PART 1: INTRODUCTION AND OVERVIEW

A. FOREWORD BY THE MAYOR

Honourable Councillors, Management, Staff and Stakeholders, it is again the time that we are required to report and account about our performance over our last financial year. Koukamma Municipality is still the subject of a Section 139.1(b) intervention. During the intervention period, Koukamma Municipality has performed extremely well and we must highlight the following achievements:-

- Sound performance into institutional renewal
- Improvement in terms of compliance, control and overall adherence to policy
- Improvement of living standards through the huge infrastructure investment
- Improved relations and enhancement of public participation and involvement in the running of our municipal affairs, and
- Successful inter-sphere engagement and relation.

We are happy and confident to declare that our sacrifices and efforts resulted into the stabilisation of our institutions. We managed to restore the confidence of our people and we believe that we will be able to overcome any challenge. We further believe that we will be able to sustain the current positive trend. All of us are geared towards rebuilding our beloved Koukamma. We laid a solid base for our plans to realise a better life for our people.

I hereby conclude with a noble pledge that we will never abandon or fail the rural poor and destitute of Koukamma Community. Let me thank all my dedicated fellow Councillors, Management and Officials for their committed effort and personal sacrifices that they have made. Let me also thank our people who remained positive and patient through our trying times. I strongly believe that your patience will pay off and we will reap the benefits. Lastly, let me thank our saviour for his presence, mercy and protection over our Municipality.

"THE PEOPLE SHALL GOVERN"

N.O'CONNEL
MAYOR/SPEAKER

B. THE YEARLY PROGRAMME PRIORITIES' STATEMENT BY THE MUNICIPAL MANAGER

The Service Delivery and Budget Implementation Plan (SDBIP) for the 2009/2010 financial year was based on the Budget. The following table shows the main objectives as recorded in the 2009/2010 IDP:

Key Performance Area	Objective
Infrastructure Development and Basic Service Delivery	The assessment and investigation of the implementation of section 78 related services.
	Communities use a safe road network that supports their social mobility as well as economic activities.
	Households and the business sector have access to reliable and affordable electricity.
	Households and businesses supplied with consistent and affordable water supplies in accordance with the National Water Act of 1998 and the Water Services Act, Act 108 of 1997 and use it in a responsible manner.
	Households and businesses supplied with well maintained and reliable water borne sanitation systems.
	Adequate water management control.
	To supply an effective storm water network on all surfaced roads and houses (berms) to divert storm water away from assets, facilities and property towards natural flow channels.
	Improvement and reviewing of SDF.
	Development of a Land Use Management Strategy including the establishment of a land use management desk.
	The Koukamma municipality proactively ensure that land is available for development requirements and the management thereof in accordance with the Spatial Development Plan.
	Provision of affordable housing to the needy communities.
Community Development	Communities in Koukamma have access to affordable options for solid waste management that results in a safe environment.
	The securing and provision of security to municipal property.
	Communities in Koukamma have access to properly managed cemeteries with enough capacity to cater for the next 20 years.

Key Performance Area	Objective
	To reduce the HIV/AIDS infections and improving treatment accessibility. Concept of HIV/AIDS in workplace policy – outcome.
	Inculcating a culture of learning through improving access to quality educational facilities and learning opportunities to all members in the community by 2012.
	Public amenities are established, and effectively managed and maintained in all communities in partnership with local stakeholders.
	PRIMARY HEALTH CARE: To facilitate the rendering of effective health services to all communities.
	To create a safe environment by providing effective protection services.
	To safeguard the biodiversity plant and marine life.
Local Economic Development	To establish sustainable social economic development.
	To develop institutional capacity re LED.
	To Enhance tourism development.
	Ensure that the communities are provided with resources and facilities that they need for their social upliftment and human dignity.
Municipal Transformation and Organisation Development	Ensure the compliance of administrative processes, procedures and policies.
	The Koukamma Municipality operates an effective information management system that deals with the recording, verification and storage of information
	All stakeholders in the municipal system participate in effective communication.
Financial Viability and Management	To provide credible Financial Planning and Budgeting.
	To implement Income and Expenditure control systems to improve revenue collection and expenditure Management.
	To strive to fully implement the MFMA reforms.
Good Governance and Public Participation	The Municipality successfully achieves long term organisational targets as contained in the IDP and which is reflective of the profile of the local community and the country.

In March 2009, Koukamma Municipality agreed to a Section 139 (b) Intervention. Accordingly the priority areas for the 2009/2010 financial year were determined by the Recovery Plan for the Municipality. The Intervention was extended and continued to be in place throughout the 2009/2010 Financial Year. The areas identified as requiring support included:

- Financial Management
- Administration and Human Resources
- Technical Development Services
- Public Participation

Priority was also given to Flood Damage Relief Projects that were completed during the 2009/2010 Financial Year. In addition, starting in November 2009, a Municipal Turn-Around Strategy (MTAS) was developed in accordance with the Local Government Turnaround Strategy (LGTAS) as designed by the Department of Cooperative Governance and Traditional Affairs and approved by the Cabinet. The MTAS was adopted by Council on 31 May 2010 in line with the spirit and letter of the approved IDP for the 2010/2011 financial year and further highlights the priority areas requiring intervention.

The 2009/2010 Annual Report for Koukamma Municipality has been prepared in accordance with the new format for Municipal Annual Reports prepared by the Municipal Support and Monitoring Services, Chief Directorate, Department of Local Government and Traditional Affairs as presented at a workshop in Cacadu District Municipality on 26 October 2010.

C. OVERVIEW OF THE MUNICIPALITY

GEOGRAPHICAL AND DEMOGRAPHIC PROFILE

The Koukamma Municipality extends 3 575.17 km^2 and falls within the Cacadu District Municipality area, in the Eastern Cape Province. It is predominantly a rural Municipality although during the last 3 years there has been a trend towards urbanisation with 50.9% of the population being urbanised (as opposed to 25.45% in 2006). The Municipality is bordered by:

- Baviaans Local Municipality to the North
- Kouga Local Municipality to the East
- Bitou Local Municipality to the West (Western Cape)

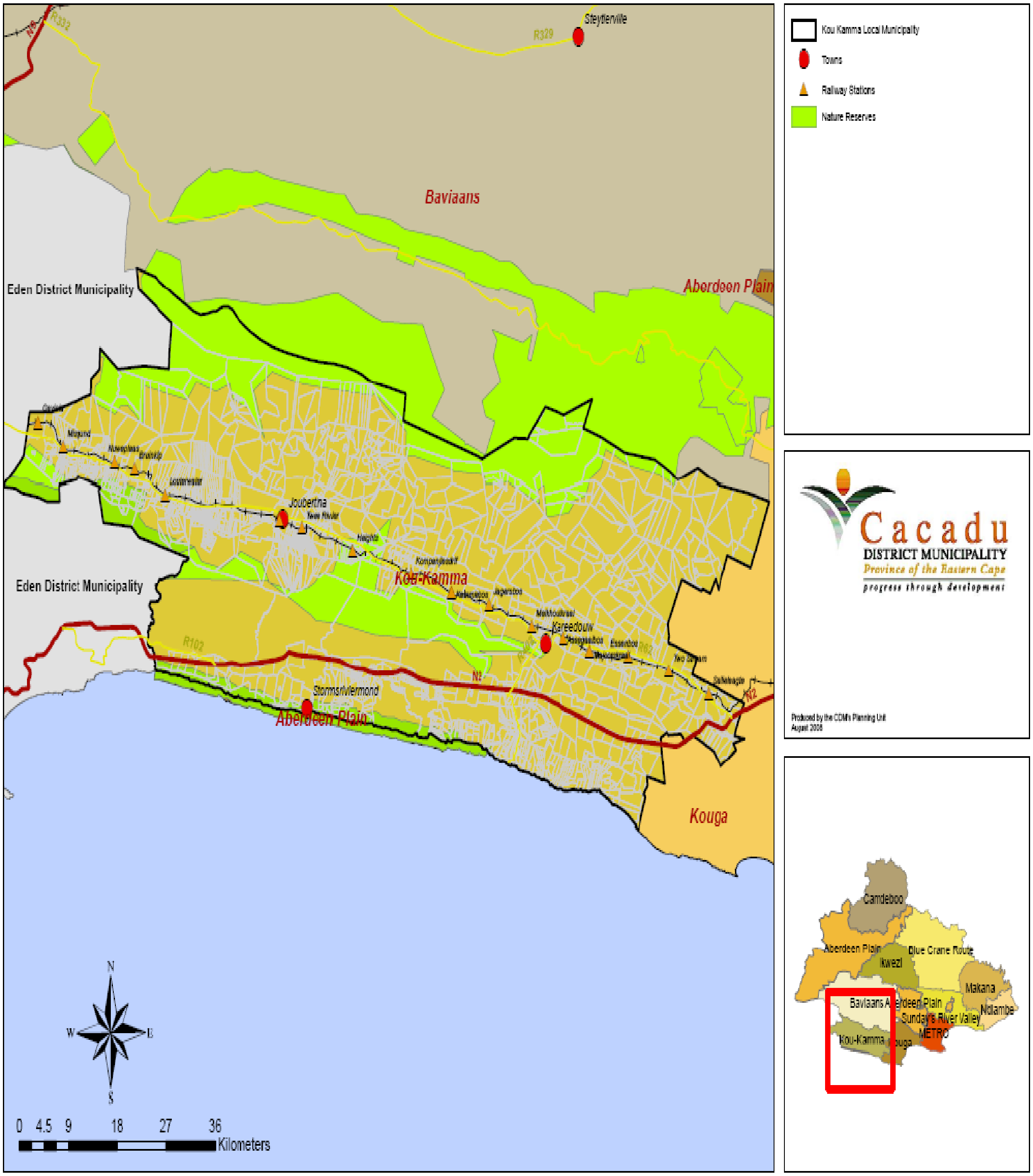
The area is made up of the Western Coastal Zone, including settlements such as Coldstream, Storms River and Clarkson (Wards 4 and 5), and the Langkloof, including settlements such as Kareedouw, Joubertina and Louterwater (Wards 1, 2 and 3), and the nature of the two areas differ vastly.

The Coastal Zone is characterised by:
- A diverse and fast growing economy driven by tourism and agriculture
- A fast growing population linked to the economic opportunities
- Indigenous forests
- Holiday destinations
- Good water supply

In contrast, the Langkloof is characterised by:
- Agriculture with high labour requirements often seasonal in nature.
- The area has greater challenges in terms of sufficient water supply, with additional pressure due to a high population growth related to migrant labour.

