BUFFALO CITY METROPOLITAN MUNICIPALITY
UNAUDITED SEPARATE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipalily.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act except where identified as irregular expenditure in the Annual Financial Statements.

Mr. A. Sihlahla
City Manager

31/08/2018
Date

General Information

Legal form of Municipality	Municipality
Nature of business and principal activities	Local Government
Jurisdiction	The demarcation board has determined that Buffalo City Metropolitan Municipality (BUF) includes the towns of East London, Bisho, King William's Town, Berlin as well as the townships of Mdantsane, Gompo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas.
Grading of local authority	Grade 6 Municipality
City Manager	Mr. A. Sihlahla
Acting Chief Financial Officer	Mr. S. Peter
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Absa Bank
Auditors	Auditor General of South Africa
Members of Audit Committee	Ms. R. Shaw (Chairperson) - appointment 03 July 2017 Ms. Y. Roboji (Member) - appointment 03 July 2017 Mr. P. Ntuli (Member) - appointment 03 July 2017 Mr. S. Sokutu (Member) - appointment 03 July 2017 Ms. P. Mzizi (Member) - appointment 03 July 2017 Mr. T. Zororo (Member) - appointment 03 July 2017
Legislation Governing the Municipality	The Constitution of the Republic of South Africa,1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

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The statements and notes set out below comprise the unaudited separate annual financial statements :

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Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	10	42,756,503	38,544,536
Current portion of operating leases	8	3,552,410	2,638,016
Receivables from non-exchange transactions	11	753,988,375	590,091,336
VAT receivable	12	125,257,349	101,029,519
Receivables from exchange transations	13	528,118,156	558,665,138
Cash and cash equivalents	14	1,825,129,601	1,686,753,585
		3,278,802,394	**2,977,722,130**
Non-Current Assets			
Investment property	3	444,172,398	403,057,851
Property, plant and equipment	4	18,191,432,292	15,703,035,299
Intangible assets	5	17,663,566	5,486,754
Heritage assets	6	49,779,875	49,779,875
Investments in associates	7	555,550,409	127,539,335
Non-current portion of operating leases	8	74,719,678	72,081,541
		19,333,318,218	**16,360,980,655**
Total Assets		**22,612,120,612**	**19,338,702,785**
Liabilities			
Current Liabilities			
Borrowings	17	52,572,023	47,641,565
Payables from exchange transactions	22	1,036,316,850	764,686,538
Consumer deposits	23	60,012,613	57,321,210
Post - retirement medical obligations	9	21,631,043	20,347,264
Unspent conditional grants and receipts	16	284,245,662	250,830,274
Provisions	18	200,907,402	166,377,115
Deferred income	21	59,784,401	61,317,334
		1,715,469,994	**1,368,521,300**
Non-Current Liabilities			
Borrowings	17	345,554,088	398,126,111
Post - retirement medical obligations	9	516,343,584	506,950,957
Provisions	18	10,459,392	10,114,962
		872,357,064	**915,192,030**
Total Liabilities		**2,587,827,058**	**2,283,713,330**
Net Assets		**20,024,293,554**	**17,054,989,455**
Reserves:			
Revaluation reserve	15	9,050,361,442	6,923,573,888
Accumulated surplus		10,973,932,110	10,131,415,565
Total Net Assets		**20,024,293,552**	**17,054,989,453**

* See Note 49

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	25	2,590,799,677	2,586,141,402
Rental of facilities and equipment		19,311,562	19,062,021
Other revenue - (exchange)	26	151,272,551	136,997,618
Interest received	27	175,866,976	198,236,537
Total revenue from exchange transactions		**2,937,250,766**	**2,940,437,578**
Revenue from non-exchange transactions			
Property rates	28	972,891,704	858,852,363
Licences and Permits (non-exchange)		14,249,685	14,225,199
Government grants & subsidies	30	1,817,654,822	1,563,585,284
Other revenue - (non-exchange)	31	57,512,912	51,241,865
Public contributions and donations - PPE		3,393,726	-
Fines		23,698,183	16,895,710
Fuel levy		467,978,000	410,031,000
Total revenue from non-exchange transactions		**3,357,379,032**	**2,914,831,421**
Total revenue	24	**6,294,629,798**	**5,855,268,999**
Expenditure			
Employee related costs	32	(1,823,863,362)	(1,617,239,734)
Remuneration of councillors	33	(59,473,021)	(55,023,304)
Depreciation and amortisation	34	(986,977,028)	(806,718,861)
Impairment of assets	35	(9,433,375)	-
Finance costs	36	(43,954,780)	(49,359,417)
Debt impairment	37	(188,054,489)	(310,915,665)
Bulk purchases	38	(1,555,006,206)	(1,558,513,807)
Repairs and maintenance	39	(355,291,890)	(381,128,352)
Grants and subsidies paid	29	(51,019,339)	(51,664,196)
General expenses	40	(859,049,043)	(822,248,436)
Total expenditure		**(5,932,122,533)**	**(5,652,811,772)**
Operating surplus		**362,507,265**	**202,457,227**
Loss on disposal of assets	4	(82,677)	(31,097,166)
Fair value adjustments	41	52,080,854	4,968,023
Share of surplus of associate accounted for under the equity method	41	428,011,074	15,247,675
		480,009,251	**(10,881,468)**
Surplus for the year	59	**842,516,545**	**191,575,759**

* See Note 49

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	4,613,940,840	10,153,317,376	14,767,258,216
Adjustments:			
Prior year adjustments (prior to 2016/17) Refer note 49	-	(213,477,570)	(213,477,570)
Balance at July 1, 2016 as restated*	**4,613,940,840**	**9,939,839,806**	**14,553,780,646**
Changes in net assets:			
Surplus for the year (2016/17 restated) Refer note 49	-	191,575,759	191,575,759
Revaluation adjustment	(49,330,621)	-	(49,330,621)
Revaluation reserve	2,358,963,669	-	2,358,963,669
Total changes	2,309,633,048	191,575,759	2,501,208,807
Restated* balance at July 1, 2017	**6,923,573,888**	**10,131,415,562**	**17,054,989,450**
Changes in net assets:			
Surplus for the year	-	842,516,548	842,516,548
Revaluation reserve	2,126,787,554	-	2,126,787,554
Total changes	2,126,787,554	842,516,548	2,969,304,102
Balance at June 30, 2018	**9,050,361,442**	**10,973,932,110**	**20,024,293,552**
Note(s)	15	49	

* See Note 49

Cash Flow Statement

Figures in Rand	Notes	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services	58	3,954,697,173	3,817,561,734
Government grants & subsidies	58	1,817,654,822	1,563,585,284
Interest received	27	175,866,976	198,236,537
		5,948,218,971	5,579,383,555
Payments			
Employee costs & Councillors remuneration	32&33	(1,883,336,383)	(1,672,263,038)
Suppliers	58	(2,518,219,480)	(3,277,256,885)
Finance costs	36	(43,954,780)	(49,359,417)
		(4,445,510,643)	(4,998,879,340)
Net cash flows used in operating activities	43	**1,502,708,328**	**580,504,215**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(1,330,245,370)	(1,276,200,253)
Proceeds from sale of property, plant and equipment	4	15,087,556	59,258,419
Net cash flows used in investing activities		**(1,315,157,814)**	**(1,216,941,834)**
Cash flows from financing activities			
Net movement on borrowings	17	(47,641,565)	(50,709,030)
Movement in deferred income		(1,532,933)	-
Net cash flows used in financing activities		**(49,174,498)**	**(50,709,030)**
Net (decrease)/increase in cash and cash equivalents		**138,376,016**	**(687,146,649)**
Cash and cash equivalents at the beginning of the year		1,686,753,585	2,373,900,234
Cash and cash equivalents at the end of the year	14	**1,825,129,601**	**1,686,753,585**

* See Note 49

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Property rates	1,225,284,909	(104,110,032)	1,121,174,877	-		1,121,174,877	972,891,704		(148,283,173)	87 %	79 %
Service charges	3,011,894,841	(75,247,815)	2,936,647,026	-		2,936,647,026	2,590,799,677		(345,847,349)	88 %	86 %
Investment revenue	157,002,322	(26,000,000)	131,002,322	-		131,002,322	126,545,366		(4,456,956)	97 %	81 %
Transfers recognised - operational	1,368,105,621	11,010,779	1,379,116,400	-		1,379,116,400	1,355,045,279		(24,071,121)	98 %	99 %
Other own revenue	426,718,618	(49,377,487)	377,341,131	-		377,341,131	315,366,503		(61,974,628)	84 %	74 %
Total revenue (excluding capital transfers and contributions)	**6,189,006,311**	**(243,724,555)**	**5,945,281,756**	**-**		**5,945,281,756**	**5,360,648,529**		**(584,633,227)**	**90 %**	**87 %**
Employee costs	(1,733,321,386)	(88,255,070)	(1,821,576,456)	-	-	(1,821,576,456)	(1,823,863,362)	-	(2,286,906)	100 %	105 %
Remuneration of councillors	(62,398,115)	2,925,072	(59,473,043)	-	-	(59,473,043)	(59,473,021)	-	22	100 %	95 %
Debt impairment	(317,788,481)	142,860,044	(174,928,437)			(174,928,437)	(188,054,489)	-	(13,126,052)	108 %	59 %
Depreciation and asset impairment	(778,272,580)	(196,462,862)	(974,735,442)			(974,735,442)	(996,410,403)	-	(21,674,961)	102 %	128 %
Finance charges	(54,318,230)	10,363,121	(43,955,109)	-	-	(43,955,109)	(43,954,780)	-	329	100 %	81 %
Materials and bulk purchases	(1,578,166,510)	22,863,000	(1,555,303,510)	-	-	(1,555,303,510)	(1,555,006,206)	-	297,304	100 %	99 %
Transfers and grants	(328,636,857)	252,232,932	(76,403,925)	-	-	(76,403,925)	(51,019,339)	-	25,384,586	67 %	16 %
Other expenditure	(1,335,177,665)	97,198,300	(1,237,979,365)	-	-	(1,237,979,365)	(1,214,340,933)	-	23,638,432	98 %	91 %
Total expenditure	**(6,188,079,824)**	**243,724,537**	**(5,944,355,287)**	**-**	**-**	**(5,944,355,287)**	**(5,932,122,533)**	**-**	**12,232,754**	**100 %**	**96 %**
Surplus/(Deficit)	**926,487**	**(18)**	**926,469**	**-**		**926,469**	**(571,474,004)**		**(572,400,473)**	**(61,683)%**	**(61,682)%**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	795,307,160	181,753,513	977,060,673	-		977,060,673	930,587,543		(46,473,130)	95 %	117 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	3,393,726		3,393,726	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**796,233,647**	**181,753,495**	**977,987,142**	**-**		**977,987,142**	**362,507,265**		**(615,479,877)**	**37 %**	**46 %**
Share of surplus (deficit) of associate	-	-	-	-		-	428,011,074		428,011,074	DIV/0 %	DIV/0 %
Fair value adjustment	-	-	-	-		-	52,080,854		52,080,854	DIV/0 %	DIV/0 %
Loss on disposal of assets	-	-	-	-		-	(82,677)		(82,677)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**796,233,647**	**181,753,495**	**977,987,142**	**-**		**977,987,142**	**842,516,516**		**(135,470,626)**	**86 %**	**106 %**

BUFFALO CITY METROPOLITAN MUNICIPALITY

Unaudited Separate Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources											
Total capital expenditure	1,645,204,112	125,634,359	1,770,838,471	-		1,770,838,471	1,426,513,802		(344,324,669)	81 %	87 %
Sources of capital funds											
Transfers recognised - capital	795,307,160	181,753,511	977,060,671	-		977,060,671	930,587,543		(46,473,128)	95 %	117 %
Borrowing	69,000,000	(69,000,000)	-	-		-	-		-	DIV/0 %	- %
Internally generated funds	780,896,952	12,880,848	793,777,800	-		793,777,800	495,926,259		(297,851,541)	62 %	64 %
Total sources of capital funds	**1,645,204,112**	**125,634,359**	**1,770,838,471**	**-**		**1,770,838,471**	**1,426,513,802**		**(344,324,669)**	**81 %**	**87 %**
Cash flows											
Net cash from (used) operating	1,809,846,059	57,013,547	1,866,859,606	-		1,866,859,606	1,502,708,328		(364,151,278)	80 %	83 %
Net cash from (used) investing	(1,582,484,112)	(179,140,949)	(1,761,625,061)	-		(1,761,625,061)	(1,315,157,814)		446,467,247	75 %	83 %
Net cash from (used) financing	20,251,901	(67,893,466)	(47,641,565)	-		(47,641,565)	(49,174,498)		(1,532,933)	103 %	(243)%
Net increase/(decrease) in cash and cash equivalents	**247,613,848**	**(190,020,868)**	**57,592,980**	**-**		**57,592,980**	**138,376,016**		**80,783,036**	**240 %**	**56 %**
Cash and cash equivalents at the beginning of the year	2,291,797,904	(605,044,319)	1,686,753,585	-		1,686,753,585	1,686,753,585		-	100 %	74 %
Cash and cash equivalents at year end	**2,539,411,752**	**(795,065,187)**	**1,744,346,565**	**-**		**1,744,346,565**	**1,825,129,601**		**(80,783,036)**	**105 %**	**72 %**

Appropriation Statement

Figures in Rand	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

Explanation of significant variances greater than 10% on budget comparison to actuals

Reasons for material variances shown on the Statement of Comparison of Budget and Actual Amounts are detailed below:

REVENUE BY SOURCE

Property Rates

The valuation roll was reduced by a total value of R2 110 188 000 during the 2017/18 financial year, due to incorrect property values. This led to a reversal of rates charged based on the incorrect valuation, thus reducing rates revenue.

Service Charges

The factors that influence the variance are as follows:

Customers that implement cost cutting measures with regards to consumption;

Customers that apply to be charged on different tariffs i.e. reduction in demand;

Customers that have moved off the municipal grid.

Other Own Revenue

Other revenue is made up of numerous items. The revenue items contributing to the material variance are the following:

Agency fees: Agency fees depend on the number of licences & permits transacted through BCMM. Loss of revenue is due to the fact that vehicle licences can be renewed at the Post Office and the Department of Transport directly. Members of the public generally go to the closet convenient point in order to pay which may not always be BCMM.

Collection Charges: This relates to the recoverable legal costs to be recovered from debtors. Legal action could not be taken due to the fact that the contract with the Collection Agents contract commenced in the last quarter of the financial year.

EXPENDITURE TYPE

Transfers and grants for services are budgeted under item revenue, however GRAP recognises transfers and subsidies under expenditure and discourages set-off of income and expenditure.

Loss on disposal of assets of R82 677 was incurred as a result of derecognition of assets and investment property.

CAPITAL EXPENDITURE AND FUNDS SOURCES

Public Contributions & Donations

BCMM recognised assets transferred by other muicipalities in terms of the demarcation pronounced 3rd August 2016.

Internally generated funds

The major contributing factors on low expenditure are procurement and project management inefficiencies that resulted in the slow progress in implementing own funded capital projects, however most of the projects are already awarded and the funding of such projects is fully committed. The above highlighted inefficiencies are being addressed by management.

CASH FLOWS

Net cash from (used) operating

Appropriation Statement

Figures in Rand	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

The factors that influence the variance are as follows:

Customers that implement cost cutting measures with regards to consumption
;
Customers that apply to be charged on different tariffs i.e. reduction in demand;

Customers that have moved off the municipal grid.

