Nala Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Local Municipality, governed by the Municipal Finance Management Act (Act No.56 of 2003)
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Mayoral committee	
Executive Mayor	Mogoje TA
Speaker	Mashiya MN
Councillors	Khati MS
	Leburu GJ
	Mabeleng MP
	Mabaso MK
	Mafojane PW
	Marumule MS
	Mohloare TA
	Mokete XE
	Molutsi TL
	Moshane Z
	Mtombeni J
	Ngece M
	Ntseki ML
	Sebate KE
	Tau RT
	Reed D
	Makunye AM
	Jika NE
	Makhooe NE
	Botma HJ
	Masencamp BA
	Setheni SE
Grading of local authority	Nala Local Municipality is a grade 3 Local Authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
Capacity of local authority	Medium Capacity Municipality
Municipal demarcation code	FS185
Acting Accounting Officer	Radebe NR
Chief Finance Officer (CFO)	Busakwe S
Registered office	Municipal Offices 8 Preller Street Bothaville 9660
Postal address	Private Bag X15 Bothaville 9660
Bankers	First National Bank

General Information

External auditors	Auditor-General of South Africa
Attorneys	Podbielski Incorporated Brits & Weideman Advocate Riaan Schmidt Bokwa Attorneys

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn (Employee's Tax)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 81, which have been prepared on the going concern basis, were approved by the accounting officer on _____ and were signed on its behalf by:

Radebe NR
Acting Accounting Officer

Statement of Financial Position as at 30 June 2020

Figures in Rand	Notes	2020	2019 Restated*
Assets			
Current Assets			
Inventories	2	953 487	1 023 556
Receivables from exchange transactions	3	138 294 987	121 837 527
Receivables from non-exchange transactions	4	10 679 827	3 566 418
VAT receivable	5	63 154 297	48 131 286
Cash and cash equivalents	6	56 626 316	24 873 223
		269 708 914	**199 432 010**
Non-Current Assets			
Investment property	7	616 830 955	616 895 620
Property, plant and equipment	8	1 193 745 359	1 217 859 853
Intangible assets	9	88 767	131 239
Other financial assets	10	112 280	118 211
		1 810 777 361	**1 835 004 923**
Total Assets		**2 080 486 275**	**2 034 436 933**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	664 031 947	521 816 995
Consumer deposits	12	3 324 755	2 780 637
Employee benefit obligation	13	842 000	677 000
Unspent conditional grants and receipts	14	6 464 232	2 552 916
		674 662 934	**527 827 548**
Non-Current Liabilities			
Employee benefit obligation	13	6 315 000	6 564 000
Provisions	15	32 266 384	32 273 241
		38 581 384	**38 837 241**
Total Liabilities		**713 244 318**	**566 664 789**
Net Assets		**1 367 241 957**	**1 467 772 144**
Accumulated surplus		1 367 241 957	1 467 772 144

* See Note 36

Statement of Financial Performance

Figures in Rand	Notes	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Discount received		275 646	402
Dividends received	16	7 725	7 347
Interest received - Exchange receivables		36 017 343	16 186 868
Interest received - Investment	16	3 325 758	1 036 250
Other income	17	47 985 418	1 596 513
Rental of facilities		415 772	428 140
Service charges	18	176 510 262	162 953 092
Total revenue from exchange transactions		**264 537 924**	**182 208 612**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	22 475 897	22 394 363
Fines, Penalties and Forfeits		62 396	96 607
Interest received - Non exchange receivables		3 130 581	14 322 673
Transfer revenue			
Government grants & subsidies	20	166 674 375	149 714 784
Total revenue from non-exchange transactions		**192 343 249**	**186 528 427**
Total revenue	21	**456 881 173**	**368 737 039**
Expenditure			
Employee related costs	22	(152 000 854)	(141 321 363)
Remuneration of councillors	23	(8 968 885)	(8 630 474)
Depreciation and amortisation	24	(47 333 814)	(45 171 769)
Finance costs	25	(34 293 505)	(20 039 751)
Bulk purchases	26	(138 119 621)	(121 824 403)
Contracted services	27	(11 553 380)	(15 774 201)
General Expenses	28	(37 366 772)	(33 294 127)
Total expenditure		**(429 636 831)**	**(386 056 088)**
Operating deficit		**27 244 342**	**(17 319 049)**
Gain / (loss) on property, plant and equipment recognised		(7 572 099)	66 111 224
Fair value adjustments on other financial assets		(5 931)	6 494
Actuarial gains / (losses)		1 326 084	2 159 866
Impairment loss	29	(121 522 584)	(65 124 698)
		(127 774 530)	**3 152 886**
Deficit for the year		**(100 530 188)**	**(14 166 163)**

* See Note 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**1 481 938 307**	**1 481 938 307**
Changes in net assets		
Restated deficit for the year	(14 166 163)	(14 166 163)
Total changes	(14 166 163)	(14 166 163)
Restated* Balance at 01 July 2019	**1 467 772 145**	**1 467 772 145**
Changes in net assets		
Deficit for the year	(100 530 188)	(100 530 188)
Total changes	(100 530 188)	(100 530 188)
Balance at 30 June 2020	**1 367 241 957**	**1 367 241 957**

* See Note 36

Cash Flow Statement

Figures in Rand	Notes	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Taxation		10 784 648	18 727 833
Sale of goods and services		78 359 371	81 469 328
Grants		170 263 045	152 110 226
Interest income		42 473 682	31 545 791
Dividends received		7 725	7 347
		301 888 471	283 860 525
Payments			
Employee costs		(158 882 879)	(150 424 199)
Suppliers and other		(46 616 185)	(70 516 622)
Finance costs		(32 158 362)	(17 281 842)
		(237 657 426)	(238 222 663)
Net cash flows from operating activities	31	**64 231 045**	**45 637 862**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(32 477 952)	(22 712 867)
Net increase/(decrease) in cash and cash equivalents		**31 753 093**	**22 924 995**
Cash and cash equivalents at the beginning of the year		24 873 223	1 948 228
Cash and cash equivalents at the end of the year	6	**56 626 316**	**24 873 223**