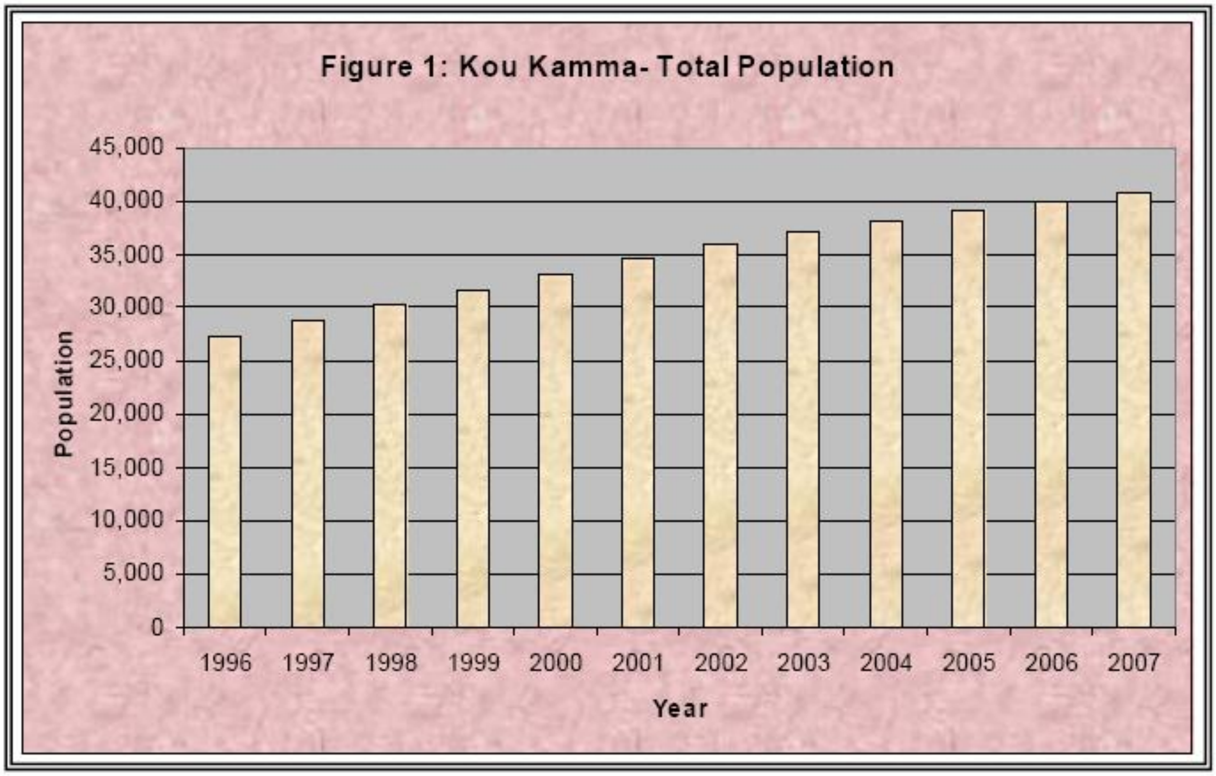
A graphical representation of Koukamma Local Municipality is illustrated by the map overleaf. Information contained within this socio-economic profile is based on the Global Insight database.

KOU KAMMA LOCAL MUNICIPALITY

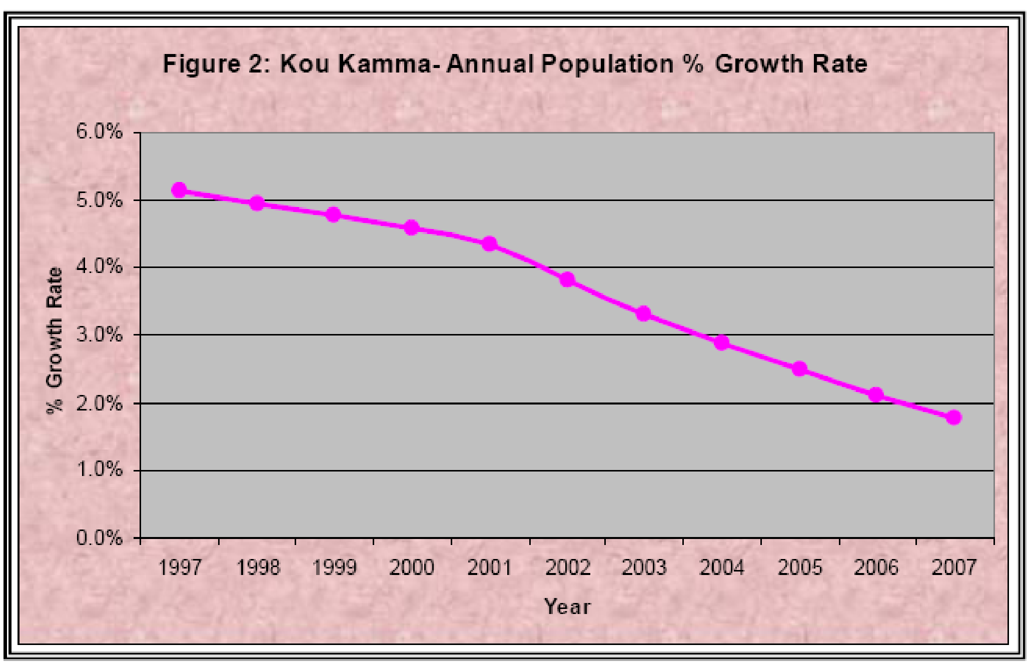


TOTAL POPULATION

The total population of Koukamma was 40 674 in 2007.



Since 1996, the population of Koukamma increased at an average annual rate of 3.6% per annum compared to an annual average growth rate of 1.1% within the Cacadu District and a 0.3% provincial growth rate



The population pyramids below indicate the age structure per gender group in Koukamma for the years 1996 and 2007. In 2007, children under the age of 15 accounted for approximately 26.27% of Koukamma's population whereas, in 1996, children under the age of 15 accounted for 31.64% of Koukamma's population which is reflective of the decline in year on year population growth rates within Koukamma.

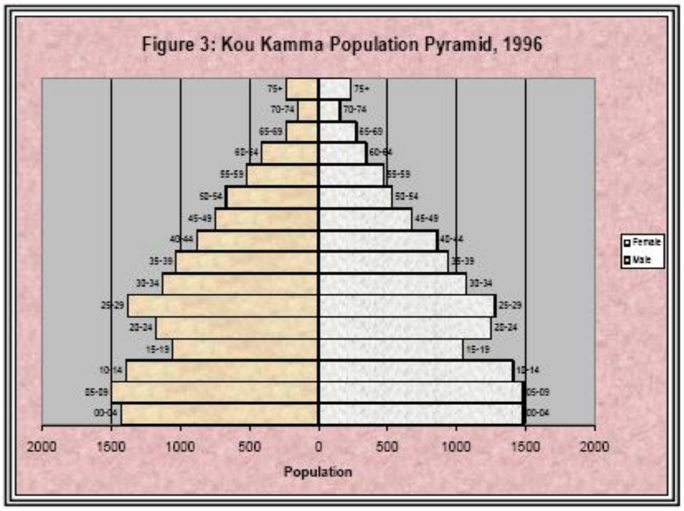


Figure 3: Kou Kamma Population Pyramid, 1996

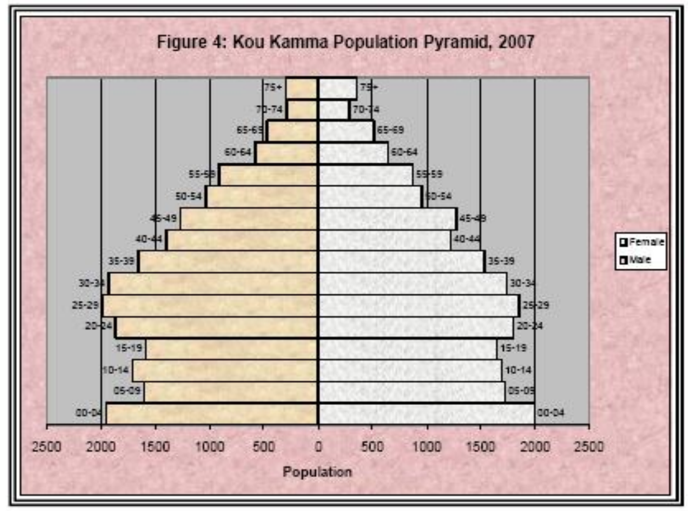


Figure 4: Kou Kamma Population Pyramid, 2007

Poverty Trends

The Gini coefficient is a summary statistic on income inequality which varies from 0 (in the case of perfect equality where all households earn equal income) to 1 (in the case where one household earns all the income and other households earn nothing). The coefficients for Koukamma, as indicated in the diagram below, indicate that the distribution of income in Koukamma has worsened between 1996 and 2007 from 0.55 to 0.64.

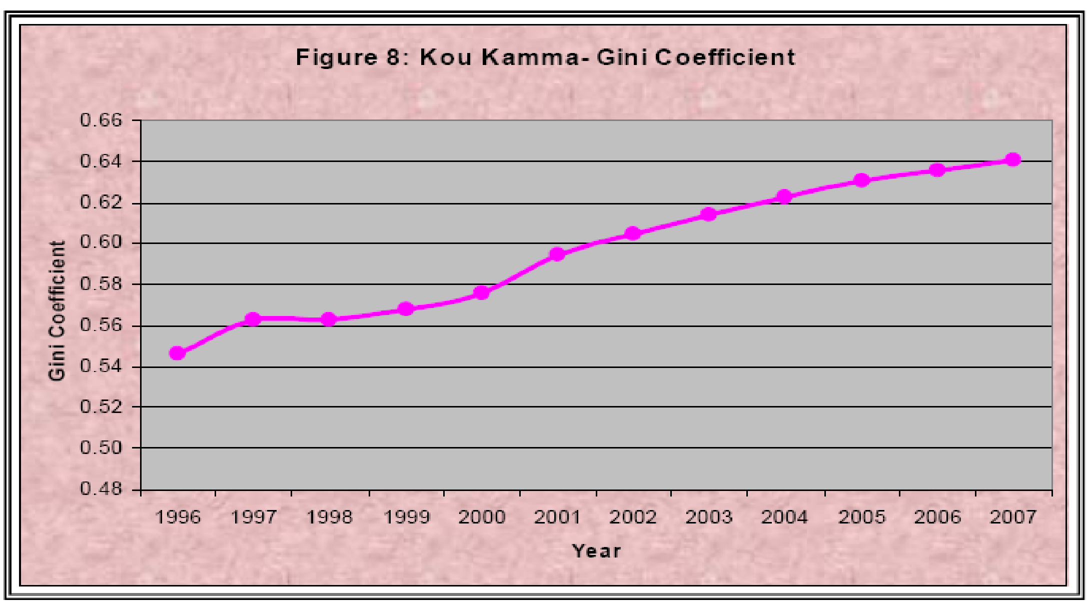
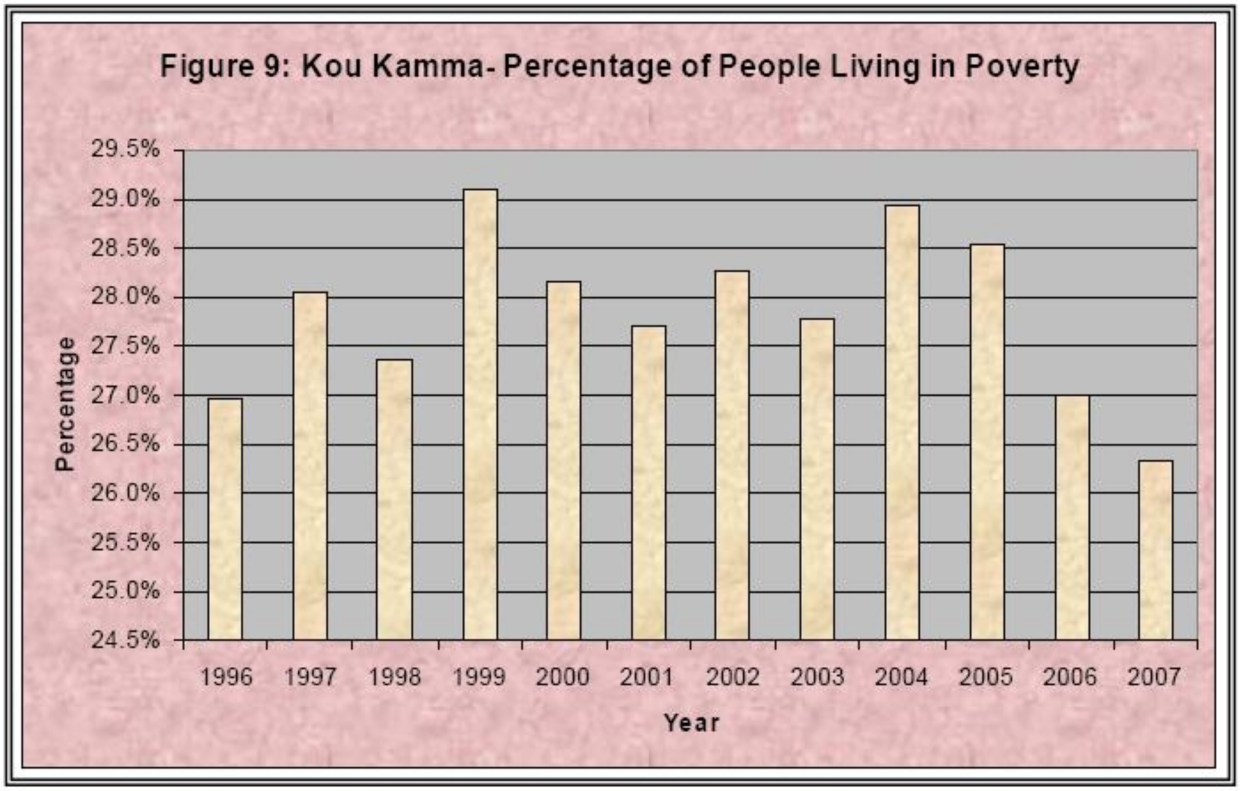


