

ETHEKWINI MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2018

Unaudited

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## GENERAL INFORMATION

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| <b>LEGAL FORM OF ENTITY</b>                        | Metropolitan Municipality                              |
| <b>NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES</b> | High Capacity, Category A, Local Authority             |
| <b>ACCOUNTING OFFICER</b>                          | Mr. S. Nzuza   |
| <b>REGISTERED OFFICE</b>                           | City Hall<br>Dr. Pixle KaSeme Street<br>Durban<br>4000 |
| <b>POSTAL ADDRESS</b>                              | P O Box 1014<br>Durban<br>4000                         |
| <b>MUNICIPALITY</b>                                | Municipality<br>incorporated in South Africa           |
| <b>BANKERS</b>                                     | Nedbank<br>P O Box 5662, Durban, 4000                  |
| <b>AUDITORS</b>                                    | The Auditor-General, South Africa                      |

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# eThekwini Municipality

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|       |   |
|-------|---|
| COID  | Compensation for Occupational Injuries and Diseases         |
| VAT   | Value added tax   |
| DBSA  | Development Bank of South Africa                            |
| MFMA  | Municipal Finance Management Act                            |
| GRAP  | Generally Recognised Accounting Practice                    |
| PPE   | Property, Plant and Equipment                               |
| HDF   | Housing Development Fund                                    |
| SALA  | South African Local Authority Pension Fund                  |
| MSCOA | Municipal Standard Chart of Accounts                        |
| DMOSS | Durban Metropolitan Open Space System                       |
| ME's  | Municipal Entities  |
| SALGA | South African Local Government Authority                    |
| GEPF  | Government Employees Pension Fund                           |
| NJMPF | Natal Joint Municipal Pension Fund                          |
| DOHS  | Department of Human Settlements                             |
| IFRS  | International Financial Reporting Standards                 |
| IFRIC | International Financial Reporting Interpretations Committee |

# eThekweni Municipality


Annual Financial Statements for the year ended 30 June 2018

## Municipal Manager

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 105, in terms of Section 126(1) of the Municipal Finance Management Act, Act 56 of 2003 and which I have signed on behalf of the Municipality.

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

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Municipal Manager

Durban

31 August 2018

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Position as at June 30, 2018

| Figures in Rand thousand                         | Note(s) | 2018              | 2017<br>Restated* |
|--|---------|-------------------|-------------------|
| <b>Assets</b>                                    |         |                   |                   |
| <b>Current Assets</b>                            |         |                   |                   |
| Inventories                                      | 2       | 587,760           | 451,210           |
| Investments                                      | 3       | 5,700,000         | 5,750,000         |
| Receivables from exchange transactions           | 4       | 2,030,772         | 2,100,932         |
| Receivables from non-exchange transactions       | 5       | 81,845            | 254,584           |
| VAT receivable                                   | 6       | 403,950           | 275,082           |
| Consumer debtors                                 | 7       | 4,676,887         | 3,935,389         |
| Current portion of Long term receivables         | 8       | 41,533            | 42,844            |
| Call Investment Deposits                         | 9       | 200,000           | 480,000           |
| Cash and Bank Balances                           | 10      | 198,226           | 75,316            |
|  |         | <b>13,920,973</b> | <b>13,365,357</b> |
| <b>Non-Current Assets</b>                        |         |                   |                   |
| Investment property                              | 11      | 208,646           | 233,014           |
| Property, plant and equipment                    | 12      | 48,444,505        | 45,968,646        |
| Intangible assets                                | 13      | 825,668           | 848,888           |
| Heritage assets                                  | 14      | 24,536            | 24,039            |
| Investments in Municipal Entities                | 15      | 940,831           | 908,779           |
| Interest in Joint Ventures                       | 16      | 129,714           | 145,093           |
| Long term Receivables                            | 8       | 58,292            | 55,009            |
|  |         | <b>50,632,192</b> | <b>48,183,468</b> |
| <b>Total Assets</b>                              |         | <b>64,553,165</b> | <b>61,548,825</b> |
| <b>Liabilities</b>                               |         |                   |                   |
| <b>Current Liabilities</b>                       |         |                   |                   |
| External Borrowings                              | 17      | 874,388           | 793,528           |
| Payables from exchange transactions              | 18      | 6,050,010         | 5,843,076         |
| Transfers payable from non-exchange transactions | 19      | 29,280            | 17,760            |
| Consumer deposits                                | 20      | 2,267,863         | 2,143,476         |
| Employee benefit obligation                      | 21      | 664,384           | 501,958           |
| Unspent conditional grants and receipts          | 22      | 1,269,669         | 867,988           |
| Provisions                                       | 23      | 618,825           | 573,630           |
|  |         | <b>11,774,419</b> | <b>10,741,416</b> |
| <b>Non-Current Liabilities</b>                   |         |                   |                   |
| External Borrowings                              | 17      | 7,286,712         | 8,042,457         |
| Employee benefit obligation                      | 21      | 3,505,540         | 3,269,679         |
| Provisions                                       | 23      | 1,109,632         | 835,541           |
|  |         | <b>11,901,884</b> | <b>12,147,677</b> |
| <b>Total Liabilities</b>                         |         | <b>23,676,303</b> | <b>22,889,093</b> |
| <b>Net Assets</b>                                |         | <b>40,876,862</b> | <b>38,659,732</b> |
| Housing Development Fund                         | 24      | 57,470            | 123,512           |
| Accumulated surplus                              |         | 40,819,392        | 38,536,220        |
| <b>Total Net Assets</b>                          |         | <b>40,876,862</b> | <b>38,659,732</b> |

\* See Note 45

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## STATEMENT OF FINANCIAL PERFORMANCE

| Figures in Rand thousand                                      | Note(s) | 2018                | 2017<br>Restated*   |
|---|---------|---------------------|---------------------|
| <b>Revenue</b>  |         |                     |                     |
| <b>Revenue from exchange transactions</b>                     |         |                     |                     |
| Service charges   | 25      | 17,226,739          | 16,477,010          |
| Rental of facilities and equipment                            | 26      | 684,106             | 484,540             |
| Other income  | 27      | 302,608             | 270,269             |
| Interest received   | 28      | 879,784             | 771,989             |
| Gains on disposal of assets and liabilities                   |         | -                   | 1,840               |
| Share of Income from Joint Ventures                           | 16      | -                   | 21,151              |
| <b>Total revenue from exchange transactions</b>               |         | <b>19,093,237</b>   | <b>18,026,799</b>   |
| <b>Revenue from non-exchange transactions</b>                 |         |                     |                     |
| <b>Taxation revenue</b>                                       |         |                     |                     |
| Fines   |         | 435,931             | 389,387             |
| Property rates  | 29      | 7,689,731           | 6,565,139           |
| Property rates - penalties imposed                            |         | 149,141             | 141,525             |
| Donations - PPE   |         | 857                 | 9,397               |
| Licences and permits  |         | 48,868              | 47,340              |
| <b>Transfer revenue</b>                                       |         |                     |                     |
| Government grants & subsidies                                 | 30      | 5,780,974           | 5,684,499           |
| Levies  | 31      | 2,211,611           | 2,185,002           |
| Public contributions and donations                            |         | 15,750              | 28,792              |
| Reversal of loss on impairment: Investment Properties         | 11      | 346                 | 6,465               |
| Reversal of loss on impairment: Property, Plant and Equipment | 12      | 4,029               | 3,733               |
| Reversal of Impairment : Municipal Entities and Joint Venture | 16      | 32,052              | -                   |
| <b>Total revenue from non-exchange transactions</b>           |         | <b>16,369,290</b>   | <b>15,061,279</b>   |
| <b>Total revenue</b>  |         | <b>35,462,527</b>   | <b>33,088,078</b>   |
| <b>Expenditure</b>  |         |                     |                     |
| Employee related costs  | 32      | (9,868,023)         | (8,702,119)         |
| Remuneration of councillors                                   | 33      | (119,344)           | (110,934)           |
| Amortisation - Intangible assets                              | 13      | (217,516)           | (198,118)           |
| Impairment Loss - Investment Properties                       | 11      | (2,102)             | (7,855)             |
| Depreciation - Property, Plant and Equipment                  | 12      | (2,075,963)         | (1,933,762)         |
| Impairment Loss - Property, Plant and Equipment               | 12      | (13)                | (3,700)             |
| Finance costs   | 34      | (852,316)           | (897,959)           |
| Lease rentals on operating lease                              |         | (129,251)           | (121,875)           |
| Debt Impairment   | 49      | (1,980,316)         | (2,013,798)         |
| Depreciation - Investment Properties                          | 11      | (1,241)             | (1,432)             |
| Bulk purchases  | 35      | (10,433,650)        | (10,099,008)        |
| Contracted services   | 36      | (4,395,748)         | (3,933,142)         |
| Grants and subsidies  | 37      | (476,444)           | (285,815)           |
| Loss on disposal of assets and liabilities                    |         | (4,619)             | -                   |
| Share of Losses from Joint Ventures                           | 16      | (2,031)             | -                   |
| Impairment Loss - Intangible Assets                           | 13      | -                   | (576)               |
| General Expenses  | 38      | (2,686,820)         | (2,590,384)         |
| <b>Total expenditure</b>                                      |         | <b>(33,245,397)</b> | <b>(30,900,477)</b> |
| <b>Surplus for the year</b>                                   |         | <b>2,217,130</b>    | <b>2,187,601</b>    |

\* See Note 45

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## STATEMENT OF CHANGES IN NET ASSETS

| Figures in Rand thousand                               | Housing development fund | Accumulated surplus | Total net assets  |
|--|--------------------------|---------------------|-------------------|
| Opening balance as previously reported                 | 123,512                  | 36,296,097          | 36,419,609        |
| Adjustments:   |                          |                     |                   |
| Prior year adjustments (prior to 2016/17)              | -                        | (27,851)            | (27,851)          |
| <b>Balance at July 01, 2016 as restated</b>            | <b>123,512</b>           | <b>36,268,246</b>   | <b>36,391,758</b> |
| Changes in net assets                                  |                          |                     |                   |
| Surplus for the year as previously reported            | -                        | 2,244,916           | 2,244,916         |
| Gain on Umgungundlovu take-on                          | -                        | 16,226              | 16,226            |
| Gain on Ugu take-on                                    | -                        | 30,513              | 30,513            |
| Gain on Vulamehlo take-on                              | -                        | 32,467              | 32,467            |
| Change in estimates - Landfill sites                   | -                        | 1,167               | 1,167             |
| Total changes  | -                        | 2,325,289           | 2,325,289         |
| Opening balance  | 123,512                  | 38,593,535          | 38,717,047        |
| Adjustments:   |                          |                     |                   |
| Prior year adjustments (2016/17)                       | -                        | (57,315)            | (57,315)          |
| <b>Restated* Balance at July 01, 2017 as restated*</b> | <b>123,512</b>           | <b>38,536,220</b>   | <b>38,659,732</b> |
| Changes in net assets                                  |                          |                     |                   |
| Surplus for the year                                   | -                        | 2,217,130           | 2,217,130         |
| Housing Development Fund transfer                      | (66,042)                 | 66,042              | -                 |
| Total changes  | (66,042)                 | 2,283,172           | 2,217,130         |
| <b>Balance at June 30, 2018</b>                        | <b>57,470</b>            | <b>40,819,392</b>   | <b>40,876,862</b> |

Note(s)

\* See Note 45



# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Cash Flow Statement

Figures in Rand thousand

|  | Note(s) | 2018                | 2017<br>Restated*   |
|--|---------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>  |         |                     |                     |
| <b>Receipts</b>  |         |                     |                     |
| Ratepayers, Consumers, Government and Other  |         | 32,607,605          | 30,847,153          |
| Interest income  |         | 879,784             | 771,989             |
|  |         | <b>33,487,389</b>   | <b>31,619,142</b>   |
| <b>Payments</b>  |         |                     |                     |
| Employee costs and Suppliers   |         | (27,439,030)        | (25,687,975)        |
| Finance costs  |         | (852,316)           | (897,959)           |
|  |         | <b>(28,291,346)</b> | <b>(26,585,934)</b> |
| <b>Net cash flows from operating activities</b>  | 39      | <b>5,196,043</b>    | <b>5,033,208</b>    |
| <b>Cash flows from investing activities</b>  |         |                     |                     |
| Purchase of property, plant and equipment  | 12      | (4,534,819)         | (5,069,200)         |
| Proceeds from sale of property, plant and equipment, Intangibles & Investment Property | 12      | 5,072               | 13,739              |
| Purchase of other intangible assets  | 13      | (194,746)           | (161,168)           |
| Purchase of Heritage assets  | 14      | (497)               | (435)               |
| Capital repayment received from Joint Venture  |         | 6,848               | -                   |
| Decrease (Increase) in non-current receivables   |         | (10,106)            | (21,391)            |
| <b>Net cash flows from investing activities</b>  |         | <b>(4,728,248)</b>  | <b>(5,238,455)</b>  |
| <b>Cash flows from financing activities</b>  |         |                     |                     |
| Proceeds from external borrowings  |         | -                   | 700,000             |
| Repayment of external borrowings   |         | (674,885)           | (1,100,374)         |
| <b>Net cash flows from financing activities</b>  |         | <b>(674,885)</b>    | <b>(400,374)</b>    |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                            |         | <b>(207,090)</b>    | <b>(605,621)</b>    |
| Cash and cash equivalents at the beginning of the year                                 |         | 6,305,316           | 6,910,937           |
| <b>Cash and cash equivalents at the end of the year</b>                                | 10      | <b>6,098,226</b>    | <b>6,305,316</b>    |

\* See Note 45

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Appropriation Statement

Figures in Rand thousand

|  | Original budget     | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments and 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 |
|--|---------------------|---|------------------------------|--|---|---------------------|---------------------|--------------------------|------------------|-------------------------------------|--|
| <b>Financial Performance</b>   |                     |   |                              |  |   |                     |                     |                          |                  |                                     |  |
| Property rates   | 6,907,500           | 193,542   | 7,101,042                    | -  | -   | 7,101,042           | 7,689,731           | -                        | 588,689          | 108 %                               | 111 %                                  |
| Service charges  | 18,265,088          | (109,812)   | 18,155,276                   | -  | -   | 18,155,276          | 17,226,739          | -                        | (928,537)        | 95 %                                | 94 %                                   |
| Investment revenue   | 1,277,611           | (702,359)   | 575,252                      | -  | -   | 575,252             | 573,161             | -                        | (2,091)          | 100 %                               | 45 %                                   |
| Transfers recognised - operational                                   | 3,087,889           | 2,287,847   | 5,375,736                    | -  | -   | 5,375,736           | 5,349,615           | -                        | (26,121)         | 100 %                               | 173 %                                  |
| Other own revenue  | 3,321,700           | (2,011,507)   | 1,310,193                    | -  | -   | 1,310,193           | 1,980,311           | -                        | 670,118          | 151 %                               | 60 %                                   |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>32,859,788</b>   | <b>(342,289)</b>                                    | <b>32,517,499</b>            | -  | -   | <b>32,517,499</b>   | <b>32,819,557</b>   | -                        | <b>302,058</b>   | <b>101 %</b>                        | <b>100 %</b>                           |
| Employee costs   | (9,651,898)         | (77,150)  | (9,729,048)                  | -  | -   | (9,729,048)         | (9,868,023)         | -                        | (138,975)        | 101 %                               | 102 %                                  |
| Remuneration of councillors  | (107,947)           | (11,953)  | (119,900)                    | -  | -   | (119,900)           | (119,344)           | -                        | 556              | 100 %                               | 111 %                                  |
| Debt impairment  | (649,219)           | -   | (649,219)                    | -  | -   | (649,219)           | (1,980,316)         | -                        | (1,331,097)      | 305 %                               | 305 %                                  |
| Depreciation and asset impairment                                    | (2,017,502)         | (424)   | (2,017,926)                  | -  | -   | (2,017,926)         | (2,296,835)         | -                        | (278,909)        | 114 %                               | 114 %                                  |
| Finance charges  | (1,466,337)         | 596,793   | (869,544)                    | -  | -   | (869,544)           | (852,316)           | -                        | 17,228           | 98 %                                | 58 %                                   |
| Materials and bulk purchases   | (10,840,262)        | (735,989)   | (11,576,251)                 | -  | -   | (11,576,251)        | (11,541,545)        | -                        | 34,706           | 100 %                               | 106 %                                  |
| Transfers and grants   | (226,275)           | (212,883)   | (439,158)                    | -  | -   | (439,158)           | (397,901)           | -                        | 41,257           | 91 %                                | 176 %                                  |
| Other expenditure  | (7,212,256)         | 320,940   | (6,891,316)                  | -  | -   | (6,891,316)         | (6,187,086)         | -                        | 704,230          | 90 %                                | 86 %                                   |
| <b>Total expenditure</b>   | <b>(32,171,696)</b> | <b>(120,666)</b>                                    | <b>(32,292,362)</b>          | -  | -   | <b>(32,292,362)</b> | <b>(33,243,366)</b> | -                        | <b>(951,004)</b> | <b>103 %</b>                        | <b>103 %</b>                           |
| <b>Surplus/(Deficit)</b>   | <b>688,092</b>      | <b>(462,955)</b>                                    | <b>225,137</b>               | -  | -   | <b>225,137</b>      | <b>(423,809)</b>    | -                        | <b>(648,946)</b> | <b>(188)%</b>                       | <b>(62)%</b>                           |

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Appropriation Statement

Figures in Rand thousand

|  | Original budget  | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget (i.t.o. s31 of the MFMA) | 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                                     | 3,807,036        | (840,623)   | 2,966,413   | -  | -   | 2,966,413        | 2,642,970        | -                        | (323,443)          | 89 %                                | 69 %                                   |
| <b>Surplus (Deficit) after capital transfers and contributions</b> | <b>4,495,128</b> | <b>(1,303,578)</b>                                  | <b>3,191,550</b>                                  | -  | -   | <b>3,191,550</b> | <b>2,219,161</b> | -                        | <b>(972,389)</b>   | <b>70 %</b>                         | <b>49 %</b>                            |
| Share of (surplus) deficit of associate                            | -                | -   | -   | -  | -   | -                | 2,031            | -                        | 2,031              | - %                                 | DIV/0 %                                |
| <b>Surplus/(Deficit) for the year</b>                              | <b>4,495,128</b> | <b>(1,303,578)</b>                                  | <b>3,191,550</b>                                  | -  | -   | <b>3,191,550</b> | <b>2,217,130</b> | -                        | <b>(974,420)</b>   | <b>69 %</b>                         | <b>49 %</b>                            |
| <b>Capital expenditure and funds sources</b>                       |                  |   |   |  |   |                  |                  |                          |                    |                                     |  |
| Total capital expenditure  | 7,247,283        | (771,489)   | 6,475,794   | -  | -   | 6,475,794        | 4,815,067        | -                        | (1,660,727)        | 74 %                                | 66 %                                   |
| <b>Sources of capital funds</b>                                    |                  |   |   |  |   |                  |                  |                          |                    |                                     |  |
| Transfers recognised - capital                                     | 3,807,036        | (840,623)   | 2,966,413   | -  | -   | 2,966,413        | 2,642,970        | -                        | (323,443)          | 89 %                                | 69 %                                   |
| Prior - year unspent loan  | 528,086          | -   | 528,086   | -  | -   | 528,086          | 199,499          | -                        | (328,587)          | 38 %                                | 38 %                                   |
| Borrowing  | 1,000,000        | (1,000,000)   | -   | -  | -   | -                | -                | -                        | -                  | DIV/0 %                             | - %                                    |
| Internally generated funds   | 1,912,161        | 1,069,134   | 2,981,295   | -  | -   | 2,981,295        | 1,972,598        | -                        | (1,008,697)        | 66 %                                | 103 %                                  |
| <b>Total sources of capital funds</b>                              | <b>7,247,283</b> | <b>(771,489)</b>                                    | <b>6,475,794</b>                                  | -  | -   | <b>6,475,794</b> | <b>4,815,067</b> | -                        | <b>(1,660,727)</b> | <b>74 %</b>                         | <b>66 %</b>                            |

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Appropriation Statement

Figures in Rand thousand

|   | Original budget  | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments and budget (i.t.o. s31 of the MFMA) | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget outcome | Unauthorised expenditure | Variance as % of final budget | Actual outcome as % of original budget |
|---|------------------|---|---|--|---|----------------------|--------------------------|-------------------------------|--|
| <b>Cash flows</b>   |                  |   |   |  |   |                      |                          |                               |  |
| Net cash from (used) operating                              | 5,969,588        | (596,719)   | 5,372,869   | -  | -   | 5,372,869            | (176,826)                | 97 %                          | 87 %                                   |
| Net cash from (used) investing                              | (7,224,851)      | 2,584,712   | (4,640,139)   | -  | -   | (4,640,139)          | (88,109)                 | 102 %                         | 65 %                                   |
| Net cash from (used) financing                              | 345,236          | (1,077,316)   | (732,080)   | -  | -   | (732,080)            | 57,195                   | 92 %                          | (195)%                                 |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>(910,027)</b> | <b>910,677</b>                                      | <b>650</b>  | <b>-</b>                                   | <b>-</b>                                  | <b>(207,090)</b>     | <b>(207,740)</b>         | <b>(31,860)%</b>              | <b>23 %</b>                            |
| Cash and cash equivalents at the beginning of the year      | 6,031,239        | -   | 6,031,239   | -  | -   | 6,031,239            | 274,077                  | 105 %                         | 105 %                                  |
| <b>Cash and cash equivalents at year end</b>                | <b>5,121,212</b> | <b>910,677</b>                                      | <b>6,031,889</b>                                      | <b>-</b>                                   | <b>-</b>                                  | <b>6,031,889</b>     | <b>103,587</b>           | <b>101 %</b>                  | <b>119 %</b>                           |

Refer to note 53 for details.

## **ACCOUNTING POLICIES**

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### **1. Basis of preparation**

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board

Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. Only Standards of GRAP, IGRAP Standards, Directives, Guidelines and IFRS Standards applicable to the Municipality have been disclosed. The Minister has determined the effective date for the following Standards of GRAP:

GRAP 1 Presentation of Financial Statements  
GRAP 2 Cash Flow Statements  
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors  
GRAP 4 The Effects of Changes in Foreign Exchange Rates  
GRAP 5 Borrowing Costs  
GRAP 6 Consolidated and Separate Financial Statements  
GRAP 7 Investments in Associates  
GRAP 8 Interest in Joint Ventures  
GRAP 9 Revenue from Exchange Transactions  
GRAP 11 Construction Contracts  
GRAP 12 Inventories  
GRAP 13 Leases  
GRAP 14 Events after the Reporting Date  
GRAP 16 Investment Properties  
GRAP 17 Property, Plant and Equipment  
GRAP 18 Segment Reporting (Not yet effective for municipalities)  
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP 21 Impairment of Non-cash-generating Assets  
GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)  
GRAP 24 Presentation of Budget Information in Financial Statements  
GRAP 25 Employee Benefits  
GRAP 26 Impairment of Cash-generating Assets  
GRAP 27 Agriculture GRAP  
GRAP 31 Intangible Assets  
GRAP 100 Discontinued Operations  
GRAP 103 Heritage Assets  
GRAP 104 Financial Instruments  
GRAP 105 Transfer of Functions between Entities Under Common Control  
GRAP 106 Transfer of Functions between Entities Not Under Common Control  
GRAP 107 Mergers

## **ACCOUNTING POLICIES**

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**Directives issued and effective:**

- Directive 1: Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
- Directive 2: Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Further Education and Training Colleges and Constitutional Institutions.
- Directive 3: Transitional Provisions for High Capacity Municipalities.
- Directive 5: Determining the GRAP reporting framework.
- Directive 7: The Application of Deemed Cost on the Adoption of Standards of GRAP
- Directive 9: The Application of The Standards of GRAP by Trading Entities
- Directive 11: Changes in the Measurement Bases following Initial Adoption of Standards of GRAP

**Interpretations of the Standards of GRAP**

- IGRAP 1: Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3: Determining Whether an Arrangement Contains a Lease
- IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9: Distributions of Non-cash Assets to Owners
- IGRAP 10: Assets Received from Customers
- IGRAP 11: Consolidation - Special Purpose Entities
- IGRAP 12: Jointly Controlled Entities - Non-Monetary Contributions by Venturers
- IGRAP 13: Operating Leases – Incentives
- IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15: Revenue – Barter Transactions Involving Advertising Services
- IGRAP 16: Intangible Assets - Website Costs

**Approved guidelines of Standards of GRAP:**

- Guide 1: Guideline on Accounting for Public Private Partnerships

**Effective IFRS's and IFRIC's that are applied considering the provisions in paragraphs .21 to .27 of the Directive:**

- IFRS 4 (AC 141) Insurance Contracts
- IAS 12 (AC 102) Income Taxes
- SIC - 25 (AC 425) Income Taxes - Changes in the Tax Status of an Entity or its Shareholders
- SIC - 29 (AC 429) Service Concession Arrangements - Disclosures
- IFRIC 12 (AC 445) Service Concession Arrangements
- IFRIC 21 Levies

**Standards of GRAP that an entity may use to disclose information in its financial statements:**

- GRAP 20 Related Party Disclosures

**Standards of GRAP and Interpretations of Standards of GRAP approved, but not yet effective:**

GRAP 20: Related Party Disclosures-issued June 2011:

Compliance with this standard would have had an effect on the presentation only. Related party transactions have been disclosed in accordance with IPSAS 20.

GRAP 32 and IGRAP 17: Service Concession Arrangements: Grantor - issued August 2013:

Compliance with this standard will not have an impact on the current financial information as no transactions relating to service concession arrangements exists in the current year

GRAP 108: Statutory Receivables - issued September 2013:

Compliance with this standard would have had an effect on presentation and disclosure only. GRAP 108 requires separate disclosure of statutory receivables together with additional disclosure on measurement basis and impairment criteria

GRAP 109: Accounting by Principals and Agents issued July 2015:

Compliance with this standard would have had an effect on presentation and disclosure. The information disclosed in accordance with this Standard shall be provided for each material principal-agent arrangement and in aggregate for other principal-agent arrangements.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## ACCOUNTING POLICIES

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A summary of the significant accounting policies are disclosed below. These accounting policies are consistent with the previous year, unless otherwise stated.

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Housing development fund

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

### 1.4 Retirement Benefits

#### 1.4.1 Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### 1.4.2 Defined contribution plans

The municipality provides retirement benefits for its employees and councillors. Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

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

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

The Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.



## **ACCOUNTING POLICIES**

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### **1.4 Retirement Benefits (continued)**

#### **1.4.3 Pension obligations**

The municipality and its employees contribute to 8 different Pension Funds, of which 2 (Durban Pension Fund and the KZN Pension Fund) cater for more than 86% of staff.

The Municipality has both defined benefit and defined contribution plans.

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

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

The following are defined benefit funds:

Durban Pension Fund

Government Employee's Pension Fund

Natal Joint Municipal Pension Fund - Superannuation

Natal Joint Municipal Pension Fund - Retirement Durban Pension Fund

The following are defined contribution funds:

KZN Pension Fund

Multi Linked

SALA

The other fund is a Provident Fund administered by Natal Joint Municipal Pension Fund.

Actuarial valuations are conducted on an interim basis each year with a statutory valuation undertaken every three years. Consideration is given to any extent that could impact the Funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Actuarial gains and losses are recognised in the year that they arise, in the Statement of Financial Performance.

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

The liability/asset recognized in the statement of financial position in respect of defined benefit pension plans is equal to the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates, best approximated by reference to market yields at the reporting date on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Past-service costs are recognised immediately in the statement of financial performance.

Any asset is limited to the net total of the present value of the defined benefit obligation at the reporting date minus the fair value at the reporting date of plan assets plus any liability that may arise as a result of a minimum funding requirement, 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

#### **1.4.4 Other post-employment benefit obligations**

The municipality provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to the statement of financial performance in the year that they arise.



## ACCOUNTING POLICIES

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### 1.4 Retirement Benefits (continued)

#### Multi-Employer Retirement Benefit Plans

The Municipality contributes to Government Employees Pension Fund, Natal Joint Super Annuation and Retirement Funds which are Defined Benefit Funds. The municipality's liability in these funds could not be determined owing to the fact that the assets are not being allocated to each employer and only one set of financial statements are compiled for each fund not per employer. Further details of this plan are included in note 21.

### 1.5 Significant Judgements

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

Significant judgements include:

#### Post Retirement Benefits and Multi-Employer Retirement Benefit Plans

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 using the actuarial valuation. 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 that are best approximated by reference to market yields at the reporting date on government 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 notes. The Municipality contributes to Natal Joint Super Annuation and Retirement Funds which are Defined Benefit Funds. The municipality's liability in these funds could not be determined owing to the fact that the assets are not being allocated to each employer and only one set of financial statements are compiled for each fund not per employer. Further details of this plan is included in the notes to the Financial Statements

#### Provision for impairment of trade receivables

The provision for impairment is measured as the difference between the assets' carrying amount and the present value of estimated recoverable future cash flow based on past recovery trends.