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	193 695 786	-	**193 695 786**	176 510 262	**(17 185 524)**	Note 45
Rental of facilities and equipment	628 000	-	**628 000**	415 772	**(212 228)**	Note 45
Interest received - Exchange receivables	56 000 000	-	**56 000 000**	36 017 343	**(19 982 657)**	Note 45
Discount received	750	-	**750**	275 646	**274 896**	Note 45
Other income	1 884 317	-	**1 884 317**	47 985 418	**46 101 101**	Note 45
Interest received - investment	1 200 000	-	**1 200 000**	3 325 758	**2 125 758**	Note 45
Dividends received	8 000	-	**8 000**	7 725	**(275)**	Note 45
Total revenue from exchange transactions	**253 416 853**	**-**	**253 416 853**	**264 537 924**	**11 121 071**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 514 000	-	**23 514 000**	22 475 897	**(1 038 103)**	Note 45
Fines, Penalties and Forfeits	106 000	-	**106 000**	62 396	**(43 604)**	Note 45
Interest received - Non-exchange	-	-	**-**	3 130 581	**3 130 581**	Note 45
Transfer revenue						
Government grants & subsidies	189 056 933	-	**189 056 933**	166 351 729	**(22 705 204)**	Note 45
Total revenue from non-exchange transactions	**212 676 933**	**-**	**212 676 933**	**192 020 603**	**(20 656 330)**	
Total revenue	**466 093 786**	**-**	**466 093 786**	**456 558 527**	**(9 535 259)**	
Expenditure						
Personnel	(152 529 473)	-	**(152 529 473)**	(152 000 854)	**528 619**	Note 45
Remuneration of Councilors	(8 833 000)	-	**(8 833 000)**	(8 968 885)	**(135 885)**	Note 45
Depreciation and amortisation	(53 577 000)	-	**(53 577 000)**	(47 333 814)	**6 243 186**	Note 45
Finance costs	(13 250 000)	-	**(13 250 000)**	(34 293 505)	**(21 043 505)**	Note 45
Bulk purchases	(122 926 000)	-	**(122 926 000)**	(138 119 621)	**(15 193 621)**	Note 45
Contracted Services	(10 692 615)	-	**(10 692 615)**	(11 553 380)	**(860 765)**	Note 45
General Expenses	(80 707 224)	-	**(80 707 224)**	(37 366 772)	**43 340 452**	Note 45
Total expenditure	**(442 515 312)**	**-**	**(442 515 312)**	**(429 636 831)**	**12 878 481**	
Operating surplus	**23 578 474**	**-**	**23 578 474**	**26 921 696**	**3 343 222**	
Loss on disposal of assets and liabilities	-	-	**-**	(7 572 099)	**(7 572 099)**	Note 45
Fair value adjustments	-	-	**-**	(5 931)	**(5 931)**	Note 45
Actuarial gains/losses	-	-	**-**	1 326 084	**1 326 084**	Note 45
Impairment loss	(53 250 000)	-	**(53 250 000)**	(121 522 584)	**(68 272 584)**	Note 45
	(53 250 000)	**-**	**(53 250 000)**	**(127 774 530)**	**(74 524 530)**	
Deficit before taxation	**(29 671 526)**	**-**	**(29 671 526)**	**(100 852 834)**	**(71 181 308)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(29 671 526)**	**-**	**(29 671 526)**	**(100 852 834)**	**(71 181 308)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgment 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:

Receivables

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

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

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

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

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

Allowance for doubtful debts

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

1.3 Investment property

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

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

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

Accounting Policies

1.3 Investment property (continued)

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	indefinite

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 is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 28).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 8).

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

Item	Depreciation method	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 60 years
Motor vehicles	Straight line	5 - 15 years
Infrastructure		
- Electricity	Straight line	5 - 60 years
- Roads	Straight line	10 - 80 years
- Structures	Straight line	10 - 60 years
- Stormwater drainage	Straight line	50 - 60 years
- Sewer reticulation	Straight line	5 - 10 years
- Waste water treatment works	Straight line	15 - 80 years
- Water reticulation	Straight line	20 - 60 years
Other property, plant and equipment		
- Furniture and Fittings	Straight line	5 - 7 years
- IT Equipment	Straight line	6 - 7 years
- Landfill sites	Straight line	12 - 13 years
- Office equipment	Straight line	4 - 7 years
- Plant and machinery	Straight line	4 - 7 years
- Vehicles	Straight line	7 - 15 years
- Airports	Straight line	5 - 60 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

Accounting Policies

1.4 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 28).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.5 Site restoration and dismantling cost

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

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

1.6 Intangible assets

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

Accounting Policies

1.6 Intangible assets (continued)

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

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

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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

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

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

Item	Useful life
Computer software, other	4 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is unrecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Financial instruments

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

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

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

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

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

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

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

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

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

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

1.7 Financial instruments (continued)

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Gains and losses

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

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

Impairment of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

Presentation

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

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

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

1.8 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

Accounting Policies

1.8 Statutory receivables (continued)

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

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

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions.

Other charges

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

Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).

Accounting Policies

1.8 Statutory receivables (continued)

- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

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

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

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

Derecognition

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

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

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

1.9 Leases

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

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

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

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

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

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Accounting Policies

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

1.13 Employee benefits

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 surplus sharing and 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.

Defined contribution plans

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 entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programs

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;

Accounting Policies

1.13 Employee benefits (continued)

- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

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

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

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

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

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

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

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

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

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

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

Provisions are not recognised for future operating surplus (deficit).

Contingencies are disclosed in note 34.

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.17 Revenue from non-exchange transactions

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

Accounting Policies

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Budget information

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

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

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

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

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

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

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

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

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

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

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

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

1.25 Events after reporting date

Events after 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); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Accounting Policies

1.25 Events after reporting date (continued)

The municipality will adjust the amount 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.

Since 30 June 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

Global stockmarkets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. As the company is operating in the municipal sector and is classified as an essential service provider that could operate throughout lockdown, the council expect that there will be limited impact on the entity's financial position and performance and it is presumed that funds will be available to finance future operations.

The entity has determined that there are no adjusting subsequent events. Accordingly, the financial position and results of operations have not been adjusted to reflect any subsequent events. The duration and impact of the COVID-19 pandemic, the impact on the financial positions and results of the entity for future periods, as well as the effectiveness of government and central bank responses remain unclear at this time.

The council is not aware of any other material event which occurred after the reporting date and up to the date of this report.

1.26 Value-Added Tax

The municipality is registered with the South Africa Revenue Services (SARS) for value added tax (VAT) on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991)

1.27 Accumulated surplus

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

2. Inventories

Consumables	917 260	988 881
Water for distribution	36 227	34 675
	953 487	**1 023 556**

Inventories recognised as an expense during the year	1 715 567	1 990 615

Inventory pledged as security

No inventories was pledged as security for any liabilities.

3. Receivables from exchange transactions

Consumer debtors	715 810 315	629 729 793
Other receivables	12 648 601	13 181 816
Recoverable fruitless and wasteful expenditure	959 632	959 632
Overpayment to councillors	1 460 266	1 460 266
Less: Provision for bad debts on consumer debtors	(590 038 114)	(520 947 483)
Less: Provision for bad debts on other receivables	(2 545 713)	(2 546 497)
	138 294 987	**121 837 527**

Figures in Rand	2020	2019

3. Receivables from exchange transactions (continued)

Consumer debtor ageing

	2020	2019
Current (not past due)	19 778 832	25 622 608
1 month past due	16 040 174	15 932 048
2 months past due	13 168 600	14 333 146
3 months past due	666 822 709	573 841 991
	715 810 315	**629 729 793**

Consumer debtor services

2020	Gross debtors	Impairment provision	Nett debtors
Electricity	73 633 434	(28 440 556)	45 192 878
Water	371 195 847	(323 578 734)	47 617 113
Sewerage	125 268 833	(110 603 561)	14 665 272
Refuse	145 712 201	(127 415 263)	18 296 938
	715 810 315	**(590 038 114)**	**125 772 201**