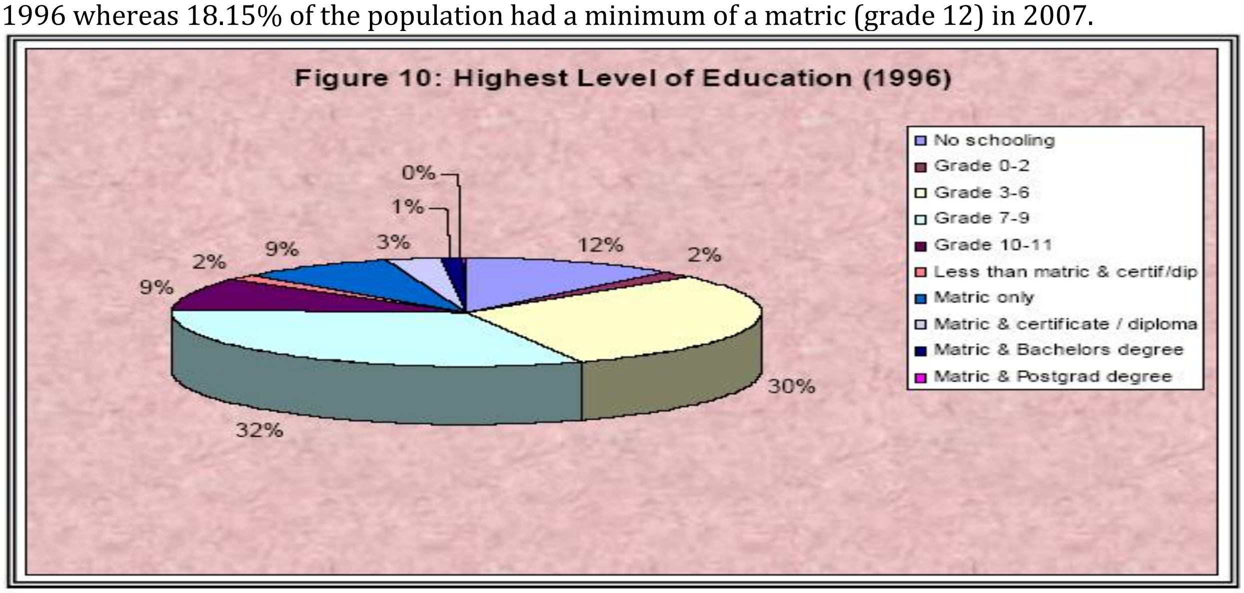
Figure 8: Kou Kamma- Gini Coefficient

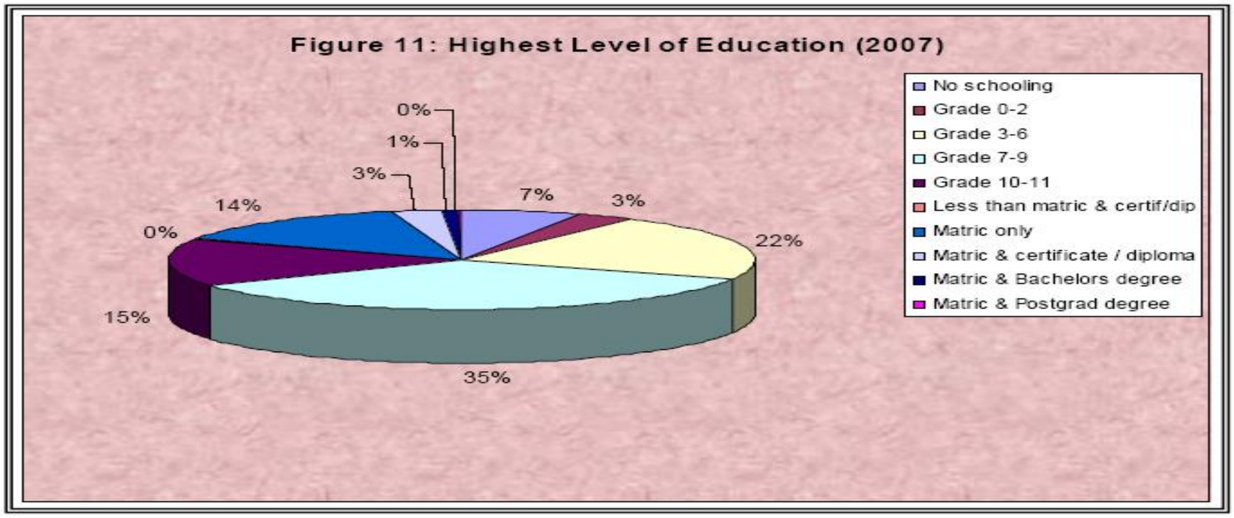
The percentage of people in poverty has decreased from 27% in 1996 to 26.3% in 2007 representing a total population of 10 715 living in poverty.



Education

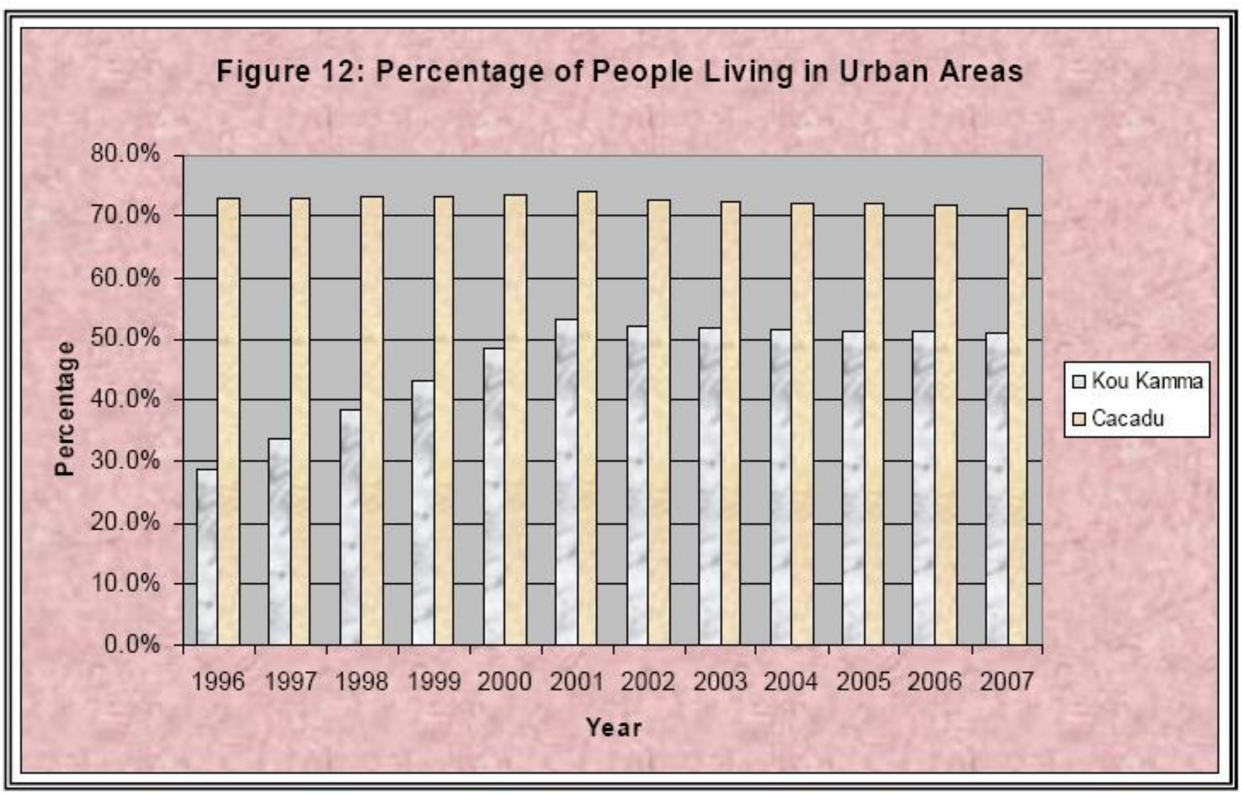
The level of education composition reveals that there has been an increase in higher levels of schooling within Koukamma 13.11% of the population had a minimum of a matric (grade 12) in 1996 whereas 18.15% of the population had a minimum of a matric (grade 12) in 2007.