#### Non-cash generating and cash generating Impairment testing

Management used the fair value less cost to sell to determine the recoverable amount of assets with an indefinite useful life and identifying assets that may have been impaired. Additional disclosure of these estimates is included in note - Impairment of assets

All assets owned/recognised by the municipality are held for the provision of basic services and are considered to be non-cash generating assets

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## ACCOUNTING POLICIES

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### 1.5 Significant Judgements (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in notes to Financial Statements.

Provisions are measured at the head of department's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

A provision is recognised when:

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

#### Fine revenue

Fine revenue is recognised after taking into account the probability of future withdrawals and reductions. The probability of withdrawals and reductions is based on a 5 year past trend of gross charges issued which are likely to be disputed. The success rate of the disputed fines is taken into account in calculating the probability of withdrawals and reductions

Unaudited

## **ACCOUNTING POLICIES**

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### **1.6 Investment property**

#### **Initial Recognition**

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

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. The cost of an item of investment property is recognised as an asset only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- (b) the cost or fair value of the item can be measured reliably.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.

However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

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

#### **Subsequent Measurement**

Investment property is measured using the cost model. Under the cost model, Investment properties is carried at cost less any accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Transfers from Investment properties are made when the particular asset no longer meets the definition of Investment properties.

#### **Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. All assets are considered to have a nil residual value. The lives of the assets are revised using the indicator based approach. Any changes in the depreciation method and useful lives are recognized as a change in accounting estimate in the Statement of Financial Performance. This change in estimate is applied prospectively. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| Item                 | Useful life  |
|----------------------|--------------|
| Property – land      | indefinite   |
| Property – buildings | 10 - 80years |

#### **Derecognition and Impairment**

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

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

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

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**

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**1.7 Property, plant and equipment**

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, to meet service delivery objectives, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period.

**Initial Recognition**

Property, plant and equipment are stated at cost. The cost of an item of property, plant and equipment is recognised as an asset only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- (b) the cost or fair value of the item can be measured reliably.

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

**Subsequent Measurement**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Transfers from Property, plant and equipment are made when the particular asset no longer meets the definition of Property, plant and equipment.

**Depreciation and Impairment:-**

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. Depreciation is calculated as soon as the asset becomes available for its intended use. All assets are considered to have a nil residual value. 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. The estimated useful lives of the assets are revised using the indicator based approach. Any changes in the depreciation method and useful lives are recognised as a change in accounting estimate on the Statement of Financial Performance. This change in estimate is applied prospectively.

However, if the asset has already reached the end of its estimated useful life, the change in useful life must be accounted for retrospectively as a correction of a prior period error in determination of the new useful life. This change would have an impact on accumulated surplus and the balance sheet.

The annual depreciation rates are based on the following estimated asset lives:-

| <b>Details</b>  | <b>Years</b>  |
|---|---------------|
| <b>Infrastructure</b>   |               |
| • Engineering infrastructure - Rivers and Coastal Engineering | 20 - 80 years |
| • Roads and Motorways   | 20 - 80 years |
| • Economic Development  | 20 years      |
| • Traffic Equipment   | 10 - 80 years |
| • Stormwater Drainage   | 20 - 80 years |
| • Airport Infrastructure                                      | 15 - 80 years |
| • Solid Waste   | 3 - 30 years  |
| • Water and Sanitation  | 20 - 80 years |
| • Major Substations: Buildings                                | 30 - 50 years |
| • Transformers and Related Equipment                          | 30 - 45 years |
| • Mains   | 30 - 55 years |
| • Street Lighting   | 20 - 30 years |
| • Conventional and Prepaid Metering                           | 15 - 25 years |
| <b>Community</b>  |               |
| • Buildings   | 20 - 80 years |
| • Recreational Facilities                                     | 10 - 80 years |
| <b>Other property, plant and equipment</b>                    |               |
| • Buildings   | 20 - 80 years |
| • Markets and Informal Markets                                | 15 - 30 years |
| • Fire Engines  | 20 years      |
| • Landfill Sites  | 3 - 80 years  |

## ACCOUNTING POLICIES

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### 1.7 Property, plant and equipment (continued)

|                                      |               |
|--------------------------------------|---------------|
| • Car Parks                          | 15 years      |
| • Fencing                            | 20 years      |
| • Lifts                              | 20 years      |
| • Building Improvements              | 10 years      |
| • Heavy and Mobile Plant             | 7 - 10 years  |
| • Furniture and fitting              | 2 - 20 years  |
| • Vehicle                            | 3 - 11 years  |
| • Bins and containers                | 5 years       |
| • Plant – General                    | 5 years       |
| • Security Systems                   | 5 - 15 years  |
| • Office equipment                   | 5 - 7 years   |
| • Air conditioning                   | 5 - 15 years  |
| • Public Address Systems             | 15 years      |
| • Turnstiles                         | 15 years      |
| • Electrical                         | 20 years      |
| • Mechanical                         | 20 years      |
| • Hostels                            | 20 - 80 years |
| • Library Books                      | 5 - 10 years  |
| • Other items of Plant and Equipment | 3 - 5 years   |
| • Biological Assets                  | 5 - 10 years  |

Biological assets refer to living animals or plants eg. horses, dogs and birds. The estimated useful lives of the assets are revised using the indicator based approach, compared to the annual assessment in the prior years. This is due to the GRAP amendments effective in the current financial year. Any changes in the depreciation method and useful lives are recognized as a change in accounting estimate in the Statement of Financial Performance. The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting period.

Where the carrying amount of an item of Property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

All assets are considered to have a nil residual value.

#### **Derecognition:**

Items of Property, Plant and Equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting Policy 1.24 on Provisions.

## **ACCOUNTING POLICIES**

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### **1.8 Intangible assets**

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

#### **Initial Recognition**

Intangible assets are initially measured at cost and comprise of software and servitudes. The cost of an item of intangible assets is recognised as an asset only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- (b) the cost or fair value of the item can be measured reliably.

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

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

- the municipality intends to complete the intangible asset for use or sale.
- It is technically feasible to complete the intangible asset.
- The municipality has the resources to complete the project.
- It is probable that the municipality will receive future economic benefits or service potential.
- Its ability to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Servitudes are classified as intangible assets. Servitudes are rights that are not amortised as they have an indefinite useful life.

#### **Subsequent Measurement**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test. Expenditure on an intangible asset is recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Residual value of intangible assets is estimated to be nil. Transfers from Intangible assets are made when the particular asset no longer meets the definition of an Intangible asset.

#### **Amortisation and Impairment**

Intangible assets are amortised on a straight line method over their estimated useful lives, as follows:-

| <b>Details</b>    | <b>Years</b> |
|-------------------|--------------|
| Computer Software | 5 - 20 years |

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

#### **Derecognition:**

Intangible assets are derecognized when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **1.9 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.

## **ACCOUNTING POLICIES**

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### **1.9 Heritage assets (continued)**

#### **Initial Recognition**

A heritage asset that qualifies for recognition as an asset is measured at its cost and any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. The cost of an item of heritage assets is recognised as an asset only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- (b) the cost or fair value of the item can be measured reliably.

Where a heritage asset is acquired through a non-exchange transaction, its deemed cost is to be measured at its fair value as at the date of acquisition. If at Initial recognition, the Municipality cannot reliably measure its cost, the relevant and useful information about the heritage asset is disclosed in the notes to the financial statements.

#### **Subsequent measurement**

Subsequent to initial recognition, heritage assets are measured at cost less accumulated impairment losses i.e. cost model. Transfers from heritage assets are made when the particular asset no longer meets the definition of a heritage asset.

#### **Depreciation and Impairment**

Heritage assets are not depreciated but assessed at each reporting date whether there is an indication that it may be impaired. Where the carrying amount of an item of heritage assets is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### **Derecognition**

Heritage assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset. The gain or loss arising on the disposal or retirement of a heritage asset is recognised in the Statement of Financial Performance.

### **1.10 Investments in Municipal Entities**

Investments in municipal entities are initially recognised at cost.

Subsequently they are accounted for at cost less any accumulated impairment.

The municipality assesses at each reporting date whether there is any indication that an investment in municipal entities may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the investment in municipal entities. The impairment loss is measured as the difference between the investment's carrying amount and the estimated recoverable amount.

A reversal of an impairment loss of investments in municipal entities carried at cost is recognised immediately in the Statement of Financial Performance.

## **ACCOUNTING POLICIES**

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### **1.11 Interest in Joint Ventures**

An investment in a joint venture is initially recognised at cost.

Subsequently the investment is carried at cost less any accumulated impairment taking into account the Municipality's share of profits or losses, resulting from operations of the joint venture, on the accrual basis. The share of losses are limited to the carrying amount of the joint venture and as a result if the interest in the joint venture is considered to be fully impaired or if the accumulated losses are equal to the cost of the interest in the joint venture, there will be no further losses recognised from the joint venture.

The municipality assesses at each reporting date whether there is any indication that an investment in a joint venture may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the investment in a joint venture. The impairment loss is measured as the difference between the investment's carrying amount and the estimated recoverable amount.

The recoverable amount of an investment in a joint venture is the higher of its fair value less costs to sell and its value in use.

A reversal of an impairment loss of investments in a joint venture carried at cost is recognised immediately in the Statement of Financial Performance.

### **1.12 Financial instruments**

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

#### **Initial recognition**

Financial instruments are initially recognised at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.



## **ACCOUNTING POLICIES**

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### **1.12 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

##### **Loans to municipal entities**

Loans to municipal entities are initially recognised at fair value plus any transaction costs. Subsequently the loans are measured at cost.

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

##### **Debtors**

Debtors are initially recognised at fair value plus any transaction costs. Subsequently measured at amortised cost using the effective interest method, less provision for impairment.

An allowance for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors.

The provision for impairment is measured as the difference between the assets' carrying amount and the estimated recoverable amount based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end. Impairment losses are recognised in the Statement of Financial Performance.

Bad debts are written off during the year in which they are identified against the provision for impairment on the Statement of Financial Position. If no such provision for impairment was raised the Bad debts are written off on the Statement of Financial Performance.

##### **Creditors**

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

##### **Cash and cash equivalents**

These are initially and subsequently recorded at fair value.

For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments, and bank overdrafts.

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

##### **Borrowings and other financial liabilities**

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

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

Other financial liabilities are initially recognised at fair value plus any transaction costs. Subsequently they are measured at amortised cost.

##### **Loans and receivables**

## **ACCOUNTING POLICIES**

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### **1.12 Financial instruments (continued)**

Loans and receivables are initially measured at fair value plus any transaction costs.

Subsequently they are measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms. The provision for impairment is measured as the difference between the assets' carrying amount and the estimated recoverable future cash flow based on past recovery trends. Impairment losses are recognised in the Statement of Financial Performance.

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

#### **Fixed and Negotiable Deposits**

Fixed and negotiable deposits are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality will hold to maturity.

Fixed and negotiable deposits are initially measured at fair value plus any transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The provision for impairment is measured as the difference between the assets' carrying amount and the estimated recoverable future cash flow based on past recovery trends. Impairment losses are recognised in the Statement of Financial Performance.

### **1.13 Taxation**

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

### **1.14 Long Service Awards**

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

### **1.15 Leases**

#### **Operating leases - The Municipality as lessor**

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

They are depreciated over their expected useful lives (land is not depreciated) on a basis consistent with similar owned investment properties and property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised over the lease term.

#### **Operating leases - The Municipality as lessee**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of financial performance on a straight-line basis over the period of the lease.

## **ACCOUNTING POLICIES**

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### **1.16 Inventories**

#### **Initial Recognition**

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

#### **Subsequent Measurement**

Inventories are subsequently measured at the lower of cost and net realisable value using the weighted average method as the basis to determine cost. Net realisable value is the estimated selling price in the ordinary course of operations. When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value 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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Consumable stores, maintenance materials and water stock are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average method. Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs. Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

### **1.17 Impairment of cash-generating assets**

The Municipality classifies all assets held with the primary objective of generating a commercial return as cash generating assets. The municipality assesses at each reporting date, or more frequently where events or changes in circumstances indicate that an asset may be impaired. When such an indication exists, the municipality determines the recoverable amount of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. A cash generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return.

An impairment loss of a cash-generating unit is allocated to decrease the carrying amount of the assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. After allocating the impairment loss, the carrying amount should be the highest of, its fair value less cost to sell; or value in use; or zero.

A reversal of an impairment loss for a group of assets / cash-generating unit should be allocated to the cash-generating assets of the unit, pro-rata with the carrying amount of those assets.

If the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired and is recognised immediately in the Statement of Financial Performance.

### **1.18 Impairment of non-cash-generating assets**

Non-cash-generating assets are those assets held by the municipality without an intention of generating a commercial return and held primarily for service delivery purposes. The Municipality classifies all assets held with the primary objective of generating a commercial return as cash generating assets. The municipality will apply its judgment and disclose the criteria used in making such judgment in cases where it's not clear whether the primary objective is to generate a commercial return or not.

The municipality assesses at each reporting date, or more frequently where events or changes in circumstances indicate that an asset may be impaired. If any such indication exists, the municipality determines the recoverable service amount of the asset. The recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired and is recognised immediately in the Statement of Financial Performance.

An impairment loss is when the asset's carrying amount exceeds its recoverable service amount and is recognised in the Statement of Financial Performance.

## **ACCOUNTING POLICIES**

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### **1.18 Impairment of non-cash-generating assets (continued)**

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance. The increase in the carrying amount of an asset due to the reversal of an impairment loss should not exceed what the carrying amount would have been if no impairment loss had been recognised.

Intangible assets with indefinite useful lives and not yet available for use, are tested for impairment annually, irrespective of whether any indication of impairment exists.

### **1.19 Grants, Transfers and Donations**

Income received from conditional grants, donations and subsidies is recognised to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised and funds are invested until utilised.

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

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

### **1.20 Budget Information**

The budget has been included in the Annual Financial Statements in accordance with GRAP 24. An approved budget is the anticipated revenue and expenditure expected to apply in the annual or multi-year period based on current plans and approved by the Municipal Council. Final budget is the approved budget adjusted for transfers, allocations, supplemental appropriations and other changes applicable to the budget period. The budget has been included in the Annual Financial Statements in accordance with the disclosure recommendations determined by National Treasury.

Comparative information is not required.

### **1.21 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, or vice versa, or an entity that is subject to common control, or joint control.

### **1.22 Commitments**

A capital commitment is a binding agreement to undertake capital expenditure at some set time in the future which has not yet become an actual liability.

An operating commitment is a binding agreement to undertake operating expenditure at some set time in the future which has not yet become an actual liability.

### **1.23 Post-reporting date events**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

Two types of events can be identified:

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

The Municipality will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## ACCOUNTING POLICIES

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### 1.24 Provisions and contingencies

Provisions are recognised when:

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

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

Where the effect is material, non-current provisions are discounted to their present value using a prevailing prime rate at year end which reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability, if any (for example in the case of obligations for the rehabilitation of land). The municipality uses the prevailing prime rate at year end.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

### 1.25 Revenue

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

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

- The Municipality has transferred to the buyer 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 associated with the transaction will flow to the Municipality;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is recognised as follows:

## **ACCOUNTING POLICIES**

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### **1.25 Revenue (continued)**

#### **1.25.1 Revenue from exchange transactions**

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.

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

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

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

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

Interest and rentals are recognised on a time proportion basis.

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

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

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

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

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

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

All other revenue is recognised as it accrues.

#### **1.25.2 Revenue from non-exchange transactions**

This refers to transactions where the municipality received revenue from another entity without giving approximately equal value in exchange.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount and the effective interest rate applicable.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised bases on management's best estimate of the probable inflows.

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

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

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

## **ACCOUNTING POLICIES**

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### **1.26 Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred, regardless of how the borrowing costs are applied.

### **1.27 Translation of foreign currencies**

#### **Foreign currency transactions**

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

### **1.28 Comparatives information**

#### **1.28.1 Current year comparatives**

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

#### **1.28.2 Prior year comparatives**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### **1.29 Unauthorised expenditure**

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

### **1.30 Fruitless and wasteful expenditure**

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

### **1.31 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the relevant authority, upon the finalisation of an investigation, it is treated as a current asset until it is recovered or written off as irrecoverable in the Statement of Financial Performance.



## **ACCOUNTING POLICIES**

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### **1.32 Principal- agent arrangements**

Management assesses whether the Municipality is party to any principle-agent arrangements. Should the municipality be party to such an arrangement, management will assess whether it is a principal or an agent in the arrangement. The municipality is an agent if the following criterion are met:

- (a) It does not have the power to determine the significant terms and conditions of the transaction.
- (b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- (c) It is not exposed to variability in the results of the transaction.

If this criteria is not met, then the municipality is considered to be a principal in the arrangement.

A principal recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement using management's best estimates.

An agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.

An entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of other Standards of GRAP.

Changes in the liability are added to, or deducted from, the cost of the related asset in the current financial year. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit and if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable.

If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment.

Unaudited



# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand  | 2018             | 2017             |
|---|------------------|------------------|
| <b>2. Inventories</b>   |                  |                  |
| Consumable stores   | 569,514          | 435,439          |
| Maintenance materials   | 89               | 57               |
| Water   | 18,157           | 15,714           |
|   | <b>587,760</b>   | <b>451,210</b>   |
| <p>The cost of inventories recognised as an expense during the period in respect of water sales was R2 154m (2017: R1 799m).</p>  |                  |                  |
| <b>3. Investments</b>   |                  |                  |
| <b>At amortised cost</b>  |                  |                  |
| Fixed Deposit   | 5,700,000        | 5,750,000        |
|   |                  |                  |
| <b>Current assets</b>   |                  |                  |
| Fixed Deposit   | 5,700,000        | 5,750,000        |
| <p>Investments are non-derivative financial assets and are subsequently measured at amortised cost and are held to maturity. The Municipality does not hold its investments for trading purpose. Management determines the classification of its investments at the time of acquisition and re-evaluates such declaration on an annual basis. Investments held for less than twelve months are classified as current assets. Investments with maturities greater than twelve months are classified as non-current assets.</p> |                  |                  |
| <b>4. Receivables from exchange transactions</b>  |                  |                  |
| Provision for Bad Debts - Other (mainly in respect of Sundry services and interest on outstanding debt)   | (1,557,179)      | (1,370,661)      |
| Prepayments   | 14,823           | 20,166           |
| Provision for Bad Debts - DOHS  | (2,471,033)      | (2,502,019)      |
| Other Debtors (mainly in respect of Sundry services and interest on outstanding debt)   | 1,899,158        | 1,980,000        |
| Debtor - DOHS   | 3,974,144        | 3,823,418        |
| Accruals  | 170,859          | 150,028          |
|   | <b>2,030,772</b> | <b>2,100,932</b> |
| <b>5. Receivables from non-exchange transactions</b>  |                  |                  |
| Fines   | 665,569          | 1,683,226        |
| Provision for Bad Debts - Traffic Fines   | (583,724)        | (1,428,642)      |
|   | <b>81,845</b>    | <b>254,584</b>   |
| <b>6. VAT</b>   |                  |                  |
| VAT receivable from SARS  | 124,331          | 35,448           |
| VAT on invoices raised but not yet paid   | 279,619          | 239,634          |
|   | <b>403,950</b>   | <b>275,082</b>   |

Vat is claimed on the payment basis. Only once an invoice is paid is VAT claimed and receivable from SARS.

The value disclosed is the net VAT on Payables & Receivables.

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand   | 2018               | 2017               |
|--|--------------------|--------------------|
| <b>7. Consumer debtors</b>   |                    |                    |
| <b>Gross balances</b>  |                    |                    |
| Rates  | 3,031,985          | 2,591,206          |
| Electricity  | 2,430,435          | 1,831,177          |
| Water  | 2,923,492          | 2,203,740          |
| Refuse   | 218,229            | 169,951            |
| Housing rental   | 107,191            | 91,947             |
| Waste water  | 523,149            | 356,679            |
|  | <b>9,234,481</b>   | <b>7,244,700</b>   |
| <b>Less: Allowance for impairment</b>  |                    |                    |
| Rates  | (1,283,924)        | (1,118,063)        |
| Electricity  | (503,564)          | (358,724)          |
| Water  | (2,235,445)        | (1,476,849)        |
| Refuse   | (133,627)          | (83,629)           |
| Housing rental   | (94,940)           | (66,685)           |
| Waste water  | (306,094)          | (205,361)          |
|  | <b>(4,557,594)</b> | <b>(3,309,311)</b> |
| <b>Net balance</b>   |                    |                    |
| Rates  | 1,748,061          | 1,473,143          |
| Electricity  | 1,926,871          | 1,472,453          |
| Water  | 688,047            | 726,891            |
| Refuse   | 84,602             | 86,322             |
| Housing rental   | 12,251             | 25,262             |
| Waste water  | 217,055            | 151,318            |
|  | <b>4,676,887</b>   | <b>3,935,389</b>   |
| <b>Included in above is receivables from exchange transactions</b>                           |                    |                    |
| Electricity  | 1,926,871          | 1,472,453          |
| Water  | 688,047            | 726,891            |
| Waste water  | 217,055            | 151,318            |
| Refuse   | 84,602             | 86,322             |
| Housing rental   | 12,251             | 25,262             |
|  | <b>2,928,826</b>   | <b>2,462,246</b>   |
| <b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b> |                    |                    |
| Rates  | 1,748,061          | 1,473,143          |
|  | <b>4,676,887</b>   | <b>3,935,389</b>   |
| <b>Rates</b>   |                    |                    |
| Current (0 -30 days)   | 670,430            | 719,887            |
| 31 - 60 days   | 119,867            | 117,771            |
| 61 - 90 days   | 82,283             | 102,838            |
| 91 - 120 days  | 81,470             | 61,698             |
| 121 - 365 days   | 2,039,280          | 1,589,012          |
| > 365 days   | 38,655             | -                  |
|  | <b>3,031,985</b>   | <b>2,591,206</b>   |

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand  | 2018             | 2017             |
|---|------------------|------------------|
| <b>7. Consumer debtors (continued)</b>                                |                  |                  |
| <b>Electricity, Water, Refuse and Waste Water</b>                     |                  |                  |
| Current (0 -30 days)  | 2,278,155        | 1,774,665        |
| 31 - 60 days  | 340,360          | 220,054          |
| 61 - 90 days  | 165,170          | 118,601          |
| 91 - 120 days   | 140,181          | 101,368          |
| 121 - 365 days  | 2,947,044        | 2,346,859        |
| > 365 days  | 224,395          | -                |
|   | <b>6,095,305</b> | <b>4,561,547</b> |
| <b>Housing rental</b>   |                  |                  |
| Current (0 -30 days)  | 9,773            | 5,410            |
| 31 - 60 days  | 2,703            | 2,496            |
| 61 - 90 days  | 2,265            | 2,177            |
| 91 - 120 days   | 2,304            | 2,114            |
| 121 - 365 days  | 84,152           | 79,750           |
| > 365 days  | 5,994            | -                |
|   | <b>107,191</b>   | <b>91,947</b>    |
| <b>Movement in the provision for bad debts</b>                        |                  |                  |
| Balance at beginning of year  | 3,309,311        | 3,007,526        |
| Contribution  | 1,260,067        | 925,984          |
| Bad Debts written off   | (11,784)         | (624,199)        |
|   | <b>4,557,594</b> | <b>3,309,311</b> |
| <b>8. Long-term receivables</b>                                       |                  |                  |
| Loan: Durban Point Development Company Proprietary Limited            | 92,588           | 85,790           |
| Housing Selling scheme loans  | 140,959          | 141,113          |
| First Metro Housing Loans   | 11,815           | 11,194           |
| Study assistance schemes  | 14,320           | 11,480           |
| Debt Impairment: Durban Point Development Company Proprietary Limited | (92,588)         | (85,790)         |
| Debt Impairment: Housing Selling scheme loans                         | (67,269)         | (65,934)         |
|   | <b>99,825</b>    | <b>97,853</b>    |
| <b>Less: Current portion transferred to current receivables</b>       |                  |                  |
| Housing Selling scheme loans  | 37,770           | 39,737           |
| First Metro Housing Loans   | 2,067            | 777              |
| Study assistance schemes  | 1,696            | 2,330            |
|   | <b>41,533</b>    | <b>42,844</b>    |
| Long-term receivables - Non-current portion                           | 58,292           | 55,009           |
| Long-term receivables - Current portion                               | 41,533           | 42,844           |

### Study assistance schemes

These relate to students who are studying full-time at Universities in the Engineering disciplines. The cost covers tuition fees, books and subsistence. On successful completion of the course the students are, in terms of contractual obligations, employed by the Municipality. A pro-rata share of these costs are then written back as operating costs in annual instalments equal to the number of years studied. These schemes are interest free.

### Housing selling scheme loans

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

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 8. Long-term receivables (continued)

#### Housing First Metro loan

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

### 9. Call investment deposits

|                 |         |         |
|-----------------|---------|---------|
| 30 Day deposits | 200,000 | 480,000 |
|-----------------|---------|---------|

### 10. Cash and Bank Balances

Refer to note 52 for details on Bank accounts and balances.

Cash and cash equivalents consist of:

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| Cash on hand                     | 30,673           | 17,998           |
| Bank balances                    | 550,343          | 437,018          |
| Bank balances and cash           | 581,016          | 455,016          |
| Bank overdraft                   | (382,790)        | (379,700)        |
|                                  | 198,226          | 75,316           |
| Call Investment Deposits         | 200,000          | 480,000          |
| Investments                      | 5,700,000        | 5,750,000        |
| <b>Cash and cash equivalents</b> | <b>6,098,226</b> | <b>6,305,316</b> |

### 11. Investment property

|                        | 2018             |   |                | 2017             |   |                |
|------------------------|------------------|---|----------------|------------------|---|----------------|
|                        | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Revenue Generating     | 118,262          | (34,114)  | 84,148         | 102,359          | (49,916)  | 52,443         |
| Non-revenue Generating | 135,503          | (11,005)  | 124,498        | 189,795          | (9,224)   | 180,571        |
| <b>Total</b>           | <b>253,765</b>   | <b>(45,119)</b>                                     | <b>208,646</b> | <b>292,154</b>   | <b>(59,140)</b>                                     | <b>233,014</b> |

#### Reconciliation of investment property - 2018

|                        | Opening balance | Disposals    | Transfers       | Impairments    | Depreciation   | Total          |
|------------------------|-----------------|--------------|-----------------|----------------|----------------|----------------|
| Revenue Generating     | 52,443          | -            | 32,921          | 25             | (1,241)        | 84,148         |
| Non-revenue Generating | 180,571         | (944)        | (53,348)        | (1,781)        | -              | 124,498        |
|                        | <b>233,014</b>  | <b>(944)</b> | <b>(20,427)</b> | <b>(1,756)</b> | <b>(1,241)</b> | <b>208,646</b> |

#### Reconciliation of investment property - 2017

|                        | Opening balance | Disposals      | Impairments    | Depreciation   | Total          |
|------------------------|-----------------|----------------|----------------|----------------|----------------|
| Revenue Generating     | 53,875          | -              | -              | (1,432)        | 52,443         |
| Non-revenue Generating | 185,418         | (3,457)        | (1,390)        | -              | 180,571        |
|                        | <b>239,293</b>  | <b>(3,457)</b> | <b>(1,390)</b> | <b>(1,432)</b> | <b>233,014</b> |

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### 11. Investment property (continued)

The Municipality lets properties under operating leases. Property rental income earned during the year was R87.5million (2017: R72.5million) - (refer note 26). The operating costs related to the rental of these properties amounted to R9.7million (2017: R7.0million). The net impairment loss of R1.8million is made up of an impairment loss of R1.8million and the impact of the impairment reversal is immaterial. The impairment loss relates to a decrease in the value of investment properties as a result of a general decline in property values and damages to property. Included in Investment properties above are items that are still in use and that have a historical cost of R4.5million (2017: R1.39million) but are fully depreciated/impaird. This amount is made up as follows: Investment property fully depreciated – R4.1million; Investment property fully impaired R0.4million.

There is no item of investment property with restrictions on title or held as security for liabilities.

The repairs and maintenance cost for investment properties was R53.4 thousand (2017: R53.7 thousand) in the current financial year. This cost consists of only payments made to contractors for repairing and maintaining assets. No staff member is engaged in any labour towards the repair and maintenance of investment property as contractors are outsourced. Both the operating cost, and repairs and maintenance comparative balances have been restated. These costs in the prior year erroneously included those relating to the Winder Street Building. This is a property used for administrative purposes, which is correctly accounted for as property, plant and equipment.