Net cash from (used) investing

The major contributing factors on low expenditure are procurement and project management inefficiencies that resulted in the slow progress in implementing own funded capital projects, however most of the projects are already awarded and the funding of such projects is fully committed. The above highlighted inefficiencies are being addressed by management.

Accounting Policies

1. Presentation of Unaudited Separate Annual Financial Statements

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance has been made for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the notes to the financial statements per inventory note 10.

Fair value estimation

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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

Provisions

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

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of wastewater and water networks and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both - or under construction) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services, or for
- administrative purposes, or for
- sale in the ordinary course of operations.

Investment property exludes owner-occupied property.

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

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

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

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

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

Accounting Policies

1.2 Investment property (continued)

Fair value

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

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

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

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

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

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:
(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) commencement of development with a view to sale, for a transfer from investment property to inventories;
(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
(d) commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property.

The initial cost of a property interest held under a lease and classified as an investment property has been recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Accounting Policies

1.3 Property, plant and equipment (continued)

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and standby equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses, except for land, buildings, other properties, community properties, roads, electricity, water and wastewater which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

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

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value except for furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

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

Item	Depreciation method	Average useful life
Land landfill sites	Straight line	50
Buildings	Straight line	30 to 60
Plant and machinery	Straight line	3 to 30
Motor vehicles	Straight line	4 to 15
Furniture and fittings	Diminishing balance	3 to 7
Electricity	Straight line	30 to 60
Community - Buildings	Straight line	30 to 60
Community - Recreation	Straight line	15 to 60
Other properties	Straight line	5 to 60

Accounting Policies

1.3 Property, plant and equipment (continued)

Finance Leased Assets	Straight line	5
Roads	Straight line	5 to 100
Wastewater network	Straight line	5 to 80
Water network	Straight line	5 to 150
Servitudes	Straight line	Indefinite

The Municipality acquires and maintains assets to provide social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than that of certain Plant and Equipment, and Transport assets with significant carrying values. For Plant and Equipment and Transport assets (Above R5000) the residual value and the useful life of an asset and the deprecation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimates in the Statement of Financial Performance. Minor assets (Below R5000) are recognised and depreciated annually to R1 and are included in the asset register mainly for completeness and monitoring purposes.

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised and will be classified as revenue. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

Servitudes are recognised as a component of property, plant and equipment as it is directly linked to the location and construction of infrastructure assets.

1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from a municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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

Intangible assets are initially recognised at cost.

When an intangible asset is acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years

1.5 Intangible assets (continued)

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

1.6 Heritage assets

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

A class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the audited separate annual financial statements.

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

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

Recognition

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

If a municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Transfers

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

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

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Accounting Policies

1.7 Investments in associates

An associate is a municipality over which the municipality is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investment.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/(deficits) less any dividends received.

Where the municipality or its entities transact with an associate, unrealised gains and losses are eliminated to the extent of the municipality's or its municipal entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the municipality is no longer able to exercise significant influence over the associate, the equity method of accounting is discontinued.

The municipality uses the most recent available financial statements of the associate in applying the equity method. When the reporting dates are different, the municipality makes adjustments for the effects of any significant events or transactions between the investor and the associate that occur between the different reporting dates. Adjustments are made to ensure consistency between the accounting policies of the associate and the municipality.

1.8 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

- cash;
- a residual interest of another municipality; or

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position and in note 19:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position and in note 20:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value
Other deposits	Financial liability measured at fair value

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the municipality reclassifies the instrument from cost to fair value.

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 and uncollectibility of financial assets

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:

Accounting Policies

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Presentation

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

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is either a written or implied contract by which an owner (the lessor) of a specific asset grants a second party (the lessee) the right to its exclusive possession and use for a specific period and under spedific conditions, in return for specific periodic rental or lease payments.

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

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated municipality, it generates a commercial return.

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

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

Identification

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

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

Value in use

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated municipality, it generates a commercial return.

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

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

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

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

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

Depreciation and/or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

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

- the number of production or similar units expected to be obtained from the asset by the municipality.

At each reporting date a review is carried out to determine whether there are any indications that any assets and non-cash-generating units may be impaired. If such indications exist, the recoverable amounts of the affected assets are determined.

Where the recoverable amount of an asset or non-cash-generating unit is lower than its carrying amount, an impairment loss is recognised in surplus or deficit in respect of assets at historic cost, and recognised in the the revaluation reserve in respect of assets at revalued amounts.

Identification

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

Redesignation

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

1.13 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits.

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

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

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

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.13 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the unaudited separate annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

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

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

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

The discount rate reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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

Provisions are not recognised for future operating deficits.

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

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when a municipality:

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

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

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

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

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

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

Contingencies are disclosed in note 46 and 47

1.15 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments. (Refer to note 43)

1.16 Revenue from exchange transactions

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

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

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

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Measurement

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

Service charges relating to solid waste, sanitation and sewerage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognised in the period when the consumption took place. Provisional estimates of consumption are made monthly when meter readings have not been performed. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

To include all revenue in the financial period, calculations and accruals are made to account for consumption that took place during the last meter reading dates and the financial year end.

Services provided on a prepayment basis are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end, based on the average consumption history.

Sale of goods

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

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

Rendering of services

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

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Deferred Income

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange. To the extent that the municipality has received initial fair value for goods, services or use of assets for corresponding items to be provided over a number of financial reporting periods, in line with a multi-year contractual commitment, then the fair value is to be recognised as revenue over the contractual period to which it relates. Any fair value in excess of the revenue recognised is to be recorded as deferred income.

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

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

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

Measurement

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

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

Taxes (Property rates)

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

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

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

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

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

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

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

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

Accounting Policies

1.18 Investment income

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

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10, 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.22 Fruitless and wasteful expenditure

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

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

Accounting Policies

1.23 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 excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements is recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end is recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements is updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.24 Use of estimates

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

1.25 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.26 Offsetting

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

1.27 Conditional grants and receipts

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

1.28 Budget information

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

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

Accounting Policies

1.28 Budget information (continued)

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

The approved budget covers the fiscal period from 01 Jully 2017 to 30 June 2018.

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

Comparative information is not required.

Differences between budget and actual amounts are regarded as material differences when a 10% difference exists. All material differences are explained in the Statement of Comparison of Budget and Actual Amounts to the annual financial statements.

1.29 Related parties

Parties are considered to be related if one party directly or indirectly has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or is a member of the key management of the municipality. (Refer to note 48)

1.30 Value added tax (VAT)

The municipality accounts for value added tax on the payment basis. Revenue, expenses and assets are recognised net of the amount of VAT. The net amount of VAT recoverable from or payable to, the taxation authority is disclosed on the face of the statement of financial position. (Refer to note 12)

1.31 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2020	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	April 1, 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	April 1, 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	April 1, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	April 1, 2019	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

3. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	444,172,398		444,172,398	403,057,851		403,057,851

Reconciliation of investment property - 2018

	Opening balance	**Fair value adjustment**	**Impairments**	**Total**
Investment property	403,057,851	50,547,922	(9,433,375)	444,172,398

Reconciliation of investment property - 2017

	Opening balance	**Derecognition**	**Transfers**	**Fair value adjustment**	**Total**
Investment property	342,030,031	(5,257,537)	61,317,334	4,968,023	403,057,851

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

No Investment Properties were pledged as security.

The total direct operating expenses for repairs and maintenance on all municipal properties amounts to R353 528 813 including repairs and maintenance expenses on investment properties.

Operational expenditure regarding investment property earning rentals and those that are not earning rentals are not available as these expenses pertaining to investment properties are not budgeted for separately on the budget.

Per accounting policies note 1.2 the municipality is on the fair value model for investment property.

There are no restrictions on investment properties.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 4973/1.

The value of investment property, comprising of land and buildings was determined by using a combination of three valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions.

The preferred valuation methodology applied was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties.

In the case of properties which were deemed to be classified as investment properties, for which no comparable market related sales nor rentals exist, such as golf courses, land was valued by multiplying the extent, as confirmed through the deeds office and cadastre, with comparable market related sales based on similar zoning, and not use. In the case of buildings associated with such properties, for which no comparable sales, past or present, could be established, the replacement cost of the buildings was deemed to reflect a fair value of the property.

Rental income from investment properties in respect of monthly and annual leases amounted to R19 311 562, (2017: R13 164 817).

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	81,658,475	-	81,658,475	77,967,166	-	77,967,166
Buildings	142,215,759	-	142,215,759	142,215,760	-	142,215,760
Plant and equipment	115,830,825	(86,275,117)	29,555,708	113,921,109	(80,847,908)	33,073,201
Furniture and fittings	66,312,289	(45,521,915)	20,790,374	62,949,544	(41,098,797)	21,850,747
Motor vehicles	527,159,609	(189,786,956)	337,372,653	423,740,828	(160,594,931)	263,145,897
Office equipment	57,726,937	(40,236,204)	17,490,733	52,148,952	(30,028,154)	22,120,798
Electricity infrastructure	9,884,716,504	(6,237,035,661)	3,647,680,843	8,540,753,612	(5,394,148,754)	3,146,604,858
Other properties	1,695,398,603	(799,715,200)	895,683,403	1,535,320,601	(697,822,544)	837,498,057
Work in progress (WIP)	3,159,141,458	-	3,159,141,458	2,108,610,463	(13,854,190)	2,094,756,273
Recreational facilities	746,644,957	(436,658,841)	309,986,116	702,987,268	(450,532,264)	252,455,004
Finance Leased Assets	-	-	-	88,042	(88,042)	-
Roads	11,797,642,774	(6,737,406,513)	5,060,236,261	10,558,587,564	(6,195,240,292)	4,363,347,272
Wastewater network	1,320,927,832	(34,176,747)	1,286,751,085	4,034,483,656	(2,693,153,304)	1,341,330,352
Water network	5,898,687,006	(3,642,069,785)	2,256,617,221	5,783,321,311	(3,613,039,939)	2,170,281,372
Community buildings	1,972,829,820	(1,026,577,617)	946,252,203	1,868,614,816	(932,226,274)	936,388,542
Total	**37,466,892,848**	**(19,275,460,556)**	**18,191,432,292**	**36,005,710,692**	**(20,302,675,393)**	**15,703,035,299**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Non-cash additions	Revaluations	Depreciation	Total
Land	77,967,166	-	-	-	-	3,691,309	-	81,658,475
Buildings	142,215,760	-	-	-	-	-	-	142,215,760
Plant and equipment	33,073,201	1,925,114	-	-	-	-	(5,442,607)	29,555,708
Furniture and fittings	21,850,747	3,544,680	(17,526)	-	-	-	(4,587,527)	20,790,374
Motor vehicles	263,145,897	103,837,179	(146,440)	-	-	-	(29,463,983)	337,372,653
Office equipment	22,120,798	5,577,985	-	-	-	-	(10,208,050)	17,490,733
Electricity infrastructure	3,146,604,858	74,420,640	(4,534,755)	6,354,788	25,978	627,645,133	(202,835,799)	3,647,680,843
Other properties (halls, social housing)	837,498,057	35,473,385	-	29,400	-	72,908,597	(50,226,036)	895,683,403
Work in progress (WIP)	2,094,756,273	1,084,925,910	-	(20,540,725)	-	-	-	3,159,141,458
Recreational facilities	252,455,004	-	-	-	-	29,405,877	28,125,235	309,986,116
Roads	4,363,347,272	6,071,533	(6,599,344)	34,474,460	3,367,747	1,001,110,397	(341,535,804)	5,060,236,261
Wastewater network	1,341,330,352	-	-	-	-	34,331,982	(88,911,249)	1,286,751,085
Water network	2,170,281,372	4,178,724	(886,526)	1,160,017	-	237,027,262	(155,143,628)	2,256,617,221
Community buildings	936,388,542	10,290,220	(2,985,642)	2,602,490	-	120,666,995	(120,710,402)	946,252,203
	15,703,035,299	**1,330,245,370**	**(15,170,233)**	**24,080,430**	**3,393,725**	**2,126,787,552**	**(980,939,850)**	**18,191,432,293**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Non-cash additions	Disposals	WIP transfers	Transfers	Revaluations	Adjustments	Depreciation	Impairment (loss) / reversal	Total
Land	386,313,045	-	-	-	-	-	(308,345,879)	-	-	-	77,967,166
Buildings	-	-	-	-	-	71,374,228	70,841,532	-	-	-	142,215,760
Plant and equipment	39,531,176	1,529,677	-	(55,189)	-	-	-	-	(7,932,463)	-	33,073,201
Furniture and fittings	26,220,503	3,728,539	-	(42,112)	-	-	-	-	(8,056,183)	-	21,850,747
Motor vehicles	213,433,588	73,622,154	-	(1,860,606)	-	-	-	-	(22,131,039)	81,800	263,145,897
Office equipment	21,605,936	10,152,533	-	-	-	-	-	-	(9,637,671)	-	22,120,798
Electricity infrastructure	1,803,837,598	111,094,212	-	(15,403,032)	43,217,275	-	1,308,842,447	-	(104,983,642)	-	3,146,604,858
Other properties (halls, social housing)	600,560,568	-	-	(5,089,476)	40,128,715	(8,593,400)	235,690,850	-	(32,441,639)	7,242,439	837,498,057
Work in progress (WIP)	1,634,970,095	1,037,865,490	-	-	(529,063,033)	(7,542,458)	-	(27,619,631)	-	(13,854,190)	2,094,756,273
Recreational facilities	166,821,849	371,198	-	(417,736)	8,159,475	-	93,594,928	-	(16,074,710)	-	252,455,004
Finance Leased Assets	2,873,959	-	-	(2,871,070)	-	-	-	-	(2,889)	-	-
Roads	3,910,812,325	25,702,960	3,173,733	(24,823,254)	289,564,135	-	489,444,942	-	(330,587,501)	59,932	4,363,347,272
Wastewater network	1,837,066,595	-	-	(40,774,286)	23,245,251	-	(370,943,340)	-	(107,263,868)	-	1,341,330,352
Water network	1,869,452,467	-	-	8,377,523	77,196,985	-	331,651,933	-	(116,397,536)	-	2,170,281,372
Community buildings	468,885,840	12,133,490	-	(7,396,347)	33,566,677	-	465,157,064	-	(38,764,617)	2,806,435	936,388,542
	12,982,385,544	**1,276,200,253**	**3,173,733**	**(90,355,585)**	**(13,984,520)**	**55,238,370**	**2,315,934,477**	**(27,619,631)**	**(794,273,758)**	**(3,663,584)**	**15,703,035,299**

Proceeds on disposal of PPE	**2018**	**2017**
Carrying value of PPE	15,170,233	90,355,585
Net gain/(loss) on disposal of assets	(82,677)	(31,097,166)
	15,087,556	**59,258,419**

There are properties for which tittle deeds are registered under the name of the Municipality but have not been included in the Municipality's financial records. These properties are represented by RDP land, ex Ciskei and other land parcels, vacant and improved. The Municipality is of the view that these properties will have a net realisable value of NIL as they will either be transferred to RDP housing beneficiaries or have long serving residents for which there has been a delay in the transfer of tittle. It should furthermore be noted that management is of the view that the inclusion of these properties in the Annual Financial Statements could result in a misrepresentation of the financial information for users of the Annual Financial Statements.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

The following property plant and equipment is in the process of being constructed or developed and is disclosed as part of work-in-progress. Work-in-progress comprises of the following classes of infrastructure.