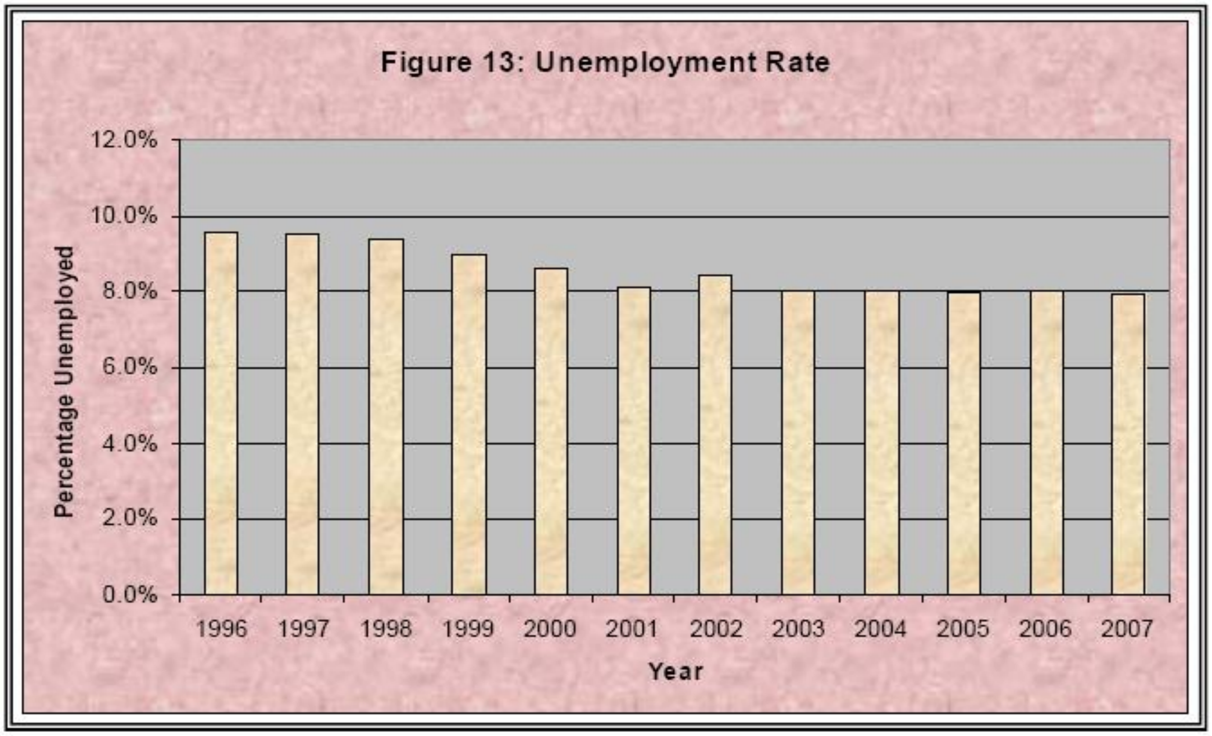
Urbanisation

In 2007, Koukamma was 50.9% urbanised as compared to 71.4% for the Cacadu District.

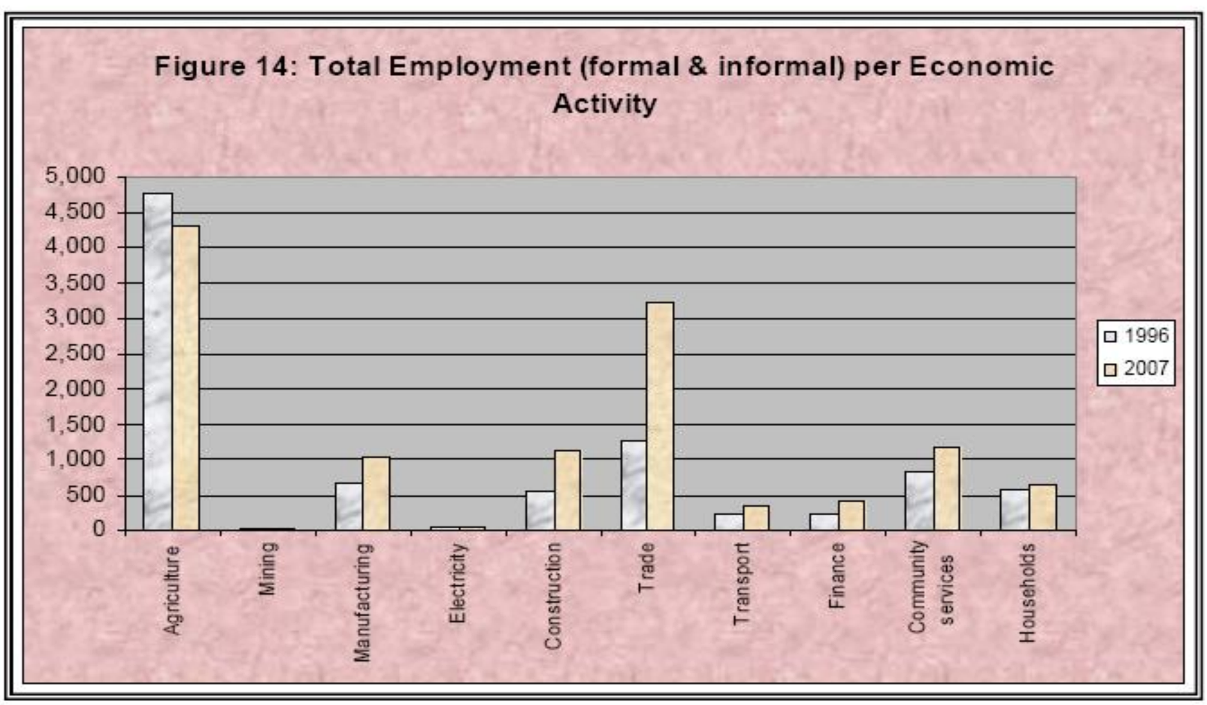


Unemployment

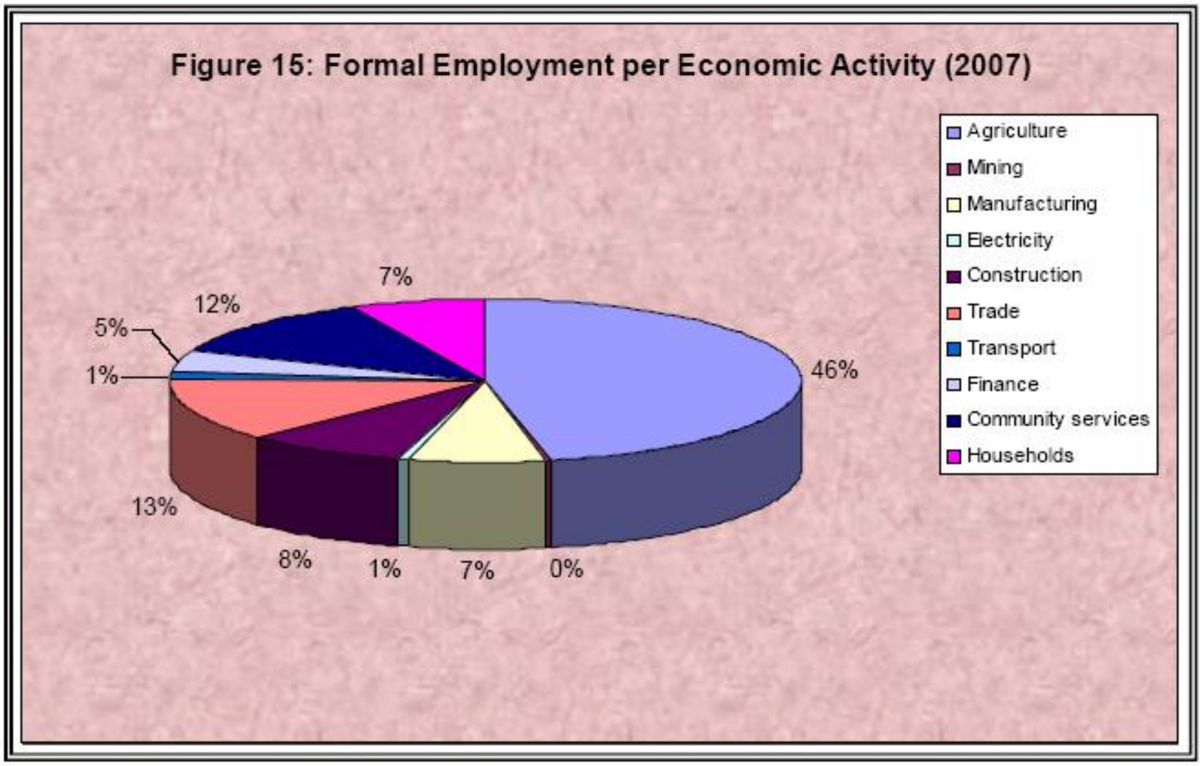
The percentage of people unemployed within Koukamma in 2007 is 7.9%. There has been a gradual decrease in the unemployment rate from 1996 which originally stood at 9.6%.



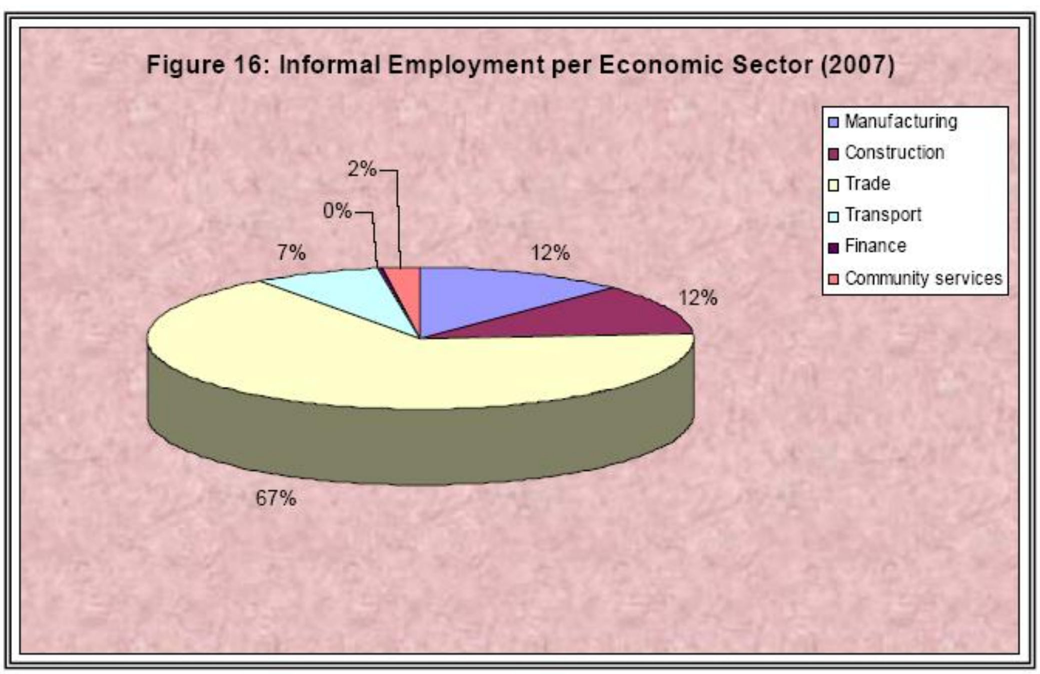
Total employment within Koukamma is dominated by the agricultural sector comprising 34.93%.



The highest levels of employment in the formal sector are in the Agricultural sector (46%) and the Trade sector (13%).