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# eThekweni Municipality

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### 12. Property, plant and equipment

|                                 | 2018                |   | 2017              |                     |   |                   |
|---------------------------------|---------------------|---|-------------------|---------------------|---|-------------------|
|                                 | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value    | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value    |
| Land and Buildings              | 5,000,795           | (1,230,539)   | 3,770,256         | 4,761,096           | (1,097,248)   | 3,663,848         |
| Plant and machinery             | 1,992,930           | (1,324,288)   | 668,642           | 1,796,474           | (1,176,201)   | 620,273           |
| Furniture and fixtures          | 315,567             | (249,675)   | 65,892            | 299,987             | (225,117)   | 74,870            |
| Motor vehicles                  | 3,336,146           | (2,548,623)   | 787,523           | 3,021,807           | (2,287,338)   | 734,469           |
| IT equipment                    | 1,023,696           | (831,436)   | 192,260           | 955,549             | (750,826)   | 204,723           |
| Infrastructure                  | 45,341,949          | (10,828,402)  | 34,513,547        | 41,907,577          | (9,684,487)   | 32,223,090        |
| Community                       | 10,942,397          | (2,562,888)   | 8,379,509         | 10,673,939          | (2,292,158)   | 8,381,781         |
| Biological Assets               | 556                 | (555)   | 1                 | 556                 | (531)   | 25                |
| Housing Development Fund Assets | 133,162             | (66,287)  | 66,875            | 130,873             | (65,306)  | 65,567            |
| <b>Total</b>                    | <b>68,087,198</b>   | <b>(19,642,693)</b>   | <b>48,444,505</b> | <b>63,547,858</b>   | <b>(17,579,212)</b>   | <b>45,968,646</b> |

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### 12. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

|                                 | Opening balance   | Additions        | Disposals      | Transfers     | Work-in-progress | Depreciation       | Impairment loss | Total             |
|---------------------------------|-------------------|------------------|----------------|---------------|------------------|--------------------|-----------------|-------------------|
| Land and Buildings              | 3,663,849         | 56,566           | (3)            | 6,955         | 171,488          | (132,074)          | 3,475           | 3,770,256         |
| Plant and machinery             | 620,273           | 117,108          | (523)          | 31            | 82,346           | (150,593)          | -               | 668,642           |
| Furniture and fixtures          | 74,870            | 18,785           | (95)           | (199)         | -                | (27,456)           | (13)            | 65,892            |
| Motor vehicles                  | 734,469           | 303,732          | -              | 9             | 10,607           | (261,294)          | -               | 787,523           |
| IT equipment                    | 204,723           | 72,438           | (415)          | 414           | 949              | (85,849)           | -               | 192,260           |
| Infrastructure                  | 32,223,090        | 2,168,532        | (7,644)        | (5,192)       | 1,286,950        | (1,152,189)        | -               | 34,513,547        |
| Community                       | 8,381,781         | 154,920          | -              | 18,859        | 88,397           | (265,002)          | 554             | 8,379,509         |
| Biological Assets               | 25                | -                | -              | -             | -                | (24)               | -               | 1                 |
| Housing Development Fund Assets | 65,567            | 520              | (68)           | -             | 2,338            | (1,482)            | -               | 66,875            |
|                                 | <b>45,968,647</b> | <b>2,892,601</b> | <b>(8,748)</b> | <b>20,877</b> | <b>1,643,075</b> | <b>(2,075,963)</b> | <b>4,016</b>    | <b>48,444,505</b> |

#### Reconciliation of property, plant and equipment - 2017

|                                 | Opening balance   | Additions        | Disposals      | Transfers  | Work-in-progress | Depreciation       | Impairment loss | Total             |
|---------------------------------|-------------------|------------------|----------------|------------|------------------|--------------------|-----------------|-------------------|
| Land and Buildings              | 3,615,669         | 3,924            | -              | -          | 143,939          | (99,684)           | -               | 3,663,848         |
| Plant and machinery             | 583,634           | 134,123          | (58)           | 6,726      | 30,444           | (134,332)          | (264)           | 620,273           |
| Furniture and fixtures          | 73,821            | 32,810           | (156)          | (7,054)    | -                | (24,461)           | (90)            | 74,870            |
| Motor vehicles                  | 847,236           | 121,891          | (548)          | 2,324      | 4,432            | (240,840)          | (26)            | 734,469           |
| IT equipment                    | 236,922           | 42,536           | (372)          | (481)      | -                | (73,659)           | (23)            | 204,723           |
| Infrastructure                  | 29,111,305        | 2,797,986        | (7,247)        | (73,200)   | 1,508,870        | (1,115,060)        | 436             | 32,223,090        |
| Community                       | 8,296,724         | 293,654          | -              | 72,019     | (36,680)         | (243,936)          | -               | 8,381,781         |
| Biological Assets               | 50                | -                | -              | -          | -                | (25)               | -               | 25                |
| Housing Development Fund Assets | 65,634            | 116              | (61)           | -          | 1,443            | (1,565)            | -               | 65,567            |
|                                 | <b>42,830,995</b> | <b>3,427,040</b> | <b>(8,442)</b> | <b>334</b> | <b>1,652,448</b> | <b>(1,933,762)</b> | <b>33</b>       | <b>45,968,646</b> |

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### 12. Property, plant and equipment (continued)

Included in Property, Plant and Equipment above are items that are still in use and that have a historical cost of R4.121million (2017: R1.074million) but are fully depreciated/impaired. This amount is made up as follows: PPE fully depreciated - R4.058million; PPE fully impaired R63million. The Net Impairment reversal of R4million is made up of reversal of impairment of R4million and the impact of the impairment loss is immaterial. The impairment reversal relates to assets that were initially impaired, but are now fully operational due to them having been repaired.

The repairs and maintenance cost for property, plant and equipment was R2.56 billion (2017: R2.48billion) in the current financial year. This cost consists of payments made to contractors, material issues and consumables for repairing and maintaining assets. This cost excludes internal labour costs which form part of internal charges (internal charges are eliminated on consolidation).

There is no item of property, plant and equipment with restrictions on title or held as security for liabilities.

Refer to note 59 regarding Work-in-progress projects taking significantly longer than anticipated.

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# eThekweni Municipality

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## Notes to the Annual Financial Statements

Figures in Rand thousand

### 13. Intangible assets

|                   | 2018                |   | 2017           |                     |   |                |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
|                   | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>amortisation<br>and<br>accumulated<br>impairment | Carrying value |
| Servitudes        | 61,318              | -   | 61,318         | 58,767              | -   | 58,767         |
| Computer software | 1,605,290           | (840,940)   | 764,350        | 1,414,902           | (624,781)   | 790,121        |
| <b>Total</b>      | <b>1,666,608</b>    | <b>(840,940)</b>  | <b>825,668</b> | <b>1,473,669</b>    | <b>(624,781)</b>  | <b>848,888</b> |

#### Reconciliation of intangible assets - 2018

|                   | Opening<br>balance | Additions      | Transfers    | Work-in-<br>progress | Amortisation     | Total          |
|-------------------|--------------------|----------------|--------------|----------------------|------------------|----------------|
| Servitudes        | 58,767             | 13             | -            | 2,538                | -                | 61,318         |
| Computer software | 790,121            | 149,255        | (450)        | 42,940               | (217,516)        | 764,350        |
|                   | <b>848,888</b>     | <b>149,268</b> | <b>(450)</b> | <b>45,478</b>        | <b>(217,516)</b> | <b>825,668</b> |

#### Reconciliation of intangible assets - 2017

|                   | Opening<br>balance | Additions      | Disposals  | Transfers  | Work-in-<br>progress | Amortisation<br>loss | Total          |
|-------------------|--------------------|----------------|------------|------------|----------------------|----------------------|----------------|
| Servitudes        | 54,865             | 2,335          | -          | -          | -                    | -                    | 58,767         |
| Computer software | 831,092            | 543,920        | (1)        | 458        | (386,654)            | (198,118)            | 790,121        |
|                   | <b>885,957</b>     | <b>546,255</b> | <b>(1)</b> | <b>458</b> | <b>(385,087)</b>     | <b>(198,118)</b>     | <b>848,888</b> |

# eThekwini Municipality

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### 13. Intangible assets (continued)

#### Other information

Included in Intangible assets above are items that are still in use and that have a historical cost of R341million, but are fully amortised.

There is no item of intangible assets with restrictions on title or held as security for liabilities.

Refer to note 59 regarding Work-in-progress projects taking significantly longer than anticipated.

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# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 14. Heritage assets

|   | 2018             |                               |                | 2017             |                               |                |
|---|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
|   | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Art Collections, antiquities and exhibits | 24,536           | -                             | 24,536         | 24,039           | -                             | 24,039         |

#### Reconciliation of heritage assets 2018

|   | Opening balance | Additions | Total  |
|---|-----------------|-----------|--------|
| Art Collections, antiquities and exhibits | 24,039          | 497       | 24,536 |

#### Reconciliation of heritage assets 2017

|   | Opening balance | Additions | Transfers | Total  |
|---|-----------------|-----------|-----------|--------|
| Art Collections, antiquities and exhibits | 24,396          | 435       | (792)     | 24,039 |

#### Heritage assets which fair values cannot be reliably measured

The following items of heritage assets cannot be reliably valued due to the nature of the items. These are categories of Heritage assets which reflect the number of assets for each category:

|                                  |           |
|----------------------------------|-----------|
| Ornithology                      | 39,286    |
| Mammalogy                        | 14,673    |
| Entomology                       | 140,420   |
| Arachnology                      | 619       |
| Echinodermata                    | 36        |
| Palaeontology                    | 33,297    |
| Ethnographic                     | 11,759    |
| Library collection               | 4,794     |
| Conchology                       | 5,207     |
| Audio Visual collection          | 3,668     |
| Numismatic                       | 2,464     |
| Textile & Costume                | 14,442    |
| Glass & Ceramics                 | 7,863     |
| Other Historical                 | 1,105     |
| Don Africana Books & Periodicals | 4,556     |
| Exhibitions                      | 2,173     |
| Ichthyology                      | 357       |
| Herpetology                      | 2,755     |
| Biographical                     | 1,191     |
| Toys                             | 4,415     |
| Philately                        | 2,247     |
| War memorials                    | 113       |
| Firearms                         | 168       |
| Paintings                        | 7,365     |
| Photographic                     | 3,846,903 |
| Furniture                        | 674       |
| Documents / Cartoons / Plans     | 633,597   |
| Pinetown Library Collection      | 228       |

# eThekwini Municipality

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### 14. Heritage assets (continued)

#### Heritage assets which fair values cannot be reliably measured

The Municipality has undertaken valuations to determine fair values of its Heritage Assets. The Municipality did apply a valuation methodology and completed the exercise on certain classes of Heritage Assets after extensive research, reviewing benchmarks, both nationally and internationally, including consulting research papers that have been compiled on this subject matter. Where there is no active market for the items of Heritage Assets, the municipality is currently testing various valuation methodologies in order to determine the fair value of these Heritage Assets. GRAP 103 does allow the entity to determine fair value by using a replacement cost approach in cases where there is no active market and the Municipality has followed this approach, where applicable. No Heritage Assets were pledged as security for liabilities during the financial year end.

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# eThekweni Municipality

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### 15. Investments in Municipal Entities

| Name of company  | % holding<br>2018 | % holding<br>2017 | Carrying<br>amount June<br>2018 | Carrying<br>amount June<br>2017 |
|--|-------------------|-------------------|---------------------------------|---------------------------------|
| Durban Marine Theme Park (State Owned Company) Limited | 100.00 %          | 100.00 %          | 962,996                         | 962,996                         |
| ICC Durban (Proprietary) Limited                       |                   |                   | 226,591                         | 226,591                         |
| Impairment of investment in Municipal entities         |                   |                   | 1,189,587<br>(248,756)          | 1,189,587<br>(280,808)          |
|  |                   |                   | <b>940,831</b>                  | <b>908,779</b>                  |

Impairment of Investments in Municipal Entities are reviewed and adjusted only on an annual basis. The balances above are reflective of estimations at 30 June 2018.

The Shareholders loan was converted to equity in the prior year. At its meeting on 28 June 2018, and taking cognizance of the International Convention Centre and Durban Marine Theme Park, Council confirmed its commitment to ensuring the future financial viability of the International Convention Centre and the Durban Marine Theme Park and more specifically to meet any funding shortfalls that may compromise their ability to continue trading as a "going concern". There was an impairment reversal in the current year of R32.1million.

#### As at June 30, 2018

|                                     | ICC Durban<br>(Proprietary)<br>Limited | Durban<br>Marine Theme<br>Park<br>(SOC) |
|-------------------------------------|--|---|
| Issued Share Capital (R'000)        | 226,591                                | 10                                      |
| Percentage owned by Council (%)     | 100                                    | 100                                     |
| Electricity Income Received (R'000) | 10,264                                 | 22,515                                  |
| Water Income Received (R'000)       | 1,996                                  | 9,874                                   |
| Rates Income Received (R'000)       | 9,134                                  | 3,633                                   |
| Refuse Removal (R'000)              | 991                                    | 947                                     |
| Insurance (R'000)                   | 5                                      | 437                                     |

#### As at June 30, 2017

|                                     | ICC Durban<br>(Proprietary)<br>Limited | Durban<br>Marine Theme<br>Park<br>(SOC) |
|-------------------------------------|--|---|
| Issued Share Capital (R'000)        | 226,591                                | 10                                      |
| Percentage owned by Council (%)     | 100                                    | 100                                     |
| Electricity Income Received (R'000) | 11,287                                 | 21,307                                  |
| Water Income Received (R'000)       | 1,567                                  | 8,940                                   |
| Rates Income Received (R'000)       | 6,064                                  | 3,375                                   |
| Refuse Removal (R'000)              | 900                                    | 1,088                                   |
| Insurance (R'000)                   | 39                                     | 772                                     |

# eThekwini Municipality

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## Notes to the Annual Financial Statements

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### 16. Interest in Joint Ventures

| Name of company                            | Listed / Unlisted | Carrying amount June 2018 | Carrying amount June 2017 |
|--|-------------------|---------------------------|---------------------------|
| Effingham Development                      | 66.74%            | 62,507                    | 72,993                    |
| Durban Point Development Company (Pty) Ltd | 50.00%            | 67,207                    | 72,100                    |
|  |                   | <b>129,714</b>            | <b>145,093</b>            |

This represents a 66.74% investment in Effingham Development and a 50% investment in Durban Point Development Company (Joint Ventures).

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

Durban Point Development Company is a joint venture entered into with Rocpoint Company, a Malaysian Company. This company has been formed with the objective of driving the development of the Point Precinct area.

#### Summary of the municipality's interest in the joint venture - Effingham Development

##### Non-current assets

|   |        |        |
|---|--------|--------|
| Township Property                               | 31,557 | 44,849 |
| Current assets - Debtors                        | 28,672 | 27,006 |
| Current assets - Bank Balances and Cash on hand | 19,647 | 39,252 |

|                     |               |                |
|---------------------|---------------|----------------|
| <b>Total Assets</b> | <b>79,876</b> | <b>111,107</b> |
|---------------------|---------------|----------------|

##### Equity and Liabilities

|                                 |        |        |
|---------------------------------|--------|--------|
| Members Loan Accounts           | 62,507 | 72,993 |
| Current liabilities - Creditors | 17,369 | 38,114 |

|                                     |               |                |
|-------------------------------------|---------------|----------------|
| <b>Total Equity and Liabilities</b> | <b>79,876</b> | <b>111,107</b> |
|-------------------------------------|---------------|----------------|

##### Reconciliation of Investment in Joint Venture

|   |         |          |
|---|---------|----------|
| Balance at beginning of the reporting period  | 72,993  | 74,309   |
| Share of Income   | 2,862   | 24,767   |
| Purchase of development rights (adjusted against profits)                                   | -       | (26,083) |
| Share of loan repayment received  | (6,848) | -        |
| Share of loan repayment due to eThekwini but retained by Effingham JV for payment of levies | (6,500) | -        |

|                               |               |               |
|-------------------------------|---------------|---------------|
| <b>Balance at end of year</b> | <b>62,507</b> | <b>72,993</b> |
|-------------------------------|---------------|---------------|

#### Summary of the municipality's interest in the joint venture - Durban Point Development Company

|   |                |                |
|---|----------------|----------------|
| Non-current assets - Property                 | 3,378          | 2,675          |
| Current assets - Debtors                      | 10,420         | 4,105          |
| Current assets - Inventory                    | 93,345         | 93,345         |
| Current assets - Bank Balances / Cash on hand | 405            | 593            |
| <b>TOTAL ASSETS</b>                           | <b>107,548</b> | <b>100,718</b> |
| Equity - Accumulated Loss                     | (32,212)       | (27,264)       |
| Equity - Loans from shareholders              | 78,466         | 78,466         |
| Non-current liability - Rates Liability       | 46,294         | 42,895         |
| Current Liabilities - Creditors               | 15,000         | 6,621          |
| <b>TOTAL EQUITY AND LIABILITIES</b>           | <b>107,548</b> | <b>100,718</b> |
| Reconciliation of Investment in Joint Venture |                |                |
| Balance at beginning of the reporting period  | 72,100         | 75,716         |
| Share of losses for the year                  | (4,893)        | (3,616)        |

# eThekwini Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand thousand   | 2018             | 2017             |
|--|------------------|------------------|
| <b>16. Interest in Joint Ventures (continued)</b>  |                  |                  |
| Balance at end of the reporting period   | 67,207           | 72,100           |
| <p>The change in the comparative balances for DPDC's accumulated surplus and creditors relate to a correction of error for UEM Sunrise South Africa (Pty) Ltd. (UEM) management fees that weren't accrued for by the joint venture in the prior years. The value of these management fees amounts to R6,250,000 (eThekwini Municipality's share being R3,075,000). Based on the agreement between the joint venture and UEM, these fees would be payable once the joint venture has sufficient cash to make the payment. The cost of the investment in the Durban Point Development Company (DPDC) is R67.21 million compared to the cost of R78.47 million as reflected in the financial statements of DPDC. The difference is due to eThekwini Municipality having recognised the share of the losses of R4.89 million (2016/17- 3.62 million: 2015/16 - 2.75 million), resulting in cumulative losses recognised of R11.26 million. The net share of loss from joint ventures in the current financial year is R2.03 million, of which R2.86million relates to Effingham and -R4.89million to DPDC.</p> |                  |                  |
| <b>17. External Borrowings</b>   |                  |                  |
| <b>At amortised cost</b>   |                  |                  |
| Annuity loans  | 8,161,100        | 8,835,985        |
| <p>The fair value of all long term loans approximates their book values.</p> <p>Refer to Note 56 for more detail on long-term liabilities.</p> <p>DBSA Phase 3 loans of R400million is separately secured by a cession of an acceptable revenue stream of R20 million p.a. as security.</p> <p>DBSA Phase 5 loan of R300m is separately secured by a cession of an acceptable revenue stream of R15 million p.a. as security .</p> <p>AFD Calyon loan of R58.7m is separately secured by a cession of carbon credit income in the event of default or nonpayment.<br/>The income is estimated to be R4.2m for the year 2018/19 (excluding VAT).</p> <p>All other loans are unsecured.</p> <p>The Municipality has budgeted to borrow R1billion per annum for the next 3 financial years (commencing in 2018/19) in order to finance capital expenditure. This practice is consistent with prior years.</p>   |                  |                  |
| <b>Non-current liabilities</b>   |                  |                  |
| At amortised cost  | 7,286,712        | 8,042,457        |
| <b>Current liabilities</b>   |                  |                  |
| At amortised cost  | 874,388          | 793,528          |
| <b>18. Payables from exchange transactions</b>   |                  |                  |
| Trade payables   | 1,135,810        | 1,294,710        |
| Payments received in advance   | 43,056           | 150,830          |
| Income received in advance - D.O.H.S   | 656,881          | 704,475          |
| Accruals   | 2,711,329        | 2,157,091        |
| Other payables   | 702,965          | 720,946          |
| Retentions   | 444,727          | 441,365          |
| Bank deposits not yet receipted  | 325,240          | 342,859          |
| Deferred Expenditure (Straight-lining of Leases)   | 30,002           | 30,800           |
|  | <b>6,050,010</b> | <b>5,843,076</b> |

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand  | 2018               | 2017               |
|---|--------------------|--------------------|
| <b>19. Transfers payable from non-exchange transactions</b>   |                    |                    |
| Transfers payable   | 29,280             | 17,760             |
| <p>Following the review processes performed in the preparation and finalisation of financial statements, management identified transfers payable that were accrued for as payables from exchange transactions. These transfers relate to the unpaid portion of grants and subsidies, and as a result should be disclosed as transfers payable from non-exchange transactions. Comparative figures have been restated and disclosed as prior year adjustments.</p>   |                    |                    |
| <b>20. Consumer deposits</b>  |                    |                    |
| Consolidated deposits   | 2,267,863          | 2,143,476          |
| <p>A decision was taken on the 1<sup>st</sup> of July 2016 (effective date) to cease the capitalisation of interest on consumer deposits (previously accrued at 3% p.a.). This change was as a result of amendments to the Municipality's Credit Control and Debt Collection Policy. The change sought to align the treatment of consumer deposits to the rationale for deposits, which is to serve as security, mitigate credit risk and cash flow management. All interest that had accrued up to the effective date has been added to the deposit held in line with the amended Credit Control and Debt Collection Policy.</p> |                    |                    |
| <b>21. Employee benefit obligations</b>   |                    |                    |
| <b>The amounts recognised in the statement of financial position are as follows:</b>  |                    |                    |
| <b>Carrying value</b>   |                    |                    |
| Post-employment medical benefits  | (4,082,201)        | (3,934,770)        |
| Post-employment pension benefits  | (87,723)           | 163,133            |
|   | <b>(4,169,924)</b> | <b>(3,771,637)</b> |
| Non-current liabilities   | (3,505,540)        | (3,269,679)        |
| Current liabilities   | (664,384)          | (501,958)          |
|   | <b>(4,169,924)</b> | <b>(3,771,637)</b> |
| Actuarial Valuations:   |                    |                    |
| <p>The actuarial valuations were done as at 30 June 2018 by Independent Actuaries &amp; Consultants, an independent post retirement plan administrator and they determined that the retirement plan was in a sound financial position. Assumptions applied in the current period are summarised in the reconciliation of the actuarial gains and losses.</p>  |                    |                    |
| <b>Net Actuarial Gain / (Loss): Post-employment Medical Benefits</b>  |                    |                    |
| Actuarial gains and (losses) arising from changes in financial assumptions  | 50,431             | 376,440            |
| Actuarial gains and (losses) arising from experience adjustments  | 184,209            | 3,274              |
|   | <b>234,640</b>     | <b>379,714</b>     |
| <b>Net Actuarial Gain / (Loss): Post-employment Pension Benefits</b>  |                    |                    |
| Actuarial gains and (losses) arising from changes in financial assumptions  | 31,522             | 341,595            |
| Actuarial gains and (losses) arising from experience adjustments  | (123,244)          | 392,763            |
|   | <b>(91,722)</b>    | <b>734,358</b>     |
| <b>Statement of Financial Performance obligation for:</b>   |                    |                    |
| Contribution to Post-employment medical benefits  | 147,431            | 53,227             |
| Pension Benefits: Contribution to Funds   | 250,856            | 214,483            |
| <b>Total, included in employee benefits expense</b>   | <b>398,287</b>     | <b>267,710</b>     |



# eThekwini Municipality

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### 21. Employee benefit obligations (continued)

#### Post-Retirement Medical Aid Plan

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

#### Movement in the defined benefit obligation is as follows:

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 3,934,770        | 3,881,543        |
| Current service cost             | 142,540          | 182,543          |
| Interest cost                    | 380,188          | 369,232          |
| Actuarial (gains) losses         | (234,640)        | (379,714)        |
| Benefit payments                 | (140,657)        | (118,834)        |
| <b>Balance at end of year</b>    | <b>4,082,201</b> | <b>3,934,770</b> |

#### Net expense recognised in the Statement of financial performance

|   |                |                |
|---|----------------|----------------|
| Current service cost                                | 142,540        | 182,543        |
| Interest cost                                       | 380,188        | 369,232        |
| Actuarial (gains) losses                            | (234,640)      | (379,714)      |
| <b>Total, included in employee benefits expense</b> | <b>288,088</b> | <b>172,061</b> |

#### Trend Information - Disclosure Requirement in terms of GRAP 25

|                              | 30 June<br>2014 | 30 June<br>2015 | 30 June<br>2016 | 30 June<br>2017 | 30 June<br>2018 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Present Value of Obligations | (3,132,817)     | (3,497,714)     | (3,881,543)     | (3,934,770)     | (4,082,201)     |
| Fair Value of Plan Assets    | 3,132,817       | 3,497,714       | 3,881,543       | 3,934,770       | 4,082,201       |

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

|  |           |         |          |       |         |
|--|-----------|---------|----------|-------|---------|
| In respect of Present Value of Obligations | (120,563) | 183,275 | (21,796) | 3,274 | 184,209 |
|--|-----------|---------|----------|-------|---------|

#### Disclosure Requirement in terms of GRAP 25

|  | Central<br>Assumption<br>8.52% | Health Care cost Inflation<br>-1% | +1%       |
|--|--------------------------------|-----------------------------------|-----------|
| Accrued Liability June 30, 2018              | 4,082,201                      | 3,505,018                         | 4,805,561 |
| Current Service Cost + Interest Cost 2017/18 | 562,754                        | 479,463                           | 686,655   |

#### Sensitivity Results from Previous Valuation

|  | Central<br>Assumption<br>8.05% | -1%       | +1%       |
|--|--------------------------------|-----------|-----------|
| Accrued Liability June 30, 2017              | 3,934,770                      | 3,415,022 | 4,581,410 |
| Current Service Cost + Interest Cost 2016/17 | 516,461                        | 436,775   | 618,121   |

#### Disclosure Requirement in terms of GRAP 25:

The employer's best estimate of contributions expected to be paid to the plan during the annual period beginning after the end of reporting period, is R129.2million.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 21. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

|  |          |          |
|--|----------|----------|
| Discount rates used                            | 10.22 %  | 9.66 %   |
| General increases to medical aid contributions | 8.52 %   | 8.05 %   |
| Expected retirement age                        | 63       | 63       |
| Proportion continuing membership at retirement | 100.00 % | 100.00 % |
| Proportion of retiring members who are married | 80.00 %  | 80.00 %  |
| Real rate (Gap)                                | 1.56 %   | 1.49 %   |
| General Inflation                              | 7.02 %   | 6.55 %   |

Other assumptions:

Age of spouse - Husbands 5 years older than wives

Mortality of in-service members - Mortality table based on Durban Pension Fund experience

Mortality of pensioners - based on the PA(90) mortality tables

#### Percentage of in-service members withdrawing before retirement:

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

#### Pension benefits

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

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| Present value of funded obligations | 11,584,632   | 11,151,296   |
| Fair value of plan assets           | (11,496,909) | (11,314,429) |

|   |               |                  |
|---|---------------|------------------|
| <b>Liability (Surplus) in the Statement of Financial Position</b> | <b>87,723</b> | <b>(163,133)</b> |
|---|---------------|------------------|

#### Net expense recognised in the statement of financial performance

|   |                  |                  |
|---|------------------|------------------|
| Service cost  | (90,127)         | (87,382)         |
| Interest cost   | (1,052,361)      | (1,075,224)      |
| Expected return on assets                             | 1,066,499        | 1,108,450        |
| Net actuarial gains / (losses) recognised in the year | (262,514)        | (203,994)        |
|   | <b>(338,503)</b> | <b>(258,150)</b> |

#### Movement in the defined benefit obligation is as follows:

|                                    |                     |                     |
|------------------------------------|---------------------|---------------------|
| Balance at beginning of the year   | (11,151,296)        | (11,257,690)        |
| Current service cost               | (90,127)            | (125,110)           |
| Contributions by plan participants | 18,942              | 18,864              |
| Actuarial losses                   | 73,366              | 715,494             |
| Interest cost                      | (1,052,361)         | (1,075,224)         |
| Benefit payments                   | 616,844             | 572,370             |
| <b>Balance at end of year</b>      | <b>(11,584,632)</b> | <b>(11,151,296)</b> |

# eThekwini Municipality

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### 21. Employee benefit obligations (continued)

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

|                                  |                   |                   |
|----------------------------------|-------------------|-------------------|
| Balance at beginning of the year | 11,314,429        | 11,635,306        |
| Actuarial gains (losses)         | (335,880)         | (919,488)         |
| Employer contributions           | 87,647            | 81,395            |
| Employee contributions           | (18,942)          | (18,864)          |
| Benefit payments                 | (616,844)         | (572,370)         |
| Expected return on assets        | 1,066,499         | 1,108,450         |
| <b>Balance at end of year</b>    | <b>11,496,909</b> | <b>11,314,429</b> |

#### Disclosure in terms GRAP 25

|   |              |              |
|---|--------------|--------------|
| Defined benefit obligation                          | (11,584,632) | (11,151,296) |
| Plan assets   | 11,496,909   | 11,314,429   |
| Funded status (before applying the net asset limit) | (87,723)     | 163,133      |
| Experience adjustments on plan liabilities          | 123,244      | (392,763)    |
| Experience adjustments on plan assets               | 335,880      | 919,488      |

The expected return on plan assets was determined with reference to the average nominal yield for government bonds with duration of between 15 and 20 years as at 30 June 2018. The resulting expected return on plan assets was 10.22%p.a.

