund not previously claimed, after analysis done by VAT Consultant on Expenditure for financial years 2011, 2012 and 2013.

40.2.7 Vat Receivable	
Balance as per Audited financial statements (as previously reported)	15 826 945
Transfer from Creditors	472 631
	<u>16 299 576</u>

Vat in the amount of R472 631 (net effect), relates to various expenditure not previously accrued for.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

41 CAPITALISATION OF LIBRARY BOOKS

Certain library books, which qualify as heritage assets, have not been recognised. The value of these books must still be determined.

42 CHANGE IN ACCOUNTING ESTIMATE

2016 Financial year

A conditional assessment is done annually on property, plant and equipment, which indicates whether the useful lives of the assets have increased or decreased and as a result of this condition assessment some assets' useful lives have either increased or decreased and therefore the depreciation charge has now changed, which is included in the total depreciation/ amortisation.

2015 Financial year

A conditional assessment is done annually on property, plant and equipment, which indicates whether the useful lives of the assets have increased or decreased and as a result of this condition assessment some assets' useful lives have either increased or decreased and therefore the depreciation charge has now changed, which is included in the total depreciation/ amortisation.

43 OPERATING LEASE COMMITMENTS
Municipality as Lessee

2016
R

Restated 2015
R

The Municipality normally enters into a lease agreement over 3 years for most of the Operating leases.

Future minimum lease payments under non-cancellable operating leases:

Buildings

Payable within one year
 Payable within two to five years

	10 593 075	20 848 057
Payable within one year	8 274 025	12 712 672
Payable within two to five years	2 319 050	8 135 385

Photocopier, fax machines and other equipment

Payable within one year
 Payable within two to five years

	10 138 186	11 173 711
Payable within one year	5 919 388	6 278 153
Payable within two to five years	4 218 798	4 895 558

	20 731 261	32 021 768
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Municipality as Lessor

At reporting date, the Municipality has contracted with tenants for the following minimum lease payments over a period of 1 to 99 years:

Land

Receivable within one year
 Receivable within two to five years
 Receivable after 5 years

	13 520 000	14 000 000
Receivable within one year	480 000	480 000
Receivable within two to five years	1 920 000	1 920 000
Receivable after 5 years	11 120 000	11 600 000

Buildings

Receivable within one year
 Receivable within two to five years
 Receivable after 5 years

	29 930 863	31 821 501
Receivable within one year	1 469 247	1 890 638
Receivable within two to five years	2 377 131	3 461 968
Receivable after 5 years	26 084 485	26 468 895

	43 450 863	45 821 501
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NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
	R	R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED		
Incident/ Disciplinary steps / Criminal Proceedings		
44.1 Unauthorised Expenditure		
Opening Balance - 01 July 2014	157 718 906	745 867 813
Incurring - Current year	0	34 403 001
Approved by Council	(34 403 001)	(622 551 908)
Recoveries - Current year	0	0
	123 315 905	157 718 906
1 Actual expenditure in excess of approved budget votes	0	34 403 001
The total actual expenditure, including non-cash flow items amounted to R10 150 553 267 , compared to the approved adjustments budget of R10 806 631 107 . The actual expenditure was thus R656 077 840 below the approved adjustments budget and does not constitute unauthorised expenditure.		
The total actual expenditure per budget vote also did not exceed the approved adjustments budget.		
Approved by Council	(34 403 001)	(622 551 908)
Total	0	(34 403 001)
44.2 Irregular Expenditure		
Opening Balance - 01 July 2014	1 138 679 778	753 409 637
Incurring - Current year	336 831 841	397 072 789
Approved by Council - Other	0	(11 802 648)
	1 475 511 619	1 138 679 778
Irregular Expenditure review by Internal Audit	951 256 090	951 256 090
	2 426 767 708	2 089 935 867
1 Breach of the Supply Chain Management policy	151 390 999	214 027 118
A breach occurred as certain contracts were awarded to persons in the service of the state where he/she may have a significant influence over the financial or operating policies of the entity.		
2 Breach of the Supply Chain Management policy	35 900 393	1 228 152
A breach occurred as certain contracts were awarded to persons in the service of the state (certain officials and family of officials) where he/she may have a significant influence over the financial or operating policies of the entity.		
3 SCM Deviations	138 969 578	179 027 116
Some of the deviations relating to the informal tender process appear to be made where improper planning was conducted and expenditure were incurred before the deviation was approved and therefore considered to be irregular.		
4 Acting Appointments longer than 3 months	0	132 559
Certain Senior Managers acted for periods longer than the 3 months in the 2013/14 financial year and no proof could be found on employee files that the MEC gave permission to act longer than 3 months.		

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
	R	R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)		
44.2 Irregular Expenditure (Continued)		
5 Irregular appointments		
Four mayoral satellite office coordinators were appointed in contravention of section 66 of the Local Government: Municipal Systems Amendment Act, 2011.	971 522	987 456
A strategic advisor in the Executive Mayor's Office was appointed in contravention of section 66 of the Local Government: Municipal Systems Amendment Act, 2011.	1 324 596	1 178 244
Two mayoral satellite office coordinators were appointed in contravention of section 66 of the Local Government: Municipal Systems Amendment Act, 2011.	263 292	492 144
6 No City Manager approval to deviate		
Irregular procurement process, post event acquisition, original work completed without authority / purchase order, No City Manager Approval to deviate.	24 374	0
7 Breach of the Supply Chain Management policy		
A breach occurred as arrear accounts relating to properties leased for accommodating various Municipal Offices without following proper SCM processes and without proper budget availability considerations.	7 372 892	0
8 Breach of the Supply Chain Management policy		
Expenditure Incurred in respect of utilizing the services of a catering company prior to following SCM processes. It appears as if although the caterer was listed as an approved caterer on the Council's database, no requisition / purchase order was processed in order to procure the services.	153 000	0
9 Breach of the Supply Chain Management policy		
Payment made to service provider for work done before order number was issued.	461 195	0
Total	336 831 841	397 072 789
Total amount approved by Council in respect of ALL cases	0	(11 802 648)

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
	R	R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)		
44.2 Irregular Expenditure (Continued)		
6 Irregular Expenditure review by Internal Audit		
The review process entailed extracting and analysing the payment information for all formal bids for the period 2010/11 to 2014/15 financial years. This information was then used to trace the relevant bid files / supporting documents, which were then assessed against a comprehensive irregular expenditure checklist. In addition, certain payments relating to formal bid awards appearing under the informal bid awards module were identified. These amounts were added to the schedule of formal bid award payments, and evaluated against the same irregular expenditure checklist. The combination of these amounts is therefore deemed to be a complete summary of all formal payments made during the period under review as set out below:		
Non-compliance with regards to the Formal Bid and Deviation process		
Opening Balance - 01 July 2014	951 256 090	548 639 553
Incurred - Current year	0	846 536 416
Total	951 256 090	1 395 175 969
Deduct: Expenditure previously disclosed Irregular Expenditure		
2014/15	0	(346 362 285)
2015/16	0	(85 548 086)
	0	(431 910 371)
Fruitless and Wasteful Expenditure		
2014/15	0	(11 709 508)
2015/16	0	(300 000)
	0	(12 009 508)
Balance remainder as Irregular	951 256 090	951 256 090
7 Limitation of scope		
Opening Balance - 01 July 2014	12 147 645 554	9 818 285 132
Incurred - Current year	0	2 579 394 396
	12 147 645 554	12 397 679 528
Deviations not considered as a limitation of scope	0	87 350 817
Contracts awarded in the Service of state not considered as a limitation	0	162 683 157
	12 147 645 554	12 147 645 554

This item is has not been included in the Irregular expense calculation, because it is impracticable in terms of GRAP 1 to determine whether the tender files are indeed Irregular or Regular as described below:

These payments were considered to be a limitation of scope because it relates to old tender files for awards made 2012/13 and prior where the contract award files or documentation could not be provided for or had missing compulsory documentation or could not be linked to a formal contract file or award. This was due to the fact that tender files were previously decentralised and kept with the Directorates and have only been centralised recently.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016	Restated 2015
	R	R
44 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)		
44.3 Fruitless and Wasteful Expenditure		
Opening Balance - 01 July 2014	551 122 452	405 005 041
Incurring - Current year	4 232 751	146 343 446
Approved by Council - Other	0	(226 035)
	555 355 203	551 122 452
1 Suspended Officials		
Various officials have been on suspension for more than 3 months. In terms of the South African Local Government Bargaining Council; disciplinary procedure and collective agreement, the period of suspension shall not exceed a period of 3 months. Matter to be referred to Labour Relations.	3 647 085	965 661
2 Wasted expenditure as result of termination of contract		
A parking contract was entered into with a service provider. Due to the Municipality failing to comply with the obligations in the agreement, the service provider terminated the agreement on 5 June 2011 and instituted recourse against Council. The award was for R2.8 million and is being paid off at R50 000 per month. To date R2.5 million has been paid by Council	0	300 000
3 Wasteful expenditure due to payment of interest to Service Providers		
Interest accrued due to late payment of Telkom account (R 27 097 relates to 2011)	0	60 034
Interest accrued due to late payment of Eskom account	0	5 635
Interest incurred as a result of VAT audit done by SARS	0	26 086 106
Interest incurred due to late payment of a Creditor (R4 743 586 relates to 2011 to 2013)	0	608 611
4 Wasteful expenditure incurred relating to IPTS		
The metro has been mandated to install and operate an integrated transport system. The process started as far back as 2004/5 and the plan was to have the system operational and the buses on the road. To date the system is not operating therefore it is considered to be wasteful expenditure.		
Incurring - Current year	0	118 317 399
5 Late payment of interest		
In terms of Section 13A of the Pension Funds Act - Late payment of Interest on arrear contributions for the period 01 December 2007 to 09 October 2015.	266 764	0
6 Wasteful expenditure incurred relating to flights and accommodation		
Flights and accommodation was booked for M Matokazi to attend IMFO conference from 04-07 Oct 2015. Mr Matokazi was a no show and did not cancel reservations or bookings.	6 499	0
7 Wasteful expenditure incurred due to garnishees		
A number of garnishees was served on NMBM by the Sheriff of the court due to non-payment of certain suppliers resulting in fruitless and wasteful expenditure	312 403	0
Total	4 232 751	146 343 446
Total amount approved by Council for in respect of ALL cases	0	(226 035)
45a CONTINGENT LIABILITIES		
These are ongoing matters and the Municipality is unable to determine the exact timing and amount of the outcome of these matters.		
Should any liability arise as a result of these claims, the Municipality will attempt to recover any amounts paid over with respect to these claims (if applicable and able to do so).		
Possible Contingent liabilities:		
1 Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	84 430 524	39 020 828
2 Various claims due to municipal administrative matters that are under dispute or investigation.	1 476 243	1 644 543
3 Various claims by current or terminated employees due to alleged unfair labour practices.	1 470 000	3 890 000
4 Various claims due to supply chain related issues or creditor payment related matters.	35 114 065	37 805 494

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 R	Restated 2015 R
45(b) PROVISION FOR LITIGATION AND CLAIMS		
<u>Detail of Provision raised in Note 5.2</u>		
1 Various claims arising from alleged negligence by the Municipality due to damages sustained by the Plaintiffs.	15 316 008	12 299 315
2 Various claims due to municipal administrative matters that are under dispute or investigation.	21 225 000	62 145 863
3 Various claims by current or terminated employees due to alleged unfair labour practices.	3 100 000	2 580 000
4 Various claims due to supply chain related issues or creditor payment related matters.	8 135 414	8 623 942
TOTAL PROVISION REFER NOTE 5.2	47 776 422	85 649 120

46 SUBSEQUENT EVENTS

46.1 Kabuso Report

A summary of the above report was prepared by Internal Audit, which was discussed with the Audit Committee at a meeting held on 6 April 2016.

The Audit Committee is in agreement with the summary of the findings and considers the matter closed.

46.2 IPTS Investigation

National Treasury has conducted a forensic investigation on the IPTS project. A preliminary report was tabled, which implicated two officials of serious misconduct. The two officials have been suspended, but one official has since resigned. Another draft report was tabled in Council on 27 August 2015, which recommended that criminal charges be instituted against three officials and entities. Council adopted the recommendations and the City Manager was mandated to proceed with criminal charges.

The investigation by National Treasury is still on-going. The final reports from NT are still awaited.

46.3 Morrison Report

Council appointed Advocate Morrison from Gobodo Forensic Services to investigate allegations of serious misconduct against two Senior Managers. Advocate Morrison tabled his report in Council on 27 August 2015 and Council recommended:

- Further investigations against one Senior Manager
- Disciplinary action be instituted against the other Senior Manager

The Morrison report forms part and parcel of the investigation against a senior manager which is currently still in progress. The disciplinary hearing commenced and proceeded on 4 August 2016. The municipality has completed its evidence on all of the charges. The senior manager has completed his evidence and the matter will be reconvened in order to allow the municipality to cross examine.