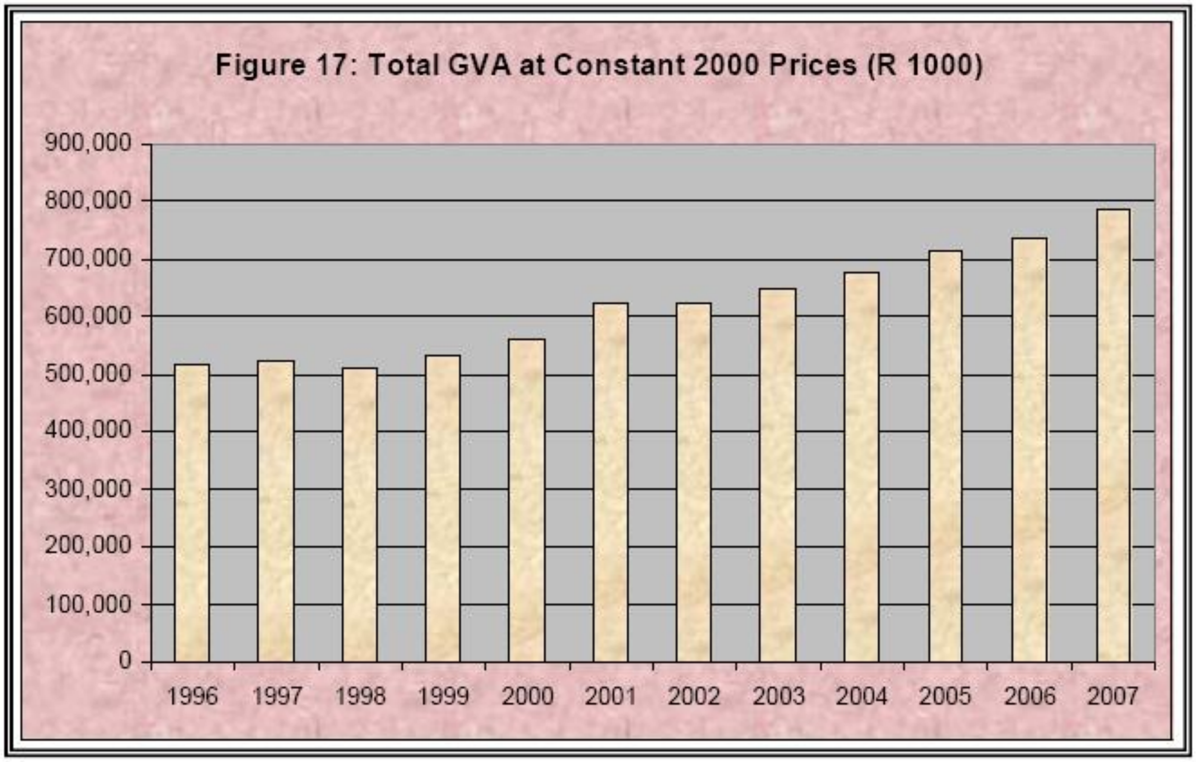


The dominant sector in the informal sector is day to day trading which accounts for 67% of informal sector employment.

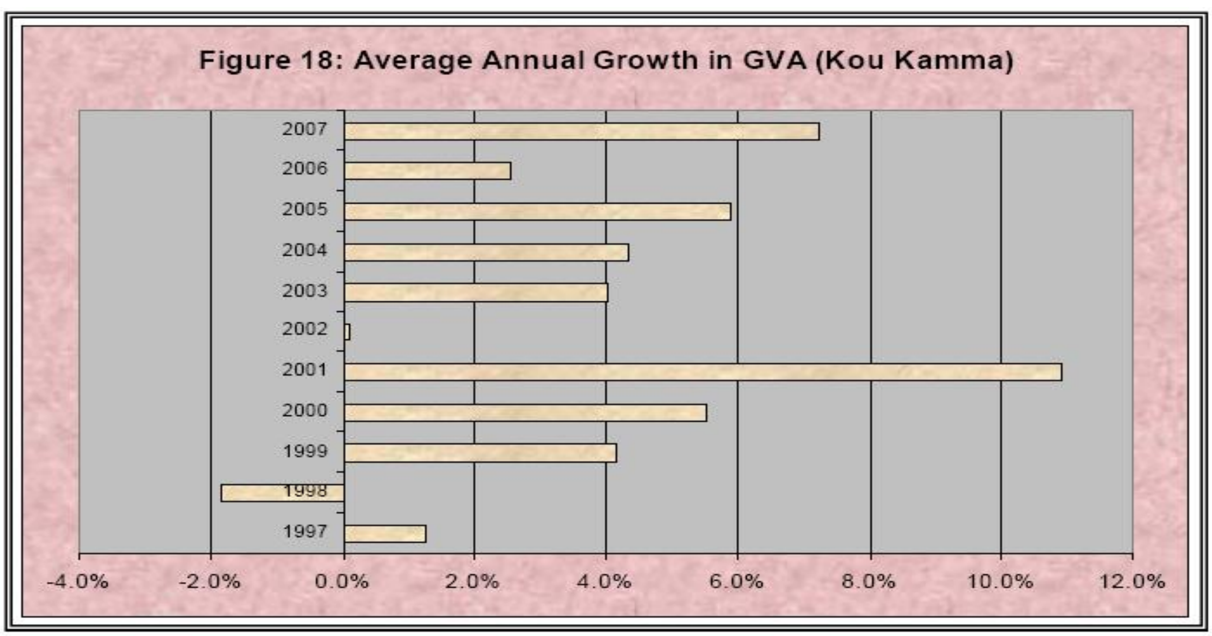


Main Economic Activities

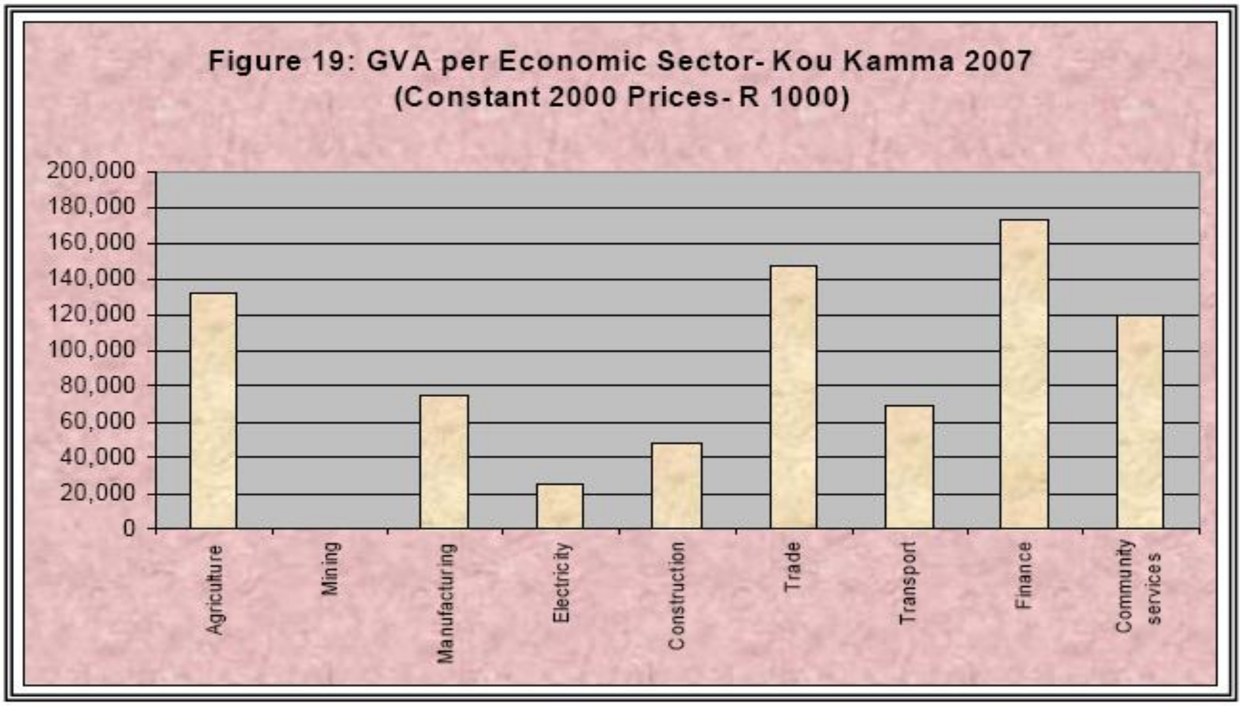
Year on year GVA at constant 2000 prices is reflected by the diagram below.



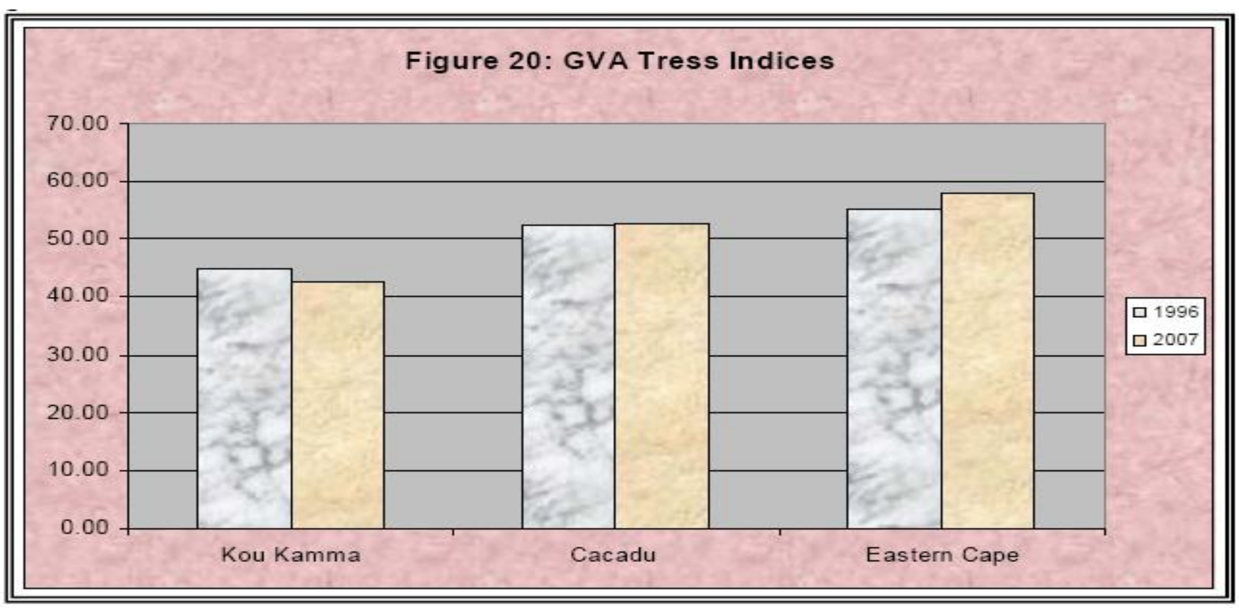
Koukamma's economy registered positive growth during the past decade. Given the widespread poverty, Koukamma will have to maintain its growth rate to have a significant improvement in welfare indicators.



GVA per broad economic sector for Kou Kamma is illustrated by the diagram below.



The tress index indicates the level of diversification or concentration in an economy. A tress index of zero represents a totally diversified economy. On the other hand, the higher the index (closer to 100), the more concentrated or dependent on a few economic sectors and more vulnerable the region's economy to exogenous variables such as adverse climatic conditions, commodity price fluctuations, etc. The economic production structure of Koukamma is more diversified as compared to the Eastern Cape Provincial economy. The level of vulnerability for Koukamma has remained relatively constant between 1996 and 2007 as indicated by the diagram below.