#### Key assumptions used

The principal actuarial assumptions used were as follows:

|                                |         |        |
|--------------------------------|---------|--------|
| Discount rate                  | 10.22 % | 9.66 % |
| Expected return on plan assets | 10.22 % | 9.66 % |
| General inflation              | 7.02 %  | 6.55 % |
| Salary inflation               | 8.02 %  | 7.55 % |
| Pension increase provision     | 7.02 %  | 6.55 % |
| Post retirement interest rate  | 2.99 %  | 2.92 % |

# eThekwini Municipality

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### 21. Employee benefit obligations (continued)

Examples of mortality rates used were as follows: Active members (All):

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

Unaudited

# eThekwini Municipality

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### 21. Employee benefit obligations (continued) KZN Municipal Pension Fund:

The KZN Municipal Pension Fund is a defined contribution pension fund that replaced the Durban Pension Fund in 2001. It is set up to have only one contributing employer being the eThekwini Municipality. At 30 June 2018 the Fund had a membership of 22,177 with R13 billion investments. There are 179 members who have retired with the in-house living annuity as their pension providing option, an increase from the 116 members a year ago. The investments held for these annuitants increased from R177,4m to R281m.

#### Investments:

Various Asset Managers are mandated to invest the savings of members. The largest three of these are Investec, Prudential, and Coronation. These managers have a Global Balanced mandate with some R2,5b each. The investment fee paid to these managers averages 0,667% . In terms of peer reviews these three managers performed First, Second, and Fourth respectively over 5 years and continue to maintain their advantage over their competitors over the 1 and 3 year periods. The investments are wherever feasible now held in the Fund's name rather than in a portfolio offered and 'owned' by an asset manager. Standard Bank is the appointed Custodian. Sygnia is the appointed Investment Administrator and it is their task to check the daily unit values coming in from Asset Managers and to produce daily unit values for each of the Fund's Investment Portfolios from amongst which the members select to invest. On the investment return front the local Business Confidence indicator has been low for the last 3 years now yet our largest portfolio the Managed Fund, having R10,5b of the total R13b, has returned 8.8% over 1 year, 6.7% pa over 3 years, and 11.2% pa over 5 years.

#### Insurance

The Trustees continue with the objective of the Fund to become fully self-insured and in 2018 the Disability insurance premium was fully covered by the Fund. The Death cover is held 50:50 with Nestlife who are a black owned insurance provider. Nestlife also continues to cover the Funeral benefit. The Fund Front Office at SmartXchange Building, 5 Walnut Road, is staffed to investigate the Death benefit distributions and the administration of Disability claims and payments. Procedures in place continue to be refined and improved as ongoing problems and successes inform the process. It is a goal to be able to have the member invest 15% of the 18% (of salary) that the employer monthly contribution is based upon. At present the death and disability insurance premium portion of this 18% is 2.734%. Added to this the Member Administration Fee paid to Alexander Forbes of 0.144%, as well as the Other Expenses such as Actuarial, Legal, Trustee, Printing, Seminars, and Front Office amounting to 0.206%. This then adds up to a cost to members of 3.084% just 0.0804% above the target.

#### Communications

Communication consists chiefly of the Annual Seminar at the Exhibition Centre along with the Road Show seminars and presentations given at Induction Sessions, Union gatherings, and Department Staff Communication Days. Member appointed trustees also perform an important role of engagement in the workplace. Printed brochures are made available along with Retirement Projection Statements and Benefit Statements for each member. Investment balances are available on-line or can be printed at the Front Office. The Fund has a web site, members on their e-mail list, as well as a limited presence on social media. Considerable additional work has in the last 12 months been put into Investment and Retirement Counselling as well as Financial Planning on a one on one basis. Families that are receiving substantial death benefits also receive counselling on tax issues and are encouraged to place their funds in the in house living annuity when tax becomes a consideration. To an extent this option is also preferred by Trustees rather than the allocation of orphans money to a Beneficiary Fund.

#### Trustees

Thomas Mketelwa (Chair), Cllr Siphon Kaunda (vice-chair & eThekwini Exco member), Khanyi Gama (Chair: Finance & Investment Sub-committee), Sthembile Dlamini (Chair: Communications Sub-Committee), Vis Moodley (Chair: Legal, Admin, and Death Benefits Distribution Sub-Committee), Cllr Barbara Fortein (eThekwini Exco Member), Cllr William (eThekwini Speaker & Exco Member), Hugh Crichton (Retired Member), Paul Babudayal, Pretty De Bruin-Shange (Deferred Member), Xolani Gabele, Ricky Naidoo.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 21. Employee benefit obligations (continued) Multi-Employer Retirement Benefit Plans:

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

Two of the NJMPF retirement funds are defined benefit in nature. The third fund is a provident fund which is a defined contribution fund.

The last actuarial valuations of the two NJMPF Defined Benefit Funds (March 2017) showed both funds to be fully funded as regards pensions in payment. For the Retirement Fund the fund is underfunded as regards contributing members - thus the employers are paying a surcharge. For the Superannuation Fund the fund has sufficient assets to cover the basic liability as regards contributing members, but not any solvency reserves for the contributing members. A primary reason for the surcharge is that salaries have been increased at rates well in excess of inflation over the past number of years, which has increased the liabilities of the two Defined Benefit Funds. (From 2016: Surcharge updated to 21.65% for Retirement Fund and 9.5% for Superannuation Fund - please refer to valuation reports available from Fund's website or the Director. The 2017 actuarial valuation reflected a higher required contribution rate in the Retirement Fund, which would result in a higher required surcharge to fund the deficit. However, the Trustees were conscious of affordability and accordingly from January 2017 the surcharge for each local authority of 9.5% in the Superannuation Fund was reduced to offset the required increase in the local authority's surcharge to the Retirement Fund. In principle the increase in the surcharge to the Retirement Fund would not result in any local authority incurring additional costs. The total surcharge per local authority thus remains unchanged, but the split between the Superannuation Fund and Retirement Fund will be different for each local authority).

The three funds cater for employees of all municipalities in KZN. Each fund is treated as one fund and not as a collection of sub-funds for each participating municipality. In the DB funds any surplus or deficit is spread across all municipalities - each municipality pays the same rate of contribution and the same rate of surcharge. A special additional surcharge is levied individually on municipalities where an employee has received a salary increase that is deemed to be excessive in comparison with the other municipalities. This has the effect of removing some of the cross-subsidisation between municipalities. Other than this, all municipalities are treated in the same manner

Each of the funds undergoes an actuarial valuation each year in order to monitor its financial condition. If necessary the Committee of Management levies a surcharge until the fund is in a sound financial condition, as is currently the case. In this way the Committee ensures that the funds are able to afford the promised benefits.

#### Durban Pension Fund:

The Durban Pension Fund is a closed defined benefit fund. With effect from the 1 June 2015 the Fund has been administered by Alexander Forbes prior to which it was administered by the eThekwini Municipality. The rules of the Fund require that the financial condition of the Fund be investigated and reported on by the Fund's actuary annually. The statutory valuation as at 2016-01-01 revealed that the Fund was 106.5% funded. The value of assets amounted to R11.27 billion whilst the value of liabilities was determined to be R10.59 billion. The active member pool solvency reserve is 64.5% funded and the pensioner pool solvency reserve is 100% funded. Members and the employer contribute at the rate of 7.5% and 19.68% respectively with a further contribution of 9.30% being required to be funded by the employer surplus account and 1.38% from the contribution stabilization reserve account wef 1 August 2016.

An interim valuation as at 1 January 2018 revealed that the Fund was 112.6% Funded. The value of the assets amounted to R11.58 billion compared to the liabilities and reserves of R10.28 billion. As at 1 January 2018, the active solvency reserve was 89.6% funded and the pensioner solvency reserve was 100% funded.

In compliance with the Fund's rules the Council contributed an amount of R49.16 million for the year ended 31 December 2017 and an amount of R23.23 million was funded from the Employer Surplus Account.

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 21. Employee benefit obligations (continued)

The asset composition of the Durban Pension Fund is summarised below:

|              |               |                 |
|--------------|---------------|-----------------|
| SA Equities: | 33.62 %       | 31.99 %         |
| SA Bonds     | 41.54 %       | 43.64 %         |
| SA Cash      | 1.55 %        | 1.45 %          |
| SA Other     | 0.49 %        | 0.63 %          |
| SA Property  | 4.80 %        | 4.81 %          |
| Foreign      | 18.00 %       | 17.48 %         |
|              | <b>100.00</b> | <b>100.00 %</b> |

### 22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

|   |                  |                |
|---|------------------|----------------|
| Electricity Demand Side Management Grant                      | 847              | 960            |
| Department of Co Operative Governance and Traditional Affairs | 5,000            | 5,000          |
| Department of Transport and Public Transport Infrastructure   | 306,583          | -              |
| Department of Environmental Affairs                           | 7,838            | 8,338          |
| Neighbourhood Development Partnership                         | 28,850           | 28,154         |
| Department of Arts & Culture                                  | 528,346          | 505,250        |
| Grant Accreditation   | 4,913            | 11,929         |
| Department of Human Settlements                               | 138,110          | 83,735         |
| European Union  | 5,659            | 2,077          |
| Donations and Public Contributions                            | 30,793           | 30,794         |
| D Moss Interest and Land Sales                                | 8,073            | 8,073          |
| Infrastructure Skills Grant                                   | 5,635            | 5,321          |
| Department of Health  | 62,084           | 51,689         |
| Sports and Recreation Grant                                   | 10,525           | 10,525         |
| DPSA - Aquaponics Projects                                    | -                | 1,461          |
| DBSA  | 95,992           | 98,984         |
| Other Grants and Subsidies                                    | 30,421           | 15,698         |
|   | <b>1,269,669</b> | <b>867,988</b> |

These amounts are invested in a ring-fenced investment until utilised. See note 30 for more detail.

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 23. Provisions

#### Reconciliation of provisions - 2018

|  | Opening Balance  | Additions / (reductions) | Utilised during the year | Interest charged | Total            |
|--|------------------|--------------------------|--------------------------|------------------|------------------|
| <b>Current</b>                               |                  |                          |                          |                  |                  |
| Staff Leave                                  | 497,537          | 158,462                  | (118,173)                | -                | 537,826          |
| Performance bonus                            | 12,788           | 9,869                    | (10,648)                 | -                | 12,009           |
| Long service awards                          | 63,305           | 62,434                   | (56,749)                 | -                | 68,990           |
| <b>Non-current</b>                           |                  |                          |                          |                  |                  |
| Environmental rehabilitation: Landfill sites | 106,070          | 156,810                  | (1,017)                  | 11,138           | 273,001          |
| Long service awards                          | 729,471          | 107,160                  | -                        | -                | 836,631          |
|  | <b>1,409,171</b> | <b>494,735</b>           | <b>(186,587)</b>         | <b>11,138</b>    | <b>1,728,457</b> |

#### Reconciliation of provisions - 2017

|  | Opening Balance  | Additions / (transfers) | Utilised during the year | Interest charged | Total            |
|--|------------------|-------------------------|--------------------------|------------------|------------------|
| <b>Current</b>                               |                  |                         |                          |                  |                  |
| Staff Leave                                  | 461,580          | 138,162                 | (102,205)                | -                | 497,537          |
| Clearance of Alien Vegetation                | 19,820           | (19,820)                | -                        | -                | -                |
| Performance bonus                            | 13,525           | 9,120                   | (9,857)                  | -                | 12,788           |
| Long service awards                          | 62,286           | 54,426                  | (53,407)                 | -                | 63,305           |
| <b>Non-current</b>                           |                  |                         |                          |                  |                  |
| Environmental rehabilitation: Landfill sites | 101,386          | (409)                   | (5,553)                  | 10,646           | 106,070          |
| Clearance of Alien Vegetation                | 41,887           | (41,887)                | -                        | -                | -                |
| Long service awards                          | 726,756          | 2,715                   | -                        | -                | 729,471          |
|  | <b>1,427,240</b> | <b>142,307</b>          | <b>(171,022)</b>         | <b>10,646</b>    | <b>1,409,171</b> |

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Non-current liabilities | 1,109,632        | 835,541          |
| Current liabilities     | 618,825          | 573,630          |
|                         | <b>1,728,457</b> | <b>1,409,171</b> |

#### Performance Bonus

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



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### 23. Provisions (continued)

#### Environmental rehabilitation: Landfill sites

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which was 10.00% at 30 June 2018. The Municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The asset is measured using the cost model:

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

The following assumptions were used to calculate the provision:

- (1) Discount rate of 10.00% (June 2017: 10.50%);
- (2) Inflation rate 4.60% (June 2017: 5.10%);
- (3) Total area expected to be rehabilitated: 964 151 square metres (June 2017: 964 151 square metres);
- (4) Rate per square metre: R404.93 (June 2017: R162.30) escalating every year by inflation rate;
- (5) Total area to be rehabilitated can be reconciled to the different sites as follows:

|              |         |         |
|--------------|---------|---------|
| Bisasar      | 360,326 | 360,326 |
| Marianhill   | 239,725 | 239,725 |
| Wyebank      | 25,000  | 25,000  |
| Shallcross   | 29,800  | 29,800  |
| Buffelsdraai | 259,300 | 259,300 |
| Lovu         | 50,000  | 50,000  |

During the current period there was a change in the assumptions used to calculate the provision for the rehabilitation of landfill sites, which resulted in a change in estimate of R156.8million, increasing the provision. This change is mainly attributable to a change in the cost per square meter used in the calculation of the total rehabilitation costs, the incorporation of a fixed lump sum component in the total cost calculation and the revision of the useful lives for the various sites. These changes resulted in a significant increase in the total cost to rehabilitate each of our landfill sites. The useful lives were revised due to less waste being dumped in the current period than what was originally anticipated resulting in an extension of the lives of these landfill sites. The costs were revised to incorporate the new changes to GRAP that are expected to come into effect in 2019.

The total rehabilitation can be reconciled as follows:

| Name          | O/ Balance     | Expenditure    | Interest      | Change in Estimate | C/ Balance     |
|---------------|----------------|----------------|---------------|--------------------|----------------|
| Bisasar       | 57,608         | (1,017)        | 6,049         | 82,649             | 145,289        |
| Marianhill    | 37,005         | -              | 3,886         | 56,576             | 97,467         |
| Wyebank       | 4,057          | -              | 426           | 6,843              | 11,326         |
| Shallcross    | 3,239          | -              | 340           | 5,750              | 9,329          |
| Buffelsdraai  | 1,327          | -              | 139           | 1,995              | 3,461          |
| Lovu          | 2,834          | -              | 298           | 2,997              | 6,129          |
| <b>Totals</b> | <b>106,070</b> | <b>(1,017)</b> | <b>11,138</b> | <b>156,810</b>     | <b>273,001</b> |

#### Long service awards

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### 23. Provisions (continued)

Revised Conditions of Service for employees are currently being negotiated. The interim conditions of service for employees are as follows:

#### Long Service Leave accrual

|                      | 5 Day<br>Worker-<br>No.of days<br>p.a. | 5 Day<br>Worker-<br>Accum per<br>milestone | 6 Day<br>Worker-<br>No.of days<br>p.a. | 6 Day<br>Worker-<br>Accum per<br>milestone |
|----------------------|--|--|--|--|
| After 20 years       | 2                                      | 25   | 3                                      | 30   |
| After 30 years       | 4                                      | 35   | 5                                      | 50   |
| After 40 years       | 5                                      | 15   | 6                                      | 10   |
| Maximum Accumulation |  | 75   |  | 90   |

Employees who achieve 25 years service receive a once off cash payment of R500 and upon achievement of 40 years service, employees receive a gold wrist watch or a comparable gift.

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

-2% of monthly salary at 15-19 years

-3% of monthly salary at 20-24 years

-4% of monthly salary at 25-29 years

-5% of monthly salary at 30-34 years

-6% of monthly salary at 35 years or more.

The abovementioned is limited to a maximum of R1 505.23 (2017: R1 406.76).

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### 23. Provisions (continued)

The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2018 (2017: 30 June 2017). It has been assumed that the staff turnover rate will be insignificant based on historical data. A discount rate of 9.36% (2017: 8.92% ) was used based on internal rate of return.

#### Summary of economic assumptions (rates are per annum) and key demographic assumptions

|                                 | Municipality                   |                                |
|---------------------------------|--------------------------------|--------------------------------|
|                                 | 2018                           | 2017                           |
| Gross discount rate             | 9.36%                          | 8.92%                          |
| Salary inflation                | 7.43%                          | 6.72%                          |
| Net discount rate               | 1.80%                          | 2.05%                          |
| Number of trading days per year | 252                            | 252                            |
| Retirement age                  | 63 years for males and females | 63 years for males and females |

#### Summary of membership data used in the valuation

|                               | 30 June 2018 | 30 June 2017 |
|-------------------------------|--------------|--------------|
| <b>Current employees</b>      |              |              |
| Number of current employees   | 24,093       | 22,925       |
| Average age of employees      | 42.2         | 42.3         |
| Average years of past service | 11.2         | 11.4         |
| Average annual salary (R)     | 213,855      | 200,820      |

#### Reconciliation of Defined Benefit Obligation

|  |                |                |
|--|----------------|----------------|
| Opening Balance  | 792,776        | 789,042        |
| Current Service cost                                       | 56,075         | 56,220         |
| Interest cost  | 72,876         | 67,051         |
| Actuarial losses (gains) - change in financial assumptions | 100,395        | (54,673)       |
| Actuarial losses (gains) - experience variance             | (51,401)       | (4,205)        |
| Cash movements - Benefit payments                          | (65,100)       | (60,659)       |
|  | <b>905,621</b> | <b>792,776</b> |

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### 23. Provisions (continued) Pre-retirement mortality

| Age | 30 June 2018 | 30 June 2017 |
|-----|--------------|--------------|
| 20  | 0.13%        | 0.13%        |
| 25  | 0.18%        | 0.18%        |
| 30  | 0.25%        | 0.25%        |
| 35  | 0.37%        | 0.37%        |
| 40  | 0.52%        | 0.52%        |
| 45  | 0.72%        | 0.72%        |
| 50  | 0.99%        | 0.99%        |
| 55  | 1.37%        | 1.37%        |
| 60  | 1.89%        | 1.89%        |

### Withdrawal assumption

| Age | 30 June 2018 | 30 June 2017 |
|-----|--------------|--------------|
| 20  | 7.85%        | 7.85%        |
| 25  | 5.67%        | 5.67%        |
| 30  | 4.20%        | 4.20%        |
| 35  | 3.31%        | 3.31%        |
| 40  | 2.23%        | 2.23%        |
| 45  | 1.21%        | 1.21%        |
| 50  | 0.55%        | 0.55%        |
| 55  | 0.00%        | 0.00%        |
| 60+ | 0.00%        | 0.00%        |

### 24. Housing development fund

|  |               |                |
|--|---------------|----------------|
| Accumulated Surplus                              | (209,509)     | (143,467)      |
| Loans extinguished by Government on 1 April 1998 | 266,979       | 266,979        |
|  | <b>57,470</b> | <b>123,512</b> |

#### The housing development fund is represented by the following assets and liabilities

|  |                |                |
|--|----------------|----------------|
| Property, plant and equipment (refer note 12)                | 66,875         | 65,567         |
| Housing selling scheme loans                                 | 56,537         | 87,408         |
| Housing rental Debtors                                       | 12,251         | 17,521         |
| Housing other Debtors  | 33,459         | 31,659         |
| Housing inventory  | 89             | 57             |
| Investments  | 7,489          | 7,489          |
| Investment properties  | 7,797          | 8,000          |
| Grant Accrual  | 226,784        | 276,420        |
| <b>Assets</b>  | <b>411,281</b> | <b>494,121</b> |
| Unspent Conditional Grants                                   | 82,570         | 32,199         |
| Creditors  | 4,730          | 7,279          |
| Bank Overdraft   | 254,488        | 319,334        |
| Consumer Deposits  | 344            | 344            |
| VAT payable  | 11,679         | 11,453         |
| <b>Liabilities</b>   | <b>353,811</b> | <b>370,609</b> |
| <b>Total Housing Development Fund Assets and Liabilities</b> | <b>57,470</b>  | <b>123,512</b> |

# eThekweni Municipality

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|---------------------------------|-------------------|-------------------|
| <b>25. Service charges</b>      |                   |                   |
| Sale of electricity             | 12,259,055        | 12,066,088        |
| Sale of water                   | 3,349,018         | 3,076,876         |
| Solid waste                     | 656,372           | 560,964           |
| Sewerage and sanitation charges | 933,247           | 736,116           |
| Other service charges           | 29,047            | 36,966            |
| <b>Total service charges</b>    | <b>17,226,739</b> | <b>16,477,010</b> |

### 26. Rental of facilities and equipment

|                        |                |                |
|------------------------|----------------|----------------|
| Sporting Bodies        | 244,420        | 64,026         |
| Investment Properties  | 87,481         | 72,533         |
| Business and Ancillary | 147,386        | 144,600        |
| Housing Rental         | 68,272         | 67,817         |
| Other                  | 136,547        | 135,564        |
|                        | <b>684,106</b> | <b>484,540</b> |

A decision was taken in the current financial year to include an analysis of rental income generated from rental of facilities and equipment as this information is considered to be useful for decision-making. Comparative disclosures have been provided.

The increase in Sporting bodies rental is due to an increase in the value of properties rented by the sporting bodies following the valuation done in the current year in terms of the Property Rating Act. Rent for these properties are linked to the property values.

### 27. Other income

|                       |                |                |
|-----------------------|----------------|----------------|
| Sundry income         | 299,363        | 263,052        |
| Moses Mabhida Stadium | 3,245          | 7,217          |
|                       | <b>302,608</b> | <b>270,269</b> |

Refer to Appendix D for a Statement of Financial Performance: Moses Mabhida Stadium.

### 28. Interest revenue

|  |                |                |
|--|----------------|----------------|
| <b>Interest revenue</b>                |                |                |
| Interest earned - External Investments | 573,161        | 636,556        |
| Interest earned - Outstanding Debtors  | 306,623        | 135,433        |
|  | <b>879,784</b> | <b>771,989</b> |

# eThekweni Municipality

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### 29. Property rates

#### Rates received

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Residential                        | 2,637,209        | 2,242,441        |
| Business / Commercial              | 2,624,189        | 2,206,687        |
| Unauthorised / Illegal development | 28,488           | 17,181           |
| Development Phasing                | 1,820            | 1,756            |
| Agricultural                       | 9,653            | 8,155            |
| Vacant land                        | 514,056          | 433,496          |
| Industrial                         | 1,841,280        | 1,624,478        |
| Public Service Infrastructure      | 33,036           | 30,945           |
| <b>Total Assessment Rates</b>      | <b>7,689,731</b> | <b>6,565,139</b> |

#### Valuations

|                                    |                    |                    |
|------------------------------------|--------------------|--------------------|
| Residential                        | 331,010,850        | 269,562,230        |
| Business / Commercial              | 111,560,724        | 81,729,168         |
| Unauthorised / Illegal development | 385,494            | 286,356            |
| Agricultural                       | 3,712,822          | 2,718,205          |
| Vacant land                        | 11,484,190         | 8,724,761          |
| Industrial                         | 59,588,352         | 46,546,651         |
| Public Service Infrastructure      | 18,151,479         | 15,108,014         |
| Development Phasing Line           | 116,682            | 99,778             |
| <b>Total Property Valuations</b>   | <b>536,010,593</b> | <b>424,775,163</b> |

The following are the rate randages that were applied to the valuations in respect of the various categories: Residential - R0.01060 (2017: R0.01190); Agriculture - R0.00260 (2017: R0.00300); Vacant Land - R0.04730 (2017: R0.05340); Industrial - R0.03090 (2017: R0.03490); Business and Commercial - R0.02390 (2017: R0.02700); Public Service Infrastructure - R0.00260 (2017: R0.00300); Unauthorised / Illegal Development - R0.07390 (2017:R0.06000); Development Phasing line - R0.01560 (2017: R0.01760); Rural Residential R0.01060 (2017: R0.01190). In addition to the statutory reduction of R150 000, a further reduction of R105 000 was approved for property values exceeding R230 000. In addition to the R230 000, pensioners, child-headed households, disability grantees and the medically boarded are granted a further rebate not exceeding R4 035 p.a. The Senior Citizens rebate is restricted to a maximum limit of R3 million on the value of the property.

Valuations based on market values are performed every 5 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values as well as to adjust for valuation appeals where applicable.

There has been a reclassification of rates within the categories in the prior year. This is due to the use-apportionment in splitting these in the prior year which has been reassessed.

# eThekweni Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand thousand                                    | 2018             | 2017             |
|---|------------------|------------------|
| <b>30. Government grants and subsidies</b>                  |                  |                  |
| Equitable Share   | 2,582,776        | 2,319,380        |
| Expanded Public Works Programme Incentive                   | 66,792           | 49,478           |
| European Union  | 658              | 3,355            |
| Primary Health Care Provincial Subsidy                      | 233,279          | 111,836          |
| Department of Transport and Public Transport infrastructure | 610,567          | 950,078          |
| Department of Environmental Affairs                         | 500              | 6,140            |
| Municipal Human Settlements Capacity Grant                  | -                | 14,342           |
| Demand Side Management                                      | 14,153           | 3,357            |
| Urban Settlement Development Grant                          | 1,980,109        | 1,885,685        |
| Other Grants  | 37,158           | 26,460           |
| Public Contributions  | 1                | 8,457            |
| Neighbourhood Development Partnership                       | 21,824           | 31,799           |
| Department of Human Settlements                             | 58,171           | 75,779           |
| Grant Accreditation   | 19,934           | 35,417           |
| Department of Arts and Culture                              | 49,467           | 40,248           |
| DPSA - Aquaponics Projects                                  | 1,461            | -                |
| Integrated City Development Grant                           | 39,111           | 50,256           |
| Electricity Capital Grant                                   | 35,000           | 31,000           |
| DBSA Grant  | 5,355            | 15,398           |
| Infrastructure Skills Grant                                 | 24,658           | 26,034           |
|   | <b>5,780,974</b> | <b>5,684,499</b> |

### Equitable Share

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 2,582,776   | 2,319,380   |
| Conditions met - transferred to revenue | (2,582,776) | (2,319,380) |
|   | -           | -           |

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

### D Moss Interest and Land Sales

|                                |       |       |
|--------------------------------|-------|-------|
| Balance unspent at end of year | 8,073 | 8,073 |
|--------------------------------|-------|-------|

Conditions still to be met - remain liabilities (see note 22).

The above relates to funding for the acquisition of D Moss land. Awaiting the finalisation of land purchase for D Moss.

### Department of Environmental Affairs

|   |              |              |
|---|--------------|--------------|
| Balance unspent at beginning of year    | 8,338        | 7,838        |
| Current-year receipts                   | -            | 6,640        |
| Conditions met - transferred to revenue | (500)        | (6,140)      |
|   | <b>7,838</b> | <b>8,338</b> |

Conditions still to be met - remain liabilities (see note 22).

Funding was obtained from various sources and local industries for the implementation of the South Durban Basin Multi Point Plan. The expenditure is incurred over a multi year period based on the rollout of the projects per programme. Further funding will be expended based on the outcome of the Air Quality Management Plan which is currently underway. This grant is received from Department of Environmental Affairs for the National Greening Programme and the promotion of non-motorised transport with the aim of reducing gas emissions.

### Department of Transport and Public Transport infrastructure

# eThekwini Municipality

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|--|----------------|-----------|
| <b>30. Government grants and subsidies (continued)</b> |                |           |
| Current-year receipts                                  | 917,150        | 950,078   |
| Conditions met - transferred to revenue                | (610,567)      | (950,078) |
|  | <b>306,583</b> | -         |

Conditions still to be met - remain liabilities (see note 22).

The funds received and utilised relates to subsidy for Remant/ Alton Bus Operating subsidy and traffic and pedestrian planning. There were delays in the projects funded by this grant due to disruptions and delays in the construction of the Traffic Management Centre(TMC)Provide explanations of conditions still to be met and other relevant information.