WIP categories		
Electricity	66,331,185	21,163,628
Roads	1,473,986,969	1,118,414,942
Wastewater network	811,145,573	509,161,888
Water network	459,085,240	294,005,538
Community buildings	125,612,943	96,654,960
Other	222,979,545	55,355,317
Total	**3,159,141,455**	**2,094,756,273**

The carrying value of the property, plant and equipment that is taking a significantly longer period of time to complete than expected and has been halted amounts to R3 159 141 455(2018) and R2 094 756 273(2017) and has been associated with community unrest.

Revaluations

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration No. 4973/1. Revaluation methodology is available at BCMM.

5. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Software	47,627,420	(29,963,854)	17,663,566	29,389,579	(23,902,825)	5,486,754

Reconciliation of intangible assets - 2018

	Opening balance	**Transfers received**	**Amortisation**	**Total**
Software	5,486,754	18,237,839	(6,061,027)	17,663,566

Reconciliation of intangible assets - 2017

	Opening balance	**Transfers**	**Amortisation**	**Total**
Software	14,573,517	-	(9,086,763)	5,486,754
Servitudes	71,374,228	(71,374,228)	-	-
	85,947,745	**(71,374,228)**	**(9,086,763)**	**5,486,754**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

6. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage sites	49,779,875		49,779,875	49,779,875		49,779,875

Reconciliation of heritage assets 2018

	Opening balance	**Total**
Heritage sites	49,779,875	49,779,875

Reconciliation of heritage assets 2017

	Opening balance	**Transfers**	**Total**
Heritage sites	49,632,925	146,950	49,779,875

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. (This is an accounting disclosure)

Where practical, heritage assets were valued on the replacement value method and retrospectively restated on 01 July 2012 in accordance with the transitional provision applicable to GRAP 103. However, due to the nature of certain heritage assets, it is not possible or practical to establish a fair value associated with these assets and have been recognised in accordance with GRAP 103.94.

Heritage assets are reviewed annually for impairment. Some of the items carried at R1 had physical damages.

7. Investments in associate

Name of entity	**Carrying amount 2018**	**Carrying amount 2017**
BCMM share in IDZ - 26,000 shares @ 0,01c included in the carrying amount (Unlisted)	555,550,409	127,539,335
% holding	**26%**	**26%**

The carrying amount of the associate is shown net of impairment losses.

Movements in carrying value

Opening balance	127,539,335	112,291,660
Share of surplus	428,011,074	15,247,675
	555,550,409	**127,539,335**

Investment in associate amounted to R 555,550,409 (2017: R 127,539,335).

Fair value

Management could not make a reliable estimate of the fair value of the associate as the information to determine the fair value is not readily available. Management however believes that the face value approximates the fair value of the shares.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

7. Investments in associate (continued)

Principal activities, country of incorporation and voting power

Legal name	**Principal activity**	**Country of incorporation**	**Proportion of voting power**
East London Industrial Development Zone (Pty)Ltd	Development of East London's Industrial Development Zone.	SA	26%

Summary of controlled municipality's interest in associate

Total assets	700,103,530	537,478,296
Total liabilities	144,553,121	409,938,962
Revenue	109,700,413	31,111,930
Surplus	428,011,074	15,247,675
Total equity	**555,550,409**	**127,539,335**

Associates with different reporting dates

The financial statements of East London Industrial Development Zone (Proprietary) Limited have a different year end to BCMM and ELIDZ statements are prepared for the accounting period 01 April 2017 to 31 March 2018. Quarterly statements are also prepared for the period ending 30 June 2018.

Per Accounting Policy 1.7, the municipality uses the most recent available financial statement of the associate in applying the equity method. The amounts reflected above are for the period 01 July 2017 - 30 June 2018.

8. Operating leases

Non-current assets	74,719,678	72,081,541
Current assets	3,552,410	2,638,016
	78,272,088	**74,719,557**

Municipality as lessor: Operating leases minimum future receivables		
No later than one year	3,469,243	2,539,164
Later than one year no later than 5 years	13,137,841	9,757,691
Later than 5 years	331,740,675	449,579,917
	348,347,759	**461,876,772**

These leases are in respect of municipal properties that are leased to third parties. These leases are payable by lessees, either monthly or annually. Leases payable monthly and annually by lessees escalate at annual fixed rates that vary between 0% and 12.5% annually.

No contingent rent was recognised as revenue because rental increases are escalated at a fixed percentage. Increases are not based on indices or bases that result in a fluctuating interest rate.

The operating lease accrual arises from the differences between the actual rental and average rental at balance sheet date. During the 2017/18 financial year the net amount of R3 552 410 (2017: R2 638 016) has been accrued.

There are no sublease arrangements.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

9. Post - retirement medical obligations

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

	2018	2017
Carrying value		
Balance at the beginning of the year	527,298,221	505,115,904
Interest cost	48,169,637	46,816,201
Current service cost	24,732,544	23,369,129
Actual employer benefit payments	(21,631,042)	(20,347,264)
Actuarial gain recognised in the year	(40,594,733)	(27,655,749)
	537,974,627	**527,298,221**
Non-current liabilities	(516,343,584)	(506,950,957)
Current liabilities	(21,631,043)	(20,347,264)
Net liability	**(537,974,627)**	**(527,298,221)**
Net costs		
Interest cost	48,169,637	46,816,201
Current service cost	24,732,544	23,369,129
Actuarial gain recognised in the year	(40,594,733)	(27,655,749)
Net costs per Statement of Financial Performance	**32,307,448**	**42,529,581**

The best estimates for the employer benefit payments in the 2018/19 financial period is expected to be R19 595 206 (The actual employer benefit payments in the 2017/18 financial period was R21 631 042).

The municipality employees contribute to 5 accredited medical aid schemes, namely LA Health, Bonitas, Key Health, SAMWU Med and Hosmed. Pensioners continue on the option they belonged to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was prepared in July 2018 by ARCH Actuarial Consulting using the Projected Unit Credit Method.

The municipality opted not to recognise the actuarial loss applying the "Corridor" method.

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. The liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

9. Post - retirement medical obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	9.59 %	9.29 %
Health care cost inflation rate	7.40 %	7.60 %
Net discount rate	2.04 %	1.57 %
Maximum subsidy inflation rate	5.18 %	5.33 %
Net discount rate for capped subsidies	4.20 %	3.76 %
Average retirement age	63	63
Post - retirement mortality	PA(90) - 1	PA(90) - 1
Pre - retirement mortality	SA 85-90	SA 85-90
Proportion married at retirement	90.00 %	90.00 %
Continuation of membership at retirement	100.00 %	100.00 %
In-service members		
Number of in-service members	3304	3214
Average age	44.3	43.8
Average past service	11.6	11.1
Average present value of subsidy at retirement	R 1571	R 1562
Continuation members		
Number of principle members	532	540
Proportion with spouse dependants	41%	41%
Average age of members	71.4	71.0
Average employer contribution p.m.	R 2960	R 2934

9. Post - retirement medical obligations (continued)

Sensitivity results

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

- A 1% increase and decrease in the assumed rate of health care cost inflation;
- A 1% increase and decrease in the discount rate;
- A one-year age reduction in the assumed rates of post-retirement mortality;
- A one-year decrease in the assumed average retirement age; and
- A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Assumption	Change	In-service members	Retirement members	Total	% change
Central assumptions		323.315	214.660	537.975	
Health care inflation	+1%	355.631	229.431	585.062	+9%
	-1%	285.146	199.921	485.067	-10%
Discount rate	+1%	271.865	198.040	469.905	-13%
	-1%	388.683	233.965	622.648	+16%
Post-retirement mortality	-1yr	332.566	222.821	555.387	+3%
Average retirement age	-1yr	358.369	214.660	573.029	+7%
Continuation of membership at retirement	-10%	290.983	214.660	505.643	-6%

Note : The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.

The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 9% higher than that shown.

The table below summarises the results of this analysis on the Current-service and Interest costs for the year ending 30 June 2018.

Assumption	Change	Current service cost	Interest cost	Total	% change
Central assumptions		24 732 500	48 169 600	72 902 100	
Health care inflation	+1%	27 379 800	52 378 800	79 758 600	+9%
	-1%	21 431 500	43 364 600	64 796 100	-11%
Discount rate	+1%	20 448 900	46 367 600	66 816 500	-8%
	-1%	30 268 000	50 015 400	80 283 400	+10%
Post-retirement mortality	-1yr	25 469 900	49 810 500	75 280 400	+3%
Average retirement age	-1yr	26 907 300	51 165 400	78 072 700	+7%
Continuation of membership at retirement	-10%	22 259 300	45 338 100	67 597 400	-7%

These figures were derived at the last valuation and were also presented in that report.

The table below summarises the result of this analysis on the Current-service and Interest costs for the year ending 30 June 2019.

Assumption	Change	Current service cost	Interest cost	Total	% change
Central assumptions		25 123 600	50 673 700	75 797 300	
Health care inflation	+1%	27 866 200	55 184 900	83 051 100	+10%
	-1%	21 790 300	45 604 300	67 394 600	-11%
Discount rate	+1%	20 905 400	48 751 500	69 656 900	-8%
	-1%	30 537 200	52 661 200	83 198 400	+10%
Post-retirement mortality	-1yr	25 844 100	52 343 500	78 187 600	+3%
Average retirement age	-1yr	27 139 700	54 035 400	81 175 100	+7%
Continuation of membership at retirement	-10%	22 611 300	47 573 100	70 184 400	-7%

Figures in Rand	2018	2017

9. Post - retirement medical obligations (continued)

History of Liabilities, Assets and Experience Adjustments

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

Liability history	**30/06/2014**	**30/06/2015**	**30/06/2016**	**30/06/2017**	**30/06/2018**
Present value of accrued liability (R millions)	414.075	503.423	505.116	527.298	537.975
Fair value of plan asset	0.000	0.000	0.000	0.000	0.000
Surplus / (Deficit)	**(414.075)**	**(503.423)**	**(505.116)**	**(527.298)**	**(537.975)**

The table below summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occured.

Experience adjustments	**Year ending 30/06/2014**	**Year ending 30/06/2015**	**Year ending 30/06/2016**	**Year ending 30/06/2017**	**Year ending 30/06/2018**
Liabilities: (Gain) / Loss (R millions)	not disclosed	37.093	(11.690)	26.366	(1.794)

10. Inventories

	2018	2017
Electricity store (Electrical maintenance parts)	11,186,094	7,433,742
Workshop store (Mechanical maintenance parts)	454,051	263,628
Water store (Water maintenance parts)	3,399,936	18,388,611
Unsold water (Treated water in pipelines & reservoirs)	15,476,087	4,400,412
General stores (Chiselhurst, Mdantsane, KWT)	12,715,137	11,050,439
Fuel (Diesel, Petrol)	-	576,929
	43,231,305	42,113,761
Inventories (write-downs)	(474,802)	(3,569,225)
	42,756,503	**38,544,536**

Carrying value of stock is disclosed at the lower of cost and net realisable value.

The inventories (write-downs) amount is in respect of obsolete stock and not due to a change in accounting policy.

Inventory write-downs is included under note 40 : General Expenses - Other expenses.

Inventory pledged as security

No inventory was pledged as security.

Figures in Rand	2018	2017

11. Receivables from non-exchange transactions

Traffic fines	27,896,195	19,247,001
Other receivables (billing)	238,914,578	213,826,768
Other debtors	14,047,369	14,945,844
Accrued income	433,488,035	433,575,803
Property rates	431,077,615	382,888,435
Allowance for impairment property rates and other receivables billing	(391,435,417)	(474,392,515)
	753,988,375	**590,091,336**

Property rates age analysis		
Current (0-30 days)	74,517,231	73,552,633
31-60 days	27,423,925	24,583,006
61-90 days	13,221,235	17,129,903
91-120 days	10,453,639	16,266,037
121- 365 days	80,754,414	123,719,800
>365 days	224,707,171	127,637,056
	431,077,615	**382,888,435**

Other receivables (billing) age analysis		
Current (0-30 days)	6,823,366	10,355,497
31-60 days	4,511,124	3,865,562
61-90 days	3,593,903	3,102,951
91-120 days	3,223,118	2,890,146
121- 365 days	33,498,927	24,527,917
>365 days	187,264,140	169,084,695
	238,914,578	**213,826,768**

Traffic Fines		
Opening Balance - Total Outstanding Fines (Based on prior 3 years)	**74,026,927**	**44,177,468**
Less: Outstanding Fines in respect of prior third year	(13,023,604)	(16,276,265)
Total Traffic Fines Issued BCMM	**68,138,450**	**58,434,689**
Traffic Fines withdrawn, untraceable and uncollectable	(2,520,050)	(1,768,808)
Traffic Fines Paid	(15,036,942)	(10,540,157)
Total Outstanding Fines	**111,584,781**	**74,026,927**
Impairment (Based on a probability collection factor of approx. 25% - 2018 and 26% - 2017)	(83,688,586)	(54,779,926)
Traffic Fines Debtor	**27,896,195**	**19,247,001**

Trade and other receivables from non-exchange transactions pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivable.

These accounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Credit quality of trade and other receivables from non-exchange transactions

The credit quality of trade and other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

11. Receivables from non-exchange transactions (continued)

Trade and other receivables from non-exchange transactions impaired

As of June 30, 2018, trade and other receivables from non-exchange transactions of R536,567,332 (2017: R474,392,515) were impaired and provided for.

Amounts totalling R601 963 (2017: R37 820 814) were written off as uncollectable against the debt impairment allowance account. This represents 0.01% (2017: 0.0060%) of the total operating income for the year.

Reconciliation of allowance for impairment of trade and other receivables from non-exchange transactions

Opening balance	(474,392,515)	(334,021,137)
Provision for impairment	82,355,135	(178,192,192)
Amounts written off as uncollectible	601,963	37,820,814
	(391,435,417)	**(474,392,515)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 37). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or credit enhancements.

12. VAT receivable

VAT receivable	125,257,349	101,029,519

The above VAT receivable amount is the net amount of total VAT receivable R2 620 985 752 (2017: R3 559 077 380) less total VAT payable R2 496 070 982 (2017: R3 458 047 861).

The municipality is registered on the payment basis. VAT is declared to SARS on receipt of payments from customers and claimed once payment is made to suppliers.