D. Executive Summary

The Section 139 (b) Intervention in Koukamma Local Municipality, agreed to in March 2009, was extended and continued throughout the 2009/2010 financial year and saw the appointment of a second Administrator in December 2009.

The combined diagnostic reports of the two successive administrators led to the development of a recovery programme, with the support of the Provincial Department of Local Government and Traditional Affairs and the DBSA. The programme is generally referred to as The Financial Recovery Plan but it addresses all areas of the institution identified as requiring priority attention including:

- Financial Management
- Administration and Human Resources
- Technical Development Services
- Public Participation

The extent to which these priorities have been achieved and the methods used are reflected in the summaries below:-

Administration and Human Resources

The municipality has been operating with skeleton staff especially in the service departments, viz Technical & Infrastructure Services and Community Services Departments, thereby relying on excessive use of overtime even beyond the BCEA provisions. This was coupled with abuse of overtime. This coupled with the municipality's cash flow problems saw the decision by management to stop payment in cash of overtime.

This was not an easy year for the division as it was characterised by numerous disciplinary cases and disputes by employees. Amongst the disciplinary matters were cases affecting the Top Management of the institution to a point where the last top official was suspended in April leaving the institution in the hands of the Administrator and middle managers.

In addition to the cash flow crisis, the low revenue base of the municipality could not allow adequate funding for skills development initiatives and as a result the municipality engaged on a supply driven approach to training in line with the requirements of the funder. Again the training was not aligned with the Employment Equity Act provisions as the municipality did not have an employment equity plan as it was only adopted in May 2010.

Technical Services

The main achievements in Basic Service Delivery included:

- The successful spending of R10m in Drought Relief Funding from the DBSA to the affected communities.
- The Unblocking of the stalled housing projects in Misgund and Ravinia.
- Implementation of the Disaster Relief Project (R177m).

The main challenges experienced in Technical services included:

- Addressing the consequences of the severest drought in 130 years.
- Shortage of skilled technical staff within the department.
- Shortage of vehicles for service delivery.
- Limited staff to monitor daily operations.
- Poor water quality results owing to aging infrastructure, absence of staff, and shortage of water purification chemicals
- Sewerage spillages owing to defective infrastructure, and uninformed communities.
- Ineffective structures and procedures for management of outlying areas.
- Slow response times to incidents.
- Ineffective application of Supply Chain procedures.

Community Services

Major achievements in Community Services included:

- The very high level of waste management service provided by a private contractor in Kareedouw.
- The deployment of a Librarian to the area by DSRAC.

Major challenges were experienced in the following functions:

- Waste Management
  (a)Ineffective plant and equipment
  (b) Inability to manage waste disposal sites due to the above.
  (c)Financial constraints

- Social Services
  (a) Deteriorating public amenities as a result of low or non-maintenance.
  (b) Libraries
  (c) The inability to establish satellite library facilities.
  (d) The fact that the DSRAC deployed only one Librarian to Koukamma without the necessary support such as transport.

Financial Services

Major achievements in Financial Services included:

- Implementation of the new evaluation roll
- Ensuring that the Cash flow position improved relative to the previous year

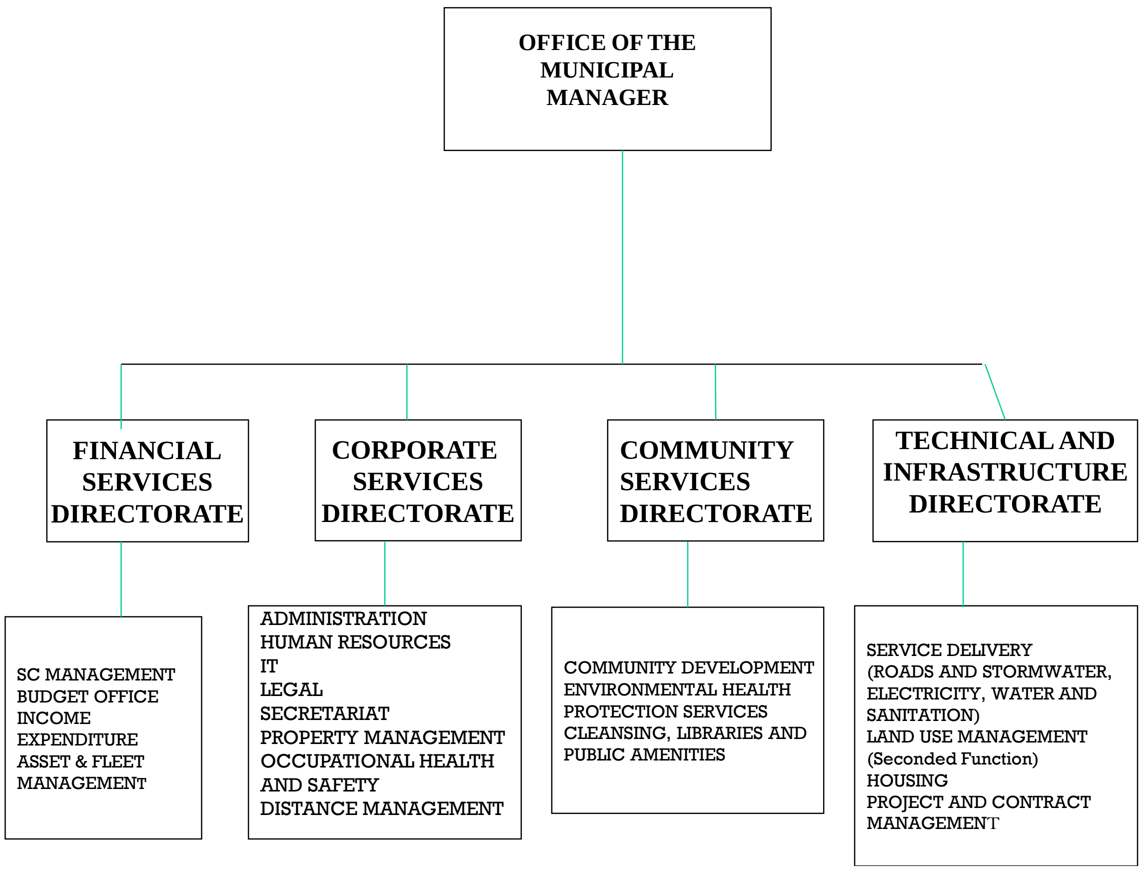
The major challenges included:

- The continuation of a Rates and Services payment boycott.
- Slow replacement of vacant posts.
- Suspension of the Chief Financial Officer.

PART 2: KPA ACHIEVEMENT REPORT

CHAPTER 1: MUNICIPAL TRANSFORMATION AND INSTITUTIONAL DEVELOPMENT – KPA1

1.1 Presentation of the organization structure (approved organogram)



The total number of approved posts for the entire institution remained the same as it was for the previous financial year at 235. Of these, 127 were vacant. Subsequent to the suspension of the Municipal Manager, Director Strategic Services, Chief Financial Officer and the departure of the Director Technical Services, no appointments were made during the 2009/2010 financial year.

The municipality was placed under a Section 139 (b) Intervention with an Administrator, Acting as Municipal Manager and Middle Managers Acting in the Section 57 positions with the exception of Corporate Services where the position was left vacant. Accordingly, no new employment contracts for these positions were submitted during this financial year.

Negotiations with the Cacadu District Municipality regarding the implementation of a Performance Management System continued during this financial year. A Service Provider was finally appointed after a tender process on 23 June 2010. Therefore no performance management system was implemented and no Section 56/57 Performance Agreements were submitted during this financial year.

1.2 Staff development initiatives during the financial year

The municipality undertook the following training:

Learnerships (for unemployed):

- Water purification, waste water reticulation, environmental practice and road construction. Competent learners will graduate on 22 October 2010.
- TheSiyenza Manje internship programme for engineering young professionals is still continuing. The municipality appointed 5 national treasury finance interns.

Learnerships (for employed):

- Local Government Accounting for finance cashiers has been undertaken and is still continuing.

Training workshops in:

- Supply chain management for Councillors and Officials, LGNET, Rules of Order, CMPD, and fire related training were also undertaken.

1.3 Key human resources statistics per functional area

(a) Full time staff complement per functional area

(i) MM/Section 57 and Line Managers

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	MM	1 (Dismissed)	0	1
2	Director: Strategic Services	1 (Dismissed)	0	1
3	Director: Technical Services	1 (terminated by mutual agreement)	0	1
4	Director: Community Services	1 (Acting)	0	1
5	Director: Corporate Services	1(Dismissal incapacity)	0	1
6	CFO	1 (Suspended)	1	0
	Total	6	1	5

(a) Staff complement in the Office of the Mayor and Municipal Manager

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	P.A. to MM	1	1	0
2	P.A. TO Mayor	1	1	0
3	Mayoral Driver	1	1	0
4	IDP/PMS Co-ordinator	1	1	0
5	LED/Tourism Co-ordinator	1	1	0
	Total	5	5	0

(b) Staff complement in the Community Services Directorate

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Secretary	1	1	0
2	Manager Community Services	1	1	0
3	Librarian	1	0	1
4	Library Assistant	4	4	0
5	Lawnmower Operator	1	0	1
6	Hall Caretaker	2	0	2
7	Labourer Parks	4	2	2
8	Cemetery caretaker	2	0	2
9	Cleansing Supervisor	2	2	0
10	Tipsite Operator	5	5	0
11	General worker	15	10	5
12	Environmental Health Officer	1	0	1
13	Chief Emergency Officer	1	0	1
14	Disaster Management Officer	1	1	0
15	Senior Fire Services Officer	1	1	0
16	Fire Services Officer	2	1	1
17	Fire Fighter	4	3	1
18	Assistant Superintendent	4	0	4
19	Traffic Officer	4	3	1
20	Examiner Vehicles	2	1	1
21	Examiner Drivers' License	1	1	0
22	Pit Assistant	1	1	0
23	e-Natis Senior Clerk	1	1	0
24	eNatis MVRA Clerk	1	0	1
25	eNatis Licensing Clerk	1	1	0
26	Filing Clerk	1	0	1
27	Total	64	39	25

(c) Staff complement in the Infrastructure and Technical Services Directorate

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Secretary	1	1	0
2	Manager Engineering Services	1	1	0
3	Electrician/artisan	1	1	0
4	Electrical Assistant	1	0	1
5	Supervisor(roads)	1	0	1
6	Plant Operators	3	3	0
7	Tip Truck Driver	1	1	0
8	General Assistant	9	4	5
9	Building Inspector	1	0	1
10	Handyman	2	1	1
11	Land & housing admin officer	1	1	0
12	Manager Water Services	1	0	1
13	Admin Clerk	1	1	0
14	Technician	1	0	1
15	Supervisor	3	0	3
16	Artisan/Plumber	4	0	4
17	Operators	16	14	2
18	Drivers	2	1	1
19	General Workers	18	6	12
20	Total	68	35	33

(d) Staff compliment in the Corporate Services Directorate

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Secretary	1	0	1
2	Manager HR	1	1	0
3	SHE Practitioner	1	0	1
4	HR Admin Officer	1	1	0
5	Equity/Skills Development Facilitator	1	0	1
6	Labour Relations Practitioner	0	0	0
7	Manager Administration	1	1	0
8	Receptionist/Telephonist	2	2	0
9	Office Cleaners	4	2	2
10	Registry Officer	1	1	0
11	Registry Assistant	1	1	0
12	Messenger	1	0	1
13	Committee Secretary	2	0	2
14	Admin Assistant	1	0	1
15	General Assistant	1	0	1