### Neighbourhood Partnership Development

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | 28,154        | 261           |
| Current-year receipts                   | 50,674        | 59,953        |
| Conditions met - transferred to revenue | (21,824)      | (31,799)      |
| Paid back                               | (28,154)      | (261)         |
|   | <b>28,850</b> | <b>28,154</b> |

Conditions still to be met - remain liabilities (see note 22).

Focus of the grant is to create economic infrastructure in dormitory townships that will attract private sector investment.

### European Union

|   |              |              |
|---|--------------|--------------|
| Balance unspent at beginning of year    | 2,077        | 5,433        |
| Current-year receipts                   | 4,240        | -            |
| Conditions met - transferred to revenue | (658)        | (3,356)      |
|   | <b>5,659</b> | <b>2,077</b> |

Conditions still to be met - remain liabilities (see note 22).

Funds used for Capacity Enhancement / Knowledge Management in terms of close our report

### Other Grants and Subsidies

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | 15,698        | 16,668        |
| Current-year receipts                   | 51,881        | 25,490        |
| Conditions met - transferred to revenue | (37,158)      | (26,460)      |
|   | <b>30,421</b> | <b>15,698</b> |

Conditions still to be met - remain liabilities (see note 22).

Other grants and subsidies were utilised during the year to fund various Council projects. Underspending was also due to part of the funding received late in the year.



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### 30. Government grants and subsidies (continued)

#### Department of Human Settlements

|   |                |               |
|---|----------------|---------------|
| Balance unspent at beginning of year    | 83,735         | 141,047       |
| Current-year receipts                   | 110,243        | 1,000         |
| Conditions met - transferred to revenue | (58,171)       | (75,779)      |
| Accrued receipts                        | 2,304          | 17,467        |
|   | <b>138,110</b> | <b>83,735</b> |

Conditions still to be met - remain liabilities (see note 22).

The unspent grant is also due to funding for Social Housing and Housing Conveyancing received late in the year.

Funding is used for:

- \* Administration of hostels in KZN;
- \* Social housing and housing conveyancing;
- \* R293 projects and Cornubia construction.

#### Grant Accreditation

|   |              |               |
|---|--------------|---------------|
| Balance unspent at beginning of year    | 11,929       | 19,077        |
| Current-year receipts                   | 12,918       | 28,269        |
| Conditions met - transferred to revenue | (19,934)     | (35,417)      |
|   | <b>4,913</b> | <b>11,929</b> |

Conditions still to be met - remain liabilities (see note 22).

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

#### Department of Co-operative Governance and Traditional Affairs

|                                |       |       |
|--------------------------------|-------|-------|
| Balance unspent at end of year | 5,000 | 5,000 |
|--------------------------------|-------|-------|

Conditions still to be met - remain liabilities (see note 22).

These funds are used for implementing projects identified through the KZN Corridor Development Programme, supporting existing Council initiatives that require additional funding, and to unlock strategic economic development opportunities within the Northern Municipal Planning Region (NMPR) of the City.

The delay is due to the municipality awaiting commitment/ confirmation from National and Provincial government in respect of funding of the entire project for which this money was earmarked as it is currently insufficient to complete the project.

#### Donations and Public Contributions

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | 30,794        | 11,501        |
| Current-year receipts                   | -             | 27,750        |
| Conditions met - transferred to revenue | (1)           | (8,457)       |
|   | <b>30,793</b> | <b>30,794</b> |

Conditions still to be met - remain liabilities (see note 22).

The grants were received from various organisations to finance various developments. In the prior year this includes development of Nandi Drive and various roads in Hillcrest.

#### Department of Arts & Culture

# eThekwini Municipality

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## Notes to the Annual Financial Statements

| Figures in Rand thousand                               | 2018           | 2017           |
|--|----------------|----------------|
| <b>30. Government grants and subsidies (continued)</b> |                |                |
| Balance unspent at beginning of year                   | 505,250        | 443,082        |
| Current-year receipts                                  | 72,563         | 102,416        |
| Conditions met - transferred to revenue                | (49,467)       | (40,248)       |
|  | <b>528,346</b> | <b>505,250</b> |

Conditions still to be met - remain liabilities (see note 22).

The grant is for the capital and operating expenditure for the Libraries as well there Museum. There has been challenges in the procurement process for the libraries as well as delays in the capital project of the Museum which has resulted in delays in the procurement of capital assets(computer, furniture, artworks etc.) for the Museum therefore resulting in under expenditure.

### Electricity Demand Side Management Grant

|   |            |            |
|---|------------|------------|
| Balance unspent at beginning of year    | 960        | 8,636      |
| Current-year receipts                   | 15,000     | -          |
| Conditions met - transferred to revenue | (14,153)   | (3,357)    |
| Paid back                               | (960)      | (4,319)    |
|   | <b>847</b> | <b>960</b> |

Conditions still to be met - remain liabilities (see note 22).

The grant is used to finance the gas-to-electricity capital project.

### Infrastructure Skills Grants

|   |              |              |
|---|--------------|--------------|
| Balance unspent at beginning of year    | 5,321        | -            |
| Current-year receipts                   | 30,293       | 31,355       |
| Paid back                               | (5,321)      | -            |
| Conditions met - transferred to revenue | (24,658)     | (26,034)     |
|   | <b>5,635</b> | <b>5,321</b> |

Conditions still to be met - remain liabilities (see note 22).

This grant is used for the development of engineering and related technology graduates to equip themselves in achieving professional registration in water and wastewater related skills. The spending is lower due to a decrease in a the number of students funded by this grant and the delay in the appointment of a mentor.

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 30. Government grants and subsidies (continued)

#### Urban Settlements Development Grant

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 1,980,109   | 1,885,685   |
| Conditions met - transferred to revenue | (1,980,109) | (1,885,685) |
|   | -           | -           |

This grant was utilised for housing densification, water, electricity and sanitation infrastructure, sidewalks, agricultural gardens and various town centre renewals. This grant has replaced the former Municipal Infrastructure Grant.

#### Expanded Public Works Incentive Grant

|   |          |          |
|---|----------|----------|
| Current-year receipts                   | 66,792   | 49,478   |
| Conditions met - transferred to revenue | (66,792) | (49,478) |
|   | -        | -        |

This grant is received from the National Department of Public Works for creating job opportunities for unemployed persons and so allowing them economic participation and resulting in poverty alleviation.

Unaudited

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### 30. Government grants and subsidies (continued)

#### Primary Health Care Provincial Subsidy

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | 51,689        | -             |
| Current-year receipts                   | 187,569       | 111,836       |
| Stock Medicine                          | 10,395        | 51,689        |
| Conditions met - transferred to revenue | (233,279)     | (111,836)     |
| Accrued receipts                        | 45,710        | -             |
|   | <b>62,084</b> | <b>51,689</b> |

Conditions still to be met - remain liabilities (see note 22).

Municipality renders health services on behalf of the Provincial Government. This grant has been used exclusively to fund clinic services.

#### Municipal Human Settlements Capacity Grant

|   |   |          |
|---|---|----------|
| Balance unspent at beginning of year    | - | 26,450   |
| Conditions met - transferred to revenue | - | (14,342) |
| Paid back                               | - | (12,108) |
|   | - | -        |

This grant was used to build capacity in municipalities to deliver and subsidise the operational cost of administering human settlements programmes.

#### Department of Sports & Recreation

|                                |        |        |
|--------------------------------|--------|--------|
| Balance unspent at end of year | 10,525 | 10,525 |
|--------------------------------|--------|--------|

Conditions still to be met - remain liabilities (see note 22).

This grant is used for Durban Soccer Academy and this has been delayed due to litigation matters still in court.

#### DPISA - Aquaponics Projects

|   |         |              |
|---|---------|--------------|
| Balance unspent at beginning of year    | 1,461   | -            |
| Current-year receipts                   | -       | 1,461        |
| Conditions met - transferred to revenue | (1,461) | -            |
|   | -       | <b>1,461</b> |

This grant was used for Aquaponics projects by the Department of Public Service and Administration.

#### DBSA

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | 98,984        | 19,686        |
| Current-year receipts                   | 2,363         | 94,696        |
| Conditions met - transferred to revenue | (5,355)       | (15,398)      |
|   | <b>95,992</b> | <b>98,984</b> |

Conditions still to be met - remain liabilities (see note 22).

To be used for the various community reforestation projects and rehabilitation of the Palmiet River projects.

#### Electricity Capital Grant

|                       |        |        |
|-----------------------|--------|--------|
| Current-year receipts | 35,000 | 31,000 |
|-----------------------|--------|--------|

# eThekwini Municipality

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|  | 2018 | 2017 |
|--|------|------|
|--|------|------|

### 30. Government grants and subsidies (continued)

|   |          |          |
|---|----------|----------|
| Conditions met - transferred to revenue | (35,000) | (31,000) |
|   | -        | -        |

This grant is used for electrification programme of indigents.

### Intergrated City Development

|   |          |          |
|---|----------|----------|
| Current-year receipts                   | 39,111   | 50,256   |
| Conditions met - transferred to revenue | (39,111) | (50,256) |
|   | -        | -        |

The grant is used to provide financial incentive for metropolitan municipalities to integrate and focus their use of available infrastructure investment and regulatory instruments to achieve a more compact urban spatial form.

### 31. Levies

|           |           |           |
|-----------|-----------|-----------|
| Fuel levy | 2,211,611 | 2,185,002 |
|-----------|-----------|-----------|

National Treasury shared revenue generated by the general fuel levy.

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# eThekwini Municipality

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## Notes to the Annual Financial Statements

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|--|------------------|------------------|
| <b>32. Employee related costs</b>  |                  |                  |
| Employee related costs - Salaries and Wages                                    | 5,419,679        | 4,939,674        |
| Medical aid and Pension Benefits   | 2,038,521        | 1,774,686        |
| UIF and Workmans Compensation  | 42,347           | 41,469           |
| Contribution to Provisions (Leave Pay, Performance Bonus, Long Service Awards) | 329,043          | 195,822          |
| Travel, motor car, accommodation, subsistence and other allowances             | 401,427          | 368,714          |
| Overtime payments  | 1,225,627        | 976,263          |
| Housing benefits and allowances  | 45,801           | 41,718           |
| Holiday Bonus (13th Cheque)  | 418,380          | 384,912          |
| Other  | 21,934           | 25,509           |
| Less: Employee costs relating to capitalisation and maintenance of PPE         | (74,736)         | (46,648)         |
|  | <b>9,868,023</b> | <b>8,702,119</b> |

### Remuneration of the Municipal Manager - Mr. S. Nzuza (appointed 1 May 2017)

|   |              |            |
|---|--------------|------------|
| Annual Remuneration                     | 2,912        | 456        |
| Car Allowance                           | 180          | 30         |
| Other Allowances (Subsistence, Backpay) | 91           | -          |
| Contributions to UIF and SDL            | 33           | 5          |
|   | <b>3,216</b> | <b>491</b> |

### Remuneration of the Chief Finance Officer - Mr. K. A. Kumar

|  |              |              |
|--|--------------|--------------|
| Annual Remuneration                                  | 1,596        | 1,487        |
| Car Allowance  | 553          | 515          |
| Performance Bonuses                                  | 147          | 133          |
| Holiday Bonus (13th cheque)                          | 133          | 124          |
| Market Allowance                                     | 242          | 242          |
| Cellphone Allowance                                  | 18           | 18           |
| Other Allowances (Subsistence)                       | 11           | 20           |
| Contributions to UIF, SDL, Medical and Pension Funds | 372          | 349          |
|  | <b>3,072</b> | <b>2,888</b> |

### Economic Development and Planning - Mr. P. Sithole (appointed 1 January 2018 - internally)

|   |              |          |
|---|--------------|----------|
| Annual Remuneration                                   | 1,270        | -        |
| Car Allowance   | 392          | -        |
| Holiday Bonus (13th cheque)                           | 94           | -        |
| Cellphone Allowance                                   | 10           | -        |
| Other Allowances (Subsistence, Leave Cashing, Acting) | 265          | -        |
| Contributions to UIF, SDL, Medical and Pension Funds  | 371          | -        |
|   | <b>2,402</b> | <b>-</b> |

### Health and Social Services - Dr. M. Gumede (resigned 31 July 2017)

|   |            |              |
|---|------------|--------------|
| Annual Remuneration                           | 161        | 1,936        |
| Car Allowance                                 | 10         | 120          |
| Performance Bonuses                           | 137        | 156          |
| Cellphone Allowance                           | 1          | 12           |
| Other Allowances (Subsistence, Leave Cashing) | 266        | 94           |
| Contributions to UIF, SDL, and Medical Fund   | 8          | 58           |
|   | <b>583</b> | <b>2,376</b> |

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### 32. Employee related costs (continued)

#### Governance - Mr. S. O. Cele

|  |              |              |
|--|--------------|--------------|
| Annual Remuneration                                  | 1,596        | 1,487        |
| Car Allowance  | 553          | 515          |
| Performance Bonuses                                  | 99           | 123          |
| Holiday Bonus (13th cheque)                          | 133          | 124          |
| Market Allowance                                     | 121          | 121          |
| Cellphone Allowance                                  | 12           | 12           |
| Other Allowances (Subsistence, Leave Cashing)        | 85           | 38           |
| Contributions to UIF, SDL, Medical and Pension Funds | 360          | 339          |
|  | <b>2,959</b> | <b>2,759</b> |

#### Trading Services - Mr. Mashoko

|  |              |              |
|--|--------------|--------------|
| Annual Remuneration                                      | 2,280        | 1,957        |
| Car Allowance  | 108          | 99           |
| Holiday Bonus (13th cheque)                              | 192          | 171          |
| Market Allowance   | 243          | 223          |
| Cellphone Allowance                                      | 12           | 11           |
| Other Allowances (Subsistence, Non-pensionable, Backpay) | 118          | 63           |
| Contributions to UIF, SDL and Pension Fund               | 556          | 474          |
|  | <b>3,509</b> | <b>2,998</b> |

#### Head: City Integrity and Investigation - Mr. Ngcobo

|  |              |              |
|--|--------------|--------------|
| Annual Remuneration                                    | 1,078        | 1,002        |
| Car Allowance  | 374          | 348          |
| Performance Bonuses                                    | -            | 93           |
| Holiday Bonus (13th cheque)                            | 90           | 85           |
| Cellphone Allowance                                    | 9            | 9            |
| Other Allowances (Subsistence, Leave Cashing, Backpay) | 49           | 76           |
| Contributions to UIF, SDL, Medical and Pension Funds   | 257          | 246          |
|  | <b>1,857</b> | <b>1,859</b> |

#### Corporate and Human Resources - Mrs. D. P. Nene (contract expired 31 January 2018; temporary contract from 1 February 2018)

|   |              |              |
|---|--------------|--------------|
| Annual Remuneration                         | 1,837        | 1,775        |
| Car Allowance                               | 108          | 108          |
| Performance Bonuses                         | 135          | 172          |
| Holiday Bonus (13th cheque)                 | 93           | 148          |
| Cellphone Allowance                         | 12           | 12           |
| Other Allowances (Acting)                   | -            | 82           |
| Contributions to UIF, SDL, and Medical Fund | 59           | 56           |
|   | <b>2,244</b> | <b>2,353</b> |

#### Human Settlement - Ms. B. Mphakathi (appointed 1 May 2018 - internally)

|  |              |          |
|--|--------------|----------|
| Annual Remuneration                                      | 1,217        | -        |
| Car Allowance  | 339          | -        |
| Holiday Bonus (13th cheque)                              | 94           | -        |
| Cellphone Allowance                                      | 10           | -        |
| Other Allowances (Subsistence, Backpay, Acting, Housing) | 218          | -        |
| Contributions to UIF, SDL, Medical and Pension Funds     | 336          | -        |
|  | <b>2,214</b> | <b>-</b> |

# eThekweni Municipality

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### 32. Employee related costs (continued)

#### Remuneration of the Municipal Manager - Mr. S. Sithole (contract expired 31 December 2016)

|  |            |              |
|--|------------|--------------|
| Annual Remuneration                                    | -          | 1,364        |
| Car Allowance  | -          | 103          |
| Performance Bonuses                                    | 188        | 247          |
| Contributions to UIF, Medical and Pension Funds        | -          | 24           |
| Other Allowances (Subsistence, Leave cashing, Backpay) | -          | 575          |
|  | <b>188</b> | <b>2,313</b> |

#### Head: Internal Audit/Chief Audit Executive - Mr. P Ntsimane (resigned 31 August 2017)

|  |            |              |
|--|------------|--------------|
| Annual Remuneration  | 184        | 1,018        |
| Car Allowance  | 64         | 353          |
| Performance Bonuses  | 121        | 107          |
| Holiday Bonus (13th cheque)                                    | -          | 85           |
| Cellphone Allowance  | 1          | 9            |
| Other Allowances (Subsistence, Non-pensionable, Leave Cashing) | 43         | 155          |
| Contributions to UIF, SDL, Medical and Pension Funds           | 44         | 241          |
|  | <b>457</b> | <b>1,968</b> |

#### Head: Information Management Unit/ Chief Information Officer - Mr. R. Dhlamini

|  |              |              |
|--|--------------|--------------|
| Annual Remuneration                                  | 1,088        | 1,014        |
| Car Allowance  | 377          | 351          |
| Performance Bonuses                                  | 84           | 92           |
| Holiday Bonus (13th cheque)                          | 91           | 84           |
| Cellphone Allowance                                  | 9            | 9            |
| Other Allowances (Subsistence, Leave Cashing)        | 20           | 46           |
| Contributions to UIF, SDL, Medical and Pension Funds | 260          | 246          |
|  | <b>1,929</b> | <b>1,842</b> |

#### Chief Strategic Officer - Mr. A. Peters

|  |              |              |
|--|--------------|--------------|
| Annual Remuneration                                  | 1,481        | 1,380        |
| Car Allowance  | 510          | 475          |
| Performance Bonuses                                  | 154          | 141          |
| Holiday Bonus (13th cheque)                          | 124          | 115          |
| Market Allowance                                     | 524          | 524          |
| Cellphone Allowance                                  | 12           | 12           |
| Other Allowances (Subsistence, Entertainment)        | 83           | 71           |
| Contributions to UIF, SDL, Medical and Pension Funds | 335          | 297          |
|  | <b>3,223</b> | <b>3,015</b> |

### 33. Remuneration of councillors

|  |                |                |
|--|----------------|----------------|
| Mayor                                  | 1,311          | 1,278          |
| Deputy Mayor                           | 1,064          | 1,044          |
| Mayoral Committee Members              | 8,719          | 7,511          |
| Speaker                                | 1,063          | 1,062          |
| Councillors                            | 106,407        | 99,165         |
| Traditional Leaders                    | 780            | 874            |
| <b>Total Councillors' Remuneration</b> | <b>119,344</b> | <b>110,934</b> |



# eThekweni Municipality

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### 33. Remuneration of councillors (continued)

#### In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are provided with bodyguards and are provided with an office and secretarial support at the cost of the Council.

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

#### Mayor ( 1 )

|                         |              |              |
|-------------------------|--------------|--------------|
| Remuneration Allowances | 989          | 759          |
| Travelling Allowance    | 81           | 170          |
| Motor Vehicle Allowance | -            | 130          |
| Cellphone allowance     | 41           | 48           |
| Medical Aid             | 47           | 58           |
| Pension Fund            | 153          | 113          |
|                         | <b>1,311</b> | <b>1,278</b> |

#### Deputy Mayor ( 1 )

|                         |              |              |
|-------------------------|--------------|--------------|
| Remuneration Allowances | 832          | 653          |
| Travelling Allowance    | -            | 11           |
| Motor Vehicle Allowance | 63           | 238          |
| Cellphone allowance     | 41           | 47           |
| Medical Aid             | -            | 5            |
| Pension Fund            | 128          | 90           |
|                         | <b>1,064</b> | <b>1,044</b> |

#### Speaker ( 1 )

|                         |              |              |
|-------------------------|--------------|--------------|
| Remuneration Allowances | 633          | 609          |
| Travelling Allowance    | -            | 52           |
| Motor Vehicle Allowance | 255          | 238          |
| Cellphone allowance     | 41           | 40           |
| Medical Aid             | 36           | 37           |
| Pension Fund            | 98           | 86           |
|                         | <b>1,063</b> | <b>1,062</b> |

#### Mayoral Committee Members ( 9 )

|                         |              |              |
|-------------------------|--------------|--------------|
| Remuneration Allowances | 5,768        | 4,447        |
| Travelling Allowance    | 642          | 582          |
| Motor Vehicle Allowance | 678          | 1,309        |
| Cellphone allowance     | 355          | 186          |
| Medical Aid             | 380          | 342          |
| Pension Fund            | 896          | 645          |
|                         | <b>8,719</b> | <b>7,511</b> |

#### Councillors ( 207 )

|                         |                |               |
|-------------------------|----------------|---------------|
| Remuneration Allowances | 64,696         | 59,698        |
| Travelling Allowance    | 4,212          | 6,809         |
| Motor Vehicle Allowance | 13,497         | 16,570        |
| Cellphone allowance     | 8,453          | 4,679         |
| Medical Aid             | 6,434          | 4,515         |
| Pension Fund            | 9,115          | 6,894         |
|                         | <b>106,407</b> | <b>99,165</b> |

#### Traditional Leaders ( 13 )

|            |     |     |
|------------|-----|-----|
| Allowances | 780 | 874 |
|------------|-----|-----|

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand | 2018           | 2017           |
|--------------------------|----------------|----------------|
| <b>34. Finance costs</b> |                |                |
| Non-current borrowings   | 811,675        | 886,411        |
| Trade and other payables | 40,634         | 11,277         |
| Other interest paid      | 7              | 271            |
|                          | <b>852,316</b> | <b>897,959</b> |

An amount of R3.0m (2017: R5.1m) relating to borrowing costs was capitalised to work-in-progress with 9% (2017: 9%) being the weighted average cost of funds borrowed generally by the municipality. The capitalisation of interest is only applicable for qualifying assets that existed before the decision by council to expense all borrowing costs. For these assets, borrowing costs will be capitalised to work-in-progress until such a time the project is completed and capitalised. All other borrowing costs are expensed when incurred.

The accumulated borrowing costs that have been capitalised to work-in-progress at 30 June 2018 are R82.1m (30 June 2017: R79.1m).

As of 1 July 2016 (effective date) interest no longer accrued on consumer deposits (previously accrued at 3% p.a.). All interest that had accrued up to the effective date was added to the deposit held. Refer to Note 19: Consumer Deposits for further details on the cessation of interest on consumer deposits.

### 35. Bulk purchases (cost of sales)

|             |                   |                   |
|-------------|-------------------|-------------------|
| Electricity | 8,280,136         | 8,299,873         |
| Water       | 2,153,514         | 1,799,135         |
|             | <b>10,433,650</b> | <b>10,099,008</b> |

### 36. Contracted services

|  |                  |                  |
|--|------------------|------------------|
| Consultants and Professional services    | <b>249,844</b>   | <b>228,347</b>   |
| Engineering and other technical services | 59,120           | 53,962           |
| Legal expenses                           | 38,138           | 34,936           |
| Research and advisory                    | 71,196           | 48,760           |
| Project management                       | 28,399           | 30,550           |
| Other                                    | 52,991           | 60,139           |
| <b>Contractors</b>                       | <b>2,348,775</b> | <b>2,248,667</b> |
| Repairs and Maintenance                  | 2,109,589        | 1,988,004        |
| Stage and sound crew                     | 22,838           | 16,227           |
| Catering services                        | 47,415           | 39,356           |
| Event promoters                          | 33,004           | 41,618           |
| Recycling                                | 30,869           | 17,860           |
| Artists and performers                   | 38,503           | 51,310           |
| Other                                    | 66,557           | 94,292           |
| <b>Outsourced services</b>               | <b>1,797,129</b> | <b>1,456,128</b> |
| Administrative and support staff         | 263,627          | 194,440          |
| Clearing and grass cutting services      | 135,302          | 128,347          |
| Hygiene services                         | 111,949          | 68,794           |
| Meter management                         | 50,640           | 31,504           |
| Refuse removal                           | 333,855          | 255,755          |
| External security                        | 751,612          | 626,193          |
| Cleaning services                        | 74,273           | 70,216           |
| Other                                    | 75,871           | 80,879           |
|  | <b>4,395,748</b> | <b>3,933,142</b> |

A decision was taken in the current financial year to include an analysis of contracted services. This additional information is considered to be useful as it provides context in terms of the nature of expenses making up contracted services.

# eThekwini Municipality

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| Figures in Rand thousand   | 2018             | 2017             |
|--|------------------|------------------|
| <b>37. Grants and subsidies</b>                                    |                  |                  |
| <b>Other subsidies</b>   |                  |                  |
| Grant Paid: Point Precinct Trust                                   | 1,956            | 2,173            |
| Grant Paid: Sporting Organisations                                 | 244,343          | 64,026           |
| Grant Paid: ICC Durban (Proprietary) Limited                       | 8,153            | -                |
| Grant Paid: Durban Marine Theme Park (State Owned Company) Limited | 70,390           | 66,615           |
| Grant Paid: Playhouse Company                                      | 2,000            | 3,000            |
| Grant Paid: Natal Philharmonic Orchestra                           | 7,000            | 6,800            |
| Grant Paid: SEDA eThekwini   | 5,610            | 4,773            |
| Grant Paid: Other  | 129,517          | 128,396          |
| Grant Paid: The Loerie Awards                                      | 3,475            | 3,657            |
| Grant Paid: KZN Sharks (Pty) Ltd                                   | 4,000            | 6,375            |
|  | <b>476,444</b>   | <b>285,815</b>   |
| <b>38. General expenses</b>  |                  |                  |
| Advertising  | 146,988          | 129,963          |
| Auditors remuneration  | 22,610           | 17,879           |
| Bank charges   | 7,721            | 7,600            |
| Cleaning   | 25,671           | 21,938           |
| Commission paid  | 75,123           | 79,844           |
| Information Systems - Consulting and professional fees             | 211,303          | 264,662          |
| Delivery expenses  | 1,996            | 2,099            |
| Civic Entertainment  | 422              | 432              |
| Hire of facilities, plant and equipment                            | 207,370          | 170,160          |
| Insurance  | 44,753           | 43,888           |
| Conferences and seminars   | 40,239           | 23,698           |
| IT expenses  | 462              | 926              |
| Marketing  | 5,951            | 4,361            |
| Management Fees  | 222,638          | 199,436          |
| Magazines, books and periodicals                                   | 14,175           | 12,797           |
| Medical Requisites   | 5,648            | 5,661            |
| Fuel and oil   | 278,464          | 236,647          |
| Postage and courier  | 32,586           | 33,272           |
| Printing and stationery  | 58,918           | 52,240           |
| Promotions   | 37,071           | 42,447           |
| Protective clothing  | 48,030           | 33,110           |
| Project maintenance costs  | 31,196           | 23,077           |
| Secretarial fees   | 35,688           | 41,061           |
| Subscriptions and membership fees                                  | 19,720           | 19,581           |
| Telephone and fax  | 48,468           | 47,338           |
| Transport and freight  | 28,710           | 33,248           |
| Training   | 96,401           | 87,489           |
| Travel - local   | 22,420           | 29,364           |
| Travel - overseas  | 6,141            | 5,846            |
| Title deed search fees   | 824              | 823              |
| Refuse Bags  | 97,526           | 86,590           |
| Small Plant and Tools  | 9,630            | 10,074           |
| Alien vegetation removal   | 16,914           | 17,489           |
| Other expenses   | 785,043          | 805,344          |
|  | <b>2,686,820</b> | <b>2,590,384</b> |

# eThekweni Municipality

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| Figures in Rand thousand                                       | 2018             | 2017             |
|--|------------------|------------------|
| <b>39. Cash generated from operations</b>                      |                  |                  |
| Surplus  | 2,217,130        | 2,187,601        |
| <b>Adjustments for:</b>  |                  |                  |
| Depreciation on PPE  | 2,075,963        | 1,933,762        |
| Loss/(gain) on sale of PPE                                     | 4,619            | (1,840)          |
| Amortisation of Intangible Assets                              | 217,516          | 198,118          |
| Depreciation :Investment Property                              | 1,241            | 1,432            |
| Loss / (Income) from Joint Venture                             | 2,031            | (21,151)         |
| Reversal of loss on Impairment: PPE                            | (4,016)          | -                |
| Impairment PPE   | -                | (33)             |
| Debt impairment  | 1,980,316        | 2,013,798        |
| Loss on Impairment: Intangible Assets                          | -                | 576              |
| Movements in retirement benefit assets and liabilities         | 398,287          | 267,710          |
| Movements in provisions  | 319,286          | 43,689           |
| Loss on Impairment: Investment properties                      | 1,756            | 1,390            |
| Donations:PPE  | (857)            | (9,397)          |
| Reversal of Loss on impairment : Municipal Entity              | (32,052)         | -                |
| <b>Changes in working capital:</b>                             |                  |                  |
| Inventories  | (136,550)        | (105,379)        |
| Receivables from exchange transactions                         | (80,345)         | 555,394          |
| Consumer debtors   | (2,001,565)      | (2,043,212)      |
| Other receivables from non-exchange transactions               | (382,371)        | (321,525)        |
| Payables from exchange transactions                            | 206,934          | 295,734          |
| VAT  | (128,868)        | (343,465)        |
| Unspent conditional grants and receipts                        | 401,681          | 144,711          |
| Consumer deposits  | 124,387          | 235,295          |
| Transfers Payables from non-exchange transactions              | 11,520           | -                |
|  | <b>5,196,043</b> | <b>5,033,208</b> |
| <b>40. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b> |                  |                  |
| Long-term liabilities  | 8,161,100        | 8,835,985        |
| Used to finance property, plant and equipment – at cost        | (7,832,513)      | (8,307,899)      |
|  | <b>328,587</b>   | <b>528,086</b>   |

The balance of R328.6million (2016/17:R528.1million) relates to the unspent portion of the R700million loan that was taken during the 2016/17 financial year to fund the capital expenditure for the Northern and Western Aqueduct Projects. Capital expenditure of R199.5million was incurred in the current year. The spending on these projects has been delayed due to poor performance by the contractor and service delivery protests as explained in Note 53: Budget Disclosure.