2019	Gross debtors	Impairment provision	Nett debtors
Electricity	78 571 942	(44 008 279)	34 563 663
Water	317 220 095	(276 099 298)	41 120 797
Sewerage	104 920 382	(90 635 477)	14 284 905
Refuse	129 017 374	(110 204 429)	18 812 945
	629 729 793	**(520 947 483)**	**108 782 310**

Consumer debtor industries

2020	Gross debtors	Impairment provision	Nett debtors
Households	608 428 290	(555 932 435)	52 495 855
Industrial and commercial	75 526 891	(32 087 063)	43 439 829
National and provincial government	31 855 134	(2 018 616)	29 836 518
	715 810 315	**(590 038 114)**	**125 772 202**

2019	Gross debtors	Impairment provision	Nett debtors
Households	522 223 930	(468 120 093)	54 103 837
Industrial and commercial	76 158 010	(51 325 427)	24 832 583
National and provincial government	31 347 853	(1 501 963)	29 845 890
	629 729 793	**(520 947 483)**	**108 782 310**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(520 947 483)	(472 769 912)
Provision for impairment	(69 090 631)	(48 177 571)
	(590 038 114)	**(520 947 483)**

Included in the amount of overpayment to councillors is amounts overpaid of R 0 (2019: R 0) to the Municipal Manager and R 0 (2019: R 0) to the Chief Financial Officer. These amounts were repaid after year end.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

3. Receivables from exchange transactions (continued)

Trade and other receivables pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

4. Receivables from non-exchange transactions

Consumer debtors - Rates	49 196 132	37 442 487
Less: Provision for bad debts on consumer debtors	(38 516 305)	(33 876 069)
	10 679 827	**3 566 418**

Non-exchange ageing

	2020	2019
Current (not past due)	1 977 259	2 076 191
1 month past due	1 241 611	692 947
2 months past due	981 064	545 264
3 months past due	44 996 198	34 128 085
	49 196 132	**37 442 487**

Non exchange services

2020	Gross debtors	Impairment provision	Nett debtors
Poperty rates	49 196 132	(38 516 305)	10 679 827
	49 196 132	**(38 516 305)**	**10 679 827**

2019	Gross debtors	Impairment provision	Nett debtors
Poperty rates	37 442 487	(33 876 069)	3 566 418
	37 442 487	**(33 876 069)**	**3 566 418**

Non exchange industries

2020	Gross debtors	Impairment provision	Nett debtors
Households	40 574 341	(36 065 676)	4 508 665
Industrial and commercial	3 289 194	(2 213 104)	1 076 090
National and provincial government	5 332 597	(237 525)	5 095 072
	49 196 132	**(38 516 305)**	**10 679 827**

2019	Gross debtors	Impairment provision	Nett debtors
Households	34 821 388	(31 294 476)	3 526 912
Industrial and commercial	3 350 219	(1 931 903)	1 418 316
National and provincial government	(729 120)	(649 690)	(1 378 810)
	37 442 487	**(33 876 069)**	**3 566 418**

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Figures in Rand	2020	2019

4. Receivables from non-exchange transactions (continued)

Consumer debtors - Rates

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information:

Receivables from non-exchange transactions

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(36 228 491)	(33 361 952)
Provision for impairment	(2 287 814)	(2 866 539)
	(38 516 305)	**(36 228 491)**

5. VAT receivable

VAT	63 154 297	48 131 286

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	(897 545)	477 575
Call account	57 523 861	24 395 648
	56 626 316	**24 873 223**

No cash and cash equivalents was pledged as security for liabilities.

The municipality have a guarantee arrangement of R 39 800 with Eskom which expires on 31 December 2025.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	**30 June 2019**	**30 June 2018**	**30 June 2020**	**30 June 2019**	**30 June 2018**
FNB - Current Account 62025990765	1 247 319	1 316 526	1 363 729	(897 545)	477 575	1 329 203
FNB - Money Market 62026222521	46 038 327	19 894 044	119 673	46 038 327	19 894 044	119 673
FNB - Money Market 62002839506	11 485 410	4 501 443	435 655	11 485 373	4 501 443	435 655
FNB - Money Market 62373464503	161	161	63 697	161	161	63 697
Total	**58 771 217**	**25 712 174**	**1 982 754**	**56 626 316**	**24 873 223**	**1 948 228**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

7. Investment property

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	616 830 955	-	616 830 955	616 895 620	-	616 895 620

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	616 895 620	(64 665)	616 830 955

Reconciliation of investment property - 2019

	Opening balance	Corrections	Write off @ carrying value	Depreciation	Total
Investment property	606 091 651	15 383 850	(4 515 215)	(64 666)	616 895 620

Pledged as security

No investment property were pledged as security.

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

8. Property, plant and equipment

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	208 432 631	-	208 432 631	208 432 631	-	208 432 631
Buildings	137 047 331	(88 794 927)	48 252 404	141 999 322	(82 355 289)	59 644 033
Motor vehicles	10 162 661	(4 194 447)	5 968 214	11 877 313	(3 443 833)	8 433 480
Other equipment	1 787 843 166	(857 866 681)	929 976 485	1 727 064 748	(788 170 822)	938 893 926
Bins and containers	5 607 455	(4 491 830)	1 115 625	10 454 085	(7 998 302)	2 455 783
Total	**2 149 093 244**	**(955 347 885)**	**1 193 745 359**	**2 099 828 099**	**(881 968 246)**	**1 217 859 853**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Write off @ carrying value	Corrections	Work in Progress Transferred to PPE	Depreciation	Impairment loss	Total
Land	208 432 631	-	-	-	-	-	-	208 432 631
Buildings	59 644 033	-	(2 048 700)	-	-	(2 516 317)	(6 826 612)	48 252 404
Motor vehicles	8 433 480	436 757	(1 448 017)	-	-	(367 297)	(1 086 709)	5 968 214
Infrastructure	938 893 926	63 892 755	(3 432 298)	(1 709 511)	10 322 549	(44 100 610)	(33 890 326)	929 976 485
Other equipment	2 455 783	93 103	(1 282 466)	-	-	(242 451)	91 656	1 115 625
	1 217 859 853	**64 422 615**	**(8 211 481)**	**(1 709 511)**	**10 322 549**	**(47 226 675)**	**(41 711 991)**	**1 193 745 359**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Write off @ carrying value	Corrections	Work in Progress Transferred to PPE	Depreciation	Impairment reversal	Total
Land	173 066 755	-	(11 757 682)	47 123 558	-	-	-	208 432 631
Buildings	56 189 215	3 703 372	-	2 635 161	-	(2 883 715)	-	59 644 033
Motor vehicles	8 780 730	-	-	81 400	-	(432 030)	3 380	8 433 480
Infrastructure	911 328 456	24 129 871	(37 304)	41 597 422	2 849 572	(41 201 569)	227 478	938 893 926
Other equipment	2 405 533	180 032	(62 646)	460 096	-	(534 068)	6 836	2 455 783
	1 151 770 689	**28 013 275**	**(11 857 632)**	**91 897 637**	**2 849 572**	**(45 051 382)**	**237 694**	**1 217 859 853**

Pledged as security

No property, plant and equipment were pledged as security.