16	Manager IT	1	1	0
17	IT Technician	1	1	0
18	Data Capturer	1	0	1
	Total	22	11	11

(e) Staff compliment in the Finance Services Directorate

	Approved positions (e.g MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Secretary	1	1	0
2	Senior Accountant	1	1	0
3	Accountant Expenditure	1	1	0
4	Accountant Income	1	1	0
5	Accountant Supply Chain	1	1	0
6	Budget Compilation Officer	1	0	1
7	Budget Analysis Officer	1	0	1
8	Supply Chain Management Officer	1	0	1
9	Ordering Clerk	1	1	0
10	Expenditure and Credit Officer	1	0	1
11	Creditors Clerk	1	0	1
12	Expenditure Clerk Payroll	1	1	0
13	Senior Debtors Clerk	3	2	1
14	Cashier	10	6	4
15	Meter Reader	10	2	8
	Total	35	17	18

(f) Technical staff registered with professional bodies

Technical Service (e.g water, electricity etc...)	Total number of technical service Managers	Total number registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in the accredited professional body
None of our employees are registered with professional bodies	**Only one manager is employed**	**Nil**	**Nil**	**1**

(g) Trends on total personnel expenditure

Financial Years	Total number of staff	Total approved operating Budget	Personnel expenditure (salary and salary related)	Percentage of operational expenditure
2007-2008	164	R61,051,047	R17,848,412	29%
2008-2009	161	R52,429,364	R21,761,296	40%
2009-2010	138	R66,573,558	R22,570,284	34%

(h) List of pension and medical aids to whom employees belong (please add if necessary)

Names of pension fund	Number of members		Names of Medical Aids	Number of members
Sala	0		Bonitas	22
Cape Joint	20		SAMWU MED	27
SAMWU Provident Fund	86		Key health	6
			LA Heath	2
			Hosmed	1

1.4 Senior Managers' Total Salary Package:

Municipal Manager	Salary: R601 333
Director Strategic Services	Salary: R407 319
Director Community Services	Vacant
Director Technical Services	Salary: R549 419
Director Financial services (CFO)	Salary: R563 457
Director Corporate Services	Vacant

1.5 Implementation of the Performance Management System (PMS):

Negotiations between the Local and Cacadu District Municipality regarding the choice of performance management system (PMS) for Koukamma Municipality continued into the 2009/2010 financial year. At a meeting on 29 August 2010, between the then administrator, the Koukamma IDP/PMS Coordinator and the District's PMS Officer, an agreement was reached on how to proceed with the implementation of the PMS with funding and support from the District.

The process was further delayed until December 2009 when a second administrator was appointed to Koukamma to continue with the extended Section 139 (b) Intervention. At a meeting on 13 April 2010, between the new administrator, the Koukamma IDP/PMS Coordinator and the District PMS Officer, agreement was reached on the Terms of Reference for the appointment of a service provider to develop and implement a new PMS for the municipality as follows:

- The design of an appropriate, best suited and comprehensive performance management system (comprising both institutional and staff performance management components) for the municipality and which fully complies with the provisions of Chapter 6 of the Municipal Systems Act, 2000, the Local Government: Municipal Planning and Performance Management Regulations, 2001 and the Local Government: Municipal Performance Regulations for Municipal Managers and Managers directly accountable to Municipal Managers, 2006 In undertaking this task, the selected service provider will be required to review, revise and/or amend the performance management policy framework adopted by the council of the municipality.
- The proposed system was work-shopped with all role players including councillors, top management and trade union representatives.
- The implementation of the aforesaid system including the development of an Institutional Scorecard aligned to the SDBIP of the municipality and, if necessary, the provision of assistance with regard to the compilation of a SDBIP for the municipality to facilitate the implementation of performance management.
- The design of internal structures and procedures for reviewing and reporting performance in compliance with all applicable legislation.
- The review of all contracts entered into by the municipality and the incumbents of posts who are appointed on a performance based contractual basis (section 57 employees).
- The submission of proposals regarding the development of performance plans for councillors.
- The submission of proposals regarding the roll-out of the proposed performance management system to other categories of staff.
- Staff capacitation particularly of the dedicated performance management officer with a view to sustaining the selected performance management system.

A letter confirming the District's support and allocation of funding for the project was received in May 2010. Having followed the appropriate supply chain processes, a service provider was appointed on 23 June 2010 and the project commenced on 25 June. In summary, no PMS was implemented during the 2009/2010 Financial Year owing to:

- On-going negotiations with the District over the choice of system
- The absence of a full-time Municipal Manager and Section 57 Managers owing to suspensions and terminations of service.

1.6 Annual performance as per key performance indicators in municipal transformation and organizational development

	Indicator name	Total number of people (planned for) during the year under review	Achievement level during the year under review	Achievement percentage during the year	Comments on the gap
1	Vacancy rate for all approved and budgeted posts;	235	108	46%	Due to financial constraints
2	Percentage of appointment in strategic positions (Municipal Manager and Section 57 Managers)	6	Beginning of the year 5, end of the year 1	Initially 83% and ultimately 17%	Services terminated ranging from incapacity to misconduct
3	Percentage of Section 57 Managers including Municipal Managers who attended at least 1 skill development training course within the FY	6	3	50%	CPMD in line with the National Treasury requirements
4	Percentage of Managers in Technical Services with a professional qualification	4	0	0%	Two managers that were employed did not have formal qualifications
5	Percentage of municipalities that have adopted the Performance Management System within the district area (DM only)				
6	Percentage of staff that have undergone a skills audit (including competency profiles) within the current 5 year term	235	0	0%	Section 57 Managers could not avail themselves to the services provider for assessment. CDM did

					procure the service provider for other employees, interviews were conducted but the final product could not be availed to the municipality
7	Percentage of councillors who attended a skill development training within the current 5 year term	10	6	60%	The finance for non-financial managers training critically planned could not take off due to non-availability of funds
8	Percentage of staff complement with disability	n/a	1	0%	Employment equity plan only adopted towards the end of financial year
9	Percentage of female employees	Nil	41	32%	Employment equity plan only adopted towards the end of financial year
10	Percentage of employees that are aged 35 or younger	Nil			Employment equity plan only adopted towards the end of financial year

1.7. Major challenges and remedial actions in regard to human resource and organizational management

The major challenges in regard to human resources and organisational management include:

- Inadequate personnel. Department operating without a director for two years and no person is acting in the position currently. Attempts have been made to fill the position and the recommended candidate declined
- Position has been re-advertised (26 July 2010)
- The municipality is having a problem in attracting suitably qualified personnel, probably because of location of the municipality, remuneration, & stability.
- The municipality is generally lacking capacity in the technical services department, where none of the critical and strategic personnel can be confidently referred to as qualified
- Limited management capacity in the department in general
- The non-filling of the vacancies is, primarily, due to financial constraints and inability of the municipality to collect revenue.
- Also the municipal organogram is heavy on top, thus pushing the personnel costs to over 42% of the total operating budget.
- Alternative PMS preferred by CDM.
- Lack of funding to implement PMS.
- Lack of Admin support.
- Overstretched capacity of the personnel dealing with PMS
- Financial capacity to deliver training
- The workplace skills plan which relies entirely on grant funding as the municipality does not have financial resources to provide training – training is to a great extent supply.
- The WSP is not aligned to the employment equity plan and to the PMS as these components were lacking
- While the municipality delivered in the training of unemployed especially the youth, on critical & scarce skills, exit strategies are lacking and as a result the unemployment is stills a challenge.
- Non scheduling of meetings and non-adherence to meetings when scheduled
- Understanding of roles and responsibilities especially as it relates to matter for consultation v matters for negotiation and joint decision making. Also there appears to be a difficulty in understanding the difference between rights and privileged. There is a generally unsound relationship among workers themselves and between the employer and the employees. The separation of powers and distinction between what is political and what is administrative is still a challenge. Disregard of set process in relation to the exercise of the right to strike, which, may at time, lead to lawlessness among the employees. There is generally a culture of demand within the organization

The suggested remedies include:

- The municipality is in a process of contracting a service provider to review the policies, to develop legally compliant employment contracts and to update Personnel files.
- Finalise recruitment and appointment process
- The municipality is in a process of recruiting and headhunting to fill these positions and is in a process of reviewing the organogram, with an intention to, amongst other things, abolish the position of the Director Strategic

- Position of CFO to be resolved
- Organogram review
- Provision has been made in the current for the appointment of the two water technicians and four plumbers respond to the water problems
- Corrective measures/ disciplinary steps are taken
- Development and signing of Performance contracts for Section 57 Managers
- Undertake quarterly assessment of performance.
- To develop Policy Framework through assistance of the service provider.
- To review additional functions of PMS Officer.
- R 100 000 budgeted for KKM - Need additional funding (OTP)
- EE Plan in process of being developed
- Develop exit strategy for youth development training
- The municipality will address the issue of the schedule of LLF meetings
- The municipality is currently under intervention and the MEC has assumed responsibility on HR matters. The intervention team is currently addressing the issue of relations and the work shopping of roles and responsibilities

CHAPTER 2: BASIC SERVICES DELIVERY PERFORMANCE HIGLIGHTS – KPA 2

2.1 WATER SERVICES

a. Water services delivery strategy and main role-players:

Koukamma Municipality is a registered Water Services Authority and Water Services Provider. The main role players in the provision of bulk water include:

- The Water and Irrigation Boards in Louterwater, Krakeelrivier and Joubertina.
- The water Boards provide bulk raw water in line with the agreed water turns only.
- All other settlements are dependent for bulk water on natural streams, springs, earth dams and boreholes.

The municipality is the only role player in the purification and distribution of potable drinking water to industrial and domestic consumers.

b. Levels and standards in water services:

The lowest level of access to domestic water services is a stand pipe within two hundred meters of any household. This level of access affects 60 households in Koomansbos and 40 in Eersterivier. The highest level of access is an erf connection to the household. This level of access is available to all other households in the Koukamma area. Industrial consumers are connected to a municipal reticulated water network.

The lowest quality standard of water provision is the provision of raw untreated water to households and industrial users on occasion. Users in Coldstream, Storms River, Nompumelelo Village, Blikkiesdorp, Koomansbos, Woodlands, Eersterivier Clarkson, Kareedouw, Joubertina, Ravinina, Krakeelrivier, and Louterwater have been affected.