13. Receivables from exchange transactions

Gross balances		
Electricity	298,544,178	266,198,191
Water	498,604,726	575,265,187
Sewerage	188,246,450	183,662,979
Refuse	242,221,931	248,348,193
Housing rental	41,350	43,221
	1,227,658,635	**1,273,517,771**
Less: Allowance for impairment		
Electricity	(158,580,820)	(161,202,891)
Water	(289,421,989)	(291,693,489)
Sewerage	(109,980,876)	(111,348,342)
Refuse	(141,515,444)	(150,564,690)
Housing rental	(41,350)	(43,221)
	(699,540,479)	**(714,852,633)**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

13. Receivables from exchange transactions (continued)

Net balance		
Electricity	139,963,358	104,995,300
Water	209,182,737	283,571,698
Sewerage	78,265,574	72,314,637
Refuse	100,706,487	97,783,503
	528,118,156	**558,665,138**
Electricity		
Current (0 -30 days)	207,590,024	174,431,780
31 - 60 days	11,950,693	27,997,691
61 - 90 days	6,437,138	5,885,480
91 - 120 days	4,497,083	8,459,007
121 - 365 days	27,523,077	22,692,947
> 365 days	40,546,163	26,731,285
	298,544,178	**266,198,190**
Water		
Current (0 -30 days)	95,286,884	78,359,270
31 - 60 days	38,688,753	29,969,147
61 - 90 days	29,465,456	20,493,924
91 - 120 days	22,776,748	23,698,046
121 - 365 days	122,579,833	136,969,961
> 365 days	189,807,052	285,774,839
	498,604,726	**575,265,187**
Sewerage		
Current (0 -30 days)	20,803,885	21,131,461
31 - 60 days	10,095,600	8,260,954
61 - 90 days	6,139,572	5,295,866
91 - 120 days	4,854,509	4,740,653
121 - 365 days	35,443,091	36,976,826
> 365 days	110,909,793	107,257,219
	188,246,450	**183,662,979**
Refuse		
Current (0 -30 days)	18,715,794	16,587,058
31 - 60 days	9,890,327	8,025,465
61 - 90 days	7,069,979	6,229,020
91 - 120 days	5,848,789	5,751,420
121 - 365 days	43,829,326	49,101,044
> 365 days	156,867,716	162,654,187
	242,221,931	**248,348,194**
Housing rental		
> 365 days	41,350	43,221

Notes to the Unaudited Separate Annual Financial Statements

13. Receivables from exchange transactions (continued)

Summary of debtors by customer classification: (This refers to the total debtor classification including exchange and non-exchange transactions as per billing system i.e. this includes rates and other billing receivables)

Figures in Rand	2018	2017
Consumers		
Current (0 -30 days)	151,272,713	146,978,647
31 - 60 days	72,230,183	59,196,777
61 - 90 days	50,941,046	42,743,613
91 - 120 days	39,214,312	42,409,250
121 - 365 days	239,075,703	297,206,084
> 365 days	610,107,621	767,689,771
	1,162,841,578	1,356,224,142
Less: Allowance for impairment	(694,952,599)	(913,489,081)
	467,888,979	**442,735,061**
Industrial/ commercial		
Current (0 -30 days)	198,769,732	201,317,712
31 - 60 days	22,444,623	39,436,041
61 - 90 days	10,275,826	14,401,510
91 - 120 days	7,500,303	18,365,710
121 - 365 days	64,162,852	93,169,129
> 365 days	115,034,165	199,664,028
	418,187,501	566,354,130
Less: Allowance for impairment	(249,922,686)	(275,756,067)
	168,264,815	**290,598,063**
National and provincial government		
Current (0 -30 days)	23,582,131	26,121,338
31 - 60 days	2,729,743	4,069,007
61 - 90 days	520,336	992,021
91 - 120 days	263,005	1,030,349
121 - 365 days	3,263,338	3,613,284
> 365 days	11,414,699	9,480,829
	41,773,252	**45,306,828**
Total		
Current (0 -30 days)	423,737,183	374,417,698
31 - 60 days	102,560,421	102,701,825
61 - 90 days	65,927,282	58,137,144
91 - 120 days	51,653,887	61,805,309
121 - 365 days	343,628,668	393,988,496
> 365 days	910,143,387	879,182,502
	1,897,650,828	1,870,232,974
Less: Allowance for impairment	(1,090,975,896)	(1,189,245,149)
	806,674,932	**680,987,825**
Less: Allowance for impairment		
31 - 60 days	(75,772,344)	(76,648,978)
61 - 90 days	(48,707,529)	(43,389,226)
91 - 120 days	(38,162,247)	(46,126,870)
121 - 365 days	(253,875,221)	(294,043,610)
> 365 days	(674,458,555)	(729,036,465)
	(1,090,975,896)	**(1,189,245,149)**

Figures in Rand	2018	2017
13. Receivables from exchange transactions (continued)		
Total debtor past due but not impaired		
Current (0 -30 days)	774,919,471	778,639,952
Reconciliation of allowance for impairment		
Balance at the end of the year	1,090,975,896	1,189,245,148

Consumer debtors pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any of the accounts receivable.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

Consumer debtors impaired

As of June 30, 2018, consumer debtors of R699,540,479 (2017: R714,852,633) were impaired and provided for.

Amounts totaling R274 928 434 as of June 30, 2018 (2017: R181 162 134) were written off as uncollectable against the debt impairment allowance account. This represents 0.0462% (2017: 0.0289%) of the total operating income for the year.

Reconciliation of allowance for impairment of consumer debtors

	2018	2017
Opening balance	(714,852,635)	(763,291,294)
Allowance for impairment	(125,284,341)	(132,723,475)
Amounts written off as uncollectible	140,596,497	181,162,134
	(699,540,479)	**(714,852,635)**

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 37). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

Refer to note 11 regarding impairment of non-exchange transactions.

In terms of the arrangements to repay rates and services debt as at 30 June 2018, 2596 (2017: 5419) debtors had active outstanding arrangements to the value of R35 486 337 (2017: R49 238 983). The repayment periods range from 1 month to a maximum of 24 months in terms of the Credit Control Policy.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	80,007	79,607
Bank balances	164,656,642	21,163,078
Call and short-term deposits	1,660,392,952	1,665,510,900
	1,825,129,601	**1,686,753,585**

Allocation of external investments (call and short-term deposits)		
BCMET	531,780	498,587
Own funding (operating account commitments)	1,659,861,172	1,665,012,313
	1,660,392,952	**1,665,510,900**

Call and short-term deposits per institution		
Absa (interest rate range 6.30% - 7.72% : 2017 6.35% - 6.50%)	414,689,209	414,964,957
Nedbank (interest rate range 6.30% - 7.85% : 2017 6.50%)	408,150,415	419,671,222
RMB (interest rate range 6.30% - 7.95% : 2017 6.50%)	415,168,994	416,475,663
Standard Bank (interest rate range 6.30% - 7.75% : 2017 6.50%)	295,161,008	254,375,775
Stanlib (interest rate range 7.29% - 7.55% : 2017 7.51% - 7.69%)	127,223,327	160,023,284
	1,660,392,953	**1,665,510,901**

Own funding includes the insurance and Compensation for Occupational Injuries and Diseases (COID) purposes.

No cash and cash equivalents (or portions thereof) were pledged as security for any financial liabilities.

No restrictions exist with regard to the use of cash. No portion is past due or impaired.

These amounts best represent the maximum exposure to credit rist at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

A cession by the Municipality in respect of the Department of Labour for COID amounts to R10 474 620 (2017 : R9 271 729)

The municipality had the following bank accounts:

Account number / description	**Bank statement balances June 30, 2018**	**Bank statement balances June 30, 2017**	**Cash book balances June 30, 2018**	**Cash book balances June 30, 2017**
ABSA BANK - Primary Account - 408-009-0281	241,424,838	243,343,217	159,594,559	16,463,219
ABSA BANK - Prism Account - 408-009-0574	-	-	3,710,137	3,991,136
ABSA BANK - Market Account - 408-009-0639	2,607,020	1,289,236	1,351,945	708,723
ABSA BANK - Unpaid Account - 408-009-0697	3,106	-	-	-
Total	**244,034,964**	**244,632,453**	**164,656,641**	**21,163,078**

15. Revaluation reserve

Opening balance	6,923,573,888	6,972,904,509
Change during the year	2,126,787,554	(49,330,621)
	9,050,361,442	**6,923,573,888**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018	2017
Government grants	43,730,865	60,738,312
Provincial grants	53,232,028	13,605,195
Other conditional grants	5,140,808	6,197,571
Agency - Land Affairs	182,141,961	170,289,196
	284,245,662	**250,830,274**

National Government	**Unspent balance 2017**	**Current years receipts / interest allocated**	**Transfer to revenue operating expenditure**	**Transfer to revenue capital expenditure**	**Transfers / Prior period error**	**Unspent balance 2018**
Financial Management Grant (FMG)	771	1,300,000	(1,299,567)	-	-	1,204
Integrated National Electrification Programme (INEP)	25,470,812	7,300,000	-	(19,444,295)	(13,325,949)	568
Electricity Demand: Side Management Grant (EDSM)	-	5,000,000	-	(4,999,982)	-	18
Urban Settlement Development Grant (USDG)	195	928,128,000	(65,131,354)	(765,810,138)	(96,895,150)	291,553
Expanded Public Works Programme (EPWP)	139	4,952,000	(4,916,940)	-	(34,982)	217
Intigrated City Development Grant (ICDG)	116,650	6,956,000	-	(6,956,000)	(116,650)	-
Infrastructure Skills Development Grant (ISDG)	2,013,060	10,560,000	(8,586,659)	-	(2,141,193)	1,845,208
Public Transport Network Grant	33,136,686	55,868,000	(4,593,997)	(36,991,983)	(5,826,523)	41,592,183
Subtotal	**60,738,313**	**1,020,064,000**	**(84,528,517)**	**(834,202,398)**	**(118,340,447)**	**43,730,951**

Provincial Government	**Unspent balance 2017**	**Current years receipts / interest allocated**	**Transfer to revenue operating expenditure**	**Transfer to revenue capital expenditure**	**Transfers / Prior period error**	**Unspent balance 2018**
Transitional Grant	113,769	-	-	-	-	113,769
King William's Town: Grants Government	2,053	-	-	-	-	2,053
European Commission	1,044,957	69,571	-	-	-	1,114,528
Gompo Survey (DVRI Hydroponics)	98,532	-	-	-	-	98,532
Human Settlement Development Grant (HSDG)	-	109,905,110	(71,002,960)	-	-	38,902,150
Rehabilitation of Stoney Drift Landfill Site (DEDEAT)	199,168	-	-	-	-	199,168
Gompo & Mdantsane Art Centres (DVRI Arts Centre)	861	-	-	-	-	861
Pilot Housing Project	268,793	-	-	-	-	268,793
Reeston Development - Land Affairs	140,029	25,185	-	-	-	165,214
Mdantsane Urban Renewal Project (Mount Ruth Node)	10,226,501	629,932	-	-	-	10,856,433
Ikhwezi Block 1 Development	175,288	-	-	-	-	175,288
Mdantsane Upgrade - MD Assessment Study	189,165	-	-	-	-	189,165
Needscamp Planning	937,253	-	-	-	-	937,253
Department of Sports, Recreation, Arts and Culture (DSRAC)	208,821	-	-	-	-	208,821
Subtotal	**13,605,190**	**110,629,798**	**(71,002,960)**	**-**	**-**	**53,232,028**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

16. Unspent conditional grants and receipts (continued)

Other conditional grants	Unspent balance 2017	Current years receipts / interest allocated	Transfer to revenue operating expenditure	Transfer to revenue capital expenditure	Transfers / Prior period error	Unspent balance 2018
Amatole District Municipality Funding (ADM)	1,673,270	-	-	-	-	1,673,270
Buffalo City Metro Transport (BCMET) Funding	487,499	-	-	-	-	487,499
VUNA Award	1,040,066	-	-	-	-	1,040,066
Friends of East London Zoo (Felzoo)	248,025	-	-	-	-	248,025
SALAIDA (Gavle)	1,750,800	169,352	(639,468)	(229,000)	-	1,051,684
Leiden	143,033	8,711	(77,470)	-	-	74,274
Umsobomvu Youth Fund	224,074	17,770	-	-	-	241,844
Glasgow Partnership	89,858	-	(89,858)	-	-	-
City of Oldenburg	540,950	36,168	(252,975)	-	-	324,143
Subtotal	**6,197,575**	**232,001**	**(1,059,771)**	**(229,000)**	**-**	**5,140,805**

Land Affairs	Unspent balance 2017	Current years receipts / interest allocated	Transfer to revenue operating expenditure	Transfer to revenue capital expenditure	Transfers / Prior period error	Unspent balance 2018
Land Affairs - West Bank	91,204,869	6,561,941	-	-	-	97,766,810
Land Affairs - East Bank	79,084,327	5,290,825	-	-	-	84,375,152
Subtotal	**170,289,196**	**11,852,766**	**-**	**-**	**-**	**182,141,962**

17. Borrowings

	2018	2017
At amortised cost		
Annuity loans	398,126,111	445,767,676
Non-current liabilities		
At amortised cost	345,554,088	398,126,111
Current liabilities		
At amortised cost	52,572,023	47,641,565

The municipality did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the borrowings were re-negotiated.

Figures in Rand	2018	2017

18. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Landfill Sites	176,492,077	34,874,717	211,366,794

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Landfill Sites	185,085,477	(8,593,400)	176,492,077

	2018	2017
Non-current liabilities	10,459,392	10,114,962
Current liabilities	200,907,402	166,377,115
	211,366,794	**176,492,077**

With regards to the Provision for Landfill sites it is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoil, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:

- Interest rate used is BCMM's borrowing rate at 9.91% (2017: 10.13%).

- The valuation for the landfill site provision in 2018 was done by Munitech (Pty) Ltd, a company which specialises in infrastructure maintenance and operations and municipal services, which includes solid waste collection and disposal. The company registration number is 1988/761/07 and the SAACE membership number is 439.

The expense relating to the provision is included under note 40: General Expenses - Other expenses.

The 2018 adjustment of R34 874 717 relates to an increase in the rehabilitation of landfill sites provision. The major portion of this increase can be attributed to the Roundhill Landfill site (2018: R29 729 109 / 2017: 0) which was considered to be a temporary site as at 30 June 2017, but as at 30 June 2018 was considered to be a permanent site to be rehabilitated.

19. Financial assets by category

2018

	Note	Financial assets at amortised cost	Total
Trade and other receivables from exchange transactions	13	528,118,156	528,118,156
Other receivables from non-exchange transactions	11	753,988,375	753,988,375
Cash and cash equivalents	14	1,825,129,601	1,825,129,601
VAT receivable	12	125,257,349	125,257,349
		3,232,493,481	**3,232,493,481**

2017

	Note	Financial assets at amortised cost	Total
Trade and other receivables from exchange transactions	13	558,665,138	558,665,138
Other receivables from non-exchange transactions	11	590,091,336	590,091,336
Cash and cash equivalents	14	1,686,753,585	1,686,753,585
VAT receivable	12	101,029,519	101,029,519
		2,936,539,578	**2,936,539,578**

Refer to note 50 - Risk management

20. Financial liability by category

2018

	Note	Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	22	77,722,616	-	77,722,616
Payments received in advance	22	126,723,055	-	126,723,055
Borrowings: Other financial liabilities	17	398,126,111	-	398,126,111
Trade and other payables	22	824,988,441	-	824,988,441
Consumer deposits	23	-	60,012,613	60,012,613
Other deposits	22	-	6,882,738	6,882,738
Unspent conditional grants	16	284,245,662	-	284,245,662
		1,711,805,885	**66,895,351**	**1,778,701,236**

2017

	Note	Financial liabilities at amortised cost	Measured at fair value	Total
Accrued leave pay	22	81,698,478	-	81,698,478
Payments received in advance	22	111,562,015	-	111,562,015
Borrowings: Other financial liabilities	17	445,767,676	-	445,767,676
Trade and other payables	22	564,981,799	-	564,981,799
Consumer deposits	23	-	57,321,210	57,321,210
Other deposits	22	-	6,444,246	6,444,246
Unspent conditional grants	16	250,830,274	-	250,830,274
		1,454,840,242	**63,765,456**	**1,518,605,698**

Refer to note 50 - Risk management

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

21. Deferred income

Deferred income	59,784,401	61,317,334

Deferred income relates to the increase of value on improvements done on property owned by BCMM i.e. Gillwell Taxi Rank, whereby the property has been leased to the developers for a period of 40 years. Deferred income is realised on an anual basis over the lease period.