46.4 Fire occurred on the 8th floor of Nelson Mandela Bay Municipality's Mfanasekhaya Gqobose Building

A fire occurred on the 8th floor of the Nelson Mandela Bay Municipality's Mfanasekhaya Gqobose Building during the early hours of the morning on Sunday, 8 May 2016.

The Deputy Director of Risk & Asset Management at the Municipality's Budget & Treasury Department appointed Cunningham Lindsey to assist the Municipality in dealing with the claim in terms of their Insurance Fund established to pay claims that fall below the ZAR 5,000,000.00 deductible applicable to the insurance policy.

The preliminary investigations suggest the claim will far exceed the ZAR 5,000,000.00 deductible and the Broker notified the Underwriters. A subsequent instruction received from AIG to attend to the claim on behalf of the Insurers.

Investigations is still in progress.

46.5 Change in Council

A new council was elected on 18 and 24 August 2016 respectively as follows:

Clr Trollip (Executive Mayor)
 Clr Bobani (Deputy Executive Mayor and Public Health Chairperson)
 Clr Lawack (Speaker)
 Chief Whip - Clr Senekal

Mayoral Committee members:

Clr Kayser (Roads and Transport)
 Clr Whitfield (Economic Development, Tourism and Agriculture)
 Clr Best (Safety and Security)
 Clr Odendaal (Budget and Treasury)
 Clr Sijadu (Sport, Recreation, Arts and Culture)
 Clr Bhanga (Human Settlements)
 Clr Biddulph (Corporate Services)
 Clr Grootboom (Municipal Public Accounts)
 Clr Lovemore (Infrastructure and Engineering)
 Clr Sauls (Constituency Services)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits

RETIREMENT BENEFIT INFORMATION

The Nelson Mandela Bay Municipality makes provision for post-retirement benefits to employees who belong to different pension schemes. These funds are governed by the Pension Funds Act, and include both defined benefit and defined contribution schemes. Contribution of R213.233 million (2015: R 214.091 million) to the defined benefit and defined contribution structures are expensed as incurred during the financial year ended 30 June 2016.

DEFINED CONTRIBUTION SCHEMES

CAPE RETIREMENT FUND

The contribution rate paid by the members (9%) and the NMBM (18%) is sufficient to fund the benefits accruing from the fund in future. The actuary certified the fund as being in a sound financial position as at 30 June 2013. The funding level of the Share Account is 100.2%, the Preservation fund is 100% and the Pensions Account reflected a funding level of 105.1% as at 30 June 2013.

SALA CONTRIBUTION FUND

The SALA Contribution Fund operates as a defined contribution scheme. The contribution rate paid by the members (7.92%) and their councils (19.18%) is sufficient to fund the benefits accruing from the Fund in the future. The fund is 100% funded.

SOUTH AFRICAN MUNICIPAL WORKERS UNION (SAMWU) NATIONAL PROVIDENT FUND

The SAMWU National Provident Fund is a defined contribution scheme. The last actuarial valuation of the Fund was performed at 30 June 2008, and certified it as being in a financially sound position with the funding level remaining at 100% since the previous valuation date, 30 June 2005. The 30 June 2011 report is not available yet and is expected to be available towards the end of 2014. The contribution rate paid by the members (7.5%) and their councils (18%) is sufficient to fund the benefits accruing from the Fund in the future.

DEFINED BENEFIT SCHEMES

CAPE JOINT PENSION FUND

The defined benefit scheme is a multi-employer plan, and the contribution rate payable is 27% (9% by the members and 18% by their councils) and is constituted of 3 funds, namely, the Defined Benefit, Defined Contribution and Pensioner account. The fund was certified by the actuary as being in a sound financial condition as at 30 June 2013. The trustees resolved to ring-fence the pensioner assets as at 30 June 2013. The sections are funded at 99.7%, 99.8% and 100%, respectively.

SALA PENSION FUND

The defined benefit scheme is a multi-employer plan, and the contribution rate payable is 26.67% (7.92% by the members and 19.18% by their councils). This defined benefit plan, is financially sound, and was 100% funded as at 30 June 2013.

The Nelson Mandela Bay Municipality has used GRAP 25 as guidance for treatment of multi-employer plans as sufficient information was not available to use defined-benefit accounting. The Municipality has therefore accounted for the Cape Joint Pension Fund and the SALA Pension Fund as defined contribution plans. It is impracticable to disclose as a defined benefit plan because the funds do not determine a separate actuarial valuation per Municipality but do it as a whole for all the Municipalities together.

EX GRATIA PENSIONS

General Description

The Ex-gratia pension benefits scheme operates as pensions that are being paid from the Council's revenue, that is, they are not funded or paid from one of the Employer's formalised pension arrangements.

Employees who were under the age of 55 when appointed and who have at least ten years' service at retirement, will receive an annual ex-gratia pension calculated as:

Annual salary * 1/47 * Years of non-pensionable service

An employee's widow will get 50% of the accrued (full service) pension on the employees death. This is subject to a maximum of the Government Old Age Pension and will cease at age 60.

Pensions increase in line with those granted by the Cape Joint Pension Fund and increases at 50% of CPI inflation.

Detailed Results

An actuarial valuation of the Municipality's unfunded liability in respect of revenue pension benefits to eligible employees and retirees of the Nelson Mandela Bay Municipality, was performed as at 30 June 2015. The post employment benefits obligation recognised at 30 June 2016 is based on the figure projected for 2016, when the valuation was performed for the financial year ended 30 June 2015. The unfunded liability in respect of past service has been estimated at R42.827 million, of which R39.714 million relates to the non-current portion. It is expected that approximately 7.3% of the amount provided will be expensed per annum.

Past and Future Changes in the Accrued Liability

The table below shows the development of the accrued liability over the current period, and projects the Municipality's Unfunded Accrued Liability and periodic costs over the two-year period following the Valuation Date.

Past year and future projected liability

	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017
Opening Accrued Liability	70 118 000	42 459 081	42 827 091
Current service cost	0	0	0
Interest cost	6 046 000	3 459 998	3 490 206
Benefits paid	-5 063 000	-3 091 988	-3 113 490
Total Annual Expense	983 000	368 010	376 716
Actuarial Loss / (Gain)	-28 641 919		
Closing Accrued Liability	42 459 081	42 827 091	43 203 807

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

Balance Sheet Figures

Unfunded Accrued Liability

Balance Sheet	Year ending 30/06/2016	Year ending 30/06/2015
Fair Value of Plan Assets		
Accrued Liability	42 827 090	42 459 081
Unfunded Accrued Liability	42 827 090	42 459 081
Unrecognised Transitional Liability	0	0
Unrecognised Actuarial Gains/(Losses)	0	0
Unrecognised Past Service Cost	0	0
Miscellaneous Item	0	0
Closing Balance	42 827 090	42 459 081

Amounts to be recognised in profit or loss for the year (period)

Category	Year ending 30/06/2016	Year ending 30/06/2015
Current Service Cost (In-Service members only)	0	0
Interest Cost	3 459 998	6 046 000
Actuarial (Gain)/Loss	0	-28 641 919
Total employee benefits expense	3 459 998	-22 595 919

KEY ASSUMPTIONS

Key Financial Assumptions:

GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Key Financial Assumptions

Assumption	Value p.a.
Discount rate	8.45%
Salary Increase Rate	7.40%
Pension Increase Rate	3.20%
Net Effective Discount Rate (Current employees)	0.98%
Net Effective Discount Rate (Pensioners)	5.09%

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 8.45% per annum has been used. The corresponding index-linked yield at this term is 1.46%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2015.

The rate is calculated by using a liability-weighted average of yields for the three components of the liability. For each of the three liability components, yields were determined by looking at the average term of the liability component and finding the fixed-interest and index-linked gilt yields at the relevant duration of the JSE (Best Decency) Zero Coupon bond yield curve. The results are as shown below:

Component	Liability Average Term (Years)	Fixed-Interest Yield	Index-Linked Yields
Employees' post retirement annuity	17.9	9.37%	1.85%
Death-in-service liability	5.9	8.17%	1.60%
Pensioners' liability	3.9	7.82%	1.18%
Liability-weighted yields	9.58	8.45%	1.46%

CPI Inflation Rate:

This assumption is used to calculate the estimated growth in pensions of the eligible retirees.

An expected inflation assumption of 6.40% was obtained from the differential between market yields on index-linked bonds (1.46%) consistent with the estimated term of the liability and those of fixed-interest bonds (8.45%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $(1 + 8.45\% - 0.50\%) / (1 + 1.46\%)$

Thus, a pension increase rate of 3.20% per annum over the expected term of the liability has been assumed, which is 50% of the estimate of CPI inflation over the same term. This assumption reflects a post retirement interest rate of 5.09%.

Demographic Assumptions:

Demographic assumptions are about the future characteristics of eligible employees and pensioners who are eligible for ex-gratia benefits.

Pre-retirement Mortality:

SA85-90 ultimate table, adjusted for female lives.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

Post-retirement Mortality:

PA(90) ultimate table.

Withdrawal from Service:

If an eligible employee leaves, the employer's liability in respect of that employee ceases.

Withdrawal rates

Age	Withdrawal Rate	
	Males	Females
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
>55	1%	1%

Average Retirement Age:

The normal retirement age for eligible employees is 65. It has been assumed that these employees will retire at the average retirement age of 63 for males and 58 for females, which then implicitly allows for expected rate of early and ill-health retirement.

Family Profile:

It has been assumed that husbands will be five years older than their wives.

Ex-Gratia Arrangement Assumptions:

It was assumed that employer's ex-gratia arrangements would remain as they are and that the level of benefits in respect of such would remain unchanged, with the exception of allowing for inflationary adjustments.

Plan Assets:

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Sensitivity Analysis

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

Sensitivity Results

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

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease and increase in the assumed average retirement age; and
- (v) A 50% decrease in the assumed withdrawal rates.

The table below summarises the results of the sensitivity analysis:

Sensitivity Analysis on the Accrued Liability

Assumption	Change	Employees	Pensioners	Total Liability	% Change
Central Assumptions:		17 653 226	24 805 855	42 459 081	
Benefit increase rate	+1%	19 348 255	26 474 294	45 822 548	8%
	-1%	16 175 921	23 303 206	39 479 127	-7%
Discount Rate	+1%	16 349 577	23 384 919	38 734 497	-9%
	-1%	20 471 167	26 404 871	46 876 038	10%
Post retirement mortality	-1 yr	18 037 535	25 619 190	43 656 725	3%
Average retirement age	-1 yr	19 659 381	24 805 855	44 465 235	5%
Withdrawal Rate	-50%	18 434 599	24 805 855	43 240 453	2%

The table below summarises the results of this analysis on the interest costs for the year ending 30 June 2016.

Assumption	Change	Interest cost	% Change
Central Assumptions		6 046 000	
Pension Increase Rate	-1%	6 735 000	11%
	-1%	5 458 000	-10%
	-20%	6467000	7%
	+20%	5 696 000	-6%

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

History of Liabilities, Assets and Experience Adjustments

The table summarises the accrued liabilities and the plan assets for the current period and the previous four periods

History of liabilities and assets

Liability History	Year ending 30/06/2012	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016
Accrued Liability	65 795 000	56 092 327	70 118 000	42 459 081	42 827 090
Fair value of plan asset	0	0	0	0	0
Surplus / (Deficit)	-65 795 000	-56 092 327	-70 118 000	-42 459 081	-42 827 090

History of experience adjustments: Gains and Losses (R Millions)

Experience adjustments	Year Ending 30/06/2014	Year ending 30/06/2015
Plan liabilities	7 300 000	-29 564 840
Plan assets	0	0

POST-EMPLOYMENT HEALTH CARE BENEFITS

Benefit Structure

Medical Aid Scheme Arrangements:

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

Contribution Rate Structure:

Members contribute according to the tables of contribution rates, which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Arrangements:

The Municipality has agreed to subsidise the medical aid contributions of retired members as follows:

In accordance with Resolution 8 of the SALGBC (SALGA), all existing and new pensioners (employees currently in service) and their dependants will receive a subsidy ranging between 60% and 70% subject to the maximum (CAP) amount of R3,871.00 (per month, per member) for the period from 1 July 2015 to 30 June 2016. The subsidy for LA Health members is 70%, while members of other schemes only qualify for a 60% subsidy. The maximum (CAP) amount was R3,618.04 in the previous financial year.

The maximum subsidy is expected to increase at 50% of inflation.