Reconciliation of Work-in-Progress

	Included within Infrastructure 2020	Included within Infrastructure 2019	Total
Opening balance	16 504 440	19 354 012	19 354 012
Additions/capital expenditure	27 036 823	26 114 718	26 114 718
Transferred to completed items	(18 423 785)	(28 964 290)	(28 964 290)
Correction	1 709 511	-	1 709 511
	26 826 989	**16 504 440**	**18 213 951**

Repairs and maintenance expenditure incurred on capital assets during the year amounted to R 13 459 796 (2019: R 9 370 107).

Included in the work in progress amount is a project amounting to R 1 566 182 for which no movement was shown for the last 3 years as final completion await action from third party.

Notes to the Annual Financial Statements

Figures in Rand

9. Intangible assets

	2020			2019		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	2 151 335	(2 062 568)	88 767	2 151 335	(2 020 096)	131 239

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	131 239	(42 472)	88 767

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	186 961	(55 722)	131 239

Pledged as security

No intangible assets were pledged as security for liabilities.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Other financial assets

Designated at fair value		
Unlisted shares	112 280	118 211
Unlisted shares consist of 8 236 (2019 : 8 236) equity shares values at R5.00 (2019:R4.90) each in Senwes Belleggings Limited and 7 110 (2019 : 7 110) equity shares in Senwes Limited valued at R10.00 (2019 : R10.95) each.		
Non-current assets		
Designated at fair value	112 280	118 211

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 1		
Senwes Beleggings	41 180	40 356
Senwes Limited	71 100	77 855
	112 280	**118 211**

11. Payables from exchange transactions

Trade payables	630 818 624	490 003 331
Payments received in advanced	5 396 230	5 923 282
Accrued leave pay	19 067 644	16 209 599
Accrued bonus	3 982 406	3 853 675
Other creditors	2 385 621	2 665 024
Retentions	2 381 422	3 162 084
	664 031 947	**521 816 995**

Discounting was performed on trade payables where interest on creditors was not accrued for. An assumption of prime +1% interest rate was used in the calculation on discounting the trade payables.

12. Consumer deposits

Electricity and water	3 324 755	2 780 637

Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held for electricity and water deposits.

Figures in Rand	2020	2019

13. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7 241 000)	(8 905 000)
Present value of the defined benefit obligation-partly or wholly funded	1 057 334	1 150 021
Fair value of plan assets	(973 334)	513 979
	(7 157 000)	**(7 241 000)**

Non-current liabilities	(6 315 000)	(6 564 000)
Current liabilities	(842 000)	(677 000)
	(7 157 000)	**(7 241 000)**

One ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's Postemployment Medical Aid Benefits Liability as at 30 June 2020 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5. The valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

The previous year's actuarial valuation was also conducted by ZAQ Consultants and Actuaries and the valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(7 241 000)	(8 905 000)
Benefits paid	1 057 334	1 150 021
Net movement recognised in the statement of financial performance	(973 334)	513 979
	(7 157 000)	**(7 241 000)**

Net movement recognised in the statement of financial performance

Interest cost	(677 000)	(842 000)
Actuarial (gains) / losses - Obligation	(296 334)	1 355 979
	(973 334)	**513 979**

Figures in Rand	2020	2019

13. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

Financial Variable Assumed	2020 Valuation	2019 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between curves	Difference between curves
Medical Aid Contribution Inflation	CPI+1	CPI+1%
Net Effective Discount Rate	Yield curve based nominal and yield	Yield curve based nominal and yield

Discount Rate

We used the nominal and real zero curves as at 30 June 2020 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.
South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

13. Employee benefit obligations (continued)

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary in was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Withdrawel

A table setting out the assumed rates of withdrawal from service is set out below:
As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Current (In Service) Members

The table below provides a summary of details for current employees.

	Male	Female	Total
Number of active employees	1	0	1
Subsidy weighted average age	68	N/A	68
Subsidy weighted average past service	18,6	N/A	18,6
Number of spouses	N/A	N/A	N/A
Average monthly subsidy payable during retirement	R 1 780	N/A	R 1 780

Continuation Members (Pensioners)

The table below provides a summary of details for continuation members.

	Male	Female	Total
Number of continuation members	6	7	13
Subsidy weighted average age	84,6	74,4	79,2
Average monthly subsidy	R 5 170	R 4 990	R 5 070

Figures in Rand	2020	2019

13. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	773 000	728 000
Effect on defined benefit obligation	6 759 000	7 748 000

Amounts for the current and previous four years are as follows:

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	(7 157 000)	(7 241 000)	(8 905 000)	(11 490 000)	(11 998 000)
Surplus (deficit)	(7 157 000)	(7 241 000)	(8 905 000)	(11 490 000)	(11 998 000)
Experience adjustments on plan liabilities	13 538 000	13 538 000	13 538 000	13 538 000	13 538 000

Defined contribution plan asset

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

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grants	6 464 232	2 552 916

Movement during the year

Balance at the beginning of the year	2 552 916	157 474
Additions during the year	170 361 999	151 876 000
Income recognition during the year	(166 674 375)	(149 714 784)
Local Governmenr Sector Education and Training Authority Grant (LG SETA)	227 791	234 226
Other income recognition during the year	(4 099)	-
	6 464 232	**2 552 916**

Reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

14. Unspent conditional grants and receipts (continued)

Integrated National Electrification Program Grant (INEP) - Operating		
Balance at beginning of year	153 596	574 377
Additions during the year	5 890 000	3 300 000
Income recognition - Capital	(4 646 169)	(3 720 782)
	1 397 427	**153 595**

Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	2 237 203	(1 095 314)
Additions during the year	28 162 750	27 651 650
Income recognition during the year	(26 542 228)	(24 319 133)
National Treasury offset*	(2 237 203)	-
	1 620 522	**2 237 203**

*National Treasury has added an amount of R2 237 203 that is receivable by the Municipality and deducted R2 237 203 from the equitable share due to Nala Municipality accelerated spending of MIG monies the for 2019/20 financial period.

Financial Management Grant (FMG) - Operating		
Additions during the year	2 880 000	2 415 000
Conditions met - transferred to revenue	(2 880 000)	(2 415 000)
	-	**-**

Extended Public Works Program Grant (EPWP) - Operating		
Additions during the year	1 097 000	1 000 000
Conditions met - transferred to revenue	(1 097 000)	(1 000 000)
	-	**-**

South African National Energy Development Institute (SANEDI) - Capital		
Additions during the year	161 018	678 411
Conditions met - transferred to revenue	-	(517 393)
National Treasury offset*	(161 018)	-
	-	**161 018**

Municipal Infrastructure Grant - Operational (MIG) - Capital		
Additions during the year	1 482 250	1 455 350
Conditions met - transferred to revenue	(1 482 250)	(1 455 350)
	-	**-**

Energy Efficiency and Demand Site Management (EEDSM) - Capital		
Balance unspent at beginning of year	1 099	-
Additions during the year	7 000 000	5 000 000
Conditions met - transferred to revenue	(6 997 000)	(4 998 901)
Conditions met - transferred to other income	(4 099)	-
	-	**1 099**

COVID-19 Disaster Relief - Operating		
Additions during the year	179 000	-
Conditions met - transferred to revenue	(179 000)	-
	-	**-**

Municipal Support Program - Capital

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

14. Unspent conditional grants and receipts (continued)

Additions during the year	4 000 000	-
Conditions met - transferred to revenue	(553 717)	-
	3 446 283	**-**

Municipal Infrastructure Grant (MIG) - Capital - Grants is used to fund the infrastructure project/capital projects of the municipality

Financial Management Grant - Grant is used to fund to assist to pay the financial systems expense of the municipality and the improvement of financial systems.