22. Payables from exchange transactions

Trade payables	680,379,939	373,137,886
Payments received in advance	126,723,055	111,562,015
Retention monies	95,369,760	91,474,012
Accrued leave pay	77,722,616	81,698,478
Deposits received	6,882,738	6,444,246
Other creditors	49,238,742	100,369,901
	1,036,316,850	**764,686,538**

23. Consumer deposits

Electricity	36,285,976	35,131,606
Water	23,726,637	22,189,604
	60,012,613	**57,321,210**

The amounts reflected represent a cost value which is viewed to be the approximate fair value.

The consumer deposits are reflected at nominal value as they are utilised as part of the settlement of final consumer accounts.

Guarantees held in lieu of Electricity and Water deposits amounted to R19 626 779 (2017: R19 034 117).

24. Revenue

Service charges	2,590,799,677	2,586,141,402
Rental of facilities and equipment	19,311,562	19,062,021
Licences and permits	14,249,685	14,225,199
Total other revenue	151,272,551	136,997,618
Interest received - investment	175,866,976	198,236,537
Property rates	972,891,704	858,852,363
Government grants & subsidies	1,817,654,822	1,563,585,284
Levies	57,512,912	51,241,865
Public contributions and donations - PPE	3,393,726	-
Fines	23,698,183	16,895,710
Fuel levy	467,978,000	410,031,000
	6,294,629,798	**5,855,268,999**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	2,590,799,677	2,586,141,402
Rental of facilities and equipment	19,311,562	19,062,021
Total other revenue	151,272,551	136,997,618
Interest received - investment	175,866,976	198,236,537
	2,937,250,766	**2,940,437,578**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

24. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	972,891,704	858,852,363
Licences or permits	14,249,685	14,225,199
Transfer revenue		
Government grants & subsidies	1,817,654,822	1,563,585,284
Levies	57,512,912	51,241,865
Donations recieved	3,393,726	-
Fines	23,698,183	16,895,710
Fuel levy	467,978,000	410,031,000
	3,357,379,032	**2,914,831,421**

Traffic fines are made up as follows:		
Traffic fines movement	8,649,194	6,162,334
Revenue received	15,036,942	10,540,157
Revenue raised	**23,686,136**	**16,702,491**

Total fines outstanding at 30 June 2018 is R111 584 781 (R74 026 927 : 2017) after eliminating untraceable and collected fines. A probability factor of 25% (26% : 2017) collection of total outstanding fines was calculated which amounted to R27 896 195 (R19 247 001 : 2017). Refer to note 11.

The lifespan of traffic fines is as follows:

- Traffic offences in respect of which the admission of guilt amount is below R500: one year from date of issue of the warrant.
- Traffic offences in respect of which the admission of guilt amount is from R500 up to the maximum amount that may be determined by a peace officer in terms of section 56(1) of Act 51 of 1977: two years from the date of issue of the warrant.

The above arrangement also applies in traffic cases where a notice in terms of section 341 of Act 51 1977 is followed up by a summons setting admission of guilt up to the above maximum amount.

25. Service charges

Sale of electricity	1,652,544,245	1,663,415,697
Sale of water	366,054,887	452,690,201
Sewerage and sanitation charges	304,733,420	233,727,799
Refuse removal	249,496,723	211,459,007
Other service charges	17,970,402	24,848,698
	2,590,799,677	**2,586,141,402**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

26. Other revenue - (exchange)

Grazing fees	57,633	73,648
Fire brigade	32,570	42,016
Vehicle registrations	26,125,539	27,709,957
Street frontage and administration fees	210,735	313,755
Town planning and sub-division fees	3,723,989	1,980,820
Commission	23,276,472	23,860,300
Private works	3,757,440	3,923,933
Tender receipts	960,062	646,620
Coupons and clip tickets	563,412	594,344
Plan approval fees	13,070,859	8,628,933
Sale of scrap waste	2,956,040	2,787,625
Cold storage fees	1,089,303	877,034
Hire charges	24,128	15,384
Photocopies	114,632	94,409
Library	170,432	821
Insurance	3,835,212	2,566,739
Sale of plants and animals	9,213	3,962
Admission fees	2,863,818	2,871,384
Service connections and reconnections	45,415,264	37,666,242
Sundry income	12,693,817	12,972,011
Cemetery fees	10,321,981	9,367,681
	151,272,551	**136,997,618**

27. Interest Received

Interest revenue		
Call accounts with financial institutions	108,729,758	131,383,178
Bank	17,815,608	16,427,866
Interest charged on trade and other receivables	49,321,610	50,425,493
	175,866,976	**198,236,537**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

28. Property rates

Rates received

Residential	474,277,677	477,693,060
Commercial	466,691,322	367,288,023
Public Benefit Organisation	54,595	138,732
Educational	12,561,680	11,420,069
Agricultural	7,070,932	7,049,122
Public Service Infrastructure	1,178,488	1,237,058
Vacant land	43,934,354	34,826,626
Less: Income forgone	(32,877,344)	(40,800,327)
	972,891,704	**858,852,363**

Valuations

Residential	47,944,269,949	47,678,034,949
Commercial	17,684,155,647	17,758,363,747
Public Benefit Organisation	81,658,000	75,641,000
Rural Communal Land	3,552,303,000	2,870,482,000
Educational	1,681,587,000	1,663,446,000
Agricultural	2,828,176,840	2,911,542,840
Public Service Infrastructure	354,417,000	598,612,000
Vacant Land	1,087,914,730	3,312,213,401
	75,214,482,166	**76,868,335,937**

The Buffalo City Metropolitan Municipality is required, in terms of the Municipal Property Rates Act, Act 6 of 2004 (MPRA) to undertake a General Valuation on land and buildings every 4 years and a supplementary valuation at least once a year. The second valuation in terms of MPRA was done in 2013 and the implementation date is 1 July 2014. The valuation date is 1 July 2013.

Rates are levied on a monthly basis (the due date for monthly accounts is the 15th of every month). Consumers must apply if they want to pay annually with the final date for payment for annual accounts being 30 September 2017. Interest at a standard rate (as amended from time to time), is levied on rates outstanding after 30 September, except where the owner is paying in installments.

Tarifffs levied: cents in the rand		
Agricultural	0.002665	0.002431
Business	0.026649	0.024315
Educational	0.007462	0.006808
Public Service Infrastructure	0.002665	0.002431
Residential	0.010660	0.009726
Vacant Land	0.031979	0.029178
Public Benefit Organisations	0.002665	0.002431
Municipal Non-rateable	0.000001	0.000001
Municipal Residential	0.010660	0.009726
Municipal Business	0.026649	0.024315
Municipal Educational	0.007462	0.006808
Rural Communal Land	0.000001	0.000001
Specialized	0.000001	0.000001

Figures in Rand	2018	2017

28. Property rates (continued)

Municipal properties

Rateable Municipal Properties (leased properties and property sold by the municipality of which occupation was given to the owner) to the property value of R9 396 000, were previously reflected on the valuation roll under the category of municipal properties. In terms of the definition of the owner in the Municipal Property Rates Act,6 of 2004 a lessee of a municipal owned property and a buyer in case of a property sold by the municipality, of which occupation was given to the buyer pending registration of the property, is regarded as the owner of the property.

These properties were therefore removed from a category of municipal property and placed on the relevant category based on the use of the property.

Buffalo City Metropolitan Municipality grants rebates in terms of the Municipality's rates policy to the following category of owners:

1) Newly developed commercial/ industrial properties with a value of R50 000 000 or above.

The rebate will be phased in over a period of 5 years, from the effective date of the valuation of the improved property in the municipality's valuation roll as follows:

Year 1 – 50%

Year 2 – 40%

Year 3 – 30%

Year 4 – 20%

Year 5 – 10%, thereafter, full rates will be payable.

2) A rebate/ discount of up to 75%, where the Municipality does not supply some or all of the following services:

	2018	2017
Constructed public roads	15%	15%
Water supply	22.5%	22.5%
Refuse removal service	7.5%	7.5%
Electricity supply	15%	15%
Sewerage service	15%	15%
	75%	**75%**

3) A rebate to senior citizens if they meet certain requirements.

Senior citizens from 60 years and above qualify for up to 100% depending on their income level allocated as follows:

Gross monthly income (Rand)	**Rebate**
0 - 3000	100%
3001 - 4500	85%
4501 - 6000	70%
6001 - 7500	55%
7501 - 9000	40%
9001 - 10500	25%

4) Public Benefit Organisations (ex-Grant in Lieu of rates recipients) are granted rebates on application.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

28. Property rates (continued)

5) Section 17 of the MPRA lists other impermissible rates, where a municipality may not levy a rate and the following were applied in the 2017/18 finanicial year:

Section 17(1)(a) - First 30% of the market value of public service infrastructure.

Section 17(1)(h) - R 15 000 on market value of residential properties.

Section 17(1)(i) - Properties registered in the name of and used for public worship by religious communities, including an official residence registered in the name of that community which is occupied by an office bearer of that community.

29. Grants and subsidies paid

Other subsidies		
Buffalo City Metropolitan Development Agency	20,219,108	16,511,226
Mayoral Social Responsibility	949,663	546,533
Sponsored Sporting Events	28,281,696	33,141,756
Other Organisations	1,568,872	1,464,682
	51,019,339	**51,664,197**

30. Government grants and subsidies

Operating grants		
Government grants - operating projects	92,672,155	90,758,625
Other Government grants and subsidies	723,392,164	697,140,142
Government grants - housing projects	71,002,960	105,906,182
	887,067,279	**893,804,949**
Capital grants		
Government grant (capital: PPE)	930,587,543	669,780,335
	1,817,654,822	**1,563,585,284**

31. Other revenue - (non-exchange)

Dog tax and penalties	785,765	807,481
BCDA winding	-	1,013,279
Fire levy	56,727,147	49,421,105
	57,512,912	**51,241,865**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

32. Employee related costs

Basic emoluments	1,098,159,725	949,500,570
Medical aid contributions	84,980,056	74,863,227
UIF	9,600,340	8,950,567
Leave pay contributions (Leave pay provision charge)	27,896,526	38,424,043
Pension fund contributions	193,915,892	151,769,329
Overtime payments	148,874,886	125,337,497
Long-service awards	22,535,285	20,819,344
13th Cheques	77,149,199	69,714,878
Car allowance	28,268,123	25,258,710
Housing benefits and allowances	7,606,822	10,186,099
Essential user cost	26,137,261	23,661,596
Group life	7,002,118	6,618,073
Other allowances	59,429,681	69,606,220
Post-retirement medical obligation net cost	32,307,448	42,529,581
	1,823,863,362	**1,617,239,734**

Remuneration of City Manager

Annual Remuneration	1,324,609	382,033
Travel Allowance	312,000	45,000
Allowance	296,858	181,288
UIF	1,785	478
Medical Aid	26,431	2,130
Pension Contributions	263,384	59,256
	2,225,067	**670,185**

With regards to 2017, the position of the City Manager became vacant on 28 September 2016 and was filled on 01 June 2017. If the position was filled for the entire financial year the remuneration would have amounted to R2 101 101. Acting allowance to the value of R167 344 was paid in the 2016/17 financial year in respect of the vacant City Manager post.

Remuneration of Chief Finance Officer

Annual Remuneration	1,067,628	1,012,930
Travel Allowance	288,000	288,000
Allowance	146,482	122,893
UIF	1,785	1,785
Medical Aid	47,307	46,212
Pension Contributions	208,187	197,521
Group Life	19,990	18,875
	1,779,379	**1,688,216**

Remuneration of HOD: Executive Support Services

Annual Remuneration	1,063,487	1,004,237
Travel Allowance	242,766	242,765
Allowance	234,514	208,038
UIF	1,785	1,785
Medical Aid	24,337	23,201
Pension Contributions	191,946	180,763
Group Life	13,644	12,939
	1,772,479	**1,673,728**

Remuneration of HOD: Human Settlements

Annual Remuneration	227,241	-

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

32. Employee related costs (continued)

Travel Allowance	70,448	-
Allowance	21,743	-
UIF	446	-
Medical Aid	11,309	-
Pension Contributions	40,903	-
Group Life	4,255	-
Housing Subsidy	2,390	-
	378,735	**-**

The position was filled on 01 April 2018.

If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940. Acting allowance to the value of R114 633 was paid in the 2017/18 financial year in respect of the vacant HOD: Human Settlements position.

Remuneration of HOD: Corporate Services

Annual Remuneration	1,063,487	1,004,237
Travel Allowance	240,000	240,000
Allowance	216,699	196,621
UIF	1,785	1,785
Medical Aid	43,127	35,259
Pension Contributions	207,380	195,826
	1,772,478	**1,673,728**

Remuneration HOD: Health and Public Safety

Annual Remuneration	387,572	-
Allowance	171,641	-
UIF	744	-
Pension Contributions	71,268	-
	631,225	**-**

The position was filled on 01 February 2018.

If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940. Acting allowance to the value of R44 903 was paid in the 2017/18 financial year in respect of the vacant HOD: Health and Public Safety position.

Remuneration of HOD: Infrastructure Services

Annual Remuneration	1,063,487	1,004,237
Travel Allowance	168,000	168,000
Allowance	295,195	269,876
UIF	1,785	1,785
Medical Aid	22,988	21,065
Pension Contributions	207,380	195,826
Group Life	13,644	12,939
	1,772,479	**1,673,728**

Remuneration of HOD: Development and Spatial Planning

Annual Remuneration	1,063,487	1,004,237
Travel Allowance	192,000	192,000
Allowance	271,887	243,533
UIF	1,785	1,785
Medical Aid	26,843	27,720
Pension Contributions	207,380	195,826
Group Life	9,097	8,627

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

32. Employee related costs (continued)

	1,772,479	**1,673,728**

Remuneration of HOD: Municipal Services

The position was vacant for 2017/18.

If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940. Acting allowance to the value of R133 914 was paid in the 2017/18 financial year in respect of the vacant HOD: Municipal Services position.

Remuneration of HOD: Economic Development & Agencies

	2018	2017
Annual Remuneration	467,921	-
Travel Allowance	133,429	-
Allowance	152,227	-
UIF	892	-
	754,469	**-**

The position was filled on 01 February 2018.

If the position was filled for the entire financial year the remuneration would have amounted to R1 514 940.

33. Remuneration of councillors

	2018	2017
Executive Mayor	789,100	735,333
Deputy Executive Mayor	637,293	595,007
Mayoral Committee Members	5,828,524	4,542,575
Speaker	637,293	595,007
Chief Whip	601,134	552,270
Councillors salaries	25,343,192	24,727,347
Councillors pension contribution	4,135,819	3,400,255
Councillors housing subsidy	2,260,632	2,801,464
Councillors medical Aid	2,070,347	1,717,336
Travel allowance	13,122,948	13,047,476
Cellphone Allowance	4,046,739	2,309,234
	59,473,021	**55,023,304**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. Cost of secretarial support amounts to R18 867 918 (2017: R14 670 995).