Eligible employees should have at least five years of service to qualify for a benefit at retirement.

Valuation Method

The Projected Unit Credit funding method has been used to determine the past service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Post Employment Medical Aid Liabilities:

The expected value of each employee and their spouses' future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation. We also allowed for mortality, retirements and withdrawals from service. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further, it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assume that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement.

Valuation of Assets:

As at the valuation date, the medical aid liability of the municipality was unfunded, that is, no dedicated assets have been set aside to meet this liability. Therefore, no assets have been considered as part of this valuation.

Detailed Results

The total liability in respect of post-retirement health care benefits amounts to R1,332.541 million as at 30 June 2016 (2015: R1,228.072 million). Provision for R1,332.541 million has been made (non-current R1,285.243 million, current R47.298 million). It is expected that approximately 3.6% of the amount provided will be expensed per annum. This is dependent on the accuracy of the assumptions below.

Past and Future Changes in the Accrued Liability

The table below shows the development of the accrued liability over the current period, and projects the Municipality's Unfunded Accrued Liability and periodic costs over the next period following the Valuation Date.

Past year and future projected liability

	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017
Opening Accrued Liability	1 141 585 000	1 228 072 012	1 332 540 624
Current service cost	35 038 000	40 399 544	44 009 882
Interest cost	101 719 000	107 833 956	117 015 383
Benefits paid	-43 824 000	-43 764 888	-47 298 084
total Annual Expense	92 933 000	104 468 612	113 727 181
Actuarial Loss / (Gain)	-6 445 988		
Closing Accrued Liability	1 228 072 012	1 332 540 624	1 446 267 805

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

Balance Sheet Figures

Unfunded Accrued Liability

Balance Sheet	Year ending 30/06/2016	Year ending 30/06/2015
Fair Value of Plan Assets		
Accrued Liability	1 332 540 624	1 228 072 012
Unfunded Accrued Liability	1 332 540 624	1 228 072 012
Unrecognised Transitional Liability	0	0
Unrecognised Actuarial Gains/(Losses)	0	0
Unrecognised Past Service Cost	0	0
Miscellaneous Item	0	0
Closing Balance	1 332 540 624	1 228 072 012

Amounts to be recognised in profit or loss for the year (period)

Category	Year ending 30/06/2016	Year ending 30/06/2015
Current Service Cost (In-Service members only)	40 399 544	35 038 000
Interest Cost	107 833 956	101 719 000
Actuarial (Gain)/Loss	0	-6 445 988
Total employee benefits expense	148 233 500	130 311 012

KEY ASSUMPTIONS

Key Financial Assumptions:

GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date. The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year:

Assumption	Year Ending 30/06/2016	Year Ending 30/06/2015
Discount rate	8.94%	8.94%
Health care cost inflation rate	8.07%	8.07%
Net Effective Discount Rate	0.80%	0.80%

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 8.94% per annum has been used. The corresponding index-linked yield at this term is 1.75%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2016.

Component	Liability Average Term (Years)	Fixed-Interest Yield	Index-Linked Yields
In-service members' retirement liability	16.77	9.34%	1.82%
Death-in-service liability	3.42	7.69%	1.04%
Continuation members' liability	9.14	8.49%	1.70%
Liability-weighted yields	13.8	8.94%	1.75%

Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

A health care cost inflation rate of 8.07% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.57%.

The next contribution increase is assumed to occur with effect from 1 January 2017.

Average Retirement Age:

The average retirement age for all male and female employees is assumed to be 63 and 58 years respectively. This assumption implicitly allows for ill-health and early retirements.

Replacement Ratio:

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

Demographic Assumptions:

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

Pre-retirement Mortality:

SA85-90 ultimate table, adjusted for female lives.

Post-retirement Mortality:

PA(90) ultimate table.

Withdrawal from Service:

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

Withdrawal rates

Age	Withdrawal Rate Males	Withdrawal Rate Females
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
>55	1%	1%

Average Retirement Age:

The average retirement age for all male and female employees was assumed to be 63 and 58 years respectively. This assumption implicitly allows for ill-health and early retirements.

Continuation of Membership:

It has been assumed that 100% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

Family Profile (Retirees):

It has been assumed that married employees will remain married at retirement and 90% of single in-service members on a health care arrangement will be married. Further, it has been assumed that husbands will be five years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Medical Scheme Options:

It has been assumed that continuation members will remain on the same medical scheme and option. In-service members are assumed to remain on the same medical scheme and option should they continue to receive the subsidy after retirement.

Other Assumptions:

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined. In Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments.

Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable and will continue.

Plan Assets:

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Sensitivity Analysis

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

The table below summarises the results of the sensitivity analysis:

Sensitivity Analysis on the Accrued Liability (R millions)

Assumption	Change	In-Service	Continuation	Total	% Change
Central Assumptions:		713.170	514.902	1 228.072	
Health care inflation	+1%	736.922	529.691	1 266.613	3%
	-1%	679.040	496.800	1 175.840	-4%
Discount Rate	+1%	611.858	474.771	1 086.629	-12%
	-1%	839.323	561.571	1 400.894	14%
Post retirement mortality	-1 yr	729.351	531.627	1 260.978	3%
Average retirement age	-1 yr	777.067	514.902	1 291.969	5%
Continuation of membership at retirement	-10%	645.420	514.902	1 160.322	-6%

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

The table below summarises the results of this analysis on the current service cost and interest costs for the year ending 30 June 2016.

Assumption	Change	Current service cost	Interest cost	Total	% Change
Central Assumptions		40 399 500	107 834 000	148 233 500	
Health care inflation	+1%	41 707 100	111 278 200	152 985 300	3%
	-1%	38 408 500	103 166 200	141 574 700	-4%
Discount rate	+1%	34 067 800	105 850 900	139 918 700	-6%
	-1%	48 402 400	109 479 500	157 881 900	7%
Post retirement mortality	-1 yr	41 261 700	110 774 600	152 036 300	3%
Average retirement age	-1 yr	42 596 700	113 544 200	156 140 900	5%
Continuation of membership at retirement	-10%	36 591 600	101 779 400	138 371 000	-7%

History of Liabilities, Assets and Experience Adjustments

The table summarises the accrued liabilities and the plan assets for the current period and the previous four periods

History of liabilities and assets (R Millions)

Liability History	Year ending 30/06/2012	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016
Accrued Liability	1299.222	1 320.240	1 141.585	1 228.072	1 332.541
Fair value of plan asset	0	0	0	0	0
Surplus / (Deficit)	-1299.222	-1320.24	-1141.585	-1228.072	-1332.541

History of experience adjustments: Gains and Losses (R Millions)

Experience adjustments	Year ending 30/06/2016	Year ending 30/06/2015
Liabilities: (Gain) / Loss	0.000	-2.385
Assets: Gain / (Loss)	0.000	0.000

LONG SERVICE AWARD AND LONG SERVICE BONUS

Description of the Long Service Award Arrangement

Long Service Bonuses:

Long service benefits are awarded in the form of leave days and a percentage of annual salary. The awarded leave days have been converted into a percentage of the employee's annual salary, for valuation purposes. The conversion is based on a 250 working day year.

Long Service Awards:

In addition to the above, employees are eligible to receive a Long Service Award to the value of R2,500 upon completion of 25 years in service.

The table below describes the benefits awarded.

Long Service Awards for levels of past service:

Completed Years of Service	Long Service Leave Award (Working Days)	Long Service Bonus Award (% of Annual Salary)	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
5	5	2%	4%	$(5/250+2\%) \times \text{annual salary}$
10	10	3%	7%	$(10/250+3\%) \times \text{annual salary}$
15	15	4%	10%	$(15/250+4\%) \times \text{annual salary}$
20	15	5%	11%	$(15/250+5\%) \times \text{annual salary}$
25, 30, 35, 40 and 45	15	6%	12%	$(15/250+6\%) \times \text{annual salary}$

Reconciliation of opening and closing accrued liability values

Past year and future projected liability

	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017
Opening Accrued Liability	132 595 000	132 242 108	135 956 781
Current service cost	11 570 000	11 416 388	12 314 334
Interest cost	10 217 000	9 728 862	9 947 246
Expected benefit vestings	-23 327 000	-17 430 577	-19 343 094
Total Annual Expense	-1 540 000	3 714 673	2 918 486

Actuarial Loss / (Gain)	1 187 108		
Accrued Liability	132 242 108	135 956 781	138 875 267

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

Net Liability to reflect in the Balance Sheet

Net Liability in Balance Sheet		Year ending 30/06/2015	Year ending 30/06/2016
Opening Balance		132 595 000	132 242 108
Current service cost		11 570 000	11 416 388
Interest cost		10 217 000	9 728 862
Expected return on plan assets		0	0
Transitional Liability Recognised		0	0
Actuarial (Gain) / Loss Recognised in P&L		1 187 108	
Past service cost Recognised		0	0
Effect of curtailment / Settlement		0	0
Miscellaneous Item		0	0
Net Periodic Cost Recognised in P&L		22 974 108	21 145 250
Expected benefit vestings		-23 327 000	-17 430 577
Transitional Liability Recognised outside P&L		0	0
Actuarial (Gain) / Loss Recognised outside P&L		0	0
Closing Balance		132 242 108	135 956 781
Current Portion of Liability		17 430 577	19 343 094
Non-Current Portion of Liability		114 811 531	116 613 687

Key Assumptions

Key Financial Assumptions

The table below summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the 2015/16 financial year.

Assumption	Value p.a.
Discount Rate	7.87%
General Salary Inflation (Long Term)	7.00%
Net Effective Discount Rate	0.81%

The salaries used in the valuation include an assumed increase on 1 July 2015 of 7%.
The next salary increase was assumed to take place on 1 July 2016.

Key Demographic Assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Mortality during employment	SA 85-90		
Withdrawal from service	Age	Rate	
		Female	Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	1%	1%

Detailed Assumptions

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.87% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.28%. These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June 2016.

The average duration of the total liability is 6.16 years.

Salary Inflation Rate:

This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement.

The assumption is traditionally split into two components, namely, General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

47 Information on Post Retirement Benefits (Continued)

General Salary Inflation:

The expected inflation of 6% was obtained from the differential between market yields and index-linked bonds (1.28%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.87%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as $((1 + 7.87\% - 0.50\%) / (1 + 1.28\%)) - 1$.

Thus a general salary inflation rate of 7.00% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.81%.

Demographic Assumptions

Promotional Salary Scale:

The annual inflation rates below are in addition to the General Salary Inflation assumption of 7.00% per annum for all employees.

Age Band	Additional promotional scale
20 - 25	5%
25 - 30	4%
30 - 35	3%
35 - 40	2%
40 - 45	1%
45 and over	0%

Pre-Retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:

The normal retirement age is 65. It has been assumed that male employees will retire at age 63 and female employees will retire at age 58 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.

LSA Arrangement Assumptions

It was assumed that the employer's LSA arrangements would remain unchanged, and that the level of benefits would remain unchanged, with the exception of allowing for inflationary adjustments.

Plan Assets:

Management has indicated that there are currently no long-term assets set aside off-balance sheet in respect of the LSA liability.