Municipal System Improvement Grant - Grant is to assist to pay the expenses that relates to addressing the audit action plan issues and the funding of municipal interns.

Integrated National Electrification Program Grant (INEP) - Grant is used to fund the electrification of new townships establishments.

Extended Public Works Program Grant (EPWP) - Grant is used to fund social uplifting projects.

South African National Energy Development Institute (SANEDI) - The Grant is used to fund the installation of smart meters and energy efficiency

Municipal Infrastructure Grant (MIG) - Operational - Grants is used to fund the project management unit of the municipality

Energy Efficiency and Demand Site Management (EEDSM) - used to fund the implementation of the retrofit "Energy Efficient Lighting Technologies" in the Municipal buildings, street and traffic lighting infrastructure and the efficient technologies in the water treatment and pump stations..

15. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Agricultural Loss / (Gain)	Total
Environmental rehabilitation	22 279 241	-	-	490 143	-	22 769 384
Long Service Bonus Awards	9 994 000	894 000	(736 582)	968 000	(1 622 418)	9 497 000
	32 273 241	**894 000**	**(736 582)**	**1 458 143**	**(1 622 418)**	**32 266 384**

Reconciliation of provisions - 2019

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	21 310 332	-	-	968 909	-	22 279 241
Long Service Bonus Awards	9 587 000	902 000	(638 113)	947 000	(803 887)	9 994 000
	30 897 332	**902 000**	**(638 113)**	**1 915 909**	**(803 887)**	**32 273 241**

Environmental rehabilitation provision

The municipality engages in waste disposal operations from residential and business areas within the following areas:
- Bothaville
- Wesselsbron

In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.

The life spans for the individual landfill sites were calculated based on available air space and cover material available on the estimations of Nala Local Municipality as well as a survey of each landfill site by a qualify surveyor.

The estimation of cost of capping and remediation is highly sensitive to many factors, including:
- where the landfill site pose a risk to the environment more stringent capping and remediation measures may be required
- changing legislation may alter the minimum requirements for capping and remediation
- availability of capping materials - site specific requirements may vary, as well as proposed end-use of the site
- non-inflation linked costs like fuel
- the condition of infrastructure on site at the time of closure, for instance fencing, and storm water management

The average predicated inflation rate is 6 % per year for the period 1 July 2015 to 30 June 2023.

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

Key assumptions used

Discount rate 2020:	Yield Curve
Discount rate (2019):	Yield Curve
CPI 2020:	Difference between nominal and real yield curve
CPI (2019):	Difference between nominal and real yield curve

Long service awards provision

ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's ('Nala')s long service bonus awards liability at 30 June 2019 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS19). The valuation was performed by Niel Fourie B.Comm. (CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd

A previous actuarial valuation was performed by ZAQ Consultants and Actuaries as at 30 June 2019 to disclose on the long service bonus awards in Nala's financial statements.

15. Provisions (continued)

Key assumptions used

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable Assumed	2020 Valuation	2019 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based

Discount Rate

We use the nominal and real zero curves as at 30 June 2020 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2020 of 6.25%. The next salary increase was assumed to take place on 01 July 2021.
In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

Figures in Rand	2020	2019

15. Provisions (continued)

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Figures in Rand	2020	2019

15. Provisions (continued)

Membership Data

The information below is based on the membership data received from the Municipality.

Eligible male employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	4	R 143 153	2,94	R 5 036
30 - 39	83	R 166 576	8,10	R 16 679
40 - 49	116	R 183 985	11,91	R 24 525
50 - 59	108	R 206 507	17,48	R 24 271
60 +	44	R 197 746	19,06	R 4 057
Total	355	R 188 012	13,84	R 19 857

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	23	R 210 589	2,87	R 7 240
30 - 39	25	R 191 394	7,80	R 17 899
40 - 49	43	R 223 191	14,30	R 34 500
50 - 59	20	R 209 073	18,36	R 25 124
60 +	12	R 231 214	29,46	R 0
Total	102	R 213 326	15,36	R 23 999

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	6	R 165 631	2,91	R 5 771
30 - 39	108	R 172 321	8,02	R 16 961
40 - 49	159	R 194 588	12,65	R 27 223
50 - 59	128	R 206 908	17,62	R 24 404
60 +	56	R 204 917	21,57	R 3 188
Total	457	R 193 662	14,21	R 20 781

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

16. Investment revenue

Dividend revenue		
Other financial assets	7 725	7 347
Interest revenue		
Bank: Investment	3 325 758	1 036 250
	3 333 483	**1 043 597**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

17. Other income

Admin fees	19 911	19 971
Advertisement	1 081	4 026
Bad debts recovered	-	28
Burial income	564 662	577 539
Cemeteries	660	34 359
Connection Fees	72 241	215 541
Donated vehicles	380 137	-
Grant: Donated assets	45 998 829	-
Fees earned	468 442	375 291
Insurance claims received	16 865	-
Public donation: COVID-19	42 460	-
Levies	384 525	359 741
Meter tampering/testing	650	1 872
Recoupment of venue expenses	-	4 613
Stock adjustment	9 527	-
Valuation certificates	25 428	3 532
	47 985 418	**1 596 513**

18. Service charges

Sale of electricity	89 928 341	84 964 992
Sale of water	52 234 809	45 865 457
Sewerage and sanitation charges	21 240 574	19 898 933
Refuse removal	13 106 538	12 223 710
	176 510 262	**162 953 092**

Included in the above service charges is income forgone to the amount of R48 585 481 (2019: R44 592 940).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

19. Property rates

Rates levied

Property rates	34 676 225	34 492 482
Less: Income forgone	(12 200 328)	(12 098 119)
	22 475 897	**22 394 363**

Valuations

Residential	1 383 696 309	1 383 696 309
Commercial	294 990 703	294 990 703
State	215 207 785	215 207 785
Municipal	32 259 976	32 259 976
Agriculture	2 807 609 036	2 807 609 036
Other	85 452 584	85 452 584
	4 819 216 393	**4 819 216 393**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. A decision was passed by council to extend the general valuation for a further 2 years until 30 June 2021.

The first R80 000 of the rateable value of residential property are exempted from taxes.
A 100% rebate is granted to churches, public benefit organisations and municipal property.
Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties.

Rates are levied on an monthly basis and interest is levied on outstanding amounts.