The House Keeper's cost to Council amounts to R300 872 (2017: R19 414).

The Executive Mayor, Deputy Executive Mayor and Speaker each have the use of a Council owned vehicle for official duties. Repairs to the vehicles amounts to R386 444 (2017: R225 144). An amount of R892 225 (2017: R1 030 361) was incurred for hired vehicles.

The Executive Mayor, Deputy Executive Mayor and Speaker each have full-time bodyguards. Cost of 14 bodyguards amounts to R10 221 059 (2017: R11 258 124).

34. Depreciation and amortisation

	2018	2017
Property, plant and equipment	980,939,860	797,632,096
Intangible assets - amortisation (Refer note 5)	6,037,168	9,086,765
	986,977,028	**806,718,861**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

35. Impairment of assets

Impairments		
Investment property	9,433,375	-
This impairment relates to numerous acts of vandalism on the Jan Smuts Stadium.		

36. Finance costs

Non-current borrowings	43,935,228	49,359,417
Other interest paid (Arrears salaries)	19,552	-
	43,954,780	**49,359,417**

37. Debt impairment

Contributions to debt impairment allowance account	188,054,489	310,915,665

38. Bulk purchases

Electricity	1,345,951,511	1,360,783,502
Water	209,054,695	197,730,305
	1,555,006,206	**1,558,513,807**

39. Repairs and maintenance

Repairs and maintenance	355,291,890	381,128,352

The above repairs and maintenance are made up of the below categories		
Infrastructure	289,909,578	335,431,103
Community Assets	26,420,609	17,753,418
Other Assets	38,961,703	27,943,831
	355,291,890	**381,128,352**

Figures in Rand	2018	2017

40. General expenses

Advertising	12,935,314	8,126,494
Assessment rates & municipal charges	19,439,844	20,345,564
Auditors remuneration	12,809,701	13,082,942
Bank charges	4,937,798	9,013,984
Cleaning	528,645	391,884
Commision paid	39,328,655	22,588,230
Consulting and professional fees	25,501,472	26,924,887
Consumables	35,970,541	25,355,516
Entertainment	10,260,941	5,653,888
Hire (Labour and plant)	5,832,530	291,825
Insurance	19,886,610	19,554,327
Conferences and seminars	4,501,159	7,581,438
IT expenses	38,366,730	36,932,518
Marketing	2,832,548	5,437,158
Levies	15,832,040	15,931,036
Magazines, books and periodicals	972,914	1,158,853
Motor vehicle expenses	4,350,948	4,056,727
Fuel and oil	45,490,678	35,714,534
Hire (labour and plant)	6,168,431	6,476,064
Printing and stationery	7,875,683	9,689,098
Promotions	553,125	381,268
Projects	264,424,427	258,826,397
License fees	2,243,126	3,509,226
Special events	7,309,414	17,023,547
Security (Guarding of municipal property)	761,199	374,677
Subscriptions and membership fees	14,373,703	12,840,602
Telecommunication costs (telephones, faxes and cell phones)	24,318,397	21,963,089
Training	8,386,508	28,630,510
Travel - local	15,557,220	7,631,934
Travel - overseas	1,023,049	1,982,201
Title deed search fees	132,980	142,755
Uniforms	9,412,861	8,782,112
Lease rentals on operating lease	114,659,970	112,923,680
Remuneration to WARD Committees	6,777,432	673,479
Disconnections	11,124,523	11,638,639
Other expenses	64,167,927	60,617,353
	859,049,043	**822,248,436**

41. Fair value adjustments and discounting of receivables and payables

Investment property (Fair value model)	52,080,854	-
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	-	4,968,023
	52,080,854	**4,968,023**

42. Auditor General remuneration

Audit fees	12,809,701	13,082,942

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand		2018	2017

43. Cash (utilised by)/ generated from operations

Surplus		842,516,516	191,575,759
Non cash movements:			
Depreciation and amortisation	34	986,977,028	806,718,861
Loss on sale of assets	4	82,677	31,097,166
Share of profit of associate	7	(428,011,074)	(15,247,675)
Fair value adjustment on Investment property revalued	41	(52,080,854)	(4,968,023)
Impairment deficit	35	9,433,375	-
Debt impairment	37	188,054,489	310,915,665
Movements in operating lease assets and accruals	8	(3,552,531)	(2,771,947)
Movements in retirement benefit assets and liabilities	9	10,676,406	22,182,317
Movements in provisions	18	34,874,717	(8,593,400)
Non-cash adjustments on PPE (Transfers / Adjustments)	4	(27,474,155)	(16,807,952)
Difference in revaluation recognised in PPE and SoCNA	4	-	(6,301,429)
Difference in depreciation and impairment reversal on PPE	4	-	305,243
Derecognition of Investment property	3	-	5,257,537
Non-cash intangible asset transfer	5	(18,237,817)	71,374,228
Non-cash heritage asset transfer	6	-	(146,950)
Opening balance adjustments on PPE 2017	4	-	(7,526,184)
Prior year adjustments	49	-	(213,477,570)
Difference in amortization	6	23,859	-
Difference in fair value adjustment Investment property	3	1,532,932	-
Changes in working capital:			
Inventories	10	(4,211,967)	(2,514,299)
Movement in Receivables from exchange transactions	13	(157,507,507)	(421,527,314)
Other receivables from non-exchange transactions	11	(163,897,039)	117,885,268
Payables from exchange transactions	22	271,630,312	(315,920,348)
Movement in VAT receivables	12	(24,227,830)	(4,181,757)
Unspent conditional grants and receipts	16	33,415,388	39,563,879
Consumer deposits	23	2,691,403	3,613,140
		1,502,708,328	**580,504,215**

44. Operating leases - as lessee (expense)

Minimum lease payments due - Buildings		
- within one year	13,327,664	3,568,429
- in second to fifth year inclusive	13,546,076	3,014,541
	26,873,740	**6,582,970**

Operating lease payments represent rentals payable by the municipality for certain of its office properties.

Leases are negotiated for an average term of five years and rental escalates at annual fixed rates that vary between 0% and 12% annually.

No contingent rent is payable.

Minimum lease payments due - Print Machines		
- within one year	6,265,263	-
- in second to fifth year inclusive	9,666,220	-
	15,931,483	**-**

Operating lease payments represent rentals payable by the municipality for certain of its print machinery.

Leases are negotiated for an average term of three years and there is no rental escalation.

No contingent rent is payable.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

45. Commitments

Authorised capital expenditure

Already contracted for but not provided for - Property, plant and equipment		
• Community (including housing)	350,099,255	423,960,160
• Infrastructure	684,938,681	890,161,795
• Other	4,262,168	17,897,723
	1,039,300,104	**1,332,019,678**

This committed expenditure relates to Infrastructure, Community and other Property, Plant and Equipment.
The above amounts exclude VAT.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

46. Contingent liabilities

Litigation issues

Claims have been instituted against Council due to alleged assault and defamation. Legal advice has been sought and Council will defend claim. (Resolved)	-	500,000
Claims have been instituted against Council due to alleged outstanding payments, contractual disputes and various damage claims.	2,201,201	5,620,082
A claim has been instituted against Council by Dalwick Trading in respect of alleged breach of contract. The contractor presented BCMM with a letter of appointment regarding a 2010 Legacy Project but there is no record within BCMM of the contractor tendering or being awarded the contract (Date of incident August 2008 and summons received by BCMM November 2010). (Resolved)	-	1,563,415
A claim has been instituted against Council by M.Sithole for damages suffered as a result of his appointment as Municipal Manager being rejected by Council (Date of incident August 2009 and summons received by BCMM June 2011). (Resolved)	-	1,382,118
A claim has been instituted against Council by RJW Ikusasa JV due to cancellation of a contract to lay a bulk sewer pipe due to non performance (Summons received by BCMM November 2007).	9,780,185	9,780,185
A claim has been instituted against Council by Tshiki & Sons Inc seeking a court order to compel Council to pay fees allegedly due in respect of Conveyancing work done on Council's behalf (Date of incident September 2011 and letter of demand received by BCMM June 2014).	11,993,894	11,993,894
A claim has been instituted against Council by Nurcha Development & Tusk Construction for alleged breach of contract (Cession agreement signed by the Contractor New Boss CC) (Date of incident June 2011 and summons received by BCMM January 2012).	1,921,831	1,921,831
A claim has been instituted against Council by Mkwanazi Construction (Pty) Ltd claiming for damages arising from alleged delays and disruptions in the construction project (Date of incident October 2011 and summons received by BCMM April 2012). (Resolved)	-	36,861,290
Contracts awarded during Dr. Zitha's tenure as Acting Municipal Manager were investigated by forensic auditors. The forensic investigation has been completed and a final report has been submitted to Council. Council is to decide on the outcome of the report.	20,474,866	20,474,866
A claim has been instituted against Council by Reigerton Farms for Gonubie Main Road (Letter of demand received April 2013).	15,812,736	15,812,736
A claim has been instituted against Council by Ranamane Mokalane Incorporated for professional fees owed for services rendered by them (Date of incident April and May 2010 and summons received March 2013).	2,724,871	2,724,871
A claim has been instituted against Council by Ursa Give JV for work allegedly completed by them for BCMM (Date of incident March 2014 and summons received December 2014).	1,171,701	1,171,701
A claim has been instituted against Council by Primelands Properties for cancellation of a tender awarded to them by BCMM (Letter of demand received July 2014). The amount disclosed in the 2014/2015 financial year was as per the letter of Demand received by BCMM which was R14,400,000. When Primelands issued the Summons in the 2015/2016 financial year the amount was 17,465,502 and the contingent liability has been amended to reflect the amount on the Summons.	17,465,502	17,465,502
A claim has been instituted against Council by THM Engineers & Others for payment of additional fees relating to a contract to construct toilets (Date of incident May 2014 and summons received October 2014).	1,157,925	1,157,925
A claim has been instituted against Council by Adalwa Trading cc for unlawful termination of contract and non-payment for services rendered (Date of incident June 2015 and summons received September 2015).	11,452,000	11,425,000
	96,156,712	**139,855,416**

Labour Issues

"Directors bonuses. The liability for the 2016/2017 financial year was calculated from 2012/2013 to 2016/2017 whereas the liability for the 2017/2018 financial year was calculated from 2012/2013 to 2017/2018."	7,978,898	6,160,574

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017
46. Contingent liabilities (continued)		
Labour disputes which have resulted in possible claims by employees.	5,423,387	6,468,837
Unfair Labour Practice Dispute has been instituted against Council by C. Krause in relation to occupational detriment dispute and termination of fixed term contract.	1,690,836	1,690,836
Unfair Labour Practice Dispute has been instituted against Council by Senior Finance Employees in relation to Scarce Skills Allowance back dated to 01 March 2012.	12,000,000	12,000,000
	27,093,121	**26,320,247**

Insurance Issues

Claims have been instituted against Council due to alleged assault, unlawful/wrongful arrest, defamation and various personal injury claims. Legal advice has been sought and Council will defend claims where so advised.	5,688,308	6,699,257
Claims have been instituted against Council due to various damage claims.	1,908,586	3,516,245
A claim has been instituted against Council by T. Bejia and D.H.E. Bejia in respect of personal injury and vehicle damages caused by a pothole (Date of incident July 2012 and claim received by BCMM December 2012).	7,001,517	7,001,517
A claim has been instituted against Council by S. Tsolekile in respect of personal injury caused by tripping in an open manhole (Date of incident January 2013 and Summons received by BCMM November 2013). (Resolved)	-	4,000,000
A claim has been instituted against Council by A.N. Ndzamela in respect of financial loss caused by the incorrect approval of a plan (Date of incident October 2007 and claim received by BCMM August 2014). (Resolved)	-	1,500,000
A claim has been instituted against Council by N.E. Sokoyi in respect of the death of her son caused by an electrical cable (Date of incident November 2012 and claim received by BCMM November 2015). (Resolved)	-	1,400,000
A claim has been instituted against Council by N. Ndamase in respect of injury to her son caused by collapsed floodlight mast (Date of incident October 2015 and claim received by BCMM May 2016). (Resolved)	-	1,100,000
A claim has been instituted against Council by H. Dirker in respect of injury caused by a waterslide (Date of incident December 2013 and claim received by BCMM March 2016).	4,000,000	4,000,000
A claim has been instituted against Council by M. Noland, E. Johannes, C.A. Fraser, G. Peacock, R. Windvogel, A. Gomo and R. Hurling in respect of an alleged shooting incident (Date of incident May 2016 and claim received May 2016).	1,400,000	1,400,000
A claim has been instituted against Council by D. Mangaliso in respect of injury to her son caused by falling into a sewage water pit (Date of incident June 2016 and claim received by BCMM August 2016).	900,000	900,000
A claim has been instituted against Council in the 2016 financial year by N.F. Magade in respect of the death of her child caused by an electrical cable (Date of incident June 2016 and claim received by BCMM September 2016).	10,200,000	1,000,000
A claim has been instituted against Council in the 2016 financial year by Z. Maholwana in respect of injury caused by falling into an open manhole (Date of incident November 2016 and claim received by BCMM January 2017).	1,600,000	1,600,000
A claim has been instituted against Council in the 2015 financial year by S. Sithole in respect of injury caused by a sliding gate that fell on her (Date of incident March 2015 and Summons received by BCMM September 2016).	3,800,000	3,800,000
A claim has been instituted against Council by X.P. Mlombo-Cibi in respect of personal injury caused by falling into an open manhole. (Date of incident October 2016 and Summons received by BCMM December 2017).	1,204,500	-
A claim has been instituted against Council by X. Nkence in respect of personal injury caused by falling into an open manhole. (Date of incident November 2016 and Summons received by BCMM December 2017).	1,500,000	-
A claim has been instituted against Council by N. Rubushe in respect of the death of her child caused by an electrical cable (Date of incident July 2015 and Summons received by BCMM May 2018).	2,490,000	-
A claim has been instituted against Council by N.T. Danisa in respect of personal injury caused by falling on uneven road surface. (Date of incident August 2017 and claim received by BCMM July 2018).	1,500,000	-

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017
46. Contingent liabilities (continued)		
A claim has been instituted against Council by K. Solombela in respect of personal injury caused by falling into an open manhole. (Date of incident February 2018 and claim received by BCMM March 2018).	1,500,000	-
A claim has been instituted against Council by A. Baninzi in respect of alleged assault and wrongful arrest (Date of incident December 2017 and claim received by BCMM May 2018).	5,000,000	-
A claim has been instituted against Council by Z. Ngcaba in respect of the death of her child caused by drowning in a dam. (Date of incident February 2018 and claim received by BCMM May 2018).	2,500,000	-
A claim has been instituted against Council by L. Zitumane in respect of personal injury as a result of falling off his motorcycle due to a pothole. (Date of incident May 2018 and claim received by BCMM June 2018).	2,500,000	-
A claim has been instituted against Council by A. Siwisa and C. Mdabula in respect of the death of their child caused by electrocution by a transformer (Date of incident February 2017 and claim received by BCMM June 2018).	6,000,000	-
A claim has been instituted against Council by S. Sifumba in respect of personal injury caused by falling into an open drain. (Date of incident January 2018 and claim received by BCMM August 2018).	1,500,000	-
A claim has been instituted against Council by N. Toto in respect of the death of her child caused by drowning in a sewerage dam. (Date of incident December 2016 and claim received by BCMM August 2018).	1,000,000	-
	63,192,911	**37,917,019**
Total Contingent Liabilities	**186,442,744**	**204,092,682**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

47. Contingent assets

A counterclaim of R27 140 802 (2017: R27 140 802) has been instituted by Council against Dormell Properties trading as Alliance Communications for repayment of amounts paid to them relating to the forensic investigation on Dr Zitha's appointments.