Sensitivity Analysis

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

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

Sensitivity Analysis on the Unfunded Accrued Liability (R Millions)

Assumption	Change	Liability	% Change
Central Assumptions		132.242	
General salary inflation	+1%	139.599	6%
	-1%	125.486	-5%
Discount Rate	+1%	125.062	-5%
	-1%	104.213	6%
Average retirement age	-2 yrs	115.145	-13%
	+2 yrs	149.218	13%
Withdrawal rates	-50%	148.954	13%

Sensitivity analysis on current service cost and interest costs for the year ending 30 June 2016

Assumption	Change	Current service cost	Interest cost	Total	% Change
Central Assumptions		11 416 400	9 728 900	21 145 300	
General salary inflation	+1%	12 215 400	10 304 400	22 519 800	7%
	-1%	10 692 900	9 200 600	19 893 500	-6%
Discount rate	+1%	10 753 900	10 331 000	21 084 900	0%
	-1%	12 160 000	9 037 800	21 197 800	0%
Average retirement age	-2 yrs	10 237 100	8 384 100	18 621 200	-12%
	+2 yrs	12 488 200	11 064 100	23 552 300	11%
Withdrawal rates	-50%	13 902 700	11 043 300	24 946 000	18%

History of Liabilities, Assets and Experience Adjustments

History of liabilities and assets

	Year ending 30/06/2013	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016
Accrued Liability	125 793 000	132 595 000	132 242 108	135 956 781
Fair value of Plan Assets	0	0	0	0
Surplus / (Deficit)	-125 793 000	-132 595 000	-132 242 108	-135 956 781

History of experience adjustments: (Gains) and Losses

	Year ending 30/06/2016	Year ending 30/06/2015
Liabilities: (Gain) / Loss	0	2 786 938
Assets: Gain / (Loss)	0	0

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

48 PROPERTY, PLANT AND EQUIPMENT RECONCILIATION

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
Restated Carry Value 1 July 2015					
Cost	1 846 654 821	13 199 906 461	3 217 593 698	1 166 959 156	19 431 114 136
Transfers/Adjustments - Costs					-
Restatement - Cost	(2 449 726)	11 577 629	6 801 785	(765 336)	15 164 352
Disposal/Impairment					
Transfers/Adjustments - Depreciation					
Accumulated Depreciation	(182 370 554)	(4 511 126 771)	(619 570 239)	(653 496 310)	(5 966 563 874)
	1 661 834 541	8 700 357 319	2 604 825 244	512 697 510	13 479 714 614
Movement during the year ended 30 June 2016					
Acquisition	38 594 929	197 055 806	58 056 115	56 308 148	350 014 998
Capital Under Construction	16 009 388	867 960 416	21 730 058	836 364	906 536 226
Transfers / Adjustments - Cost	57 908 908	22 320 791	5 813 489	117 706 955	203 750 143
Transfers / Adjustment - Depreciation	-				
Depreciation	(36 690 513)	(533 996 332)	(158 432 380)	(66 021 022)	(795 140 247)
	75 822 712	553 340 681	(72 832 718)	108 830 445	665 161 120
Carry Value of Disposals/Impairments during the year ended 30 June 2016					
Cost	(33 092 003)	(29 446 366)	(4 237 942)	(2 906 377)	(69 682 688)
Depreciation	106 143	15 796 093	2 952 038	2 787 541	21 641 815
	(32 985 860)	(13 650 273)	(1 285 904)	(118 836)	(48 040 873)
Carrying Values at 30 June 2016	1 704 671 393	9 240 047 727	2 530 706 622	621 409 119	14 096 834 861
Summary - Carrying Values at 30 June 2016					
Summary - Cost	1 923 626 317	14 269 374 737	3 305 757 203	1 338 138 910	20 836 897 167
Summary - Accumulated Depreciation	(218 954 924)	(5 029 327 010)	(775 050 581)	(716 729 791)	(6 740 062 306)
	1 704 671 393	9 240 047 727	2 530 706 622	621 409 119	14 096 834 861

Reconciliation of Carrying Value	Land & Buildings	Infrastructure	Community	Other	Total
Restated Carry Value 1 July 2014					
Cost	1 744 639 673	12 053 251 603	3 153 531 869	1 097 361 184	18 048 784 329
Transfers/Adjustments - Costs	1 378 261		2 356 204	(1 378 260)	2 356 205
Restatement - Cost	(1 469 304)	4 769 859	(2 687 364)	517 760	1 130 951
Disposal/Impairment					
Transfers/Adjustments - Depreciation					
Accumulated Depreciation	(140 018 327)	(3 932 431 998)	(515 726 878)	(583 889 584)	(5 172 066 787)
	1 604 530 303	8 125 589 464	2 637 473 831	512 611 100	12 880 204 698
Movement during year ended 30 June 2015					
Acquisition	102 518 896	1 157 049 351	65 496 128	79 070 071	1 404 134 446
Depreciation	(42 428 308)	(578 694 772)	(104 325 946)	(77 506 125)	(802 955 151)
	60 090 588	578 354 579	(38 829 818)	1 563 946	601 179 295
Carry Value of Disposals/Impairments during the year ended 30 June 2015					
Cost	(412 705)		(1 103 139)	(8 611 599)	(10 127 443)
Depreciation	76 081		482 585	7 899 398	8 458 064
	(336 624)	-	(620 554)	(712 201)	(1 669 379)
Carrying Values at 30 June 2015	1 664 284 267	8 703 944 043	2 598 023 459	513 462 845	13 479 714 614
Summary - Carrying Values at 30 June 2015					
Summary - Cost	1 846 654 821	13 215 070 813	3 217 593 698	1 166 959 156	19 446 278 488
Summary - Accumulated Depreciation	(182 370 554)	(4 511 126 770)	(619 570 239)	(653 496 311)	(5 966 563 874)
	1 664 284 267	8 703 944 043	2 598 023 459	513 462 845	13 479 714 614

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

49 HERITAGE ASSETS RECONCILIATION

Reconciliation of Carrying Value	Heritage Assets
Restated Carry Value 1 July 2015	
Cost	205 280 893
Transfers/Adjustments	-
Restatement - Cost	-
Disposal	-
Accumulated Depreciation	-
	205 280 893
Movement during the year ended 30 June 2016	
Acquisition	617 502
Transfers / Adjustment	4 576 824
Impairment	-
	5 194 326
Impairment value during the year ended 30 June 2016	
Cost	-
Amortisation	-
	-
Carrying Values at 30 June 2016	210 475 219
Summary - Carrying Values at 30 June 2016	
Summary - Cost	210 475 219
Summary - Accumulated Impairment	-
	210 475 219

Reconciliation of Carrying Value	Heritage Assets
Restated Carry Value 1 July 2014	
Cost	203 409 623
Transfers/Adjustments	(2 310 039)
Restatement - Cost	169 740
Disposal	-
Accumulated Depreciation	-
	201 269 324
Movement during year ended 30 June 2015	
Acquisition	4 011 569
Transfers / Adjustment	-
Impairment	-
	4 011 569
Impairment value during year ended 30 June 2015	
Cost	-
Amortisation	-
	-
Carrying Values at 30 June 2015	205 280 893
Summary - Carrying Values at 30 June 2015	
Summary - Cost	205 280 893
Summary - Accumulated Impairment	-
	205 280 893

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

50 INTANGIBLE ASSETS RECONCILIATION

Reconciliation of Carrying Value	Intangible Assets
Restated Carry Value 1 July 2015	
Cost	579 512 809
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(435 157 978)
	144 354 831
Movement during the year ended 30 June 2016	
Acquisition/Under Construction	47 017 954
Disposals/Impairment	(8 126 448)
Amortisation	(69 789 718)
	(30 898 212)
Impairment value during the year ended 30 June 2016	
Cost	0
Amortisation	7 851 020
	7 851 020
Carrying Values at 30 June 2016	121 307 639
Summary - Carrying Values at 30 June 2016	
Summary - Cost	618 404 315
Summary - Accumulated Amortisation	(497 096 676)
	121 307 639

Reconciliation of Carrying Value	Intangible Assets
Restated Carry Value 1 July 2014	
Cost	543 266 624
Transfers/Adjustments	-
Restatement - Amortisation	-
Impairment	-
Accumulated Amortisation	(376 077 982)
	167 188 642
Movement during year ended 30 June 2015	
Acquisition	36 246 184
Adjustment	-
Amortisation	(59 079 996)
	(22 833 812)
Impairment value during year ended 30 June 2015	
Cost	0
Amortisation	0
	0
Carrying Values at 30 June 2015	144 354 830
Summary - Carrying Values at 30 June 2015	
Summary - Cost	579 512 808
Summary - Accumulated Amortisation	(435 157 978)
	144 354 830

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

51 INVESTMENT PROPERTY RECONCILIATION

Reconciliation of Carrying Value	Investment Property
Restated Carry Value 1 July 2015	
Cost	248 623 193
Restatement - Cost	-
Transfers/Adjustments	-
Disposal	-
Restatement - Depreciation	-
Accumulated Depreciation	(50 454 308)
	198 168 885
Movement during the year ended 30 June 2016	
Acquisition	2 102 043
Transfers/Adjustments	54 735
Capital Under Construction	3 030 838
Transfers / Adjustment	-
Depreciation	(8 996 771)
	(3 809 155)
Carry Value of Disposals for the year ended 30 June 2016	
Cost	-
Depreciation	-
	-
Carrying Values at 30 June 2016	194 359 730
Summary - Carrying Values at 30 June 2016	
Summary - Cost	253 810 809
Summary - Accumulated Depreciation	(59 451 079)
	194 359 730

Reconciliation of Carrying Value	Investment Property
Restated Carry Value 1 July 2014	
Cost	244 119 319
Restatement - Cost	-
Transfers/Adjustments	-
Disposal	-
Restatement - Depreciation	-
Accumulated Depreciation	(44 680 164)
	199 439 155
Movement during year ended 30 June 2015	
Acquisition	6 056 125
Transfers/Adjustments	-
Capital Under Construction	-
Transfers / Adjustment	-
Depreciation	(6 131 885)
	(75 760)
Carry Value of Disposals during year ended 30 June 2015	
Cost	(1 552 251)
Depreciation	357 741
	(1 194 510)
Carrying Values at 30 June 2015	198 168 885
Summary - Carrying Values at 30 June 2015	
Summary - Cost	248 623 193
Summary - Accumulated Depreciation	(50 454 308)
	198 168 885

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

52 FINANCIAL INSTRUMENTS

Financial instruments are classified into the following categories:

Financial assets: At Amortised Cost
Financial liabilities: At amortised cost
Financial Assets: At Fair Value

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities are assumed.

The amounts relating to financial instruments reflected below approximates fair value

	2016			2015		
	Financial Instruments at Amortised Cost	Non financial assets	Total	Financial Instruments at Amortised Cost	Non financial assets	Total
	R	R	R	R	R	R
ASSETS						
Property, Plant and Equipment		14 096 834 861	14 096 834 861		13 479 714 614	13 479 714 614
Heritage Assets		210 475 219	210 475 219		205 280 893	205 280 893
Intangible Assets		121 307 639	121 307 639		144 354 830	144 354 830
Investment Property		194 359 730	194 359 730		198 168 885	198 168 885
Long-term Receivables - Exchange Transactions	13 346 342		13 346 342	9 033 206		9 033 206
Long-term Receivables - Non-exchange Transactions		10 960 479	10 960 479		9 265 720	9 265 720
Inventory		124 019 665	124 019 665		124 216 338	124 216 338
Consumer debtors - Exchange Transactions	1 037 542 429		1 037 542 429	912 635 081		912 635 081
Consumer debtors - Non-exchange Transactions		269 584 746	269 584 746		229 399 410	229 399 410
Other Debtors	429 151 542		429 151 542	506 180 557		506 180 557
VAT Refund		10 664 660	10 664 660		34 927 107	34 927 107
VAT Receivable		0	0		16 299 576	16 299 576
Current portion of long-term receivables	80		80	80		80
Short-term investment deposits (excluding Sanlam Shares)	1 365 337 861		1 365 337 861	1 252 493 987		1 252 493 987
Bank balances and cash	207 595 170		207 595 170	139 687 805		139 687 805
	3 052 973 424	15 038 206 999	18 091 180 423	2 820 030 716	14 441 627 373	17 261 658 089

	2016			2015		
	Financial Instruments at Amortised Cost	Non financial liabilities	Total	Financial Instruments at Amortised Cost	Non financial liabilities	Total
	R	R	R	R	R	R
LIABILITIES						
Long-term Liabilities	1 376 718 616		1 376 718 616	1 471 966 017		1 471 966 017
Employee Benefit Obligation		1 472 243 701	1 472 243 701		1 369 345 626	1 369 345 626
Non-current Provisions		462 203 446	462 203 446		329 771 931	329 771 931
Consumer deposits	123 959 190		123 959 190	111 852 356		111 852 356
Current Employee Benefit Obligation		77 250 866	77 250 866		72 246 987	72 246 987
Current Provisions		47 776 422	47 776 422		85 649 120	85 649 120
Creditors	1 599 432 059		1 599 432 059	1 624 739 164		1 624 739 164
VAT Payable		18 661 838			0	
Unspent Conditional Grants and Receipts		201 682 477	201 682 477		171 308 712	171 308 712
Current Portion of Long-term Liabilities	93 919 738		93 919 738	104 092 767		104 092 767
	3 194 029 603	2 279 818 750	5 455 186 515	3 312 650 304	2 028 322 376	5 340 972 680

Net Assets		12 619 801 941	12 619 801 941		11 923 399 975	11 923 399 975
Financial Asset at Fair Value				Financial Asset at Fair Value		
Sanlam Shares - Valued at the open market value	2 469 871		(2 469 871)	2 714 566		(2 714 566)
	(138 586 306)	138 586 306	0	(489 905 022)	489 905 022	0

	2016	2015
Financial Asset at amortised cost		
Opening balance	2 820 030 716	2 750 967 889
Net other movements	232 942 708	69 062 827
Closing balance	3 052 973 424	2 820 030 716
Financial liabilities at amortised cost		
Opening balance	3 312 650 304	3 445 084 923
Net other movements	(118 620 701)	(132 434 619)
Closing balance	3 194 029 603	3 312 650 304

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

53 EXPLANATION FOR OPERATING VARIANCES:

APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET:

In terms of GRAP 24.27 the changes between the approved original budget and approved final budget are as a consequence of reallocations within the approved original budget and the inclusion of the roll-over of unspent conditional grants as at 30 June 2015 as approved by National Treasury.