Rates tariffs - 2020

Residential	0.01000000
Business	0.01999000
Industrial	0.01999000
Municipal	0.01000000
Government	0.02999000
Agricultural	0.00250000
Multi purpose: Business	0.01999000
Multi purpose: Residential	0.01499000
Multi purpose: Guesthouse	0.01499000
Multi purpose: Agricultural	0.00250000
Non permitted use	0.03998000
Public benefit organisation	0.00250000
Education	0.02999000
Guesthouse	0.01499000
Crèche	0.01499000
Public workshop	0.00250000
PSI	0.00250000
Vacant	0.03998000
	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

20. Government grants and subsidies

Operating grants		
Equitable share	122 069 220	111 054 000
Municipal Infrastructure Grant	1 482 250	1 455 350
Financial Management Grant	2 880 000	2 415 000
Extended Public Works Grant	1 097 000	1 000 000
Disaster Relief Fund	179 000	-
Local Government Sector Education and Training Authority Grant (LG SETA)	227 791	234 225
	127 935 261	**116 158 575**
Capital grants		
Municipal Infrastructure Grant	26 542 228	24 319 134
Integrated National Electrification Programme Grant (INEP)	4 646 169	3 720 782
Energy Efficiency Demand Side Management (EEDSM)	6 997 000	4 998 900
South African National Energy Development Institute (SANEDI)	-	517 393
Municipal Support Program	553 717	-
	38 739 114	**33 556 209**
	166 674 375	**149 714 784**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

21. Revenue

Discount received	275 646	402
Dividends received	7 725	7 347
Fines, penalties and forfeits	62 396	96 607
Government grants & subsidies	166 674 375	149 714 784
Interest received - Exchange	36 017 343	16 186 868
Interest received - investment	3 325 758	1 036 250
Interest received - Non Exchange	3 130 581	14 322 673
Other income	47 985 418	1 596 513
Property rates	22 475 897	22 394 363
Rental of facilities	415 772	428 140
Service charges	176 510 262	162 953 092
	456 881 173	**368 737 039**

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

Discount received	275 646	402
Dividends received	7 725	7 347
Interest received - consumer	36 017 343	16 186 868
Interest received - investment	3 325 758	1 036 250
Other income	47 985 418	1 596 513
Rental of facilities	415 772	428 140
Service charges	176 510 262	162 953 092
	264 537 924	**182 208 612**

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

Taxation revenue		
Property rates	22 475 897	22 394 363
Interest received - Non exchange	62 396	96 607
Interest, Dividends and Rent on Land	3 130 581	14 322 673
Transfer revenue		
Government grants & subsidies	166 674 375	149 714 784
	192 343 249	**186 528 427**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

22. Employee related costs

Acting allowances	1 598 619	1 246 774
Basic	89 977 150	85 801 859
Bonus	7 201 969	6 608 686
Employee benefits - costs	894 000	902 000
Leave pay provision charge	2 858 045	241 961
Medical aid - company contributions	7 893 162	7 369 349
Night shift allowance	32 945	22 176
Overtime payments	10 854 680	9 475 064
Pension	16 016 909	15 056 644
SDL	980 867	1 112 030
Travel, motor car, accommodation, subsistence and other allowances	12 946 458	12 034 731
UIF	746 050	733 048
WCA	-	717 041
	152 000 854	**141 321 363**

Remuneration of Acting Municipal Manager - Radebe N

Annual Remuneration	106 073	-

Remuneration of Municipal Manager - Mokomela BC

Annual Remuneration	1 278 637	1 217 412
Car Allowance	108 000	106 364
Leave paid out	-	313 613
	1 386 637	**1 637 389**

Remuneration of Chief Finance Officer - Busakwe S

Annual Remuneration	994 510	889 486
Car Allowance	193 160	193 873
Subsistence allowance	1 700	1 100
Leave paid out	-	221 910
	1 189 370	**1 306 369**

Remuneration of Executive Corporate Services - Molupe BP

Annual Remuneration	593 402	384 957
Car Allowance	246 463	178 752
	839 865	**563 709**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations

23. Remuneration of councillors

Mayor	901 659	868 549
Speaker	729 488	703 000
Executive Members	1 618 740	1 548 556
Councillors	5 328 581	5 523 755
	8 578 468	**8 643 860**

There are 3 (2019: 4) Executive Committee Members and 21 (2019:19) Other Councillors.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

23. Remuneration of councillors (continued)

In-kind benefits

The Mayor, speaker are full time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has one full-time bodyguard and one full-time driver.

24. Depreciation and amortisation

Property, plant and equipment	47 226 676	45 051 381
Investment property	64 666	64 666
Intangible assets	42 472	55 722
	47 333 814	**45 171 769**

25. Finance costs

Provisions and employee benefit obligations	2 135 143	2 757 909
Trade and other payables	32 158 362	17 281 842
	34 293 505	**20 039 751**

26. Bulk purchases

Electricity - Eskom	85 012 228	74 177 023
Water	53 107 393	47 647 380
	138 119 621	**121 824 403**

Refer to note 44 for the detail regarding the distribution losses.

27. Contracted services

Meter Readers	3 117 299	2 852 359
Operating Leases	(95 775)	1 392 838
Specialist Services	8 349 108	11 320 468
Other Contractors	182 748	208 536
	11 553 380	**15 774 201**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. General expenses

Accommodation	8 828	107 413
Accounts delivery cost	715 000	812 500
Advertising	398 805	244 232
Administration fees	23 262	30 462
Auditors remuneration	5 645 606	5 333 317
Bank charges	894 982	919 272
Cashier shortages	489	514
Collection cost: Incentives	-	23 691
Conferences and seminars	364 240	335 477
Consulting and professional fees	15 000	-
Consumables	1 605 920	1 602 671
Electricity	2 942 653	2 583 906
Entertainment	3 003	-
Fuel and oil	2 227 874	2 515 457
Hire of equipment	593 673	480 808
Insurance	690 998	381 510
License fees	235 311	197 070
Membership fees	1 742 420	1 569 015
Motor vehicle expenses	-	3 270
Postage and courier	898 061	956 003
Printing and stationery	669 674	736 174
Project workers	2 094 052	3 267 028
Repairs and maintenance	13 459 796	9 370 107
Stock value adjustments	-	31 764
Telephone and fax	1 866 293	1 615 532
Transport and freight	75 477	176 934
Venue expenses	195 355	-
	37 366 772	**33 294 127**

29. Impairment of assets and provision for bad debts

Impairments		
Property, plant and equipment	42 351 371	-
Assets identified during the year that was not in a working condition was impaired.		
Trade and other receivables	79 171 213	65 124 698
Provision for bad debts on trade and other receivables that was provided for.		
	121 522 584	**65 124 698**

30. Auditors' remuneration

Fees	5 645 606	5 333 317

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Cash generated from operations

Surplus/(deficit)	(100 530 188)	(14 166 163)
Adjustments for:		
Depreciation and amortisation	47 333 814	45 171 769
Loss on properly, plant and equipment recognised	7 572 099	(66 111 224)
Fair value adjustments	5 931	(6 494)
Impairment loss (reversal)	47 792 502	(3 401 850)
Grant received: Property, plant and equipment	(45 998 829)	-
Provision movement	(90 857)	(288 091)
Changes in working capital:		
Inventories	70 069	276 322
Receivables from exchange transactions	(16 457 461)	(8 722 698)
Other receivables from non-exchange transactions	(7 113 409)	(3 249 020)
Payables from exchange transactions	139 228 174	99 644 334
VAT	(15 023 011)	(6 382 661)
Consumer deposits	544 118	81 757
Employee related payables	2 986 776	396 439
Unspent conditional grants	3 911 316	2 395 442
	64 231 044	**45 637 862**

32. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	135 371 083	135 371 083
Other receivables from non-exchange transactions	-	13 603 732	13 603 732
Cash and cash equivalents	-	56 626 316	56 626 316
Other financial assets	112 280	-	112 280
	112 280	**205 601 131**	**205 713 411**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	664 031 943	664 031 943
Consumer deposits	3 324 755	3 324 755
	667 356 698	**667 356 698**

2019

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	124 189 948	124 189 948
Other receivables from non-exchange transactions	-	1 213 996	1 213 996
Cash and cash equivalents	-	24 873 260	24 873 260
Other financial assets	118 211	-	118 211
	118 211	**150 277 204**	**150 395 415**

Financial liabilities

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

. **Financial instruments disclosure (continued)**

	At amortised cost	Total
Trade and other payables from exchange transactions	521 816 994	521 816 994
Consumer deposits	2 780 637	2 780 637
	524 597 631	**524 597 631**

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	4 336 892	9 882 951
Total capital commitments		
Already contracted for but not provided for	4 336 892	9 882 951

This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and MIG Grants funds.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	3 681 433	167 308
- in second to fifth year inclusive	449 764	-
	4 131 197	**167 308**

The municipality utilises vehicles from the Free State Fleet Management trading entity (FSFM) and is billed monthly for the right to use the vehicle (daily tariff) as well as the usage (usage tariff) there of.

The leases are also treated as 3- and 4-year leases based on the type of asset.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

34. Contingencies

Patula Balekane Joint Venture issued summons against the municipality for payment in respect of outstanding payments due for construction work at the sewerage works in Wesselsbron to the plaintiff of a capital amount of R2.6mil plus interest (+/- R2.1mil) and legal cost (+/- R300 000).	5 200 000	5 000 000
Labour dispute - Nala vs Makibinyane matter was referred to labour court.	-	1 500 000
Nala vs Mashalaba & associated - Action for damages.	-	45 000
Labour dispute - Nala vs Jooste matter was referred to labour court.	-	120 000
Nala vs Eskom - Summons for due account.	-	150 000
Nala vs Eskom - Review and application for warrant against Nala.	-	250 000
State vs BP Molupe - Attendance court day fee.	137 500	-
Eskom/Mieliehoofstad Business Chamber - Interdict application and application to review Eskom disconnection notice.	350 000	-
Nala vs Eskom - Application for warrant of execution in respect of arrears account.	250 000	-
Nala vs Eskom - Eskom sues for payment of arrear account, Nala intends to file counter claim/summons for debatement and reduction of account.	350 000	-
Nala vs Eskom - Application for access to information and action to debate and reduce current arrear account.	350 000	-
Nala vs Mashalaba - Action for payment and Nala application for dismissal of action.	50 000	-
	6 687 500	**7 065 000**

Unlicenced landfill site

The Municipality has two active landfill sites. It has been identified that the landfill sites situated in Bothaville and Wesselsbron are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Eskom

Eskom has a payment agreement with Nala Local Municipality to recover the area balances as agreed, the interest will be charged according to the payment agreement, the interest in the AFS is currently disclosed according to the invoices and statements of Eskom.

Althouh there is a standing payment arrangement since 2017, the payment agreement date, we are not certain of:
1. The amount of interest that will be charged by Eskom, since the matter dates back to 2017 and we are uncertain of the balance they will use to charge the interest.
2. If Eskom will charge interest since this has not occured in so many years.

35. Related parties

Relationships

Accounting Officer	Ms N Radebe
Members of key management	Refer to note 22

36. Prior period errors

Property, Plant and Equipment adjusted due to the asset register allocation adjusted from work in progress, repairs and maintenance to the asset register

Payables from exchange transactions was adjusted with invoices received in the current year dated in prior period.

Errors that was identified in the 2018/19 financial period in the current year was corrected against retained surplus.

Receivables from exchange transactions and VAT adjustment was made to correct the services charges on electricity sales due to estimation changes.

Figures in Rand	2020	2019

36. Prior period errors (continued)

The correction of the errors results in adjustments as follows:

Statement of financial position	
Increase / (decrease) in receivables from exchange transactions	13 805 316
Increase / (decrease) in receivables from non exchange transactions	2 352 421
Increase / (decrease) in VAT receivable	(2 459 927)
Increase / (decrease) in cash and cash equivalents	(37)
Increase / (decrease) in investment property	26 350 231
Increase / (decrease) in property, plant and equipment	48 657 243
(Increase) / decrease in payables from exchange transactions	1 762 509
(Increase) / decrease in Provisions	(10 651 267)
(Increase) / decrease in Accumulated surplus (Profit / Loss)	(105 875 776)
(Increase) / decrease in Accumulated surplus (Opening)	26 059 287
	-

Statement of financial performance	
Increase / (decrease) in rental of facilities	9 800
Increase / (decrease) in other income	8 436
Increase / (decrease) in fines, penalties and forfeits	(3 823)
(Increase) / decrease in employee related costs	5 741 334
(Increase) / decrease in depreciation and amortisation	3 846 516
(Increase) / decrease in finance costs	(165 134)
(Increase) / decrease in bulk purchases	551 148
(Increase) / decrease in general expenses	(6 908 728)
(Increase) / decrease in contracted sercives	38 333 123
(Increase) / decrease in gain / (loss) on property, plant and equipment	66 111 224
(Increase) / decrease in impairment loss	(1 648 120)
	105 875 776

37. Risk management

Financial risk management

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

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	664 031 945	-	-	-
Consumer deposits	3 324 755	-	-	-

At 30 June 2019	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Trade and other payables	521 816 995	-	-	-
Consumer deposits	2 780 637	-	-	-

Figures in Rand	2020	2019

37. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

Consumer balances outstanding for more than three months are reviewed for impairment and provided for as bad debts as applicable.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2020	2019
Cash and cash equivalents	56 626 316	24 873 223
Receivables from exchange transactions	135 371 083	124 189 948
Receivables from non-exchange transactions	13 603 732	1 213 996
Other financial assets	112 280	118 211

Interest rate risk

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

38. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 1 367 241 957 and that the municipality's total assets exceed its liabilities by R 1 367 241 957. The municipality's current liabilities exceed its current assets by R 404 954 018.The municipality incurred a deficit of R 100 530 188 for the year (2019: R 14 166 163).

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality as the current and liquidity ratio state that it will not be able to pay their short term liabilities as they come due unless funds are received to increase the current assets of the municipality. The solvency ratio of the municipality did well increase as other long term liabilities was settled during the year.