BCMM purchased property in the amount of R762 440 (2017: R762 440) from Roger Rodney Smith who has now instituted a claim against Council for the sale to be reversed. If successful, BCMM will be refunded the amount.

Summons in the amount of R492 050 (2017: R492 050) have been issued to parties to recover costs incurred relating to a forensic investigation undertaken in respect of services rendered for waste sites.

A claim of approximately R515 946 (2017: R515 946) has been instituted by Council against ASBF Marking, Imigudu Joint Venture and Others due to contractor disputes whereby the contractor defaulted from their obligations in terms of the contract.

A claim in reconvention of R7 327 965 (2017: R7 327 965) has been instituted by Council against Phumelela Africa Professional Engineers t/a Phumaf Consulting Engineers (Pty) Ltd for repayment of amounts paid to them as the procurement processes were not followed.

A claim a of R48 687 (2017: R48 687) against Jikwana for payment of taxed costs in favour of BCMM.

A claim a of R33 714 (2017: R33 714) against Erf 14719 Zilmar Court Yard for payment of taxed bill of costs in favour of BCMM.

A claim a of R29 635 (2017: R29 635) against E.& J.M Randall for payment of taxed bill of costs in favour of BCMM.

A claim of R266 872 (2017: R266 872) against Rennies Travel (Pty) Ltd for the overpayment of services rendered to BCMM by Rennies Travel.

A claim a of R22 049 (2017: R22 049) against Johannes Jacobus Josia De Goede and Another for payment of taxed bill of costs in favour of BCMM.

A claim a of R90 000 (2017: R90 000) against Diko for payment of taxed bill of costs in favour of BCMM.

A claim of R7 910 305 (2017: R0) against Masiqhame Trading for the overpayment of services rendered to BCMM by Masiqhame Trading.

Certain bridges have been identified as existing within the demarcated area of Buffalo City Metropolitan Municipality, however have not been recognised in the financial records of the institution as it is not certain whether they are the responsibility of the Municipality. The Municipality is of the view that these bridges are the responsibility of the National and Provincial Department of Roads and Public Works, however as confirmation of this has not yet been received it is considered prudent to disclose the items.

The list of bridges are as follows:

47. Contingent assets (continued)

Location Address	Reference	Road Number or Street
Transnet	B16	Pontoon Road
SANRAL (Over the N2)	B24	Row Street
SANRAL (Over the N2 Abattoir)	B25	Abattoir Road
Privately owned next to Boxer	B58	Douglas Smit Highway
SANRAL on the N2	BE B14 BE B15	NR00215 (N2)
Province R63	BE B25/1 to BE B27/1	NR05601 (R63)
Provincial on R72 (SANRAL)	BE B5 to BE B9	TR04504 (R72)
Province on R63	DIM B13	TR05703 (R63)
Private	DIM B7	Private Road 583

The estimated carrying value of these bridges are R55 322 631 (2017: R55 322 631)

The Demarcation board pronounced new demarcations prior to 4th August 2016 elections, thereby allocating new assets from other municipalities to BCMM. Municipalities that are to transfer assets to BCMM are; Amathole District Municipality, Amahlathi Local Municipality, Great Kei Local Municipality and Ngqushwa Local Municipality. All four municipalities carry their assets at cost, while BCMM carries infrastructure assets at revaluation.

To be able to give a fair estimation of the value of the assets, BCMM was required to verify existence of each item being transferred, assess its condition, then determine its value based on revaluation model.

BCMM is not able to account for these items as part of their assets as they have not been verified due to late submission of information and unreliable and inaccurate data provided by transferring municipalities.

Estimated values of assets to be transferred to BCMM are as follows;

Municipality	Asset type	Estimated Value
Amathole District Municipality	Water Supply Network	35,539,241
Great Kei Local Municipality	Roads	102,021,371
Ngqushwa Local Municipality	Roads	1,665,118
Ngqushwa Local Municipality	Community facilities	5,193,057
Amahlathi Local Municipality	Roads	169,309
		144,588,096

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

48. Related parties

Controlled entities	Buffalo City Metropolitan Development Agency SOC Ltd
Associates	Refer to note 7

Buffalo City Metropolitan Development Agency (BCMDA) (a SOC Ltd company registration no 2016/168330/30).

The BCMDA was incorporated on 20 April 2016 as a Municipal Entity of BCMM. BCMDA is 100% controlled by BCMM.

BCMM relationship with BCMDA: Subsidiary - Buffalo City Metropolitan Development Agency (SOC) Ltd.

The municipality issued grants of R23 100 000 (VAT inclusive) to BCMDA during the current financial year (2017: R18 115 739 - VAT inclusive).

BCMDA has trade receivables of R0 and trade payables of R116 285 which relates to transactions with BCMM.

BCMDA has paid no consumer accounts during the current financial year.

There are no share based payments in respect of BCMDA.

There are no post-employment benefits for key personnel in respect of BCMDA.

BCMM paid an amount of R2 953 301 (2017: R317 628) VAT inclusive in respect of grass mowing, municipal services and office rental for the 2017/18 financial year to the East London IDZ.

All Councillors and Employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over Council in making financial and operating decisions.

49. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

Accumulated surplus prior to 2017	**Note**	**Error reference**	**As previously reported**	**Correction of error**	**Restated**
Opening balance	4	a	(10,153,317,376)	-	(10,153,317,376)
Receivables from non-exchange transaction - Property rates	11	f,j	-	133,034,112	133,034,112
PPE - Various	4	h	-	45,694,915	45,694,915
PPE - WIP	4	m,n	-	29,491,006	29,491,006
Investment property	3	i	-	5,257,537	5,257,537
			(10,153,317,376)	**213,477,570**	**(9,939,839,806)**

Revaluation reserve		**Error reference**	**As previously reported**	**Correction of error**	**Restated**
Opening balance 2017	4		(6,972,904,509)	-	(6,972,904,509)
PPE - Electricity	4	a	-	14,915,973	14,915,973
PPE - Community buildings	4	a	-	1,096,264	1,096,264
PPE - Roads	4	a	-	19,480,276	19,480,276
PPE - Wastewater network	4	a	-	12,575,352	12,575,352
PPE - Water network	4	a	-	1,587,576	1,587,576
PPE - Recreational facilities	4	a	-	(1,340,030)	(1,340,030)
PPE - Other properties	4	a	-	1,015,210	1,015,210
			(6,972,904,509)	**49,330,621**	**(6,923,573,888)**

49. Prior-year adjustments (continued)

2017

	Note	Error reference	As previously reported	Correction of error	Re-classification	Restated
PPE - Other properties	4		803,877,581	329,236	-	804,206,817
PPE - Electricity	4	g	3,129,010,739	17,594,119	39,986,857	3,186,591,715
PPE - Furniture and Fittings	4	c,g,h	16,045,448	7,842,626	-	23,888,074
PPE - WIP	4	b,e,g,l,m,n	2,397,063,953	(302,307,679)	-	2,094,756,274
PPE - Community buildings	4	g,p	910,840,846	64,731,996	-	975,572,842
PPE - Motor vehicles	4		263,488,420	(342,524)	-	263,145,896
PPE - Plant and equipment	4	h	32,418,776	112,937	-	32,531,713
PPE - Roads	4	g	4,332,196,668	31,150,604	(39,986,857)	4,323,360,415
PPE - Recreational facilities	4	g	245,162,828	1,399,115	-	246,561,943
PPE - Wastewater network	4	g	1,360,322,108	(18,991,755)	-	1,341,330,353
PPE - Water network	4	g	2,094,318,716	75,962,657	-	2,170,281,373
Receivables from non-exchange transaction - Property rates	11	j	577,335,303	(194,446,868)	-	382,888,435
Payables from exchange transactions - Other creditors	22	k	(100,221,374)	(148,527)	-	(100,369,901)
Investment property	3	i	408,315,388	(5,257,537)	-	403,057,851
				(322,371,600)		

49. Prior-year adjustments (continued)

Statement of financial performance

2017

	Note	Error reference	As previously reported	Correction of error	Re-classification	Restated
General expenses - Advertising	40	c	7,947,001	179,493	-	8,126,494
General expenses - Consulting and professional fees	40	c	26,738,387	186,500	-	26,924,887
General expenses - Consumables	40	c	11,776,349	340,589	13,238,578	25,355,516
General expenses - Chemicals	40		13,238,578	-	(13,238,578)	-
General expenses - Entertainment	40	c	5,575,416	78,472	-	5,653,888
General expenses - IT expenses	40	c	31,926,180	5,006,338	-	36,932,518
General expenses - Lease rentals on operating lease	40	c	116,505,005	(3,581,326)	-	112,923,679
General expenses - Other expenses	40	c	59,130,556	1,486,798	-	60,617,354
General expenses - Printing and stationery	40	c	9,640,875	48,223	-	9,689,098
General expenses - Projects	40	c	263,795,692	(4,969,295)	-	258,826,397
General expenses - Telecommunication costs	40	c	21,826,107	136,982	-	21,963,089
General expenses - Title deed search fees	40	c	77,121	65,634	-	142,755
General expenses - Travel local	40	c	7,605,654	26,280	-	7,631,934
General expenses - Uniforms	40	c	7,940,623	841,490	-	8,782,113
Other revenue (Exchange) - Sundry income	26		(12,955,781)	(16,230)	-	(12,972,011)
Other revenue (Exchange) - Vehicle registrations	26		(27,828,096)	-	118,139	(27,709,957)
License and permits		-	(14,107,061)	-	(118,139)	(14,225,200)
Employee related costs - Overtime payments	32	d	125,172,924	164,573	-	125,337,497
Employee related costs - Basic emoluments	32	q	949,468,716	31,854	-	949,500,570
Service charges - Sale of electricity	25	o	(1,670,645,690)	7,229,992	-	(1,663,415,698)
Service charges - Sewerage and sanitation charges	25	o	(314,102,298)	80,374,499	-	(233,727,799)
Service charges - Sale of water	25	o	(551,615,423)	98,925,222	-	(452,690,201)
Service charges - Refuse removal	25	o	(306,754,411)	95,295,404	-	(211,459,007)
Service charges - Other service charges	25	o	(24,851,880)	3,182	-	(24,848,698)
Property rates - Agricultural	28	j,o	(7,050,156)	1,034	-	(7,049,122)
Property rates - Vacant land	28	j,o	(96,397,691)	61,571,065	-	(34,826,626)
Property rates - Commercial	28	j,o	(425,094,429)	57,806,406	-	(367,288,023)
Other revenue (Non-exchange) - Fire levy	31	o	(68,664,537)	19,243,432	-	(49,421,105)
Other revenue (Non-exchange) - BCDA winding	31	k	(960,079)	(53,200)	-	(1,013,279)
Repairs and maintenance	39	b,c,l	382,954,054	(1,825,703)	-	381,128,351
Grants and subsidies paid - Social Welfare Grant (Poor relief)	29	o	359,034,297	(359,034,297)	-	-
General expenses - Essential user cost	40		23,661,596	-	(23,661,596)	-
Employee related costs - Essential user cost	32		-	-	23,661,596	23,661,596
General expenses - Post-retirement medical obligation net cost	40		42,529,581	-	(42,529,581)	-
Employee related costs - Post-retirement medical obligation net cost	32		-	-	42,529,581	42,529,581
Total				**59,563,411**		

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

49. Prior-year adjustments (continued)

Explanation of errors

a) These assets were derecognised in the previous financial year however they were incorrectly revalued at the end of the financial year and were given values: Therefore we were correcting that error and derecognising these assets as they should have been in the previous year.

b) The Roads Department capitalised a project that was done in the 16/17 financial year however it was identified that the project was paid under maintenance which is OPEX. Therefore we needed to move the cost from OPEX to CAPEX in order to recognise the asset.

c) The entire population for general expenses and repairs & maintenance was revisited and corrected to clear the misstatements identified in 2017 audit.

d) Overtime worked in June 2017 had no sufficient supporting documents which had been subsequently submitted .

e) Procuremnt of intangible assets was made on OPEX vote in previous year. The expense is brought back to CAPEX.

f)Properties were valued in error in the valuation roll of 2013 and rated from 1 July 2014. The value on each property was deleted and rates adjusted accordingly with effect from 1 July 2014.

g) To account for Assets that were capitalised in prior years, whereas completed in previous years.

h) Recognition of assets that were acquired and not recognised in the previous financial years. The Municipality erroneously did not recognise these assets in the past.

i) Derecognition of invetment property that was erroneously recognised by the Municipality in the previous financial year.

j) Property values were adjusted downwards through monthly supplementary valuations and rates were adjusted from the effective date of the adjusted value in terms of section 78 (4)Aa of the Municipal Property Rates Act, 6 of 2004.

k) When BCDA was wounded up there was a payable which was raised in the books of BCDA and was taken over by BCMM.

l) Reclassification of repairs and maintenance expenditure that was incurred in the previous financial year which meets the definition of an asset.

m) Derecognition of items of PPE that were erroneously recognised by the Municipality in the previous financial year and reclassification of the same expenditure as repairs and maintenance.

n) Reclassification of the expenditure that was erroneoudly incurred on a capital budget and capitalised to an asset in the previous financial year as an expense. Recognition and derecognition of accummulated depreciation inrelation to the assets accounted for in point a) and b) above.

o) The indigent were given free basic services which were charged on Social Welfare Grants. GRAP standard requires that these must be charged directly against Service Charges.

p) To account for Accumulated depreciaition on assets that were capitalised in the current year, whereas completed in previous years.

q) Lost Hours deducted in June 2017 paid to employees in July 2017.

50. Risk management - (Refer to notes 19 & 20)

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk Management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.
Cash forecasts are prepared and adequate utilised borrowing facilities are monitored.

50. Risk management - (Refer to notes 19 & 20) (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The risk of a decrease in interest rate will place additional pressure to funding operations as a result of less income being realised from interest received.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	9.50 %	1,282,106,531	-	-	-	-
Cash in current banking institutions	8.50 %	164,736,648	-	-	-	-
Call Investment deposits	6.63 %	1,660,392,952	-	-	-	-
Trade and other payables - extended credit terms	9.00 %	824,988,441	-	-	-	-
Long term borrowings	9.91 %	52,572,023	57,973,556	54,395,605	45,190,555	187,994,372

These amounts best represent maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

Sensitivity Analysis of Market Risk

Effect of a 1% change in the interest rate	Current interest rate	Value at 30 June 2018	Discounted value at current rate	Discounted value at current rate (-1%)	Discounted value at current rate (+1%)	
Trade and other receivables - normal credit terms	10.00 %	1,282,106,531	1,165,551,392	1,176,244,524	1,155,050,929	-
Trade and other payables	9.00 %	824,988,441	756,870,129	763,878,186	749,989,492	-
Cash in current banking institutions	6.00 %	164,736,648	155,411,932	156,892,046	153,959,484	-
Call investment deposits	6.62 %	1,660,392,952	1,557,299,711	1,572,044,075	1,542,829,355	-

The sensitivity analysis was based on the assumption that a 1% increase or decrease in the interest rate could occur.