The Original Budget was approved on 18 June 2015 for the 2015/16 financial year (01 July 2015 to 30 June 2016), and the Final Budget was approved on 22 February 2016.

NMBM uses the accrual basis of accounting for its Budget.

The reconciliation of the Original approved Budget and Final Budget and Actual amounts are shown on the face of the Statement of Financial Performance, with the reasons in variances explained below.

ACTUAL VERSUS APPROVED FINAL BUDGET (REVENUE AND EXPENDITURE)

Explanations of Significant Variances greater than 10% versus Budget - The 10% threshold was considered to be the best indicator to meet performance.

1 Interest earned - Investments

Interest increased due to strict cashflow management.

2 Licences and Permits

Due to the ad hoc nature of this income source, accurate income projections are not possible.

3 Rental of Facilities and Equipment

Due to the ad hoc nature of this income source, accurate income projections are not possible.

4 Government Grants and Subsidies - Operating

Due to underspending on IPTS and Housing Top Structures.

5 Public Contributions

Due to the ad hoc nature of this income source, accurate income projections are not possible.

6 Dividends received

The dividend income relates to the Sanlam shares.

7 Impairment - receivables

Increased consumer debt was written off, than initially anticipated.

8 Grants and Subsidies Paid

The rebate for ATTP consumers was transferred from Grants and Subsidies Paid to the relevant Service Charges and it is now being treated as Revenue foregone.

	<u>Actual</u>	<u>Budget</u>	<u>Real Variance</u>
Grants and Subsidies Paid before transfer of Rebate for ATTP Consumers	459 503 241	497 340 550	
Grant paid to MBDA - but unspent at end of year - now transferred to Other Debtors	48 538 173		
Total Paid	<u>508 041 414</u>	<u>497 340 550</u>	-2.15%

9 General Expenses

The underspending in General expenses is due to underspending on Housing Top Structures

10 Repairs and Maintenance

The underspending in Repairs and Maintenance is due to underspending on overall maintenance on pipelines, buildings, roadworks, overhead lines, underground and water leaks.

11 Impairment - Other

The overspending is mainly attributed to the impairment of Housing Debtors.

12 Loss on Disposal of Property Plant and Equipment

Due to the ad hoc nature of this source, accurate projections are not possible.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

54 EXPLANATION FOR CAPITAL VARIANCES:

APPROVED ORIGINAL BUDGET VS APPROVED FINAL BUDGET:

In terms of GRAP 24.27 the changes between the approved original budget and approved final budget are as a consequence of reallocations within the approved original budget and the inclusion of the roll-over of unspent conditional grants as at 30 June 2015 as approved by National Treasury.

The Original Budget was approved on 18 June 2015 for the 2015/16 financial year (01 July 2015 to 30 June 2016), and the Final Budget was approved on 22 February 2016.

NMBM uses the accrual basis of accounting for its Budget.

See below reconciliation between the Budget and the Actual expenditure:

ACTUAL VERSUS ADJUSTMENTS BUDGET (ACQUISITION OF ASSETS)	2016 Adjustments Budget	Additions / Under Construction	Variance	% Variance with Adjustments Budget	Explanation of Variances greater than 10 %
Infrastructure & Engineering - Roads & Storm water	263 807 915	236 129 483	27 678 432	10	The variance is mainly attributable to the Capital Projects being delayed due to Minor works tender only approved in March 2016. Many of the projects utilize this contract for the appointment of service providers. Additionally, very little spending has been incurred on IPTS related projects. IPTS in only planned to commence in the 2016/17 financial year, subject to NT approving the carry-over.
Human Settlements	176 307 820	177 135 349	(827 529)	-0	
Economic Development, Tourism & Agriculture	6 147 915	6 861 184	(713 269)	-12	R745,000 transferred from Chief Operating Officer as per Executive Mayor 20 June 2016.
Recreational and Cultural Service	116 900 000	65 322 396	51 577 604	44	The Directorate has indicated that the variance is mainly attributable to the fact that there were delays experienced in the appointment of consultants, which caused them not to be able to spend their budget.
Safety & Security	12 518 000	9 719 441	2 798 559	22	One of the significant Capital projects (Fire and Emergency Equipment) was cancelled at the Bid Committee, therefore resulting in the need for a carry over to the new financial year.
Budget & Treasury	78 721 700	38 507 108	40 214 592	51	The variance is attributable to the Systems Enhancements Capital Project. The purchase of additional hardware could not take place during the 2015/16 financial year due to delays experienced at SCM Bid Committee. The unspent funds will be carried over to the 2016/17 financial year in order to purchase the required hardware equipment.
Public Health	88 532 550	73 884 761	14 647 789	17	The underspending relates to Refuse Compactors that were budgeted for, but could not be purchased during the 2015/16 financial year due to unavailability of stock and the fact that the RT57 National Treasury contract had expired on 31 March 2016. These funds will be carried over to the 2016/17 financial year in order to procure the vehicles.
Corporate Services	27 050 000	27 458 418	(408 418)	-2	R3,396,540 was brought onto the Capital Budget as per Executive Mayor 4 March 2016 for the roll-out of public Wi-Fi.
Sanitation Service	253 050 000	238 713 718	14 336 282	6	
Water Service	184 403 276	186 624 879	(2 221 603)	-1	
Strategic Programmes	16 745 060	-	16 745 060	100	The Flagship project for this directorate is the Motherwell Thusong Traffic and Licence Center. The project was envisioned to be completed over 2 financial years commencing in 2015/16. The directorate has determined that in terms of the budget provided in 2015/16, it was insufficient in order to advertise for the tender as the total costs exceeded the available budget. National Treasury has confirmed that additional allocations will be made available in the 2016/17 financial year via the NDPG in order for the project to commence.
Executive and Council	6 850 000	3 422 045	3 427 955	50	The Original Budget for this project was directly coupled with exchange rates and linked price increases. Once the project commenced it became possible to make use of a Transversal process via Tenders done by City of Cape Town to procure the needed service providers, based on 2014/2015 costing. This resulted in a saving of approximately 20% over the 2 contract years. A total of R2 million will be carried over to 2016/17 in order to meet commitments. The balance of the unspent funds will be realised as savings. R745,000 transferred to EDTA as per Executive Mayor 20 June 2016.
Electricity & Energy	244 352 251	236 954 854	7 397 397	3	R2 million transferred to Operating Budget as per Municipal Manager 19 May 2016 for the implementation of the Metro Police.
NMBM Stadium	13 167 800	11 725 226	1 442 574	11	
	1 488 554 287	1 312 458 862	176 095 425	12	

NOTE 55
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2016

	COST									ACCUMULATED DEPRECIATION							Carrying Value	
	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Capital Under Construction	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment		Closing Balance
Land & Buildings																		
Buildings	747 120 702	(2 449 726)	744 670 977	22 047 511	37 994 929	16 009 388	663 502	-	820 059 304	182 370 554	-	182 370 554	-	36 690 513	106 142.00	-	218 954 926	601 104 378
Land	1 099 534 119		1 099 534 119	35 861 397	600 000		19 948 502	12 480 000	1 103 567 015	-	-	-	-	-	-	-	-	1 103 567 015
	1 846 654 821	(2 449 726)	1 844 205 096	57 908 908	38 594 929	16 009 388	20 612 003	12 480 000	1 923 626 319	182 370 554	-	182 370 554	-	36 690 513	106 142	-	218 954 926	1 704 671 393
Infrastructure Assets																		
Roads, Sidewalks & Stormwater Network	5 551 052 732	2 911 025	5 553 963 757	15 732 568	32 925 497	222 960 029	-	-	5 825 581 851	1 959 659 274	-	1 959 659 274	-	234 871 242	-	-	2 194 530 517	3 631 051 334
Beach Developments	57 833 609		57 833 609			4 907 090			62 740 699	11 300 604		11 300 604		3 016 514			14 317 118	48 423 581
Electricity Reticulation & Supply			2 567 158 975							907 722 505		907 722 505						
Fencing	2 566 468 583	690 393		6 588 223	12 528 082	149 948 106	29 446 366		2 706 777 020	907 722 505				89 245 730	15 796 093		981 172 142	1 725 604 878
Sewerage Mains & Purification Works	40 354 780		40 354 780		36 412 231	321 112			77 088 123	17 748 434		17 748 434		4 904 964			22 653 398	54 434 725
Waste Disposal Facilities	2 132 103 546		2 132 103 546			232 101 289			2 364 204 835	831 317 324				96 747 364			928 064 687	1 436 140 148
Water Supply & Reticulation	18 625 254		18 625 254		11 296 447				29 921 702	1 044 042		1 044 042		456 788			1 500 830	28 420 871
Dams & Treatment Works	1 742 502 423	6 601 261	1 749 103 684		90 214 254	146 145 830			1 985 463 768	626 987 178		626 987 178		73 452 370			700 439 548	1 285 024 220
	1 090 965 534	1 374 951	1 092 340 485		13 679 298	111 576 959			1 217 596 742	155 347 410		155 347 410		31 301 360			186 648 770	1 030 947 972
	13 199 906 461	11 577 629	13 211 484 090	22 320 791	197 055 807	867 960 416	29 446 366	-	14 269 374 738	4 511 126 771	-	4 511 126 771	-	533 996 332	15 796 093	-	5 029 327 010	9 240 047 729
Community Assets																		
Libraries	27 878 819		27 878 819			1 858 537			29 737 356	11 016 586		11 016 586		659 859			11 676 446	18 060 911
Library Books	72 892 632		72 892 632	3 763 460					76 656 092	21 195 896		21 195 896		3 018 554			24 214 449	52 441 643
Fire Stations	61 234 600	(188 776)	61 045 824		3 972 908				65 018 732	15 089 629		15 089 629		2 468 289			17 557 919	47 460 813
Cemeteries	70 128 407		70 128 407			3 075 115			73 203 523	10 120 375		10 120 375		4 545 321			14 665 697	58 537 826
Clinics	3 381 280		3 381 280			1 398 884			4 780 165	550 629		550 629		206 993			757 623	4 022 542
Community Centres	221 328 923		221 328 923	1 016 036	14 874 479		41 366		237 178 072	54 809 883		54 809 883		11 918 997	15 291		66 713 589	170 464 483
Public Conveniences	4 835 263		4 835 263						4 835 263	2 552 767		2 552 767		483 922			3 036 688	1 798 574
Swimming Pools	82 535 125		82 535 125						82 535 125	18 936 097		18 936 097		2 229 344			21 165 441	61 369 684
Recreational Facilities	2 607 823 594	6 990 560	2 614 814 154	1 033 993	39 208 728	15 397 521	3 694 152		2 666 760 244	450 688 192		450 688 192		131 403 100	2 714 950		579 376 342	2 087 383 902
Selling & Letting Schemes	65 555 056		65 555 056				502 424		65 052 631	34 610 184		34 610 184		1 498 001	221 797		35 886 388	29 166 243
	3 217 593 698	6 801 784	3 224 395 482	5 813 489	58 056 115	21 730 058	4 237 942	-	3 305 757 202	619 570 239	-	619 570 239	-	158 432 380	2 952 038	-	775 050 581	2 530 706 621
Other Assets																		
Bins & Containers	9 992 998		9 992 998	35 178	870 000				10 898 176	3 139 250		3 139 250		1 484 705			4 623 954	6 274 222
Vehicles & Plant	498 797 627	6 873	498 804 500		32 013 169		1 608 244		529 209 424	347 404 369		347 404 369		19 586 366	1 608 244		365 382 491	163 826 933
Office Furniture & Fittings	176 436 309	(772 209)	175 664 101	21 101 659	(2 571 950)			122 019	194 071 790	156 280 333		156 280 333			97 786		156 182 547	37 889 243
Air Monitoring Facilities	73 124		73 124		957 000				1 030 124	16 755		16 755		45 200			61 956	968 168
Security Systems	9 972 498		9 972 498		197 217				10 169 715	8 850 191		8 850 191		610 457			9 460 649	709 066
Tip Sites	350 531 514		350 531 514	96 570 119	11 090 411	836 364	1 176 114		457 852 294	55 676 439		55 676 439		44 294 294	1 081 510		98 889 223	358 963 071
Computer Hardware	121 155 086		121 155 086		13 752 301				134 907 388	82 128 972		82 128 972					82 128 972	52 778 415
	1 166 959 156	(765 336)	1 166 193 820	117 706 955	56 308 148	836 364	2 784 358	122 019	1 338 138 910	653 496 310	-	653 496 310	-	66 021 022	2 689 754	97 786	716 729 792	621 409 119
	19 431 114 136	15 164 352	19 446 278 489	203 750 144	350 015 000	906 536 226	57 080 669	12 602 019	20 836 897 170	5 966 563 874	-	5 966 563 874	-	795 140 247	21 544 026	97 786	6 740 062 309	14 096 834 861