The unspent balance of the loan is ring-fenced and will be spent only on capital expenditure relating to the Northern and Western Aqueduct Projects.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand 2018 2017

### 41. Commitments

#### Commitments in respect of capital expenditure

##### Approved and contracted for

|                      |                  |                  |
|----------------------|------------------|------------------|
| • Infrastructure     | 3,713,987        | 2,444,336        |
| • Community          | 139,439          | 58,997           |
| • Land and Buildings | 172,584          | 244,812          |
| • Other              | 954,841          | 800,046          |
|                      | <b>4,980,851</b> | <b>3,548,191</b> |

##### Approved but not yet contracted for

|                      |                |                |
|----------------------|----------------|----------------|
| • Infrastructure     | 189,655        | 480,957        |
| • Land and Buildings | 56,630         | 53,413         |
| • Other              | 160,000        | 14,336         |
|                      | <b>406,285</b> | <b>548,706</b> |

##### Total capital commitments

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| Approved and contracted for         | 4,980,851        | 3,548,191        |
| Approved but not yet contracted for | 406,285          | 548,706          |
|                                     | <b>5,387,136</b> | <b>4,096,897</b> |

Included in the Other Capital Commitments figure for Housing is Housing Agency commitments amounting to R650m (2017: R711.7m).

#### Operating leases - as lessee (expenditure)

##### Minimum lease payments due

|                                     |                |                |
|-------------------------------------|----------------|----------------|
| - within one year                   | 105,879        | 70,878         |
| - in second to fifth year inclusive | 70,617         | 105,642        |
| - later than five years             | 2,266          | 2,592          |
|                                     | <b>178,762</b> | <b>179,112</b> |

#### Operating Commitments

##### Minimum payments due

|                             |                  |                  |
|-----------------------------|------------------|------------------|
| - within one year           | 1,686,481        | 1,358,087        |
| - within two to three years | 327,623          | 1,243,928        |
| - later than three years    | 23,180           | 41,477           |
|                             | <b>2,037,284</b> | <b>2,643,492</b> |

There are no operating commitments for External Security as the contract is on a month to month basis. The 3 year budget forecast is R705.4m, R813.4m and R870.9m respectively.

All commitments are stated exclusive of VAT.

### 42. Operating leases - as lessor (income)

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

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

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

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand 2018 2017

### 43. Contingencies

|                     |         |         |
|---------------------|---------|---------|
| Contracted Disputes | 997,195 | 622,330 |
|---------------------|---------|---------|

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

|                        |         |         |
|------------------------|---------|---------|
| Self Insurance Reserve | 794,166 | 350,365 |
|------------------------|---------|---------|

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

|                |        |       |
|----------------|--------|-------|
| Property Rates | 12,052 | 2,664 |
|----------------|--------|-------|

During the implementation of the Municipal Property Rates Act (MPRA), ratepayers were given the opportunity to object to the property valuations used in the computation of their property rates charge. These objections were investigated and resolved. Ratepayers that were dissatisfied with the results of the response had the right to lodge an appeal in terms of the MPRA. The appeals process has commenced. If the ratepayers are successful in their appeal, the above rates revenue recognised for the year will have to be reversed.

|                 |        |        |
|-----------------|--------|--------|
| Bank Guarantees | 70,229 | 65,410 |
|-----------------|--------|--------|

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

- S.A. Post Office: R76 000 (Nedbank Bank) dated 08 May 2017;
- S.A. Post Office: R1.900m (Nedbank Bank) dated 08 May 2017;
- Compensation Commissioner: R68.253m (2017: R62 885m) - (NedBank) dated 25 February 2016;
- ICC: R450 000 (Standard Bank) dated 28 September 1999 (prior year only)
- ICC: R98 611 (Standard Bank) dated 26 November 1999 (prior year only)

|                        |         |         |
|------------------------|---------|---------|
| Legal Claims - Various | 143,294 | 141,795 |
|------------------------|---------|---------|

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

Legal disputes relate to:

- Rates dispute: R5.6m (2017: R1.5m);
- Value of compensation in respect of expropriation of various properties: R75.9m (2017: R91.5m);
- Claims for damages - various: R61.8m (2017: R48.7m);

|                       |         |         |
|-----------------------|---------|---------|
| Claims - Bus Operator | 132,050 | 632,476 |
|-----------------------|---------|---------|

Bus Operator:

- There is currently a dispute with respect to the amount owing by the bus Operator, which is R236million disclosed in Other Receivables.
- The bus Operator has submitted a claim to the municipality which amounts to R632.5 million. Meetings to resolve the dispute are still ongoing.

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand   | 2018    | 2017  |
|--|---------|---|
| <b>44. Related parties</b>   |         |   |
| Relationships  |         |   |
| Municipal Entities (refer to note 15)  |         | Durban Marine Theme Park SOC Limited<br>ICC Durban (Pty) Ltd<br>EtheKwini Transport Authority |
| Joint Ventures (refer to note 16)  |         | Effingham Development Joint Venture<br>Durban Point Development Company                       |
| <b>Related party balances</b>  |         |   |
| <b>Loan accounts - Owning (to) by related parties</b>                          |         |   |
| Durban Point Development Company   | 171,054 | 164,256   |
| <b>Amounts included in Trade receivable regarding related parties</b>          |         |   |
| Durban Marine Theme Park SOC Limited   | 18,679  | 13,655  |
| ICC Durban (Pty) Ltd   | 1,422   | 3,154   |
| Effingham Development Joint Venture  | 6,500   | -   |
| <b>Amounts included in Trade payables regarding related parties</b>            |         |   |
| Durban Marine Theme Park SOC Limited   | 718     | 4,167   |
| ICC Durban (Pty) Ltd   | 3,233   | 7,110   |
| Durban Point Development Company   | 10,104  | 3,396   |
| EtheKwini Transport Authority  | 34,857  | 44,618  |
| <b>Consumer Deposits</b>   |         |   |
| ICC Durban (Pty) Ltd   | 1,647   | 1,597   |
| <b>Amounts included in Receivables from exchange regarding related parties</b> |         |   |
| Durban Marine Theme Park SOC Limited (Moses Mabhida - VAT)                     | 10,997  | 10,997  |
| <b>Sales to related parties</b>  |         |   |
| ICC Durban (Pty) Ltd:  | -       | -   |
| Electricity  | 10,264  | 11,287  |
| Water  | 1,996   | 1,567   |
| Refuse   | 991     | 900   |
| Rates  | 9,134   | 6,064   |
| Insurance  | 5       | 39  |
| Other  | -       | 27  |
| Durban Marine Theme Park SOC Limited:  | -       | -   |
| Electricity  | 22,515  | 21,307  |
| Water  | 9,874   | 8,940   |
| Waste  | 947     | 1,088   |
| Insurance  | 437     | 772   |
| Rates  | 3,633   | 3,375   |
| Durban Point Development Company:  | -       | -   |
| Rates  | 3,399   | 3,337   |
| Electricity and Water  | 14      | 15  |
| Effingham Development Joint Venture:   | -       | -   |
| Electricity and Water  | 1       | 9   |
| Income from Joint Venture  | 2,862   | 24,767  |
| Rates  | 216     | 303   |
| <b>Purchases from related parties</b>  |         |   |
| ICC Durban (Pty) Ltd:  | -       | -   |
| General Expenses   | 43,607  | 42,204  |
| Grant-in-Aid   | 8,153   | -   |
| Durban Marine Theme Park SOC Limited:  | -       | -   |

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand   | 2018   | 2017             |
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| <b>44. Related parties (continued)</b>   |        |                  |
| General Expenses   | 6,942  | 8,344            |
| Grant-in-Aid   | 70,390 | 66,615           |
| EtheKwini Transport Authority:   | -      | -                |
| General Expenses   | 2,730  | 3,106            |
| Other  | -      | 3,000            |
| <p>The Grant-in-Aid for Durban Marine Theme Park SOC Limited was previously disclosed only on Note 37: Grants and subsidies paid. For completeness of the related party disclosures, this Grant-in-Aid has also been included on this note.</p> <p>There is an amount of R2.4million relating to an insurance claim by Durban Marine Theme Park SOC Limited. The claim has not yet been finalised and as a result a contingent liability has been disclosed in Note 43: Contingencies since the outcome of the claim is uncertain.</p> |        |                  |
| <b>45. Prior year adjustments</b>  |        |                  |
| <p>The following adjustments all relate to corrections of prior-period misstatements and re-classifications.</p>   |        |                  |
| <b>Consumer Deposits</b>   |        |                  |
| Balance previously reported  | -      | 2,148,852        |
| Bank and Cash: Voucher refunds re-allocation   | -      | (5,376)          |
|  | -      | <b>2,143,476</b> |
| <b>Long-term receivables</b>   |        |                  |
| Balance previously reported  | -      | 84,749           |
| Provision for Bad Debts adjustment - Wiggins Housing   | -      | (29,740)         |
|  | -      | <b>55,009</b>    |
| <b>Transfers payable from non-exchange transactions</b>  |        |                  |
| Balance previously reported  | -      | -                |
| Re-classification from Payables from exchange transactions   | -      | 17,760           |
|  | -      | <b>17,760</b>    |
| <b>Consumer Debtors</b>  |        |                  |
| Balance previously reported  | -      | 4,041,640        |
| Rates adjustments  | -      | (31,329)         |
| Services charges adjustments   | -      | (74,922)         |
|  | -      | <b>3,935,389</b> |
| <b>Payables from exchange transactions</b>   |        |                  |
| Balance previously reported  | -      | 5,942,640        |
| Reversal of Internal charges   | -      | (3,546)          |
| Land sales adjustment  | -      | (2,293)          |
| Stale cheques written off  | -      | (12,117)         |
| Liability for refund of bail monies  | -      | 2,214            |
| Property, Plant and Equipment: Capital adjustments   | -      | (15,891)         |
| Receivables from exchange: DOHS adjustment   | -      | 2,794            |
| Receivables from exchange transactions: Insurance adjustment   | -      | 5,621            |
| Accruals adjustments   | -      | 16,503           |
| Audit fee re-classification to operating account   | -      | (18,414)         |
| Retention write-offs / adjustments   | -      | (54,525)         |
| Reversal of duplicated expenditure   | -      | (2,150)          |
| Re-classification to Transfers payables from non-exchange transactions   | -      | (17,760)         |
|  | -      | <b>5,843,076</b> |



# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand  | 2018 | 2017              |
|---|------|-------------------|
| <b>45. Prior year adjustments (continued)</b>                     |      |                   |
| <b>Intangible assets</b>  |      |                   |
| Balance previously reported                                       | -    | 987,854           |
| Re-classifications to Property, Plant and Equipment               | -    | (136,966)         |
| Cost adjustments / transfers                                      | -    | 10,394            |
| Work-in-progress adjustments / transfers                          | -    | (8,066)           |
| Accumulated Depreciation adjustments                              | -    | (4,328)           |
|   | -    | <b>848,888</b>    |
| <b>Provisions</b>   |      |                   |
| Balance previously reported                                       | -    | 1,479,358         |
| Re-classification of Alien Species provision to operating account | -    | (70,187)          |
|   | -    | <b>1,409,171</b>  |
| <b>Investment Property</b>  |      |                   |
| Balance previously reported                                       | -    | 231,867           |
| Reversal of Impairment  | -    | 1,147             |
|   | -    | <b>233,014</b>    |
| <b>Property, Plant and Equipment</b>                              |      |                   |
| Balance previously reported                                       | -    | 45,992,269        |
| VAT adjustments   | -    | (1,272)           |
| Cost adjustments / transfers                                      | -    | 2,009,868         |
| Work-in-progress adjustments / transfers                          | -    | (2,128,031)       |
| Accumulated Depreciation adjustments                              | -    | (46,716)          |
| Accumulated Impairment reversal                                   | -    | 5,562             |
| Re-classifications from Intangible Assets                         | -    | 136,966           |
|   | -    | <b>45,968,646</b> |

Unaudited

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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### 45. Prior year adjustments (continued)

#### Accumulated Surplus

|   |   |                   |
|---|---|-------------------|
| Balance previously reported   | - | 38,621,386        |
| Consumer Debtors: Rates adjustments - 2016/17   | - | (18,843)          |
| Consumer Debtors: Rates adjustments - prior to 2016/17  | - | (12,486)          |
| Consumer Debtors: Service charges adjustments - 2016/17   | - | (74,612)          |
| Payables from exchange transactions: Reversal of Internal charges - 2016/17                       | - | 3,547             |
| Payables from exchange transactions: Land Sales adjustment - 2016/17                              | - | 2,082             |
| Payables from exchange transactions: Land Sales adjustment - prior to 2016/17                     | - | 211               |
| Payables from exchange transactions: Stale cheques written off - prior to 2016/17                 | - | 12,117            |
| Payables from exchange transactions: Liability for refund of bail monies - prior to 2016/17       | - | (2,214)           |
| Receivables from exchange transactions: Reversal of prepayment - 2016/17                          | - | (12,858)          |
| Property, Plant and Equipment: Other adjustments - 2016/17  | - | (31,922)          |
| Property, Plant and Equipment: Other adjustments - prior to 2016/17                               | - | (117,144)         |
| Property, Plant and Equipment: Donations adjustment - 2016/17                                     | - | 35                |
| Property, Plant and Equipment: Reversal of impairment - 2016/17                                   | - | 5,562             |
| Property, Plant and Equipment: Disposals adjustments - prior to 2016/17                           | - | (66)              |
| Provisions: Re-classification of Alien Species provision to operating account - 2016/17           | - | 8,480             |
| Provisions: Re-classification of Alien Species provision to operating account - prior to 2016/17  | - | 61,707            |
| Investment in Joint Venture: DPDC - Reversal of Impairment - prior to 2016/17                     | - | 75,716            |
| Investment in Joint Venture: DPDC - Loss - 2016/17  | - | (3,616)           |
| Investment Property: Reversal of Impairment - 2016/17   | - | 1,147             |
| Bank and Cash: RMS / Ledger reconciliation adjustments - prior to 2016/17                         | - | (4,767)           |
| VAT receivable: Bad Debts write-off adjustment - 2016/17  | - | 74,803            |
| Inventory: Correction of reversal - 2016/17   | - | (1,628)           |
| Receivables from exchange transactions: RMS / Ledger reconciliation adjustment - prior to 2016/17 | - | (52,294)          |
| Receivables from exchange transactions: Maintenance costs correction - 2016/17                    | - | (430)             |
| Receivables from exchange transactions: RMS / Ellipse adjustment - prior to 2016/17               | - | (54,335)          |
| Receivables from exchange transactions: Departmental Insurance adjustment - prior to 2016/17      | - | 23,989            |
| Receivables from exchange transactions: Reversal of payments and interest - 2016/17               | - | (40)              |
| Receivables from exchange transactions: Reversal of payments and interest - prior to 2016/17      | - | (911)             |
| Intangible Assets: Accumulated Depreciation adjustments - 2016/17                                 | - | (1,530)           |
| Intangible Assets: Accumulated Depreciation adjustments - prior to 2016/17                        | - | (470)             |
| Property, Plant and Equipment: Maintenance adjustments - 2016/17                                  | - | 31,464            |
| Property, Plant and Equipment: Maintenance adjustments - prior to 2016/17                         | - | 147               |
| Payables from exchange transactions: Accruals adjustments - 2016/17                               | - | (16,333)          |
| Payables from exchange transactions: Audit fee re-classification - 2016/17                        | - | 4,967             |
| Payables from exchange transactions: Audit fee re-classification - prior to 2016/17               | - | 13,447            |
| Payables from exchange transactions: Retention write-offs - prior to 2016/17                      | - | 29,502            |
| Payables from exchange transactions: Reversal of duplicated expenditure - 2016/17                 | - | 2,150             |
| Long-term receivables: Provision for Bad Debts adjustment for Wiggins - 2016/17                   | - | (29,740)          |
|   | - | <b>38,536,220</b> |

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

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### 45. Prior year adjustments (continued)

#### Inventory

|                             |   |                |
|-----------------------------|---|----------------|
| Balance previously reported | - | 452,837        |
| Correction of reversal      | - | (1,627)        |
|                             | - | <b>451,210</b> |

#### Investment in Joint Ventures

|   |   |                |
|---|---|----------------|
| Balance previously reported                               | - | 72,993         |
| Durban Point Development Company - Reversal of Impairment | - | 75,716         |
| Durban Point Development Company - Share of Loss          | - | (3,616)        |
|   | - | <b>145,093</b> |

#### Receivables from exchange transactions

|  |   |                  |
|--|---|------------------|
| Balance previously reported                                    | - | 2,177,203        |
| Reversal of prepayment   | - | (12,858)         |
| RMS / Ledger reconciliation adjustment                         | - | (52,294)         |
| Maintenance costs correction                                   | - | (430)            |
| Property, Plant and Equipment: Electricity adjustments         | - | 17,378           |
| RMS / Ellipse / Insurance adjustments                          | - | (54,334)         |
| Departmental Insurance Adjustment                              | - | 23,989           |
| Payables from exchange transactions: Insurance adjustment      | - | 5,621            |
| Payables from exchange transactions: DOHS adjustment           | - | 2,794            |
| Payables from exchange transactions: DOHS retention adjustment | - | (5,496)          |
| Reversal of payments and interest                              | - | (641)            |
|  | - | <b>2,100,932</b> |

#### VAT receivable

|  |   |                |
|--|---|----------------|
| Balance previously reported                                | - | 204,242        |
| Property, Plant and Equipment: Capital adjustments         | - | (1,268)        |
| Payables from exchange transactions: Accruals              | - | 39             |
| Bad Debts write-off adjustment                             | - | 74,803         |
| Payables from exchange transactions: Retention adjustments | - | (2,734)        |
|  | - | <b>275,082</b> |

#### Bank and Cash

|  |   |               |
|--|---|---------------|
| Balance previously reported                      | - | 85,458        |
| Consumer Deposits: Voucher refunds re-allocation | - | (5,376)       |
| RMS / Ledger reconciliation adjustments          | - | (4,766)       |
|  | - | <b>75,316</b> |

# eThekwini Municipality

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### 45. Prior year adjustments (continued)

The reasons for the various adjustments are summarised below:

**Consumer Debtors:**

Rates adjustments relating to prior periods.

Water service charges reversals due to incorrect billing.

**Payables from exchange transactions:**

Reversal of Internal charges.

Land Sales creditor adjustments.

Stale cheques written off.

Creation of liability for refund of bail monies erroneously paid to eThekwini by Justice Department.

Capitalisation of items not accrued for in previous reporting periods.

Re-classification of transfers payable from non-exchange transactions.

Audit fee re-classification to operating account.

Retention write-offs / adjustments.

**Property, Plant and Equipment:**

Capitalisation of assets received in prior periods but not capitalised due to documents not being available.

Depreciation adjustments due to changes in useful lives.

Re-classification from Intangible assets.

Re-classification of VAT that was capitalised to Work in Progress.

**VAT:**

Bad Debts write-off adjustment relating to service charges..

VAT element of PPE items received in prior periods but not accrued for.

**Receivables from exchange transactions:**

Correction of reversal of prepayment incorrectly accounted for.

RMS / Ledger reconciliation adjustment relating to migration of balances.

Insurance adjustments relating to departmental claims incorrectly accounted for.

DOHS adjustments relating to retention issues.

**Intangible assets:**

Re-classifications to Property, Plant and Equipment and Work-in-progress adjustments.

**Investment Property:**

Reversal of Impairment.

**Inventory:**

Correction of reversal relating to stores items..

**Investment in Joint Venture:**

Durban Point Development Company - Impairment reversal and loss adjustment.

**Bank and Cash:**

Consumer Deposits voucher refunds adjustment that had previously been incorrectly allocated..

RMS / Ledger reconciliation adjustments.

**Consumer Deposits:**

Voucher refunds allocation that had previously been incorrectly allocated.

**Provisions:**

Re-classification of Alien species provision to operating account.

**Transfers payable from non-exchange transactions:**

Re-classification of transfers payable from exchange to non-exchange.

**Long-term Receivables:**

Bad Debt provisions adjustment relating to Wiggins Housing projects.

### 46. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

|                                 |          |          |
|---------------------------------|----------|----------|
| Current year subscription / fee | 13,500   | 12,550   |
| Amount paid - current year      | (13,500) | (12,550) |
|                                 | -        | -        |

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

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

#### Audit fees

|                                      |            |              |
|--------------------------------------|------------|--------------|
| Opening balance - previous year fees | 1,079      | 1,036        |
| Current year audit fees              | 22,610     | 17,879       |
| Amount paid for current year         | (22,451)   | (16,800)     |
| Amount paid for previous year        | (1,079)    | (1,036)      |
|                                      | <b>159</b> | <b>1,079</b> |

#### PAYE, UIF and SDL

|                                 |             |             |
|---------------------------------|-------------|-------------|
| Current year payroll deductions | 1,527,068   | 1,230,314   |
| Amount paid - current year      | (1,527,068) | (1,230,314) |
|                                 | -           | -           |

#### Pension and Medical Aid Deductions

|  |             |             |
|--|-------------|-------------|
| Current year expenditure                                       | 2,209,357   | 2,002,002   |
| Amount paid - current year: Defined Benefit Pension Funds      | (209,271)   | (211,629)   |
| Amount paid - current year: Defined Contribution Pension Funds | (1,163,473) | (1,035,266) |
| Amount paid - current year: Medical Aid                        | (836,613)   | (755,107)   |
|  | -           | -           |

#### VAT

|                           |                |               |
|---------------------------|----------------|---------------|
| VAT received for the year | 298,530        | 216,049       |
| VAT paid                  | (65,934)       | (123,642)     |
|                           | <b>232,596</b> | <b>92,407</b> |

VAT output payables and VAT input receivables are shown in note 6.

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

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days during the financial year ended June 30, 2018:

| June 30, 2018           | Amount<br>outstanding<br>(Rands) | Month  |
|-------------------------|----------------------------------|--------|
| Councillor A. Mbele     | 229                              | Mar-18 |
| Councillor A. Rampersad | 68                               | Mar-18 |
| Councillor B. Majola    | 2,967                            | Oct-17 |
| Councillor B. Mngwengwe | 52                               | Jun-18 |
| Councillor E. Mngadi    | 330                              | May-18 |
| Councillor M. David     | 92                               | Apr-18 |
| Councillor M. Gwala     | 734                              | Jun-18 |
| Councillor M. Mkhize    | 1,486                            | Dec-17 |
| Councillor MB. Mjadu    | 152                              | Oct-17 |
| Councillor MBR. Zuma    | 963                              | Mar-18 |
| Councillor MH. Zwane    | 242                              | Jun-18 |
| Councillor MM. Mthembu  | 822                              | Jun-18 |
| Councillor N. Biyela    | 311                              | Jun-18 |
| Councillor N. Hlomuka   | 14,572                           | Nov-17 |
| Councillor N. Nxumalo   | 39,510                           | Apr-18 |
| Councillor SG. Dlamini  | 14                               | Feb-18 |
| Councillor TJT. Cibane  | 911                              | Dec-17 |
| Councillor TM. Mthethwa | 361                              | Feb-18 |
| Councillor TT. Nzuzza   | 551                              | Dec-17 |
| Councillor ZD. Gushu    | 2                                | Feb-18 |
| Councillor ZM. Mncwango | 7,863                            | Dec-17 |
|                         | <b>72,232</b>                    |        |

| June 30, 2017             | Amount<br>outstanding<br>(Rands) | Month  |
|---------------------------|----------------------------------|--------|
| Councillor A. Ramkissoo   | 2,763                            | Jun-17 |
| Councillor B. Majola      | 1,372                            | Jun-17 |
| Councillor B. Mngwengwe   | 190                              | May-17 |
| Councillor B. Mpanza      | 100                              | Sep-16 |
| Councillor B. Mthimude    | 100                              | Sep-16 |
| Councillor B. Ntshangase  | 822                              | Feb-17 |
| Councillor BO. Zondo      | 2,956                            | Jul-16 |
| Councillor BP. Ndlela     | 825                              | Sep-16 |
| Councillor CN. Beata      | 20                               | Jul-16 |
| Councillor C. Dlamini     | 1,403                            | Jun-17 |
| Councillor E. Mngadi      | 2,036                            | Jun-17 |
| Councillor G. Govender    | 292                              | Feb-17 |
| Councillor GDA. Pullan    | 165                              | Sep-16 |
| Councillor H. Khubisa     | 100                              | Sep-16 |
| Councillor HE. Dube       | 3,284                            | Jul-16 |
| Councillor LM. Meyer      | 1,317                            | Jun-17 |
| Councillor LN. Mngwengwe  | 219                              | Jun-17 |
| Councillor M. Sibiyi      | 77                               | Jul-16 |
| Councillor MJ. Ntshangase | 760                              | Jul-16 |
| Councillor MB. Mjadu      | 2,569                            | Sep-16 |
| Councillor MBR. Zuma      | 72,446                           | Mar-17 |
| Councillor M. Mthembu     | 72                               | Apr-17 |
| Councillor MH. Khan       | 1,206                            | Sep-16 |
| Councillor MH. Zwane      | 5                                | Jun-17 |

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

| Figures in Rand thousand  | 2018           | 2017   |
|---|----------------|--------|
| <b>46. Additional disclosure in terms of Municipal Finance Management Act (continued)</b> |                |        |
| Councillor M. Bhengu  | 118            | Jul-16 |
| Councillor MM. Ngiba  | 153            | Sep-16 |
| Councillor MP. Dlomo  | 1,412          | Sep-16 |
| Councillor MS. Mhlongo  | 9,481          | Jun-17 |
| Councillor N. Rampersad   | 2,068          | Jun-17 |
| Councillor NE. Mnguni   | 316            | Apr-17 |
| Councillor N. Nyanisa   | 1,725          | Jun-17 |
| Councillor NP. Ngwane   | 14,572         | Jun-17 |
| Councillor O. Ngcobo  | 25             | Jul-16 |
| Councillor PM. Sibiya   | 25             | Jul-16 |
| Councillor PN. Sikhosane  | 100            | Sep-16 |
| Councillor R. Gokool  | 1,152          | May-17 |
| Councillor S. Bhanprakash   | 5,343          | Mar-17 |
| Councillor S. Brijmohan   | 2,533          | Sep-16 |
| Councillor S. Moonsamy  | 3,472          | Oct-16 |
| Councillor SE. Mhlongo  | 2,700          | May-17 |
| Councillor SG. Dlamini  | 115            | Nov-16 |
| Councillor S. Gumede  | 4,890          | Sep-16 |
| Councillor SN. Khwela   | 2,994          | Oct-16 |
| Councillor S. Buthelezi   | 906            | Apr-17 |
| Councillor TM. Mthethwa   | 118            | Dec-16 |
| Councillor TT. Nzuza  | 15,477         | Sep-16 |
| Councillor Y. Govender  | 1,468          | Oct-16 |
| Councillor ZM. Mncwango   | 2,180          | Jun-17 |
| Councillor ZRT. Gumede(Water leak and outstanding Insurance Claim)                        | 14,506         | Sep-16 |
| Councillor Biyela   | 162            | Apr-17 |
| Councillor Mkhize   | 291            | Apr-17 |
| Councillor Khuzwayo   | 2,398          | Jun-17 |
| Councillor Madiba   | 105            | Jun-17 |
|   | <b>185,904</b> |        |

### 47. Comparative figures

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

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 48. Deviation from supply chain management regulations

Contract awards made in terms of Section 36(1) (Regulation 36 of SCMR) of the Supply Chain Management Policy amounted to R 665.8 million (2017: R767.1 million).