The method used to prepare the sensitivity analysis was based on the discounted value of the respective cash flow for 1 year using the respective current interest rate in order to determine the effect of applicable market risk of a 1% increase or decrease in the interest rate.

Credit risk

Credit risk consists mainly of cash deposits (refer note 14) and trade debtors (refer note 11 + 13). The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

50. Risk management - (Refer to notes 19 & 20) (continued)

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which incudes the borrowings, cash and cash equivalents and equity.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The municipality is in an enviable position of having access to additional long term facilities in order to invest in the replacement of infrastructure assets.

51. Going concern

The unaudited separate annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

52. Events after the reporting date

Jan Smuts Stadium, included in property, plant and equipment disclosed in note 4, was vandalised on 8 July 2018, whereby damages are estimated at R1million.

53. Unauthorised expenditure

	2018	2017
Opening balance	95,876,117	21,985,787
Expenditure authorised in terms of section 32 of the MFMA	(95,876,117)	(21,985,787)
Unauthorised expenditure for the year	40,055,769	95,876,117
Closing balance	**40,055,769**	**95,876,117**

The unauthorised expenditure can be attributed to difficulty of achieving budget accuracy for each expenditure type due to varying operational requirements.

The 2018 unauthorised expenditure comprises the following:

-Depreciation and asset impairment of R21.67 million. Infrastructure assets were revalued at the end of the financial year in accordance with the accounting policy adopted by BCMM. The revaluation brought about additional depreciation.
-Debt impairment of R13.13 million, this is a result of more debts written off than projected.
-Employee related costs of R2.29 million, this is as a result of overtime.
-Loss on disposal of assets of R82 677 was incurred as a result of derecognition of assets and investment property.
-Other expenditure of R2.3million is as a result of reclassification from contracted services.
-There is no unauthorised expenditure regarding the total budgeted amount.

The 2017 unauthorised expenditure comprises the following:

-Employee related costs of R38.42 million, this is as a result of the salary standardisation paid to employees as approved by Council.
-Depreciation and asset impairment of R12.05 million, the budgeted figures are based on the capital budget, which is still budgeted for on a globular basis and not componentised per asset category. This results in the budgeted figures differing from the actuals due to differing useful lives of the components of the assets.
-Other expenditure of R14.21 million as a result of post retirement obligations calculation that came above the budgeted amount.
-Loss on disposal of Property Plant and Equipment of R31.19 million which was not budgeted as the City did not plan to have loss on disposal of assets.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

54. Fruitless and wasteful expenditure

Opening balance	5,304,830	5,213,926
Acts of negligence	35,420	83,785
Interest charged on overdue accounts due to late payment.	454,275	7,119
Closing balance	**5,794,525**	**5,304,830**

Staff members involved in acts of negligence resulted in the municipality incurring losses totalling R35 420 (2017 : R83 785).

BCMM has established a Municipal Public Accounts Committee (MPAC) which is constituted by Council to investigate all irregular, fruitless and wasteful expenditure. The MPAC recommends to Council the write off and future actions to be taken in accordance with the provisions in terms of Section 32 of the MFMA.

55. Irregular expenditure

Opening balance	2,430,833,674	2,143,542,250
Add: Irregular Expenditure - current year	221,691,548	287,291,424
Closing balance	**2,652,525,222**	**2,430,833,674**

Analysis of expenditure awaiting write-off per age classification

Current year	221,691,548	287,291,424
Prior years	2,430,833,674	2,143,542,250
	2,652,525,222	**2,430,833,674**

Details of irregular expenditure		
Procurement made outside SCM regulations	13,446,365	1,042,474
BCC contracts	163,631,903	125,333,385
Annual contracts	15,518,028	24,512,186
Formal contracts	3,896,114	-
Informal contracts	143,478	-
Suppliers in service of state - Declared state employees	2,681,571	-
Suppliers in service of state - Not-declared state employees	773,241	116,000
Non-Approved deviations by Council - MFMA Regulation 36 on SCM	21,600,848	136,287,379
	221,691,548	**287,291,424**

56. In-kind donations and assistance

FELZOO donated assistance to BCMM	63,450	107,441
FELA donated assistance to BCMM	5,300	9,700
Friends of the Library donated assistance to BCMM	-	44,562
National Council of Provinces donated assistance to BCMM	-	20,000
Van Schaik Booksellers donated assistance to BCMM	-	271,264
City of Glasgow donated assistance to BCMM	-	25,000
Nahoon Point Nature Reserve	56,230	-
Nahoon Estuary Nature Reserve	33,000	-
	157,980	**477,967**

57. Additional disclosure in terms of Municipal Finance Management Act

57.1 Contributions to organised local government

Current year contribution	13,300,000	12,300,000
Amount paid - current year	(13,300,000)	(12,300,000)
	-	-

Figures in Rand	2018	2017

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

57.2 Contributions to SA Cities Network

Current year contribution	2,276,010	1,815,000
Amount paid - current year	(2,276,010)	(1,815,000)
	-	-

57.3 Audit fees

Current year subscription / fee	12,809,701	13,082,942
Amount paid - current year	(12,809,701)	(13,082,942)
	-	-

57.4 PAYE, UIF and Skills Development Levy

Current year contribution	302,677,130	279,945,920
Amount paid - current year	(302,677,130)	(279,945,920)
	-	-

57.5 Pension and Medical Aid Deductions

Current year contribution	441,810,776	366,720,797
Amount paid - current year	(441,810,776)	(366,720,797)
	-	-

57.6 VAT

VAT receivable	125,257,349	101,029,519

VAT output payables and VAT input receivables are shown in note 12 as net VAT receivable.

All VAT returns have been submitted by the due date throughout the year. Vat is only declared to SARS on receipt of payment from consumers and claimed on payment to suppliers.

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

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

57.7 Councillors' and officials arrear consumer accounts

Arrear Councillors accounts totalling R32 278 were outstanding for more than 90 days at 30 June 2018 (2017: R47 182) for which mechanisms are in place to deduct amounts from the monthly allowances of each Councillor. The following amounts represent the total outstanding as at 30 June 2018. Stop orders are in place, whereby a monthly amount is deducted until the balance is settled.

June 30, 2018	**Outstanding more than 90 days R**	**Total R**
Councillor N.P. Matiwane	128	128
Councillor N.E. Tshabe	9,568	9,568
Councillor Z. Mtyingizane	17,253	17,253
Councillor K. Ciliza	4,541	4,541
Councillor N.P. Peter	485	485
Councillor V. Tutu	303	303
	32,278	**32,278**

June 30, 2017	**Outstanding more than 90 days R**	**Total R**
Councillor M.L. Ngabayena - paid in full August 2017	120	120
Councillor N.P. Matiwane - paid in full August 2017	442	442
Councillor N.E. Tshabe	45,505	45,505
Councillor M.N. Marata - paid in full August 2017	250	250
Councillor K. & D.P. Viaene - paid in full August 2017	865	865
	47,182	**47,182**

At year end, officials accounts totalling R1 106 097 (2017: R697 902) were outstanding for more than 90 days.

57.8 Deviation from supply chain management regulations

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the unaudited separate annual financial statements.

During the financial year under review goods/services totaling R79 156 494 (2017: R153 917 148) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

Incident		
Emergency	6	22,144,419
Sole supplier	6	45,788,328
Other exceptional cases	9	11,223,746
	21	**79,156,493**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand		2018		2017

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

57.9 Electricity Losses	**Amount**	**%**	**Amount**	**%**
Technical	86,918,136	6.50	88,453,498	6.50
Non-technical	149,583,908	11.19	130,366,173	9.58
	236,502,044	**17.69**	**218,819,671**	**16.08**

Technical Losses: Losses within the network which are inherent in any network.

Non-technical losses: Theft, faults and billing errors.

Attempts are currently being made to reduce these non-technical losses.

57.10 Water Losses	**Amount**	**%**	**Amount**	**%**
Technical	109,093,280	33.98	63,905,429	21.64
Non-technical	31,169,626	9.71	36,894,108	12.50
	140,262,906	**43.69**	**100,799,537**	**34.14**

Water losses are being addressed by the implementation of water conservation and water demand measures which include pipe replacement, water meter replacement etc.

The above losses include rural areas and informal settlements.

Notes to the Unaudited Separate Annual Financial Statements

58. Cash flows from operating activities

Figures in Rand		2018	2017
Receipts : Sale of goods and services			
Total revenue as per Statement of Financial Performance		6,294,629,798	5,855,268,999
Less: Fair value adjustments	41	(52,080,854)	(4,968,023)
Less: Interest received	27	(175,866,976)	(198,236,537)
Less: Government grants and subsidies received	30	(1,817,654,822)	(1,563,585,284)
Loss on sale of assets	4	82,677	31,097,166
Movement in receivables from exchange transactions	13	(157,507,507)	(421,527,314)
Movement in receivables from non-exchange transactions	11	(163,897,039)	117,885,268
Fair value adjustment on Investment Property revalued	41	52,080,854	4,968,023
Movement in VAT receivables	12	(24,227,830)	(4,181,757)
Movement in operating lease receivable	8	(3,552,531)	(2,771,947)
Net movement in consumer deposits	23	2,691,403	3,613,140
		3,954,697,173	**3,817,561,734**
Payment : Suppliers			
Total expenditure as per the Statement of Financial Performance		(5,932,122,533)	(5,652,811,772)
Employee costs and Councillors remuneration	32&33	1,883,336,383	1,672,263,038
Interest paid	36	43,954,780	49,359,417
Depreciation and amortisation	34	986,977,028	806,718,861
Loss on disposal of assets	4	(82,677)	(31,097,166)
Debt impairment	37	188,054,489	310,915,665
Net movement on unspent conditional grants	16	33,415,388	39,563,879
Movement in Post retirement medical aid benefit obligation	9	10,676,406	22,182,317
Movement in provisions relating to landfill sites	18	34,874,717	(8,593,400)
Movement in payables from exchange transactions	22	271,630,312	(315,920,348)
Movement in inventory	10	(4,211,967)	(2,514,299)
Non cash intangible asset transfer	5	(18,237,817)	71,374,228
Non-cash adjustments on PPE (WIP,Transfers and Other movements)	4	(27,474,155)	(16,807,952)
Difference in revaluation recognised in PPE and SoCNA	4	-	(6,301,429)
Difference in depreciation and impairment reversal on PPE	4	-	305,243
Non cash heritage asset transfer	6	-	(146,950)
Prior year adjustments	49	-	(213,477,570)
Opening balance adjustments on PPE 2017	4	-	(7,526,184)
Impairment deficit	3	9,433,375	-
Difference in amortization	5	23,859	-
Difference in fair value adjustment Investment property	3	1,532,932	-
Derecognition of Investment property	3	-	5,257,537
		(2,518,219,480)	**(3,277,256,885)**

59. Deficit for the year

	2018	2017
Reconciliation of actual operating results to net income		
Net income for the period	842,516,516	191,575,759
Share of deficit of associate accounted for under the equity method	(428,011,074)	(15,247,675)
Capital expenditure ex grant funding	(930,587,543)	(669,780,335)
Actual operating results	**(516,082,101)**	**(493,452,251)**

Notes to the Unaudited Separate Annual Financial Statements

Figures in Rand	2018	2017

60. Retirement benefit information

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

-Cape Joint Pension Fund / L A Retirement Fund
-Cape/Consolidated Retirement Fund
-Eastern Cape Local Authorities Provident Fund
-Government Employees Pension Fund
-Municipal Worker's Retirement Fund
-SALA Pension Fund
-Municipal Employees Pension Fund
- Municipal Councillors Pension Fund
- National Fund for Municipal Workers
-Aftredevoorsieningfonds vir Kaapse Plaaslike Owerhede
-East London Municipal A Band Provident Fund

The Cape Joint Pension Fund's / LA Retirement Fund's last actuarial valuation was at 30 June 2017 conducted by S. Neethling from Momentum Consultants and Actuaries. The fund was 102.6% funded at valuation date.

The Cape/Consolidated Retirement Fund's last actuarial valuation was at 30 June 2016 conducted by S. Neethling from MMI Group Limited who certified that the fund was in a sound financial position.

The Eastern Cape Local Authorities Provident Fund's last valuation was at 30 June 2017 conducted by E. Du Toit from Alexander Forbes Financial Services, who confirmed that the fund was not in an unsound financial condition as at the review date in terms of section 16 of the Pension Funds Act. The funding level was at 100% at valuation date.

The Government Employees Pension Fund's last valuation was at 31 March 2016 conducted by H. Buck . The funding level at this date was 115.8%.

Municipal Worker's Retirement Fund (previously known as SAMWU National Provient Fund) last actuarial valuation was at 30 June 2017 conducted by E.J. Potgieter and G. Base from Towers Watson (Pty) Ltd. The report stated that the fund was in a sound financial position as at 30 June 2017.

The SALA Pension Fund's last valuation was at 01 July 2015 conducted by J.F. Rosslee of ARGEN Actuarial Solutions. The fund was 100% funded as at valuation date. The valuator was satisfied with the investment strategy of the fund and the nature of the assets is in his opinion, suitable for the nature of the liabilities of the fund as defined in the rules of the fund.

The Municipal Employees Pension Fund's last interim valuation was at 28 February 2014 prepared by Itakane Consultants and Actuaries (Pty) Ltd. The report stated that the fund was financially sound and the funding level at this date was 100%

The Municipal Councillors Pension Fund's last valuation was at 30 June 2015 prepared by Mothapo R. and Barnard G.M. from Moruba Consultants and Actuaries. The report stated that the funding level was at 100% at the time of valuation.

The National Fund for Municipality Worker's last Actuarial Valuation was at 30 June 2015 and prepared by G. Grobler from Alexander Forbes Financial Services. The assets of the fund are sufficient to cover 100.42% of members' liabilities.

The East London Municipal A Band and the Aftredevoorsieningsfonds vir Kaapse Plaaslike Owerhede are a fixed/defined contributions funds. It is therefore not necessary to perform an actuarial valuation for these funds.

It is Council's policy to fund 60% of Pensioner's medical aid expenses. The current costs amount to approximately R 21,6 million.

An amount of R294,7 million (2017: R239 million) was contributed by Council, Councillors' and employees' in respect of Councillor and employee retirement funding. These contributions have been expensed.

61. Bids awarded to family of employees in service of the State

In terms of section 45 of the Municipal SCM regulation, any award above R 2 000 to family of an employee in the service of the State must be disclosed in the annual financial statements. The following is a list as recorded in the declaration-of-interest form:

Connected person	Position held in BCMM	2018	2017
T. Nyati	PA to SCM GM	49,182	148,827
S. Majembe	Buyer	242,674	105,000
Z. Ndzondo	Bid Secretariat	12,526	279,911
A. Qwede	Senior Committee Secretary	-	103,708
C. Ruiters	Tender Co-ordinator	129,907	386,121
H. Lestig	Handy Man	197,820	204,251
N. Nangu	Office Attendant	-	152,423
S. Xoki	Chief Risk Officer	180,000	-
		812,109	**1,380,241**

Connected person	Name of institution	2018	2017
F. Ngcwangu	EC Provincial Planning & Treasury	2,333,375	998,968
N. Maqula	Department of Human Settlements	207,740	2,128,579
D. Muzenda	National Lottery	140,456	1,131,318
		2,681,571	**4,258,865**