NOTE 55 (CONTINUED)
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2016

	COST								ACCUMULATED AMORTISATION								Carrying Value	
	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Capital Under Construction	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment		Closing Balance
Intangible																		
Computer Software	579 512 808	-	579 512 808			47 017 954	8 126 448	0	618 404 314	435 157 978		435 157 978		69 789 718		7 851 020	497 096 676	121 307 639

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF INVESTMENT PROPERTY AS AT 30 JUNE 2016

	COST								ACCUMULATED DEPRECIATION								Carrying Value	
	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Capital Under Construction	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment		Closing Balance
Investment Property																		
Land & Buildings	248 623 193		248 623 193	54 735	2 102 043	3 030 838			253 810 809	50 454 308		50 454 308	0	8 996 771	0	0	59 451 079	194 359 730

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ANALYSIS OF HERITAGE ASSETS AS AT 30 JUNE 2016

	COST								ACCUMULATED DEPRECIATION								Carrying Value	
	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Capital Under Construction	Disposals	Impairment	Closing Balance	Opening Balance	Re-statement	Re-stated Opening Balance	Transfers / Adjustments/ Take-On	Additions	Disposals	Impairment		Closing Balance
Heritage Assets																		
Heritage Buildings	137 603 360		137 603 360	3 978 701	617 502				142 199 563	-		-						142 199 563
Memorials & Statues	43 432 771		43 432 771	598 123	-				44 030 894	-		-						44 030 894
Land	6 655 783		6 655 783	-	-				6 655 783	-		-						6 655 783
Art Works	17 419 239	169 740	17 588 979	-	-				17 588 979	-		-						17 588 979
	205 111 153	169 740	205 280 893	4 576 824	617 502	-	-	-	210 475 219	-	-	-	-	-	-	-	-	210 475 219
Grant Totals Assets	20 464 361 291	15 334 092	20 479 695 383	208 381 703	352 734 545	956 585 018	65 207 117	12 602 019	21 919 587 513	6 452 176 161	-	6 452 176 161	-	873 926 736	21 544 026	7 948 807	7 296 610 064	14 622 977 449

Appendix A - Unaudited
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

2015 Actual Income	2015 Actual Expenditure	2015 Surplus/ (Deficit)		2016 Actual Income	2016 Actual Expenditure	2016 Surplus/ (Deficit)
2 639 289	220 807 460	(218 168 171)	Executive and Council	6 357 385	228 118 833	(221 761 448)
2 547 443 154	715 678 551	1 831 764 603	Budget and Treasury	2 675 494 848	682 105 137	1 993 389 711
19 828 089	333 566 871	(313 738 782)	Corporate Services	31 693 475	313 014 190	(281 320 715)
283 325 933	533 024 502	(249 698 569)	Public Health	298 994 182	644 266 590	(345 272 408)
729 208 805	678 324 002	50 884 803	Human Settlements	476 184 137	573 733 214	(97 549 077)
60 569 775	465 351 503	(404 781 728)	Safety and Security	247 644 288	619 595 395	(371 951 107)
297 660 572	681 898 832	(384 238 260)	Infrastructure and Engineering - R & G	147 279 003	516 053 678	(368 774 675)
803 147 170	622 289 168	180 858 002	Water	996 551 649	697 837 360	298 714 289
3 275 708 403	3 011 331 271	264 377 132	Electricity and Energy	3 700 625 436	3 496 191 873	204 433 563
114 306 517	106 282 155	8 024 362	Economic Development, Tourism and Agriculture	96 492 810	101 955 417	(5 462 607)
33 859 014	268 969 874	(235 110 860)	Sports, Recreation, Arts and Culture	33 058 195	302 429 532	(269 371 337)
716 758 724	386 230 259	330 528 465	Sanitation	750 763 713	423 913 564	326 850 149
42 111 565	155 929 760	(113 818 195)	NMBM Stadium	50 931 696	216 626 142	(165 694 446)
37 689 498	33 467 373	4 222 125	Special Projects	22 425 555	22 251 451	174 104
<u>8 964 256 508</u>	<u>8 213 151 581</u>	<u>751 104 927</u>	Total	<u>9 534 496 372</u>	<u>8 838 092 376</u>	<u>696 403 996</u>

Appendix B
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
DISCLOSURES OF CONDITIONAL GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2016

Name of Grants	Name of Organ of State	Quarterly Receipts				Total Funds Received	Quarterly Expenditure				Total Spent	Reasons for Delay	Did Municipality comply with grant conditions
		July-Sept	Oct-Dec	Jan- Mar	April-June		July-Sept	Oct-Dec	Jan- Mar	April-June			
Financial Management Grant	NT	1 050 000	-	-	-	1 050 000	133 756	154 038	343 186	405 694	1 036 674	N / A	Yes
National Electrification Programme	DME	15 163 000	11 808 000	8 529 000	-	35 500 000	4 355 799	7 681 412	9 329 338	11 504 679	32 871 228	N / A	Yes
Urban Settlement Development Grant	DPLG	26 707 000	275 051 000	304 359 000	-	606 117 000	138 318 746	243 844 236	136 989 389	191 387 074	710 539 445	N / A	Yes
Transport or PTIS	NT	93 064 000	93 064 000	-	-	186 128 000	2 300 744	3 452 736	17 158 347	-	22 911 827	N / A	Yes
Neighbourhood Development Partnership Grant	NT	-	-	-	-	-	2 369 116	2 191 169	568 643	-	5 128 928	N / A	Yes
Neighbourhood Development Grant - Technical Assistance	NT	-	-	-	-	-	-	-	-	-	-	N / A	Yes
Energy Efficiency & Demand Side Management Grant	NT	-	-	-	-	-	4 312 178	151 834	4 931 575	-	9 395 587	N / A	Yes

Appendix C - Unaudited
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY
TOTAL ACCUMULATED FUNDS FOR THE YEAR ENDED 30 JUNE 2016

TOTAL ACCUMULATED FUNDS	2016	Restated 2015
	R	R
Made up as follows:		
Housing Development Fund	109 731 779	109 731 779
Capital Replacement Reserve	0	91 370 086
Government Grant Reserve	6 991 299 076	6 221 746 532
Capitalisation Reserve	65 824 594	134 769 439
Donations and Public Contributions Reserves	361 408 505	347 226 266
Self-Insurance Reserve	102 980 606	96 391 064
COID Reserve	28 557 560	24 831 196
Accumulated Surplus	4 959 999 821	4 897 333 613
	12 619 801 941	11 923 399 975

1. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003). In addition, these Annual Financial Statements include mandatory disclosures in accordance with the Municipal Finance Management Act (Act No 56 of 2003) and related regulations.

The Annual Financial Statements are prepared on the accrual basis of accounting and the transactions, assets and liabilities included in the financial statements are measured at historical cost unless otherwise stated.

With respect to accounting standards for material transactions, events or conditions not covered by Directive 5, the Municipality has developed accounting policies in accordance with paragraphs 8, 10 and 11 of GRAP 3.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's Annual Financial Statements, unless explicitly stated.

New standards now effective but not yet implemented:

Standard number	Standard name	Effective date from (if applicable)
GRAP 18	Segment Reporting	01 April 2016

Note: Municipalities, municipal entities, trading entities, Parliament and the Provincial Legislatures are not required to apply or early adopt GRAP 18 *Segment Reporting* as the Minister of Finance has not yet determined the effective date for application by these entities.

2. PRESENTATION AND FUNCTIONAL CURRENCY

These Annual Financial Statements are presented in South African Rand.

The functional currency of the Municipality is South African Rand. Financial values are rounded to the nearest one Rand.

3. GOING CONCERN ASSUMPTION

These Annual Financial Statements have been prepared on a going concern basis.

4. COMPARATIVE INFORMATION

4.1 Current year comparatives (Budget):

In accordance with GRAP 1 and 24, the Budget information has been provided on the face of the Statement of Financial Performance in these Annual Financial Statements.

4.2 Prior year comparatives:

When the presentation or classification of items in the Annual Financial Statements are amended, prior period comparative amounts are reclassified and restated. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year and the standards require retrospective adjustment, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The nature and reasons for the reclassifications and restatements are disclosed in Note 40 to the Annual Financial Statements.

5. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

STANDARDS

The following revised and newly approved Standards of GRAP have been approved and issued by the Accounting Standards Board but only become effective in the future or have not been given an effective date by the Minister of Finance. The Municipality has not early-adopted any new Standards or revised Standards of GRAP but has in some cases referred to them for guidance in developing appropriate accounting policies in accordance with the requirements of Directive 5: Determining the GRAP Reporting Framework.

Standard number	Standard name	Effective date (if applicable)
GRAP 20	Related Party Disclosures	No effective date
GRAP 32	Service Concession Arrangements - Grantor	No effective date
GRAP 108	Statutory Receivables	No effective date
GRAP 109	Accounting by Principals and Agents	No effective date

GRAP 20 – Related Party Disclosures

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties. The standard does not have an effective date yet. It is expected that adoption of this standard will result in additional disclosures.

GRAP 32 - Service Concession Arrangements – Grantor

This Standard applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset) if certain conditions are met. The standard does not have an effective date yet. It is expected that adoption of this standard will not be significant.

GRAP 108 – Statutory Receivables

This standard deals with receivables that arise from legislation, supporting regulations or similar means and require settlement by another entity in cash or another financial asset. This standard does not yet have an effective date. It is expected that adoption of this standard will not be significant.

GRAP 109 – Accounting by Principals and Agents

This standard deals with principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. This standard does not yet have an effective date. It is expected that adoption of this standard will not be significant.

INTERPRETATIONS

The following interpretations have been approved and issued by the Accounting Standards Board but only become effective in the future or have not been given an effective date by the Minister of Finance. These interpretations are expected to have an insignificant impact on the financial statements since they generally reflect the interpretation and principles already established under GRAP.

Standard number	Standard name	Effective date (if applicable)
IGRAP 17	Service concession arrangements where a grantor controls a significant residual interest in an asset	Effective date not yet determined

6. SIGNIFICANT JUDGEMENTS

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

Management has made the following significant judgement:

Allowances for Credit losses

On Consumer debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

Other key judgements

Provisions and contingent liabilities

Management judgement is required when disclosing and measuring provisions and contingent liabilities. Provisions have been discounted where the effect of discounting is material. Refer to accounting policy Note 11.

Operating lease commitments – the Municipality as lessor

The Municipality has entered into commercial property leases on its investment property portfolio. The Municipality has determined that it retains all the significant risks and rewards of ownership of these properties and therefore has continued to recognise the investment properties.

GRAP 5 Borrowing Costs

The Municipality has determined that it is inappropriate to capitalise borrowing costs, as it is unable to establish a clear link between borrowing costs and numerous individual assets falling within the broader range of specific capital projects. Refer to accounting policy Note 20.

Management's Going Concern Assessment:

Management considered the following matters relating to the Going Concern:

On 18 June 2015 the Council adopted the 2015/16 to 2017/18 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the on-going delivery of municipal services to residents reflected that the Budget was funded over the three-year period.

Management has thus prepared the Annual Financial Statements on the Going Concern basis.

7. SIGNIFICANT ESTIMATES AND ASSUMPTIONS

In the process of preparing the Municipality's Annual Financial Statements, management has made the following key estimates and assumptions:

Provision for Rehabilitation of Refuse Landfill Sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost to rehabilitate the landfill sites in the future. The cost factors, as determined, have been applied and projected at an inflation rate of 6.3% (2015: 4.7%) and discounted to the present value:

- a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 11.04% (2015: 11.04%).
- b) For landfill sites with a remaining operating life of greater than 5 years, at the average long-term treasury bond rate 2% (2015: 1.75%).

Provision for Rehabilitation of Swartkops River

The provision is in relation to the Municipality's obligation to address the environmental pollution of the Swartkops River. The provision is based on the estimated costs to carry out the rehabilitation work of a wetland beside the Swartkops River, which was present valued at a rate of 11.04% (2015: 11.04%).

Pension and other post-employment benefits

The cost of defined benefit pension plans (ex gratia pensions), other post-employment medical benefits, and the present value of the pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. For key assumptions, refer to Note 47 of the Annual Financial Statements.

Provision for gratuity pensions

This obligation is in respect of the long-term liability relating to gratuities payable to employees that were not previously members of a pension fund. A management decision was made to ensure that a provision be raised from 1975.