Details of the awards are summarised in the tables below:

| <b>2018: Categories per SCM regulations</b>  | SCM Regulation Reference | Number of cases | % of Total | Value (R000's) | % of Rand Value |
|--|--------------------------|-----------------|------------|----------------|-----------------|
| In an emergency  | 36(1)(a)(i)              | 14              | 15.05 %    | 238,950        | 35.89 %         |
| If such goods or services are produced or available from a single provider only                                  | 36(1)(a)(ii)             | 16              | 17.20 %    | 79,033         | 11.87 %         |
| For the acquisition of special works of art or historical objects where specifications are difficult to compile  | 36(1)(a)(iii)            | 5               | 5.38 %     | 1,664          | 0.25 %          |
| In any other exceptional case where it is impractical or impossible to follow the official procurement processes | 36(1)(a)(v)              | 45              | 48.39 %    | 345,923        | 51.96 %         |
| Minor deviation from the standard process  | 36(1)(b)                 | 13              | 13.98 %    | 193            | 0.03 %          |
|  | -                        | <b>93</b>       | -          | <b>665,763</b> | -               |

| <b>2017: Categories per SCM regulations</b>  | SCM Regulation Reference | Number of cases | % of Total | Value (R000's) | % of Rand Value |
|--|--------------------------|-----------------|------------|----------------|-----------------|
| In an emergency  | 36(1)(a)(i)              | 4               | 5.56 %     | 7,410          | 0.96 %          |
| If such goods or services are produced or available from a single provider only                                  | 36(1)(a)(ii)             | 8               | 11.11 %    | 24,611         | 3.21 %          |
| For the acquisition of special works of art or historical objects where specifications are difficult to compile  | 36(1)(a)(iii)            | 4               | 5.56 %     | 447            | 0.06 %          |
| In any other exceptional case where it is impractical or impossible to follow the official procurement processes | 36(1)(a)(v)              | 54              | 75.00 %    | 732,291        | 95.46 %         |
| Minor deviation from the standard process  | 36(1)(b)                 | 2               | 2.77 %     | 2,352          | 0.31 %          |
|  |                          | <b>72</b>       |            | <b>767,111</b> |                 |

During the year there were contracts that were awarded for more than R2000 to persons who is a spouse, child or parent of a person in service of the municipality.



## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 49. FINANCIAL INSTRUMENTS

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

#### Financial risk management

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

- Liquidity risk
- Interest rate risk
- Credit risk

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

Further quantitative disclosures are included throughout these financial statements.

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

As part of managing the municipality's liquidity risk, Promissory notes have been issued to facilitate the timely repayment of the borrowings. No further terms and conditions are attached to these promissory notes other than the normal repayment terms and conditions of the loan repayment. To ensure the execution of and compliance to overall risk management policies and guidelines in terms of exposure limits, concentration limits and volatility limits on financial assets and liabilities, eThekwini Municipality plays a focal role in:

- The maintenance of sound liquidity levels such that optimal returns on surplus cash are realized and interest expenses minimized.
- Ensuring that eThekwini Municipality's credit rating is maintained.
- Ensuring sustainable financial viability of eThekwini Municipality by avoiding the occurrence of uncontrolled losses that could arise as a result of exposure in the financial markets with the overall aim of protecting eThekwini's financial position.
- To provide Council with reasonable assurance that financial risks the municipality is exposed to are identified and, to the best extent possible, mitigated and controlled.

For each financial year, Council approves a funding plan that minimizes liquidity risk. Treasury manages both the long-term and medium / short-term cash requirements, with surplus funds from operations of the City invested in short term money market instruments.

Long-term liquidity risks arising from capital project initiatives are managed through issuance of long-term loans.

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

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 49. FINANCIAL INSTRUMENTS (continued)

#### Fair values versus carrying amounts:

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

| Carrying amount                                  | 2018      | 2017      |
|--|-----------|-----------|
| Investments                                      | 5,700,000 | 5,750,000 |
| Long-term receivables                            | 99,825    | 97,853    |
| Consumer Debtors                                 | 4,676,887 | 3,935,389 |
| Receivables from exchange transactions           | 2,030,772 | 2,100,932 |
| Receivables from non-exchange transactions       | 81,845    | 254,584   |
| Long-term Liabilities                            | 8,161,100 | 8,835,985 |
| Payables from exchange transactions              | 6,056,481 | 5,843,076 |
| Transfers payable from non-exchange transactions | 22,809    | 17,760    |

| Fair value                                       | 2018      | 2017      |
|--|-----------|-----------|
| Investments                                      | 5,700,000 | 5,750,000 |
| Long-term receivables                            | 99,825    | 97,853    |
| Consumer Debtors                                 | 4,676,887 | 3,935,389 |
| Receivables from exchange transactions           | 2,030,772 | 2,100,932 |
| Receivables from non-exchange transactions       | 81,845    | 254,584   |
| Long-term Liabilities                            | 8,161,100 | 8,835,985 |
| Payables from exchange transactions              | 6,056,481 | 5,843,076 |
| Transfers payable from non-exchange transactions | 22,809    | 17,760    |

Unaudited

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 49. FINANCIAL INSTRUMENTS (continued)

#### Liquidity risk

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

#### Nedbank:

|  |         |
|--|---------|
| Ethekwini Municipality - Primary Overdraft                 | 20,000  |
| Ethekwini Municipality - Performance Letters of Guarantees | 80,000  |
| Ethekwini Municipality - Letters of Credit                 | 1,500   |
| Ethekwini Municipality - Derivatives                       | 70,000  |
| Ethekwini Municipality - Fleet Management                  | 15      |
| Ethekwini Municipality - Secondary Overdraft Facility      | 580,000 |

**The total of these facilities amount to 751,515**

| At June 30, 2018         | Carrying amount | Contractual cash flows | 12 months or less | More than 12 months |
|--------------------------|-----------------|------------------------|-------------------|---------------------|
| Borrowings               | 8,161,100       | 8,161,100              | 874,388           | 7,286,712           |
| Trade and other payables | 6,079,290       | 6,079,290              | 6,079,290         | -                   |

| At June 30, 2017         | Carrying amount | Contractual cash flows | 12 months or less | More than 12 months |
|--------------------------|-----------------|------------------------|-------------------|---------------------|
| Borrowings               | 8,835,985       | 8,835,985              | 793,528           | 8,042,457           |
| Trade and other payables | 5,860,836       | 5,860,836              | 5,860,836         | -                   |

| At June 30, 2018         | Less than 1 year | Between 1 and 3 years | Between 3 and 5 years | Over 5 years |
|--------------------------|------------------|-----------------------|-----------------------|--------------|
| Investments              |                  |                       |                       |              |
| • Short-term Investments | 5,700,000        | -                     |                       |              |
| • Call deposits          | 200,000          | -                     |                       |              |

| At June 30, 2017         | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|--------------------------|------------------|-----------------------|-----------------------|--------------|
| Investments              |                  |                       |                       |              |
| • Short-term Investments | 5,750,000        | -                     |                       |              |
| • Call deposits          | 480,000          | -                     |                       |              |

#### Market risk

#### Market Risk

Market risk is the risk that changes in market prices, such as interest rates and commodity prices will affect the eThekwini Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable risk parameters, while optimizing the eThekwini Municipality's service delivery objectives. GRAP 104 requires entities to disclose sensitivity analysis for each type of market risk as shown in the sections below. Interest rate risk is the main category of market risk which affects the Group.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 49. FINANCIAL INSTRUMENTS (continued)

#### Interest rate risk

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

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

#### Cash flow interest rate risk

| Counterparty Class | Exposure Limits | Cash Deposits | Medium/Short Term Deposits | Long Term Deposits |
|--------------------|-----------------|---------------|----------------------------|--------------------|
| Domestic Banks     | 15,375,000      | 200,000       | 5,700,000                  | -                  |

#### Cash flow Sensitivity

| Credit Quality Investments | Long Term Ratings:AA+ | Long Term Ratings: AA | Long Term Ratings: AA- | Short Term Ratings A1+ | Short Term Ratings A1 | Short Term Ratings A2 |
|----------------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|-----------------------|
| Domestic Banks             | 2                     | 3                     | 2                      | 5                      | 1                     | 1                     |

Unaudited

**Notes to the Annual Financial Statements**

Figures in Rand thousand

**49. FINANCIAL INSTRUMENTS (continued)**

**Valuation of Financial Instruments**

| FINANCIAL INSTITUTION | Fixed Investments |                  |
|-----------------------|-------------------|------------------|
|                       | 2018              | 2017             |
| ABSA                  | 800,000           | 850,000          |
| FNB                   | 1,350,000         | 1,700,000        |
| NEDBANK               | 2,850,000         | 2,250,000        |
| STANDARD BANK         | 550,000           | -                |
| INVESTEC              | 150,000           | 950,000          |
| <b>TOTAL</b>          | <b>5,700,000</b>  | <b>5,750,000</b> |

Availability of observable market prices and model inputs reduces the need for management opinion and estimation. This also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions of financial markets.

The Fund has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function which is independent of front office management and reports to the Funds Risk committee which has overall responsibility of significant fair value measurements. Specific controls include: verification of observable pricing inputs and re-performance of model valuation; a review and approval process for new models and changes to such models; analysis and investigation of significant daily valuation movement and reporting of significant valuation issues to the Funds Risk committee.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in the measurements:

- Level 1: Quoted prices (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (ie. as prices) or indirectly (ie. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active ; or other valuator techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant, unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted prices or dealer price quotations.

The Fund uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest swaps that use only observable market data and require little management, judgement and / or estimation. Observable prices and model inputs are usually available in the market for listed debt, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorized:

| <b>30 June 2018: Financial Assets at Fair Value through profit or loss</b> | Level 1   | Level 2   | Level 3 | Total     |
|--|-----------|-----------|---------|-----------|
| Investments  | 5,700,000 | -         | -       | 5,700,000 |
| Cash on hand   | 30,673    | -         | -       | 30,673    |
| Net Bank Balance   | 167,553   | -         | -       | 167,553   |
| Call Investment Deposits   | 200,000   | -         | -       | 200,000   |
| Long-term Receivables  | -         | 99,825    | -       | 99,825    |
| Consumer Debtors   | -         | 4,676,887 | -       | 4,676,887 |
| Receivables from Exchange  | -         | 2,030,772 | -       | 2,030,772 |
| Receivables from Non Exchange  | -         | 81,845    | -       | 81,845    |
| Long-term Liabilities  | -         | 8,161,100 | -       | 8,161,100 |
| Payables from Exchange   | -         | 6,056,481 | -       | 6,056,481 |

# eThekweni Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 49. FINANCIAL INSTRUMENTS (continued)

|   |                  |                   |          |                   |
|---|------------------|-------------------|----------|-------------------|
| Transfers payables from non-exchange transactions | -                | 22,809            | -        | 22,809            |
|   | <b>6,098,226</b> | <b>21,129,719</b> | <b>-</b> | <b>27,227,945</b> |

### 30 June 2017: Financial Assets at Fair Value through profit or loss

|   | Level 1          | Level 2           | Level 3  | Total             |
|---|------------------|-------------------|----------|-------------------|
| Investments                                       | 5,750,000        | -                 | -        | 5,750,000         |
| Cash on hand                                      | 17,998           | -                 | -        | 17,998            |
| Net Bank Balance                                  | 57,318           | -                 | -        | 57,318            |
| Call Investment Deposits                          | 480,000          | -                 | -        | 480,000           |
| Long-term Receivables                             | -                | 97,853            | -        | 97,853            |
| Consumer Debtors                                  | -                | 3,935,389         | -        | 3,935,389         |
| Receivables from Exchange                         | -                | 2,100,932         | -        | 2,100,932         |
| Receivables from Non Exchange                     | -                | 254,584           | -        | 254,584           |
| Long-term Liabilities                             | -                | 8,835,985         | -        | 8,835,985         |
| Payables from Exchange                            | -                | 5,843,076         | -        | 5,843,076         |
| Transfers payables from non-exchange transactions | -                | 17,760            | -        | 17,760            |
|   | <b>6,305,316</b> | <b>21,085,579</b> | <b>-</b> | <b>27,390,895</b> |

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# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 49. FINANCIAL INSTRUMENTS (continued)

#### Credit risk

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

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

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

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

| Financial instrument          | 2018      | 2017      |
|-------------------------------|-----------|-----------|
| Consumer Debtors              | 4,676,887 | 3,935,389 |
| Receivables from Exchange     | 2,030,772 | 2,100,932 |
| Receivables from Non Exchange | 81,845    | 254,584   |
| Cash and Cash Equivalents     | 6,098,226 | 6,305,316 |

The ageing of trade receivables at the reporting date was as follows:

| Consumer Debtors:             | 2018             | 2017             |
|-------------------------------|------------------|------------------|
| <b>Gross</b>                  |                  |                  |
| 0 - 30 days                   | 2,958,358        | 2,480,633        |
| 31 - 120 days                 | 936,602          | 729,117          |
| More than 120 days            | 5,339,521        | 4,034,950        |
| Less: Provision for Bad Debts | (4,557,594)      | (3,309,311)      |
| <b>Net Consumer Debtors</b>   | <b>4,676,887</b> | <b>3,935,389</b> |

| Movement in the provision for Bad Debts: Consumers | 2018             | 2017             |
|--|------------------|------------------|
| Balance at beginning of year                       | 3,309,311        | 3,007,526        |
| Contribution                                       | 1,260,067        | 925,984          |
| Bad debts written off                              | (11,784)         | (624,199)        |
| <b>Balance at year end</b>                         | <b>4,557,594</b> | <b>3,309,311</b> |

| Movement in the provision for Bad Debts: Other (Exchange and Non Exchange) | 2018             | 2017             |
|--|------------------|------------------|
| Balance at beginning of year   | 5,453,047        | 4,571,109        |
| Contribution   | 720,249          | 1,087,814        |
| Bad debts written off  | (1,401,502)      | (205,876)        |
| <b>Balance at year end</b>   | <b>4,771,794</b> | <b>5,453,047</b> |

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 50. Material losses

#### Water:

The Water Design and Non-Revenue Water (WDNRW) Branch is responsible for monitoring the NRW situation at eThekwini Water and Sanitation (EWS) and reporting thereon, providing strategic direction for the Unit to reduce losses as well as implementing a number of programmes to reduce losses on a wide scale. These various initiatives and targets are as per the adopted Water Conservation Water Demand Management (WCWDM) 10 year strategic plan and these initiatives are being executed by the WDNRW, Water Operations, Customer Services and Auxiliary Services departments collectively. The key initiatives undertaken impact the reduction of NRW by either promoting the increase of the Billed Metered Consumptions or the reduction of the System input volume. The primary objective of the NRW reduction activities is to reduce the NRW levels to a targeted and sustained value of 25% by volume (420 litres/connection/day total water losses) by June 2023.

The success of the NRW programme has improved after the drought conditions have been alleviated as result of the substantial rainfall and dam levels improving to acceptable levels. There has been a significant increase in the billed metered consumption volumes which assisted in the decreasing of the NRW%.

The key results for the year to date are:

- Bulk water System Input Volume increased by 42.5 Ml/day as compared to 2016/17 FY from an average of 837.9 Ml/day to 880.4 ML/day in 2017/18 FY.
- Consumer sales increased by 40.8 Ml/day as compared to 2016/17 FY from an average of 541.3 Ml/day to 582.1ML/day in 2017/18 FY.
- NRW by Volume has therefore improved by 2.8% from 35.5 % in 2016/17 FY to 32.7% in 2017/18 FY.

Water losses of 105,219,913 kl (2016/2017: 108,825,996kl) occurred during the FY under review, which resulted in revenue losses to the municipality. The estimated water losses amounting to R714m (2016/2017: R645.9m) were due mainly to losses as a result of ageing and deteriorating infrastructure as well as illegal connections

In line with the current WCWDM Strategic Plan, EWS is implementing a number of initiatives, the highlights of which for the period under review is as follows:

1. During the period 2321 Pressure Reducing Valves were maintained to ensure that it operated at its designed minimum pressure setting. There was however a delay in the installation of new PRVs as a result of the key supply contracts for control valves being delayed as a result of local content issues not be resolved with the DTI.
2. The Leak Detection and Repair Strategy with a total of up to 16 Category B plumbers in formal and informal areas has proved extremely successful and a total of 10080 primarily non-visible leaks were repaired at mid June.
3. The programme for the installation of meters in the Rural Areas (ITB land) was executed with a total of 1699 out of a targeted 1900 meters been achieved.
4. In terms of the programme for meter replacement for domestic consumers a total of 499 out of a target of 1350 has been achieved. The underachievement was attributed to no stock conditions and an appeal on the meter supply contract which caused further delays.
5. The program for the replacement of Institutional, Commercial and Industrial (ICI) meters was successfully executed with a total of 480 out of the targeted 319 meters been achieved.

The adoption of the WCWDM Business plan, has be instrumental in managing the task of reducing the NRW%, as a result of the joint efforts and cooperation from all branches within the Unit, there has been significant improvements made in reducing the NRW% to 32.7% for the 2017/18 FY.



# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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Figures in Rand thousand

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### **Electricity:**

Estimated Electricity losses 783 506 861 (2017: 844 488 772 kWh) occurred during the year under review which resulted in revenue losses to the municipality. These estimated kWh losses amounted to R590M (2017: R632m). The national norm for electricity losses ranges from 5% to 12%. The loss incurred by the municipality is 7.1% (2017: 7.58%) and is due to a combination of transmission/distribution losses and losses due to illegal connections.

Note: The kWh sales for Residential Business customers has been based on daily averages (RDA) as opposed to the actual meter reading per cycle. This adjustment was implemented to mitigate carrying over sales figures from the previous year, as there has been a migration to a new billing system in June 2016 and the meter reading upload cycles were affected.

### **Bad Debts written off:**

Debt of R1 413m (2017: R830m) was written off during the year. The write-off is in respect of irrecoverable debts which relate to rates, services, housing and sundry debts. The Municipality took steps to write-off this debt which is considered irrecoverable so that efforts can be focused on debt that can still be recovered.

Included in the bad debts written off figure is an amount of R 1 400m relating to traffic fines following a directive issued by the National Prosecuting Authority to write off traffic fines in respect of summons not served within eighteen months from the date of the offence and withdrawal of warrants not executed within two years from date of issue.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 51. Unauthorised, irregular, fruitless and wasteful expenditure disallowed

| <b>Cases reported during the 2017/18 year are included below:</b>  | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|
| Irregular expenditure arising through finalised investigations   | 96,866      | 32,666      |
| Non-compliance with S.C.M. - various: This expenditure is deemed to be irregular due to Public Tender Process not being adhered to, 3 quotations not being obtained and adverts not being adequately advertised. | 44,145      | 21,584      |
| Non-compliance with MFMA - Section 116(3)  | 236,225     | 38,623      |
| Non-compliance with MFMA - Section 116(1)  | -           | 5,315       |
| Non-compliance with MFMA - Section 116(2)  | -           | 2,614       |
| Non-compliance with MFMA - Section 15(b)   | -           | 78          |
| Non-compliance with MFMA - Section 112   | 6,976       | 5,444       |
| Non-compliance with MFMA - Section 110   | 8,888       | 148         |
| Awards made to entities whose directors / members / principal shareholders / stakeholders were in the service of eThekwini municipality  | -           | 1,801       |
| Awards made to entities whose directors / members / principal shareholders / stakeholders were close family members of persons in the service of eThekwini municipality  | -           | 2,528       |
| Awards made entities whose directors / members / principal shareholders / stakeholders were in the service of other State institutions   | -           | 2,620       |
| Non-compliance with S.C.M - Supplier declarations not received   | -           | 11,273      |
| Non-compliance with S.C.M - Splitting of orders  | -           | 3,464       |
| Non-compliance with S.C.M - No valid tax clearance certificate submitted   | -           | 385,568     |
| Fruitless and Wasteful expenditure   | 29,496      | -           |

Investigations are still in progress regarding 758 cases. 377 cases were completed during the 2017/2018 financial year.

An amount of R37million disclosed in the irregular expenditure arising through finalised cases is recommended for recovery. The outcome of this will be finalised through the appropriate Human Resource processes.

| <b>Irregular expenditure reconciliation</b>  | <b>2018</b>    | <b>2017</b>    |
|--|----------------|----------------|
| Opening balance  | 600,722        | 154,874        |
| Irregular expenditure current year   | 393,100        | 484,390        |
| Prior year irregular expenditure arising through finalised investigations / non-compliance | -              | 29,336         |
| Amount written off as irrecoverable  | (50,001)       | (67,878)       |
| <b>Irregular expenditure awaiting condonement</b>  | <b>943,821</b> | <b>600,722</b> |

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

The amounts above are inclusive of VAT.

Arising from Auditor-General findings and the finalisation of CIU investigations being reviewed any additional irregular expenditure will be disclosed in the Consolidated Annual Financial Statements.

| <b>Fruitless and Wasteful expenditure reconciliation</b>                 | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|
| Fruitless and Wasteful expenditure current year (interest and penalties) | 29,496      | -           |

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 52. Bank balances

| Account number - Bank - Account                                   | Cash Book<br>Balance | Bank<br>Statement<br>balance | Cash Book<br>Balance | Bank<br>Statement<br>balance |
|---|----------------------|------------------------------|----------------------|------------------------------|
| Description   | June 30, 2018        | June 30, 2018                | June 30, 2017        | June 30, 2017                |
| 1107821231 Nedbank -Main Expenditure                              | 9,284                | (660,134)                    | 118,358              | (730,386)                    |
| 1107821010 - Nedbank - Main Expenditure EFT                       | (513)                | (1,418,648)                  | (4,633)              | (2,276,559)                  |
| 1107821061 - Nedbank - Direct Deposit Account                     | 12,266               | 44,813                       | 13,049               | 245,788                      |
| 1107821126 - Nedbank - Electronic Deposit Account                 | 101,491              | 164,932                      | 70,943               | 1,195,782                    |
| 1107821134 - Nedbank - Cashiers Deposit Account                   | (14,150)             | 270,166                      | (99,719)             | 8,317                        |
| 1107821002 - Nedbank - Government Deposit Account                 | 7,791                | 51,241                       | 4,893                | 105,152                      |
| 1107821398 - Nedbank - Electricity Income Account                 | (1,006)              | 10,154                       | 583                  | 5,516                        |
| 1107821401 - Nedbank - Electricity Prepaid Vendor Deposits        | 3,513                | 133,432                      | 96,030               | 202,006                      |
| 1107821304 - Nedbank - SARS E-Filing Account                      | 124,662              | 191,503                      | 421                  | 10,573                       |
| 1107821282 - Nedbank - Dishonoured Cheques Account                | (36)                 | (170)                        | (176)                | (176)                        |
| 1107821088 - Nedbank - Direct Debit Collections Account           | (387)                | (6,628)                      | 69,902               | 77,136                       |
| 1107821096 - Nedbank - Transwitch Deposit Account                 | -                    | 53,982                       | -                    | 52,619                       |
| 1107821118 - Nedbank - Agents Deposit Account                     | 14,091               | 25,910                       | 10,483               | 118,049                      |
| 1107821169 - Nedbank - Metro Police Deposit Account               | -                    | 4,196                        | -                    | 5,128                        |
| 1107821150 - Nedbank - Metro Police Transwitch Deposit Account    | -                    | 230                          | -                    | 2,791                        |
| 1107821177 - Nedbank - Parks, Recreation and Culture Deposit Acc. | (3)                  | 3,163                        | 11                   | 3,819                        |
| 1107821185 - Nedbank - City Engineers Account                     | 6,351                | 8,768                        | 15,533               | 16,802                       |
| 1107821193 - Nedbank - Durban Tourism Deposit Account             | -                    | 60                           | -                    | 78                           |
| 1107821347 - Nedbank - Central Foreign Rand Account               | -                    | (9,949)                      | -                    | (5,556)                      |
| 1107821207 - Nedbank - Virginia Airport Account                   | -                    | 257                          | -                    | 245                          |
| 1107821215 - Nedbank - Department of Housing Account              | -                    | 205                          | -                    | 6,991                        |
| 1107821290 - Nedbank - Wages Sundry PAYE Account                  | 177                  | 177                          | 310                  | 309                          |
| 1107821312 - Nedbank - Cash Payments Account                      | 174                  | (1,357)                      | -                    | (2,554)                      |
| 1107821266 - Nedbank - Refunds Expenditure Account                | -                    | 94                           | 26                   | 5,862                        |
| 1107821029 - Nedbank - Salaries Account                           | 503                  | (629,721)                    | 434                  | (485,255)                    |
| 1107821371 - Nedbank - Durban Fresh Produce Market Account        | 29,390               | 29,361                       | 23,767               | 23,742                       |
| 1107821339 - Nedbank - CIFAL Durban Account                       | -                    | -                            | -                    | 2                            |
| 1107821320 - Nedbank - General Bank Account                       | (115,948)            | 1,870,843                    | (267,017)            | 1,261,811                    |
| 1107821487 - Nedbank - E- Ticketing Account                       | (258)                | 2,405                        | (457)                | 2,374                        |
| 1107821274 - Nedbank - Bank Charges Account                       | 626                  | (998)                        | 314                  | (641)                        |
| 1107821223 - Nedbank - Moses Mabhida Stadium Deposit Account      | -                    | 746                          | -                    | 7,725                        |
| 1107821460 - Nedbank - Pay at Deposit Account                     | (14,391)             | 13,656                       | (7,698)              | 197,426                      |
| 1107821444 - Nedbank - Consolidated Investment Fund               | (236,098)            | (236,098)                    | 158                  | 158                          |
| 1107821452 Nedbank - Consolidated Investment Fund (EFT)           | 236,269              | 236,269                      | -                    | (1)                          |
| 1107821479 - Nedbank - Syntell Deposit Account                    | -                    | 41                           | 4                    | 81                           |

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 52. Bank balances (continued)

|  |       |        |        |          |
|--|-------|--------|--------|----------|
| 1107821509 - Nedbank - Reforestation Project Account     | 3,755 | 12,108 | 10,253 | 25,515   |
| 1107821517 - Nedbank - Moses Mabhida Expenditure Account | -     | -      | 1,546  | (12,872) |
| 1107821525 - Nedbank - Bremen - Durban Ocean Project     | -     | 2,256  | -      | -        |

### Totals: ETHEKWINI MUNICIPALITY

|                      |                  |                    |                  |                    |
|----------------------|------------------|--------------------|------------------|--------------------|
| <b>Bank balances</b> | <b>550,343</b>   | <b>3,130,968</b>   | <b>437,018</b>   | <b>3,581,797</b>   |
|                      | <b>(382,790)</b> | <b>(2,963,703)</b> | <b>(379,700)</b> | <b>(3,514,000)</b> |

The following accounts had nil balances at financial year end and were therefore excluded from the listing above:

1107821053 - Nedbank - Durban Fresh Produce Market EFT; 1107821495 - Nedbank - Auctions Account; 1107821533 - Nedbank - ETK Tertiary Student Relief Account; 050073117 - Standard Bank - Main Expenditure Bank.

During the year management took a decision to disclose bank balances on a net basis based on the set-off agreement with Nedbank. The intention of the agreement is to set-off favourable and unfavourable bank balances and as a result interest is calculated on a net basis. Comparative figures have been adjusted (refer to note 10).

The Municipality operates on a Cash Management set-off agreement with Nedbank. This means that although the individual expenditure accounts would run in overdraft on a daily basis (due to ongoing payments to suppliers, employees, refunds etc.), the overall cash flow position is based on the daily net balance of all the bank accounts. This profile with the bank is called "notional pooling" which enables the bank to aggregate the daily balances of all the bank accounts (which is always favourable). Due to extremely high volumes of transactions processed through the various bank accounts, it is necessary to operate multiple bank accounts which allows for ease of reconciliations. Bank accounts are reconciled daily with all funds for the month being swept just after month end into the main eThekwini bank account. This process of sweeping is controlled via the bank reconciliation process via online bank transfers.

## Notes to the Annual Financial Statements

Figures in Rand thousand

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### 53. Budget disclosure

#### Differences between budget and actual amounts basis of preparation and presentation

Variances above 20% are considered material. The following are reasons provided for material variances:

Debt Impairment - There has been a decline in the average collection rate in the current year compared to the same period in the previous year. This is caused by the inability of many consumers to pay their bills due to the prevailing unfavourable economic conditions. There has also been an increase in traffic infringements whereas there is a poor collection rate thus resulting in a higher contribution to the provision required.