The main ratio in this regard is as follow:	2020	2019
Solvency ratio	52.17%	38.61%

39. Unauthorised expenditure

Opening balance	3 624 621	3 624 621

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure opening balance	6 315 268	6 315 268
Opening balance as restated	**6 315 268**	**6 315 268**
Interest	32 004 289	17 462 605
Arbitration	70 933	28 732
Less: Fruitless and wasteful expenditure - write off	-	(17 491 337)
Closing balance	**38 390 490**	**6 315 268**

Interest is charged on arrear accounts by the creditors due to the fact that late payments are made to the creditors.

41. Irregular expenditure

Opening balance as previously reported	42 859 671	58 609 919
Opening balance as restated	**42 859 671**	**58 609 919**
Add: Irregular Expenditure - current year	1 676 452	800 189
Add: Irregular Expenditure - Identified after year-end	-	27 937 833
Less: Irregular Expenditure - write off	-	(44 488 270)
Closing balance	**44 536 123**	**42 859 671**

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(2 029 407)	(597 992)
Current year subscription / fee	(1 744 415)	(1 585 995)
Amount paid - current year	3 203 879	150 000
Invoice and credit note correction	-	4 580
	(569 943)	**(2 029 407)**

Audit fees

Opening balance	1 277 573	137 379
Current year fee	6 492 447	6 131 842
Interest charged	149 229	41 515
Amount paid - current year	(7 321 329)	(5 057 138)
	597 920	**1 253 598**

PAYE and UIF

Opening balance	1 949	1 354 486
Current year subscription / fee	2 670 951	18 680 183
Amount paid - current year	(2 670 951)	(20 032 720)
	1 949	**1 949**

Pension and Medical Aid Deductions

Opening balance	(109 718)	2 898 436
Current year subscription / fee	39 388 308	37 341 931
Amount paid - current year	(39 301 471)	(40 130 649)
	(22 881)	**109 718**

Figures in Rand	2020	2019

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

VAT

VAT receivable	63 154 297	48 131 286

VAT output payables and VAT input receivables are shown in note 5 .

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

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

Councillors' arrear consumer accounts

The following Councillors had accounts outstanding at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mogoje T.A.	36 030	239 163	275 193
Mashiya M.N.	287	-	287
Botma H.	3 055	267	3 322
Leburu P.	531	-	531
Moshane Z.	845	-	845
Marumule M.S.	314	-	314
Molutsi T.L.	273	-	273
Mohloare T.A.	707	-	707
Masencamp B.A.	629	-	629
Mokete X.E.	844	-	844
Makunye A.M.	1 103	-	1 103
Mtombeni J.	768	-	768
Jika N.E.	545	-	545
Ngece M.	614	-	614
Ntseki M.L.	1 380	-	1 380
Setheni	900	1 755	2 655
Makhooe N.E.	1 240	-	1 240
Tau R.T.	1 689	27 500	29 189
Mabeleng M.P.	1 708	7 685	9 393
Sebate K.E.	1 667	-	1 667
Mabaso M.K.	867	-	867
Mafojane P.W.	1 595	10 047	11 642
	57 591	**286 417**	**344 008**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khati M.S.	256	-	256
Leburu G.J.	302	-	302
Mabaso M.K.	458	-	458
Mafojane M.S.	1 870	6 572	8 442
Makhooe N.E.	361	-	361
Makunye L.S.	575	-	575
Marumule M.S.	547	-	547
Mashiya M.N.	674	-	674
Mogoje T.A.	26 089	53 776	79 865
Mohloare T.A.	313	-	313
Mokete M.J.	434	-	434
Moshane Z.M.	535	-	535
Nanyane L.B.	2 244	-	2 244
Ngece T.F.	268	-	268
Ntseki M.L.	452	-	452
Reed D.	1 152	-	1 152
Sebate R.A.	452	-	452
Tau R.T.	1 855	69 401	71 256
Jika N.E.	256	-	256
Mabeleng M.P.	1 295	9 239	10 534
Botma J.A.	1 408	-	1 408
Masencamp S.	1 001	-	1 001

Figures in Rand		2020	2019

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

Mthombeni K.A.	302	-	302
	43 099	**138 988**	**182 087**

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

The following expenses relate to deviations that the accounting officer approved		
Emergencies	2 382 071	2 640 508
Sole suppliers	117 883	40 912
	2 499 954	**2 681 420**

44. Distribution Losses

Electricity - Rand		
Sold	100 580 307	93 868 218
Purchased	85 012 228	73 908 516
Electricity - Units		
Sold	66 022 871	69 577 003
Purchased	75 517 953	75 675 109
Electricity - Tariffs		
Sold	1.52	1.35
Purchased	1.13	0.98
Electricity - Losses		
Units	9 495 083	6 098 106
Rand value	10 688 824	5 955 749
Percentage	12.57%	8.06%
Water - Rand		
Sold	52 112 889	48 069 805
Purchased	53 108 944	47 332 295
Water - Units		
Sold	2 581 579	2 516 614
Purchased	4 584 620	4 078 290
Water - Tariffs		
Sold	20.19	19.10
Purchased	11.58	11.61
Water - Losses		
Units	2 003 041	1 561 676
Rand value	23 203 535	18 124 682
Percentage	43.69%	38.29%

Figures in Rand	2020	2019

45. Budget differences

Notes on budget variances

Service Charges: There was a reduction as result of the lower collection rate for the year.

Rental of Facilities and equipment: Fewer facilities rented out than anticipated.

Interest received - consumer: There was a reduction as result of the the approved amounts being lower than the budget projections and a slight pickup on collections.

Interest Received - Investment: Delay in expenditure during the year has increased the balance of the investement.

Dividends Received: Due to the weaker performance of Senwes shares.

Property rates: There was a reduction as result of the the approved amounts being lower than the budget projections.

Fines, Penalties and Forfeits: The municipality met their third party obligations during the year.

Government Grants and Subsidies: This was as a result of fiscus allocation.

Personnel: Due to a number of personnel who resigned and retired.

Depreciation and amortisation: There was a reduction as a result of the impairment loss and the assets written off.

Impairment loss: As a result of old assets of which the condition was deteriorating.

Finance cost: This is as a result of a high balance of historic debt on bulk supplies.

Bulk Purchases: This is as a result of township developments that is taking place.

Contracted services: The increase in contracted services is linked with the township development.

General expenses: The change is due to the increased use of project workers.

46. New standards and interpretations

46.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government’s housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

The municipality has adopted the guideline for the first time in the 2019/2020 annual financial statements.

The impact of the guideline is not material.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality has adopted the interpretation for the first time in the 2019/2020 annual financial statements.

The impact of the interpretation is not material.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019..

The municipality has adopted the standard for the first time in the 2019/2020 annual financial statements.

The impact of the standard is not material.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

The impact of the standard is not material.

46.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Guideline: Guideline on the Application of Materiality to Financial Statements

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after 01 April 2020.

The municipality expects to adopt the guideline for the first time in the 2020/2021 annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The municipality has adopted the interpretation for the first time in the 2020/2021 annual financial statements.

The impact of the amendment is not material.

IGRAP 20: Accounting for Adjustments to Revenue

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2020/2021 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

46.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods but are not relevant to its operations:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2020

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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