The provision is made up of two parts namely:

- Years' service prior to 1997: number of years' service prior to 1997 multiplied by the employee fortnightly wage rate in 1997 (R533) plus
- Years services after 1997: number of years' service multiplied by the employee fortnightly wage rate in 1997 (R533) increased per annum by the average earnings interest earned on investments of 6.48% (2015: 6.02%)

Property, plant and equipment including Investment Properties and Intangible Assets

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain and thus residual values are determined to be nil for all assets.

Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to accounting policy Note 17.

8. 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 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.

The Housing Development Fund is included as one of the reserves within Accumulated Surplus.

9. ACCUMULATED FUNDS

The Municipality maintains various internal reserves in terms of specific requirements, which include:

- Capital Replacement Reserve (CRR): Internal reserve administered within the Accumulated Surplus for control purposes
- Capitalisation Reserve (CR): Internal reserve administered within the Accumulated Surplus for control purposes
- Donations and Public Contributions Reserve: Internal reserve administered within the Accumulated Surplus for control purposes
- Self-Insurance Reserve: Internal reserve administered within the Accumulated Surplus for control purposes.
- Compensation for Occupational Injuries and Diseases (COID) Reserve

The Municipality has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases in terms of Section 84 of the COID Act, but is required to maintain a reserve of R10 million. This reserve is subject to annual review by the Commissioner.

The certificate of exemption issued by the Commissioner and as prescribed by the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993), requires that the Municipality deposit cash and/or securities relating to COID with the Commissioner. The combined market values shall not be less than the capitalised value of the continuing liability of the Municipality as at 31 December of each year.

The continuing liability is that of pensions, with the capitalised value being determined based on an actuarial determination as prescribed by the Commissioner. A COID reserve has been established to be equal to or greater than the value of the continuing liability. The Commissioner determines the market value of the securities annually and the Municipality is required to meet any shortfall in the aggregate value of the securities as at 31 December.

Monthly pensions are funded by allocating funds out of the COID portion of Accumulated Surplus to general Accumulated Surplus (refer to note 2).

- Government Grant Reserve: Internal reserve administered within the Accumulated Surplus for control purposes.

10. EMPLOYEE BENEFITS

Recognition and measurement

Short term employee benefits

Remuneration to employees is recognised as an expense in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs.

The costs of all short-term employee benefits, such as leave pay, are recognised in the period the employee renders the related service.

Short-term employee benefits are measured on an undiscounted basis.

Short term compensated absences

The expected cost of compensated absences is recognised as follows:

Accumulating compensated absence:

When employees render services that increase their entitlement to future compensated absences;
and

Non-accumulating absences:

When absences occur.

Leave pay accrual

The liability for accumulating compensated absences is based on the total amount of leave days accumulated by employees at reporting date and on the total remuneration package of the employees.

Bonus incentive and performance related payments

The Municipality recognises the expected cost of performance bonus when, and only when, it has a present legal or constructive obligation to make such payments, as a result of past events and a reliable estimate of the obligation can be made.

A provision in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees is raised once the timing and amount of such provision can be reliably determined. The provision is based on the performance of each S57 employee against the performance scorecard set and agreed upon for each financial year. If on assessment of the respective S57 employees it is decided that a bonus will be paid out, the S57 employee is entitled to receive this bonus irrespective of whether they are still in the service of the Municipality, or not.

Post-employment benefits

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan, using the projected unit credit method. Actuarial valuations are conducted on an annual basis for each plan. In the event that an independent actuarial valuation is not performed, Management will assess whether the assumptions used in the previous valuation remain applicable. If so, the valuation will be based on the previous independent valuation. If not, an adjustment is made to take into account any changes in assumptions.

Recognition and measurement

The Municipality has used GRAP 25 as guidance for treatment of multi-employer plans as sufficient information was not available to use defined-benefit accounting. The Municipality has therefore accounted for the Cape Joint Pension Fund and the SALA Pension Fund as defined contribution plans. It is impracticable to disclose as a defined benefit plan because the funds do not determine a separate actuarial valuation per Municipality but do it as a whole for all the Municipalities together.

The actuarial gains or losses are recognised in the Statement of Financial Performance in the year incurred.

The past service costs are recognised as an expense immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation (further detail is available in Note 47), less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets that are held by long-term employee benefit funds or qualifying insurance policies. Plan assets are not available to the creditors of the Municipality nor can they be paid directly to the Municipality.

Fair value is based on market price information and in the case of quoted securities; it is the published bid price. It should be noted that there are currently no plan assets.

Medical Aid: Continued Members

The Municipality provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the Medical Aid Funds with which the Municipality is associated, a member, on retirement, is entitled to remain a continued member of such medical aid fund. Should the member opt to remain on the fund, the member is liable for the portion, as determined by Council from time to time, of the medical aid membership fee and the Municipality for the remaining portion.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The liability in respect of current pensioners is regarded as fully accrued and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation.

The actuarial gains or losses are recognised in the Statement of Financial Performance in the year incurred. Actuarial valuations are conducted on an annual basis for each plan. In the event that an independent actuarial valuation is not performed, Management will assess whether the assumptions used in the previous valuation remain applicable. If so, the valuation will be based on the previous independent valuation. If not, an adjustment is made to take into account any changes in assumptions.

Gratuity Provision

A provision in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund is maintained. The gratuity is payable by Council to wage earners who joined the Municipality before 1988. The Council decided to make gratuity payments to these employees upon retirement. The amount payable is based on the individual employee wage rate and the number of years in service until the employee joined a pension fund. The provision is determined with reference to minimum wage rate applicable immediately prior to joining the pension fund multiplied by number of years' service and adjusted annually based on the average interest earned on investments.

Long service awards

Employees who have completed 25 years unbroken service are entitled to receive a once-off cash award not exceeding R2 500. The cash award is included in the employee's salary in the month of the service anniversary.

Defined contribution plans:

Retirement benefits

The Municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions, if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

11. PROVISIONS AND CONTINGENCIES

Provisions are recognised when the Municipality has a present obligation (legal or constructive) as a result of past events and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date (for example in the case of obligations for the rehabilitation of land). The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost.

If the effect of the time value of money is material, provisions are discounted using a rate that reflects the risk of the liability.

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

Future events that may affect the amount required to settle an obligation are reflected in the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

With respect to litigation and claims against the Municipality: The Municipality's Legal Council assesses the list of claims against the Municipality on an annual basis. The Municipality recognises a provision for all claims/cases for which the outflow of economic resources is probable and the amount can be reliably estimated.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

12. FINANCIAL INSTRUMENTS

Initial Recognition

The Municipality recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Municipality becomes a party to the contractual provisions of the instrument.

The Municipality recognises financial assets using trade date accounting.

Distinguishing liabilities and residual interests

A financial instrument or its component parts is classified on initial recognition as a financial liability, a financial asset or residual interest in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and a residual interest.

Compound financial instruments

The Municipality evaluates the terms of a financial instrument to determine whether it contains both a liability and residual interest component. Such components are classified separately as financial liabilities or residual interests.

Initial Measurement of financial assets and financial liabilities

When a financial asset or financial liability is recognised initially, the Municipality measures it at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans

The Municipality first assesses whether the substance of a concessionary loan meets the definition of a financial instrument. On initial recognition, the Municipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:

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

The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received.

After initial recognition, an entity measures concessionary loans in accordance with the subsequent measurement criteria set out for all financial instruments.

Subsequent Measurement of financial assets and financial liabilities

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

- a) Financial instruments at fair value
 - Instruments held for trading.
 - Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
 - Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.
- b) Financial instruments at amortised cost
 - Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the Municipality designates at fair value at initial recognition or are held for trading.

- c) Financial instruments at cost
- Investments in residual interests that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Municipality assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

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

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

Impairment of financial assets

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The Municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

The Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal may not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

Such impairment losses are not reversed.

Derecognition of financial assets:

The Municipality derecognises financial assets using trade date accounting.

The Municipality derecognises a financial asset only when:

- a) The contractual right to the cash flow from the financial asset expire, are settled or waived;
- b) The Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- c) Despite having retained significant risks and rewards, the entity has transferred control of the asset to another party.

Derecognition of financial liabilities:

The Municipality removes a financial liability from its statement of financial position when it is extinguished, that is, when the obligation specified in the contract is discharged, cancelled, expires or waived.

Presentation:

Interest, losses and gains

Interest, losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit

Offsetting a financial asset and a financial liability

The Municipality does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right to set-off exists and the parties intend to settle on a net basis or to realise the asset and settle the liability simultaneously.

Policies relating to specific financial instruments

Investments at amortised cost

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks, are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

Investments at fair value

Investments, which represent investments in equity for which fair value can be measured reliably, are subsequently measured at fair value.

Gains and losses in the fair value of such investments are recognised in the Statement of Financial Performance.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash on hand and deposits held on call with banks.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. Amounts that are receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the Council.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest method.

13. PROPERTY, PLANT AND EQUIPMENT

Initial recognition

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

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

Measurement at recognition

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. 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.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. The cost also includes the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

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 item of property, plant and equipment is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an item of property, plant and equipment is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with a specific item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment (other than land) are measured at cost less accumulated depreciation and impairment losses.

Subsequent to initial recognition, land is measured at cost and is not depreciated because it has an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset replaced and capitalises the new component.

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the component assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The component assets' residual values, useful lives and depreciation methods are reviewed at each financial year-end and if expectations differ from previous estimates, the changes are accounted for as a change in estimate in accordance with the standard of GRAP on accounting policies, changes in accounting estimates and errors.

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

The annual depreciation rates for the current and previous year are based on the following average asset useful lives:

Land & Buildings	Useful Life Range in Years
Buildings	15 - 50
Land	Indefinite Life
Infrastructure Assets	Useful Life Range in Years
Fencing, Roads, Sidewalks & Stormwater Networks	5 – 100
Beach Developments	30 – 50
Electricity Reticulation & Supply	10 – 80
Sewerage Mains & Purification Works	15 – 80
Waste Disposal Facilities	20 – 100
Water Supply & Reticulation	10 – 50
Dams & Treatment Works	25 – 100
Other Assets	Useful Life Range in Years
Bins & Containers	5 – 15
Air Monitoring, Emergency & Medical Equipment	5 – 20
Vehicles & Plant	4 – 30
Office Furniture & Fittings	3 – 20
Landfill Sites	50
Security Systems	5 – 15
Tip Sites	30
Computer Hardware	4 – 8
Community Assets	Useful Life Range in Years

Libraries	15 – 50
Fire Stations	15 – 50
Library Books	5 – 20
Cemeteries	15 – 50
Clinics	15 – 50
Community Centres	15 – 50
Public Conveniences	15 – 50
Swimming Pools	15 – 50
Recreational Facilities	15 – 50
Selling & Letting Schemes	15 – 50

Impairment:

Recognition and measurement of an impairment loss for an item of property, plant and equipment

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

The carrying amount of an asset is reduced to its recoverable amount if, and only if, its recoverable amount is less than its carrying amount.

The impairment loss is recognised immediately in surplus and deficit.

Derecognition

The carrying amount of an item of property, plant and equipment is 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. Residual values are assumed to be zero, unless otherwise stated.

14. HERITAGE ASSETS

Initial recognition and measurement

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

Heritage assets are recognised when it is probable that future economic benefits or service potential associated with the item will flow to the Municipality and the cost or fair value of the item can be measured reliably.

When an asset, does not meet the initial recognition criteria of a heritage asset, the Municipality discloses the relevant and useful information about such assets in the notes to the financial statements.

Heritage assets are initially recognised at cost on acquisition date.

The cost is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality.

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.

Where an asset is acquired in exchange for a similar asset, the acquired asset is initially measured at the carrying value of the asset given up.

Where an asset is acquired in exchange for a dissimilar asset, the acquired item is initially measured at the fair value (the cost). If the acquired item's fair value is not determinable, the allocated deemed cost is the carrying amount of the asset given up.

Subsequent measurement

Subsequent to initial recognition, the Municipality uses the cost model to measure its heritage assets.

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

The table below reflects the class of heritage assets and the estimated useful life range in years:

Heritage Sites	Useful Life Range in Years
Memorials & Statues	Indefinite Life
Heritage Sites	Indefinite Life
Museums	Indefinite Life
Art Works	Indefinite Life
Collections of rare books and manuscripts	Indefinite Life

Impairment

The Municipality does not depreciate its heritage assets, but at each financial year end, it assesses whether there is an indication that the assets may be impaired. If such an indication exists, the Municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

Heritage 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 a heritage asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

15. INTANGIBLE ASSETS

Initial recognition and measurement

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences and development costs. The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), its initial cost at the date of acquisition is measured at its fair value as the date of acquisition.