Other own revenue - The increase is due to the infringement of municipal by laws as well the traffic infringements which were higher than anticipated on budget. There has also been a reversal of impairment of the investment in Durban Marine Theme Park SOC Ltd which could not have been anticipated on budget.

Borrowing – Spending in the current year was slower than anticipated due to delays in the awarding of the contract for the northern Aqueduct. The funding received is planned to be spent in the next three years on the Northern and Western Aqueduct projects. Contract has also been delayed due to poor performance by contractor. Contractor is in financial difficulty and there have also been problems relating to community work stoppages.

Cash flow: The following material expenditure items resulted in the erosion of cash reserves during the year:

Legal Settlements of approximately R160 million, which relates to road rehabilitation. Higher Security costs of R80million due to rates being above the market. Excessive expenditure on EPWP costs. Excessive overtime at Metro Police. Payments to Durban Transport (Tansnat) in excess of the subsidy.

Budget policy is aligned with GRAP in terms of disclosure.

Operational grants for the year were R3.1billion and capital grants were R2.6billion

A comparison of the budget and actual information has been disclosed in the Appropriation Statement and not in columnar format as required due to the classification as per budget regulations as prescribed by National Treasury differing to the GRAP disclosure requirements.

An adjustments budget is the mechanism to amend an approved budget under certain conditions and is legislated in terms of Section 28 of the MFMA of 2003 and the Municipal Budgeting and Reporting Regulations. The main reasons for the adjustments to the budget are as follows:

- reallocation of budgets between votes to ensure operational efficiencies;
- adjustments in respect of grant funding to the municipality;
- re-prioritisation of capital projects for various reasons.

### 54. Events after the reporting date

#### External Borrowings:

In terms of Council resolution taken on 26 April 2018 authority was granted for an amount of R1billion to be borrowed from Nedbank in order to finance future capital expenditure. The actual proceeds of the loan were received in July 2018.

### 55. Material reclassification on Repairs and Maintenance

During the current financial year management took a decision to amend the disclosure for repairs and maintenance. The costs of repairing and maintaining assets are now disclosed on the capital notes, rather than as a separate line item on the statement of financial performance, which is in line with the requirements of GRAP.

# eThekwini Municipality

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand thousand

### 55. Material reclassification on Repairs and Maintenance (continued)

Management has always disclosed the cost of repairs and maintenance on the face of the statement of financial performance since these costs were considered to be relevant and useful to the users in terms of knowing how much is spent to repair and maintain assets so as to prevent disruptions in service delivery due to insufficient funds set aside for such repairs and maintenance. Management also took into account the requirements of National Treasury's MFMA Circular 71 on Uniform Financial Ratios and Norms, which requires a calculation of the ratio of repairs and maintenance to the carrying value of capital assets.

However, due to current developments and debates regarding the appropriateness of disclosing repairs and maintenance on the face of the statement of financial performance, management has taken the decision to componentize the costs of repairs and maintenance based on the nature of the cost incurred (materials issued, contracted services, labour, etc.). This follows further research taken by management on the appropriateness of disclosing contracted services as expenditure by nature since this disclosure alone didn't provide the users with more information in terms of what the contracted service related to.

As a result, management resolved to further provide an analysis of contracted services to address this concern and componentize the costs of repairs and maintenance by the nature of the expense.

This is considered to be a reclassification and not an error since the basis of disclosing the cost of repairs and maintenance was justified and based on best practice (refer to note 36 for an analysis of contracted services).

#### Repairs and Maintenance

|  |   |             |
|--|---|-------------|
| Repairs and maintenance previously reported in 2016/17 | - | 2,487,235   |
| Reclassification to:                                   | - | -           |
| - Contracted services                                  | - | (2,084,755) |
| - General expenses - other                             | - | (312,986)   |
| - General expenses - fuel and oil                      | - | (331)       |
| - General expenses - IT expenses                       | - | (160)       |
| - General expenses - consulting and professional fees  | - | (89,003)    |
|  | - | -           |

**eThekwi Municipality**  
 Financial Statements for the year ended 30 June 2018  
 Notes to the Financial Statements  
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**NOTE 56: EXTERNAL LOANS FOR THE YEAR ENDED 30 JUNE 2018**

| DESCRIPTION                 | %      | LOAN No. | DATE REPAYABLE | BALANCE AT 30-Jun-17<br>R 000's | RECEIVED DURING THE PERIOD<br>R 000's | REDEEMED DURING THE PERIOD<br>R 000's | BALANCE AT 30-Jun-18<br>R 000's |
|-----------------------------|--------|----------|----------------|---------------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| INCA/IVUZI 15 Years         | 9.52%  | 1/66     | 6/30/2020      | 161,889.57                      |                                       | (49,031.71)                           | 112,858                         |
| Nedbank R900m 15 Years      | 8.47%  | 1/67     | 3/31/2021      | 360,851.21                      |                                       | (79,274.55)                           | 281,577                         |
| DBSA Ph 1 20 Years          | 13.50% | P1       | 3/31/2019      | 53,710.76                       |                                       | (49,906.15)                           | 3,805                           |
| DBSA Ph 3 15 Years          | 12.90% | P3       | 3/31/2018      | 60,420.20                       |                                       | (60,419.79)                           | 0                               |
| DBSA Ph 4 15 Years          | 10.40% | P4       | 6/30/2019      | 132,714.69                      |                                       | (25,376.92)                           | 107,338                         |
| DBSA Ph 5 15 Years          | 8.90%  | P5       | 9/30/2020      | 110,491.29                      |                                       | (28,202.50)                           | 82,289                          |
| DBSA Ph 6 15 Years          | 8.75%  | P6       | 6/30/2022      | 385,409.78                      |                                       | (16,045.74)                           | 369,364                         |
| DBSA Ph 7 20 Years          | 8.30%  | P7       | 6/30/2028      | 2,138,919.64                    |                                       | 24,881.24                             | 2,163,801                       |
| DBSA Ph 8 15 Years          | 9.85%  | P8       | 6/30/2029      | 1,344,959.60                    |                                       | (62,627.86)                           | 1,282,332                       |
| DBSA - IIPSA 50%            | 11.31% | IIPSA    | 12/31/2031     | 338,333.33                      |                                       | (23,235.73)                           | 315,098                         |
| RMB R 1b 15 Years           | 10.28% | 1/72     | 6/30/2025      | 709,394.86                      |                                       | (60,864.01)                           | 648,531                         |
| ABSA 7 Years                | 8.73%  | 1/73     | 9/29/2017      | 94,939.06                       |                                       | (94,938.80)                           | 0                               |
| ABSA 15 Years               | 10.19% | 1/74     | 6/30/2026      | 763,226.64                      |                                       | (55,193.39)                           | 708,033                         |
| AFD Callyon 12 Years        | 9.52%  | 1/68     | 12/31/2018     | 9,790.00                        |                                       | (6,525.81)                            | 3,264                           |
| RMB R1B 20 Years            | 9.53%  | 1/75     | 6/30/2032      | 891,238.10                      |                                       | (28,639.19)                           | 862,599                         |
| NEDBANK R1bn 15 YEARS       | 10.58% | 1/76     | 6/30/2030      | 938,217.60                      |                                       | (35,933.66)                           | 902,284                         |
| AFD - IIPSA 50%             | 11.31% | IIPSA    | 11/30/2031     | 341,478.44                      |                                       | (23,550.24)                           | 317,928                         |
| <b>Total Annuity Loans</b>  |        |          |                | <b>8,835,985</b>                | <b>0</b>                              | <b>-674,885</b>                       | <b>8,161,100</b>                |
| <b>TOTAL EXTERNAL LOANS</b> |        |          |                | <b>8,835,985</b>                | <b>0</b>                              | <b>-674,885</b>                       | <b>8,161,100</b>                |

NOTE 57: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

| Details                        | Cost / Revaluation       |                                     |                    |                             |                    |                    | Accumulated              |                          |                    |                    |                      |                               | Carrying Value<br>R'000 |                     |                          |
|--------------------------------|--------------------------|-------------------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------------|--------------------------|--------------------|--------------------|----------------------|-------------------------------|-------------------------|---------------------|--------------------------|
|                                | Opening Balance<br>R'000 | Opening Under Construction<br>R'000 | Additions<br>R'000 | Under Construction<br>R'000 | Disposals<br>R'000 | Transfers<br>R'000 | Closing Balance<br>R'000 | Opening Balance<br>R'000 | Additions<br>R'000 | Disposals<br>R'000 | Impairments<br>R'000 | Impairments Reversal<br>R'000 |                         | Transfers<br>R'000  | Closing Balance<br>R'000 |
| Computer Equipment             | 958,242                  | 1,597                               | 72,581             | 949                         | (6,307)            | 992                | 1,028,064                | (758,019)                | (85,994)           | 5,892              | —                    | —                             | (577)                   | (838,698)           | 189,356                  |
| Furniture & Office Equipment   | 302,208                  | (5,474)                             | 19,116             | —                           | (2,608)            | (604)              | 312,638                  | (226,912)                | 312,638            | 2,512              | (13)                 | —                             | 405                     | (251,532)           | 61,106                   |
| Infrastructure Community       | 7,906,577                | 388,249                             | 131,535            | 88,397                      | (496)              | 25,150             | 8,539,411                | (3,134,081)              | (251,801)          | 4,29               | —                    | 554                           | (6,291)                 | (3,391,190)         | 5,148,221                |
| Infrastructure Coastal         | 2,493                    | 16,395                              | 17,011             | 56,934                      | —                  | —                  | 92,833                   | 608,020                  | (669)              | —                  | —                    | —                             | —                       | 607,351             | 700,183                  |
| Infrastructure Electricity     | 7,464,298                | 955,155                             | 124,570            | 658,323                     | (22,299)           | —                  | 9,180,046                | (2,902,069)              | (249,644)          | 14,655             | —                    | —                             | —                       | (3,137,068)         | 6,042,989                |
| Infrastructure Info & Communic | 142,432                  | (5,340)                             | 18,247             | 25,410                      | —                  | 1,581              | 182,330                  | (78,513)                 | (13,974)           | —                  | —                    | —                             | (1,297)                 | (93,784)            | 88,547                   |
| Infrastructure Other Assets    | 4,431,196                | (5,575)                             | 56,566             | 173,826                     | (6)                | 11,651             | 4,667,658                | (1,037,300)              | (132,074)          | 3                  | —                    | 3,476                         | (4,696)                 | (1,170,580)         | 3,497,067                |
| Infrastructure Roads           | 11,927,595               | 4,690,437                           | 1,491,202          | (398,582)                   | —                  | (0)                | 17,710,652               | (3,373,743)              | (475,944)          | —                  | —                    | —                             | —                       | (3,849,687)         | 13,860,966               |
| Infrastructure Sanitation      | 7,294,648                | 1,533,288                           | 22,925             | 457,840                     | —                  | —                  | 9,308,701                | (987,954)                | (229,325)          | —                  | —                    | —                             | —                       | (1,217,280)         | 8,091,421                |
| Infrastructure Storm Water     | 1,720,144                | 57,335                              | 225,887            | 84,357                      | —                  | 23,135             | 2,110,659                | (1,017,339)              | (54,092)           | —                  | —                    | —                             | (5,468)                 | (1,076,899)         | 1,033,959                |
| Infrastructure Solid Waste     | 279,825                  | 19,954                              | 156,811            | 10,293                      | —                  | —                  | 466,883                  | (108,339)                | (11,081)           | —                  | —                    | —                             | —                       | (119,420)           | 347,463                  |
| Infrastructure Water Supply    | 5,557,635                | 2,101,676                           | 111,879            | 392,301                     | —                  | (23,526)           | 8,139,964                | (968,302)                | (117,460)          | —                  | —                    | —                             | 384                     | (1,086,378)         | 7,054,586                |
| Land - Electricity             | 131,572                  | —                                   | —                  | 74                          | —                  | —                  | 809,341                  | —                        | —                  | —                  | —                    | —                             | —                       | —                   | 809,341                  |
| Library Material               | 170,040                  | —                                   | 23,386             | —                           | —                  | —                  | 193,426                  | (133,958)                | (14,469)           | —                  | —                    | —                             | —                       | (148,426)           | 45,000                   |
| Machinery & Equipment          | 1,758,003                | 40,686                              | 117,154            | 82,346                      | (3,453)            | 455                | 1,995,190                | (1,160,772)              | (150,595)          | 2,930              | —                    | —                             | (424)                   | (1,308,861)         | 686,329                  |
| Non Biological Animals         | —                        | —                                   | —                  | —                           | —                  | —                  | 556                      | (531)                    | (24)               | —                  | —                    | —                             | —                       | (565)               | 1                        |
| Transport Assets               | 3,029,881                | 4,432                               | 303,732            | 10,607                      | —                  | (0)                | 3,348,653                | (2,299,399)              | (261,294)          | —                  | —                    | —                             | 9                       | (2,560,684)         | 787,968                  |
| <b>Total</b>                   | <b>53,077,347</b>        | <b>10,470,510</b>                   | <b>2,892,601</b>   | <b>1,643,075</b>            | <b>(35,169)</b>    | <b>38,832</b>      | <b>68,087,196</b>        | <b>(17,579,210)</b>      | <b>(2,075,963)</b> | <b>26,421</b>      | <b>(13)</b>          | <b>4,030</b>                  | <b>(17,956)</b>         | <b>(19,642,891)</b> | <b>48,444,505</b>        |



eThekweni Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand thousand

NOTE 58: ANALYSIS OF INTANGIBLE ASSETS

|                   | Cost                 |  |                |                    |            |                |                  |                  |                  |           | Accumulated Depreciation |              |                  |                |       |  | Carrying Value |
|-------------------|----------------------|--|----------------|--------------------|------------|----------------|------------------|------------------|------------------|-----------|--------------------------|--------------|------------------|----------------|-------|--|----------------|
|                   | Opening Balance Cost | Opening Balance Capital Under Construction | Additions      | Under Construction | Disposals  | Transfers      | Closing Balance  | Opening Balance  | Additions        | Disposals | Impairments              | Transfers    | Closing Balance  | Carrying Value |       |  |                |
| RMS               | R'000                | R'000                                      | R'000          | R'000              | R'000      | R'000          | R'000            | R'000            | R'000            | R'000     | R'000                    | R'000        | R'000            | R'000          | R'000 |  |                |
| Services          | 698,663              | 0  | 0              | -16                | 0          | 0              | 698,647          | -149,952         | -128,855         | 0         | 0                        | 0            | -278,807         | 419,840        |       |  |                |
| Computer Software | 57,134               | 1,633                                      | 13             | 2,538              | 0          | 0              | 61,318           | 0                | 0                | 0         | 0                        | 0            | 61,318           | 61,318         |       |  |                |
|                   | 618,078              | 98,160                                     | 149,256        | 42,956             | -7         | -1,799         | 906,644          | -474,829         | -88,661          | 7         | 0                        | 1,349        | -562,134         | 344,510        |       |  |                |
| <b>Total</b>      | <b>1,373,875</b>     | <b>99,794</b>                              | <b>149,268</b> | <b>45,478</b>      | <b>(7)</b> | <b>(1,799)</b> | <b>1,666,609</b> | <b>(624,781)</b> | <b>(217,516)</b> | <b>7</b>  | <b>-</b>                 | <b>1,349</b> | <b>(840,941)</b> | <b>825,668</b> |       |  |                |

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**NOTE 59: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS IN THE PROCESS OF BEING CONSTRUCTED OR DEVELOPED**

| <b>Class</b>       | <b>Carrying amount</b> | <b>Reason for stoppage/ delays</b>  |
|--------------------|------------------------|---|
|                    | <b>R'000</b>           |   |
| Land and buidlings | 112,867                | <ul style="list-style-type: none"> <li>- There is a contract to the value of R110m for which the award was subject to High Court opposition and delayed by two years. Awarded contractor encountered site delays and was unable to provide occupation certificate.</li> <li>- There were also challenges with protests on site as well as challenges with workmanship.</li> </ul>   |
| Infrastructure     | 233,151                | <ul style="list-style-type: none"> <li>- The Aqueduct project with a carrying amount R1.6bn have been delayed due to poor performance by contractor. In addition community protests resulted in work stoppages. This has also resulted in delays in the reservoirs that are supposed to be fed by these aqueduct projects.</li> <li>- Landfill site delays due to appeals</li> <li>- One contract to the value of R89m was delayed by slow progress by civil contractor.</li> <li>- Other projects due to disputes with land owners.</li> </ul> |
| Intangible assets  | 3,950                  | <ul style="list-style-type: none"> <li>Community opposed to expropriation and unable to secure alternate housing.</li> <li>Compensation of expropriates currently undertaken.</li> </ul>  |
| Community assets   | 47,163                 | <ul style="list-style-type: none"> <li>Challenges mostly with appeals and challenges of the procurement processes.</li> </ul>   |



APPENDIX B: ETHEKWINI MUNICIPALITY : SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE 6 MONTHS ENDED 30 JUNE 2018

| 30-Jun-17         | 30-Jun-17           | 30-Jun-17        | Description                               | 30-Jun-18         | 30-Jun-18           | 30-Jun-18        |
|-------------------|---------------------|------------------|---|-------------------|---------------------|------------------|
| Actual            | Actual              | Surplus/         |   | Actual            | Actual              | Surplus/         |
| Income            | Expenditure         | (Deficit)        |   | Income            | Expenditure         | (Deficit)        |
| R'000             | R'000               | R'000            |   | R'000             | R'000               | R'000            |
| 9,441             | (550,515)           | (36,644)         | Executive & Council                       | 80,745            | (1,003,028)         | (922,282)        |
| 13,389,143        | (5,308,986)         | 7,575,725        | Finance & Admin                           | 15,063,670        | (5,640,550)         | 8,957,385        |
| 251,136           | (891,060)           | (639,916)        | Planning & Development                    | 226,733           | (738,928)           | (511,484)        |
| 115,160           | (480,341)           | (365,181)        | Health                                    | 243,522           | (529,509)           | (285,987)        |
| 71,194            | (576,927)           | (505,733)        | Community & Social Services               | 100,697           | (669,545)           | (539,709)        |
| 810,418           | (1,390,133)         | (549,974)        | Housing                                   | 726,883           | (1,144,417)         | (399,835)        |
| 450,871           | (2,314,804)         | (1,930,162)      | Public Safety                             | 508,723           | (2,820,426)         | (2,312,758)      |
| 108,730           | (1,422,708)         | (1,313,475)      | Sport & Recreation                        | 111,662           | (1,538,849)         | (1,447,736)      |
| 18,367            | (240,642)           | (222,275)        | Environmental Protection                  | 7,249             | (226,414)           | (219,165)        |
| 3,305,653         | (3,259,861)         | 45,780           | Waste Management                          | 3,626,508         | (3,481,279)         | 172,032          |
| 1,885,421         | (2,797,233)         | (911,316)        | Road Transport                            | 1,739,197         | (2,974,409)         | (1,238,029)      |
| 4,938,819         | (5,462,342)         | (459,679)        | Water                                     | 5,882,579         | (6,930,688)         | (1,109,736)      |
| 13,615,825        | (12,002,041)        | 1,689,675        | Electricity                               | 14,153,608        | (12,445,609)        | 2,189,738        |
| 112,344           | (218,479)           | (106,135)        | Other                                     | 114,677           | (223,641)           | (110,317)        |
| <b>39,082,523</b> | <b>(36,916,073)</b> | <b>2,270,689</b> | <b>Sub Total</b>                          | <b>42,586,453</b> | <b>(40,367,292)</b> | <b>2,222,115</b> |
| 21,151            |                     | 21,151           | Share of Income (Loss) from Joint Venture |                   | (2,031)             | (2,031)          |
| (6,015,596)       | 6,015,596           | 0                | Less Inter-Dep charges                    | (7,123,926)       | 7,123,926           | 0                |
| <b>33,088,078</b> | <b>(30,900,477)</b> | <b>2,187,601</b> | <b>Total</b>                              | <b>35,462,527</b> | <b>(33,245,397)</b> | <b>2,217,130</b> |

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**APPENDIX C: DISCLOSURE OF GRANTS AND SUBSIDIES FOR THE YEAR ENDED 30 JUNE 2018 IN TERMS OF SECTION 123 MFMA.56 OF 2003**

| GRANT DESCRIPTION                        | NAME OF ORGAN OF STATE              | QUARTERLY RECEIPTS |                  |                  |               | QUARTERLY PAYMENTS |                  |                  |                  | TOTAL R'000      | JUN R'000        | MAY R'000       | APR R'000 | MARCH R'000          | REASONS FOR DELAYS OF FUNDS | MUNICIPALITY COMPLY WITH THE GRANT CONDITIONS IN TERMS OF THE GRANT | REASON FOR NON COMPLIANCE |
|--|-------------------------------------|--------------------|------------------|------------------|---------------|--------------------|------------------|------------------|------------------|------------------|------------------|-----------------|-----------|----------------------|-----------------------------|---|---------------------------|
|  |                                     | SEPT R'000         | DEC R'000        | MAR R'000        | JUN R'000     | TOTAL R'000        | SEP R'000        | DEC R'000        | MAR R'000        |                  |                  |                 |           |                      |                             |   |                           |
| EQUITABLE SHARE                          | NATIONAL TREASURY                   | 1,076,157          | 860,925          | 645,694          | -             | 2,582,776          | 1,076,157        | 860,925          | 645,694          | 0                | 2,582,776        |                 |           |                      |                             | Yes   | N/A                       |
| URBAN SETTLEMENT DEVELOPMENT GRANT       | HUMAN SETTLEMENTS                   | 495,027            | 693,038          | 792,044          | -             | 1,980,109          | 220,262          | 302,211          | 294,387          | 1,163,249        | 1,980,109        |                 |           |                      |                             | Yes   | N/A                       |
| FINANCIAL MANAGEMENT GRANT               | NATIONAL TREASURY                   | 1,050              | -                | -                | -             | 1,050              | 1,050            | -                | -                | -                | 1,050            |                 |           |                      |                             | Yes   | N/A                       |
| INTEGRATED CITIES DEVELOPMENT            | NATIONAL TREASURY                   | 19,556             | 19,555           | -                | -             | 39,111             | 10,591           | 13,312           | 7,492            | 7,716            | 39,111           |                 |           |                      |                             | Yes   | N/A                       |
| INFRASTRUCTURE SKILLS DEVELOPMENT GRANT  | NATIONAL TREASURY                   | 14,000             | -                | 16,293           | -             | 30,293             | 9,725            | 1,375            | 1,951            | 11,607           | 24,658           | 5,321           |           | Paid Back            | Yes                         | N/A   |                           |
| NRF - SAASTA                             | NATIONAL RESEARCH FOUNDATION        | -                  | 4,866            | -                | -4,651        | 215                | -                | -                | -                | -                | -                |                 |           |                      |                             | Yes   | N/A                       |
| GOVERNMENT HEALTH SUBSIDY                | KZN DEPT OF HEALTH                  | -                  | 139,752          | 47,817           | -             | 187,569            | -                | 139,752          | 47,817           | 45,710           | 233,279          | 45,710          |           | Accrued Receipt      | Yes                         | N/A   |                           |
| PTCG                                     | NATIONAL DEPARTMENT OF TRANSPORT    | 229,288            | 229,288          | 458,574          | -             | 917,150            | 130,341          | 195,621          | 128,410          | 156,195          | 610,567          |                 |           |                      | Yes                         | N/A   |                           |
| NEIGHBOUR HOOD DEVELOPMENT GRANT         | NATIONAL TREASURY                   | 14,062             | 17,035           | 19,577           | -             | 50,674             | 1,275            | 6,754            | 4,336            | 9,459            | 21,824           | 10,697 & 28,154 |           | Withheld & Paid Back | Yes                         | N/A   |                           |
| EXPANDED PUBLIC WORKS PROGRAMME - EPWP   | DEPARTMENT OF PUBLIC WORKS          | 16,698             | 30,056           | 20,038           | -             | 66,792             | 34,492           | 32,300           | -                | -                | 66,792           |                 |           |                      | Yes                         | N/A   |                           |
| DEPARTMENT OF HUMAN SETTLEMENTS - DOH    | DEPARTMENT OF HUMAN SETTLEMENTS     | -                  | -                | 108,246          | 1,996         | 110,243            | 5,384            | 17,565           | 14,023           | 21,200           | 58,171           | 2,304           |           | Accrued Receipt      | Yes                         | N/A   |                           |
| DEAT                                     | DEPARTMENT OF ENVIRONMENTAL AFFAIRS | -                  | -                | -                | -             | 0                  | -                | 162              | -                | 338              | 500              |                 |           |                      | Yes                         | N/A   |                           |
| GRANT ACCREDITATION                      | DEPARTMENT OF HUMAN SETTLEMENTS     | 3,983              | 1,229            | 3,228            | 4,479         | 12,918             | 4,529,47         | 4,075            | 4,332,15         | 6,997            | 19,934           |                 |           |                      | Yes                         | N/A   |                           |
| NATIONAL ELECTRIFICATION PROGRAMME       | DEPARTMENT OF MINERALS AND ENERGY   | 17,000             | 18,000           | -                | -             | 35,000             | 9,793            | 6,188            | -17              | 19,037           | 35,000           |                 |           |                      | Yes                         | N/A   |                           |
| DEPARTMENT OF MINERAL AND ENERGY (EEDSM) | DEPARTMENT OF MINERALS AND ENERGY   | -                  | 5,000.00         | 10,000           | -             | 15,000             | -                | 1,173            | -                | 12,980           | 14,153           | 960             |           | Paid Back            | Yes                         | N/A   |                           |
| DEPARTMENT OF ARTS AND CULTURE           | KZN DEPARTMENT OF ARTS AND CULTURE  | -                  | -                | 300              | 72,263        | 72,263             | 11,449           | 13,528           | 2,615            | 21,875           | 49,467           |                 |           |                      | Yes                         | N/A   |                           |
| DPSA - AQUAPONICS PROJECTS               | NATIONAL DEPARTMENT                 | -                  | -                | 0                | 0             | 0                  | -                | 672              | -                | 788              | 1,461            |                 |           |                      |                             |   |                           |
| <b>GRAND TOTAL</b>                       |                                     | <b>1,886,821</b>   | <b>2,018,744</b> | <b>2,121,811</b> | <b>74,087</b> | <b>6,101,463</b>   | <b>1,515,048</b> | <b>1,595,613</b> | <b>1,151,039</b> | <b>1,477,151</b> | <b>5,798,852</b> |                 |           |                      |                             |   |                           |

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#### APPENDIX D: MOSES MABHIDA STATEMENT OF FINANCIAL PERFORMANCE

|   | 2018<br>R'000   | 2017<br>R'000   |
|---|-----------------|-----------------|
| <b>REVENUE</b>                                      |                 |                 |
| <b>Rental of facilities and equipment</b>           | 43,012          | 63,990          |
| Rent Bowl & Non Bowl Events                         | 30,039          | 32,796          |
| Rent Shops  | 6,902           | 8,816           |
| Suites & Business Clubs                             | 1,016           | 5,891           |
| Hire Hall/Civic/Rec Cnt                             | 4,594           | 15,866          |
| Rent Parking Bays                                   | 461             | 621             |
| <b>Other income</b>                                 | <b>3,253</b>    | <b>3,657</b>    |
| Adventure Walk                                      | 120             | 176             |
| Other Attractions-Income                            | 0               | 0               |
| People's Park                                       | 0               | 0               |
| Skycar  | 2,117           | 2,535           |
| Sponsorships  | 0               | 0               |
| Stadium Tours                                       | 1,008           | 946             |
| Sundry Income                                       | 8               | 0               |
| <b>Total operating revenue</b>                      | <b>46,265</b>   | <b>67,647</b>   |
| <b>EXPENDITURE</b>                                  |                 |                 |
| <b>Bad Debts</b>                                    | <b>0</b>        | <b>1,120</b>    |
| Bad Debts Provision                                 | 0               | 1,120           |
| <b>Depreciation - Property, Plant and Equipment</b> | <b>114,293</b>  | <b>113,205</b>  |
| Depreciation  | 114,293         | 113,205         |
| <b>General expenses</b>                             | <b>98,984</b>   | <b>99,675</b>   |
| Electricity   | 11,288          | 18,406          |
| Fuel & Oil : Vehicles                               | 143             | 147             |
| Refuse Removal                                      | 0               | 0               |
| Stadium Operational Costs                           | 82,832          | 78,226          |
| Hire Of City Fleet                                  | 389             | 349             |
| Water   | 4,332           | 2,547           |
| <b>Total operating expenditure</b>                  | <b>213,277</b>  | <b>214,000</b>  |
| <b>DEFICIT FOR THE YEAR</b>                         | <b>-167,012</b> | <b>-146,353</b> |