Intangible assets acquired through non-exchange transactions:

Internally generated intangible assets:

Research phase

The Municipality does not recognise any intangible asset arising from a research phase of an internal project. Expenditure on research phase of an internal project is recognised as an expense when incurred.

Development phase

An intangible asset arising from development phase is recognised if, and only if the municipality can demonstrate all of the following:

- a) The technical feasibility of completing the intangible asset so it will be available for use or resale;
- b) Its intention to complete the intangible asset and use it or sell it;
- c) Its ability to use or sell the intangible asset;
- d) How the intangible asset will generate probable future economic benefits or service potential;
- e) The availability of technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Exchanges of assets

The cost of an intangible asset acquired in exchange for another is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement

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

The cost of an intangible asset is amortised over its useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Amortisation and impairment

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method. Amortisation of an asset begins when it is available for use.

The annual amortisation rates are based on the following estimated average asset lives:

Intangible	Useful Life Range in Years
Computer Software	3 – 5
Website Development	3 – 5

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in 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.

16. INVESTMENT PROPERTY

Initial recognition and measurement

Investment property includes property (land or a building or part of a building or both land or buildings held by owner or by a lessee 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.

Investment property is initially recognised as an asset when, and only when, it is probable that future economic benefits and or service potential will flow to the Municipality and the cost or fair value can be measured reliably.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property.

Where an investment property was acquired through a non-exchange transaction (i.e. where the Municipality 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.

Transfers are made to or from investment property only when there is a change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. If investment property becomes owner-occupied property, the Municipality accounts for such property in accordance with the policy stated under investment property up to the date of change in use. The costs of day-to-day servicing of investment properties are recognised in the Statement of Financial Performance as incurred.

Subsequent measurement

Investment property is measured using the cost model. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation

Depreciation begins when the asset is available for 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:

Investment Property	Useful Life Range in Years
Land	Indefinite Life
Buildings	15 - 50

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end.

Land is not depreciated.

Fair Value

The assumptions for determining the fair value of the investment property is set out in Note 12 of the Annual Financial Statements.

Derecognition

An investment property is derecognised when it is disposed of or when no future economic benefits or service potential are to be derived from the use of the asset. All gains or losses from the disposal of investment property are determined as the difference between the sales proceeds and the carrying value of the asset and are recognised in the Statement of Financial Performance.

17. INVENTORIES

Initial recognition and measurement

Inventories comprise assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes (other than VAT), transport costs and any other direct 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.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, water and finished goods (FG), are measured at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. The basis of determining cost is first-in, first-out (FIFO) method for all inventory categories except water. Water is measured on the weighted average method.

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.

An impairment provision for the write down of inventory is maintained in lieu of obsolete inventory. The level of the impairment provision for obsolete inventory is the value equivalent to the value of inventory assessed as obsolete at financial year-end.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The Municipality purchases its water. The cost of water purchased and not yet sold as reflected in the statement of financial position comprises the purchase price and other direct costs attributable to the acquisition. The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

18. IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Recognition

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where any such indication exists, the Municipality estimates the recoverable service amount of the asset. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An asset's recoverable amount (or recoverable service amount) is the higher of the fair value less costs to sell, and the value-in-use of the asset.

The Municipality classifies the asset/identifiable group of assets as cash-generating if the key purpose of such asset/group of assets is to derive a commercial return from continuing use, and are independent of the cash inflows from other assets or groups of assets. The Municipality will classify all other assets that do not meet the definition of cash-generating assets/group of assets as non-cash generating assets.

Measurement

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash-generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash-generating unit.

An asset is part of a cash-generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets, the value in use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash generating asset, the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach: The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach: The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach: The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

Reversal of impairment losses

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The reversal of an impairment loss for an asset is recognised immediately in the Statement of Financial Performance.

19. REVENUE

19.1 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrues to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Recognition

The recognition criteria is usually applied separately to each transaction

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- (a) the amount of revenue can be measured reliably;
- (b) it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;
- (c) the stage of completion of the transaction at the reporting date can be measured reliably; and
- (d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

Sale of goods

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

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

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

Specific exchange-revenue sources

Service charges relating to electricity, water and sewerage are based on consumption. 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 and the related revenue adjustment is recognised in the same period.

Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Revenue from the sale of electricity prepaid meter cards is recognised at point of sale.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied monthly based on the costs of providing the refuse removal service.

Rental income arising from the use of investment properties, facilities and equipment is accounted for on a straight-line basis over the lease term on on-going leases.

Revenue from the issue of permits and licenses is recognised at point and time of issue.

Interest income is recognised in surplus or deficit on a time proportionate basis, using the effective interest method (i.e. based on the effective interest rate of the individual investments).

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated to the fund concerned; and
- Interest earned on unutilised conditional grants is allocated to the creditor (i.e. recognised as an obligation), if grant conditions indicate that interest is payable to the funder.

Measurement

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable.

The Municipality has an obligation in terms of legislation to collect all revenue and as such, the Municipality does not consider the collective collectability of the revenue on initial recognition on a portfolio basis. The Municipality assesses collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss is recognised as an expense.

19.2 Revenue from Non-Exchange Transactions

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

Recognition

Recognition of revenue

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Recognition of assets

An inflow of resources from a non-exchange transaction that meets the definition of an asset is recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the Municipality and the fair value of the asset can be measured reliably. The asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

Specific non-exchange-revenue sources

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines are recognised when it is probable that future economic benefits will flow to the Municipality, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information received from the courts, it is not possible to measure this revenue in the invoicing period, therefore an accrual is raised at the end of the financial year based on the average collection of fines throughout the year.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualify for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions that would entitle it to the revenue, a liability is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualify for recognition and first becomes available for use by the Municipality.

Fuel levy is recognised in revenue when the income is received.

Grants, transfers or donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of related conditions. Where the grant, transfer or donation has been received but the Municipality has not met the related conditions that would entitle it to the revenue, a liability is recognised.

Measurement of revenue from non-exchange transactions

Revenue from a non-exchange transaction shall be measured at the amount of the increase in net assets, recognised by the entity.

Fines

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

Bequests

Bequests are measured at the fair value of the resources received or receivable.

Gifts and donations

On initial recognition, gifts and donations are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession that holds a recognised and relevant professional qualification.

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met. Therefore the best estimate of the amount required to settle the present obligation at the reporting date will be recognised as a liability.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

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.

The Municipality has an obligation in terms of legislation to collect all revenue and as such, the Municipality does not consider the collective collectability of the revenue on initial recognition on a portfolio basis. The Municipality assesses collectability subsequent to initial measurement and should the receivable be impaired, the impairment loss is recognised as an expense.

Expenditure from Non-exchange Transactions

The accounting policy for expenditure arising from non-exchange transactions is similar to policy for non-exchange revenue.

Expenditure from non-exchange transactions is recognised when the resources have been transferred to the beneficiaries. A corresponding asset is raised to the extent that conditions attached to the expenditure have not been met. The asset is transferred to the Statement of Financial Performance once the conditions are met.

20. BORROWING COSTS

Borrowing costs 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 the Statement of Financial Performance using the effective interest method.

21. LEASES

Leases in the financial statements of lessees

Operating leases

Recognition:

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. Lease payments under an operating lease are recognised as an expense in the statement of financial performance, on a straight line basis over the lease term. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be. This resulting asset and / or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Derecognition

The operating lease liability is derecognised when the Municipality's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the Municipality no longer anticipates economic benefits to flow from the asset.

Leases in the financial statements of lessors

Operating leases

The Municipality presents assets subject to operating leases in its Statement of Financial Position according to the nature of the asset.

Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term. Initial direct costs incurred by the Municipality in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as expenses over the lease term on the same basis as the lease revenue.

The depreciation policy for depreciable leased assets is consistent with the Municipality's normal depreciation policy for similar assets, and depreciation is calculated in accordance with the Standards of GRAP on Property, Plant and Equipment and Intangible Assets.

Recognition

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, on a straight-line basis over the lease period.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Measurement

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease

payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Derecognition

Operating lease liabilities are derecognised when the Municipality's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the Municipality's right to the underlying cash flows expire or the Municipality no longer expects economic benefits to flow from the operating lease asset.

22. REPORTING FOREIGN CURRENCY TRANSACTION IN THE FUNCTIONAL CURRENCY

Initial recognition

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

Reporting at subsequent reporting dates

At each reporting date:

- (a) foreign currency monetary items shall be translated using the closing rate;
- (b) non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
- (c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

Recognition of exchange differences

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in surplus or deficit in the period in which they arise,

23. VALUE ADDED TAX (VAT)

The Municipality accounts for Value Added Tax on the payments basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT refundable from or payable to, the taxation authority is disclosed on the face of the statement of financial position.

24. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, 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 incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

25. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

26. 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. Fruitless and wasteful expenditure incurred for the financial period is accounted for as a normal expense in the Statement of Financial Performance but form part of disclosure of unauthorised, irregular and fruitless and wasteful expenditure in the notes to the financial statements.

27. RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS & WASTEFUL EXPENDITURE

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, and is recognised when the recovery thereof from the responsible officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income.

28. TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL

The Municipality uses the acquisition method in accounting for transactions relating to transfer of functions, between entities not under common control.

Applying the acquisition method requires:

- a) Identifying the acquirer.
- b) Determining the acquisition date.
- c) Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.
- d) Recognising the difference between (c) and the consideration transferred to the seller.

The acquisition date is the date on which the acquirer obtains control of the acquiree.

Municipality as the acquirer:

At acquisition date, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree shall be recognised if:

- a) The assets taken on and the liabilities assumed meets the definitions of an asset and liability as set out in the Framework for the Preparation and Presentation of Financial Statements.
- b) These assets and liabilities relate to the binding agreement between the parties to the transaction and may not relate to separate transactions.

Assets and liabilities not previously recognised by the acquiree will be recognised if these assets and liabilities now meet the recognition criteria (for example internal generated intangible assets not previously recognised).

The acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

29. EVENTS AFTER THE REPORTING DATE

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

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

Adjusting events after reporting date

The Municipality adjusts the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date

Non-adjusting events after the reporting date

The Municipality does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date. The Municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

30. RELATED PARTIES

The Municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the Municipality and one or more related parties, and those transactions were not within:

- Normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Municipality to have adopted if dealing with that individual entity or person in the same circumstances; and
- Terms and conditions within the normal operating parameters established by the Municipality's legal mandate.

Further details about those transactions are disclosed in the notes to the financial statements.

31. PRESENTATION OF BUDGET INFORMATION IN THE FINANCIAL STATEMENTS

Presentation of a comparison of budget and actual amounts

The Municipality presents a comparison of the budget amounts for which it is held publicly accountable and actual amounts as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP24. The comparison of budget and actual amounts present separately for each level of legislative oversight:

- (a) the approved and final budget amounts;
- (b) the actual amounts on a comparable basis; and
- (c) by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts.

Presentation and disclosure

The Municipality presents a comparison of budget and actual amounts as additional budget columns in the primary financial statements because the financial statements and the budget are prepared on a comparable basis.

Changes from approved to final budget

The Municipality presents an explanation of whether changes between the approved and final budget are a consequence of reallocations within the budget or of other factors:

- (a) by way of note disclosure in the financial statements; or
- (b) in a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements.

Comparable basis

All comparisons of budget and actual amounts are presented on a comparable basis to the budget.

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

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

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

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. Comparative information is not required.

32. COMMITMENTS

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

Disclosure is done to the extent that it has not already been recognised elsewhere in the financial statements.

Capital commitments are treated as follows:

- The aggregate amount of capital expenditure contracted for at the reporting date, to the extent that the amount has not been recorded in the financial statements; and
- If a commitment is for a period longer than a year.

Commitments are disclosed in the following circumstances:

- Unrecorded capital expenditure approved and contracted for before/at reporting date;
- Unrecorded capital expenditure approved but not yet contracted for at reporting date; and
- Unrecorded capital expenditure approved after reporting date.

33. GRANTS-IN-AID

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the Municipality does not:

- Receive any goods or services directly in return as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or

- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period in which the events giving rise to the transfer occurred.

34. IMPAIRMENT

Impairment of cash generating units:

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

- (d) Evidence is available of obsolescence or physical damage of an asset.
- (e) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- (f) A decision to halt the construction of the asset before it is complete or in a usable condition.
- (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Impairment of non-cash generating units:

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- (a) Cessation, or near cessation, of the demand or need for services provided by the asset.
- (b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

Internal sources of information

- (c) Evidence is available of physical damage of an asset.
- (d) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- (e) A decision to halt the construction of the asset before it is complete or in a usable condition.
- (f) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.