The following areas are supplied with raw water only since they do not have access to a water treatment scheme: Blikkiesdorp, Koomansbos, Eersterivier, Clarkson, Misgund. The highest quality standard of water provision is the provision of fully treated, purified, potable water that is tested once a month by an accredited laboratory in Port Elizabeth. Cacadu District Municipality provides the services of an Environmental Health Practitioner who is responsible for water sampling tests and results. This level of quality standard is delivered to all areas, except those that do not have access to treatment schemes or where the service is hindered by the challenges listed under (d) below.

c. Annual performance as per key performance indicators in water services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the FY under review (actual numbers)	Number of HH/customer reached during the FY	Percentage of achievement during the year
1	Percentage of households with access to potable water	6830	1380	5450	5450	100%
2	Percentage of indigent households with access to free basic potable water	1378	500	1200	1378	100%
3	Percentage of clinics with access to potable water	9	2	7	7	100%
4	Percentage of schools with access to potable water	14	3	11	11	100%
5	Percentage of households using buckets	No Bucket system used	100 informal households in Louterwater have no access to sanitation	0	0	100%

d. Major challenges in water services and remedial actions

The major challenges facing the delivery of water services during this financial year included:

- The severest drought in 130 years has created a disaster situation
- Lack of water treatment schemes in Blikkiesdorp, Koomansbos, Eersterivier, Clarkson, Misgund
- Insufficient capacity for bulk raw water storage
- Lack of locally dedicated water sampling
- Lack of qualified skilled personnel and general workers to implement water reticulation operations and maintenance routine plans including (bulk supplies).
- Shortage and absence of vehicles to render operations and maintenance functions (Tsitsikamma area).
- No two-way radio communication systems available, this contributes to a communication breakdown between main offices (call centre and field service vehicles eg. Sewerage tankers, supervisors, scheme operators)
- Insufficient materials for maintenance works on bulk, reticulation and domestic water supply pipelines
- No proper implementation program to render preventative maintenance outreach on electrical switchgear, motors, water pumps and borehole equipment.
- Continuous water purification chemical shortages, lack of communication to inform SCM in time for procurement of chemicals from suppliers. The management of the quality of water in terms of the Water Act is sometimes neglected due to chemicals not being available.
- Poor municipal stores management and control systems risk of possible lost on valuables.
- KouKamma does not have an information management system that captures and make reliable data available Management of staff in water schemes
- Staff needs training at identified posts
- Absence of a contingency plan when natural disaster or irregular happenings beyond municipal control is occurred.
- Faulty bulk and domestic water meters prohibit water loss and demand management.
- Non-compliance to legislative requirements (water act) results in targets not been achieved in terms of Blue Drop status.
- Ageing plant and equipment

The suggested remedies include:

- With reference to the Technical & Infrastructure organogram and in line with the budget for 2010 / 2011, critical vacant posts needs to be advertised and appointments been made.
- Priority needs to be given for the procurement of LDV vehicles to render these services.
- Specifications need to be developed following the SCM processes. Proposals from service providers to be invited to determine costs
- Take inventory and prepare system of stores management
- An Operations & Maintenance plan to be developed in line with our budget with implementation timeframes and clear guidelines.

- SCM to invite and secure yearly tenders for the procurement and delivery of water purification chemical on time.
- Stores management programme to be developed and implemented
- An information capturing and management system to be developed and implement.
- Appoint Supervisors for each scheme to make attendance registers and control sheets available at all schemes which need to be monitored at selected intervals without prior notifications.
- Identified staff which is in serious need for training to be prioritized and been trained in specific fields.
- Staff to be trained in disaster management
- Carry out repairs
- Comply with legislation
- Attend to repair or disposal of plant

2.2 ELECTRICITY SERVICES

a. Electricity services delivery strategy and main role-players

The main role players in the delivery of electricity services are Eskom and the local municipality. Eskom provides all of the bulk electricity for domestic and industrial purposes. In the following areas Koukamma Municipality is accountable for the reticulation network and supplies electricity via vending machines: Coldstream, Blikkiesdorp, Mountain View, Kagiso Heights, New Rest and Misgund. In all other settlements electricity is reticulated and vended by Eskom. The municipality is also responsible for the maintenance of all streetlights and community illumination.

b. Level and standards in electricity services

The lowest level of access to electricity services is in Koomansbos where there is no access because this is privately owned land. The highest level of service is a domestic or industrial connection to Eskom's national grid. The areas serviced by the municipality comprise RDP households whose access requirements are only between 20 – 40 amps. The lowest quality standard of electricity provision is determined by Eskom's load-shedding that results in periodic outages and powers surges affecting all users. The highest quality standard of electricity provision is when a reliable, sustainable supply can be achieved with minimum interruptions and rapid response to restore outrages.

c. Annual performance as per key performance indicators in Electricity services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review (actual numbers)	Number of HH/customer reached during the FY	Percentage of achievement during the year
1	Percentage of households with access to electricity services	1510	60	1450	1450	100%
2	Percentage of indigent households with access to basic electricity services	54	1834	1200	54	5%
3	Percentage of indigent households with access to free alternative energy sources	0	0	0	0	0

d. Major challenges in electricity services and remedial actions

The major challenges facing the delivery of electrical services during this financial year included:

- Shortage of qualified staff to render maintenance services
- Shortage of electrical maintenance materials
- Electricity meter tampering
- Lack of streetlight maintenance

The suggested remedies include:

- Appoint competent staff
- Adequate budget to be provided for procurement of materials
- Survey to be conducted
- Review organogram and appoint appropriate staff

2.3 SANITATION SERVICES

a. Sanitation services delivery strategy and main role-players

Koukamma Municipality is the only role player in the delivery of sanitation services in the municipal area except for farming communities and strives to provide an effective and reliable sanitation network to the community.

b. Level and standards in sanitation services

The lowest level of access to sanitation occurs in Louterwater where100 informal households receive no service and Koomansbos where 60 households use long drop toilets. The highest level of access to sanitation is a full waterborne sanitation system e.g. full flush system in all other settlements expect for Eersterivier which is serviced with Ventilated Improved Pits (VIPs). The lowest quality standard of sanitation provision and treatment is in the informal households in Louterwater where sewerage is left untreated. In developed areas sewerage spillages occur as a result of:

- Blockages caused by incorrect use of the available sewerage facilities by the community
- Inferior workmanship in the construction of the original systems in Louterwater, Woodlands, Storms River West and Ravinia
- Deterrioration of waste water sewerage schemes in Blikkiesdorp and Laurel Ridge where the systems are dysfunctional.

The highest quality standard of provision is where all sewerage is fully treated so that effluent is in compliance with the National Water Act (1998) in all other developed settlement areas.

c. Annual performance as per key performance indicators in sanitation services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review	Number of HH/customer reached	Percentage of achievement during the year
1	Percentage of households with access to sanitation services	6830	1380	5450	5450	100%
2	Percentage of indigent households with access to free basic	1378	500	1200	1378	100%

	sanitation services					
3	Percentage of clinics with access to sanitation services	9	2	7	7	100%
4	Percentage of schools with access to sanitation services	14	3	11	11	100%

(d) Major challenges in sanitation services and remedial actions

The major challenges facing the delivery of sanitation services during this financial year included:

- Absence of qualified skilled personnel and general workers to implement sewerage reticulation maintenance routine plans
- Shortage and absence of vehicles and special drain cleaning equipment to render maintenance services and functions
- No proper implementation program to render preventative maintenance outreach programmes on electrical switchgear, motors and mechanical equipment
- Absence of community awareness Champaign for the usage of a full water borne sanitation system
- Dysfunctional and over capacitated sanitation schemes

The suggested remedies include:

- Vacant posts needs to be advertised and appointments been made in line with approved budget.
- Procurement of vehicles and equipment following SCM processes
- Develop O&M plans
- Outreach programmes to be convened with communities
- Monitor MIG projects

2.4 ROAD MAINTENANCE

(a) Road maintenance services delivery strategy and main role-players

The three main role players are the local municipality, the Department of Provincial Roads and the South African National Roads Department (SANRAL). The local municipality is accountable for internal municipal streets and storm-water management systems. The Provincial Department is responsible for provincial proclaimed roads. This includes the R62/Langkloof Route and access roads to farming communities. SANRAL is responsible for the National N2 Route which is the main coastal link between Port Elizabeth and Cape Town.

(b) Level and standards in road maintenance services

All formal settlements in Kou-Kamma have access to basic roads. The lowest level of access provided by the municipality is a basic gravel road that can carry a maximum of a 5 tonne truck. The highest level of access is a paved seal tarred road with a storm water management system. The municipality is currently responsible for 50km of this level of access. The quality of road maintenance by the local municipality is non-existent owing to the lack of a full-time roads maintenance section and the lack of machinery and plant. The Province provides gravel road access to Eersterivier and all farming communities and a sealed tarred surface road to the Langkloof (R62). SANRAL provides a high quality dual carriageway toll route (N2).

c. Annual performance as per key performance indicators in road maintenance services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review (Actual numbers)	Number of HH/customer reached during the FY	Percentage of achievement during the year
1	Percentage of households without access to gravel or graded roads	0	0	6830	6830	100%
2	Percentage of road infrastructure requiring upgrade	250Km	20Km	75Km	70Km	93%
3	Percentage of planned new road infrastructure actually constructed	5Km	3Km	5Km	2Km	40%

4	Percentage of capital budget reserved for road upgrading and maintenance effectively used.	200,000 plus Disaster Relief Fund: R120m	R5,200,000	R120,200,000	R115,000,000	96%

(d) Major challenges in road maintenance services and remedial actions

The major challenges facing the delivery of road maintenance services during this financial year included:

- Lack of personnel and equipment to maintain roads and infrastructure

The suggested remedies include:

- Develop roads maintenance plan
- Identify critical positions to re-establish roads and storm water section
- Make beneficiary stats available for EPWP

2.5 WASTE MANAGEMENT SERVICES

The municipality is responsible for the effective delivery of the service thereby uplifting communities socially and economically through:

- Pollution and waste minimisation, impact management and remediation
- Maintaining minimum waste management standards in order to protect human health and the environment from the possible harmful effects caused by the handling, treatment, storage and disposal of waste
- Making timeous and appropriate provision for adequate waste disposal facilities
- Preventing water pollution
- Information management

(a) **Waste management services delivery strategy and main role-players**

The main role-players in waste management include:

- Communities: who are the clients serviced by the municipality. They generate the refuse and place it in a refuse bag for collection. Communities have the responsibility to pay services charges.
- Businesses: Have the same roles to play as Communities.
- Service Provider (Mr Wian De Jager): Who renders the service on behalf of the Municipality in Kareedouw.

- Recyclers: Who collect recyclable material (tins, glass, etc) thereby minimising the waste on refuse dump sites.
- Department Of Economic Development And Environmental Affairs(DEDEA): Who are responsible to ensure that the Municipality complies with relevant legislation.

The Integrated Waste Management Plan was developed by Kwezi-V3 as per their mandate received from Cacadu District Municipality. However, none of the recommendations in the document have been implemented owing to financial constraints in the Municipality.

(b) Level and standards in waste management services

1 365 households in all communities in Koukamma, including the informal settlement in Louterwater, have access to the refuse removal service. The houses in Misgund have not been occupied yet. The target for the next financial year, therefore, is to service 401 additional households. Refuse is collected from domestic and business premises on a weekly basis. Domestic clients are issued with two (2) black refuse bags each week. Waste (domestic, business and garden) is disposed of at six (6) identified disposal sites. However, the disposal sites are not managed properly owing to the lack of necessary plant and equipment.

(c) Annual performance as per key performance indicators in waste management services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (actual numbers)	Target set for the f. year under review	Number of HH/customer reached	Percentage of achievement during the year
1	Percentage of households with access to refuse removal services	2321	1432	1 833	1363	52%

(d) Major challenges in waste management services and remedial actions

The major challenges facing waste management services include:

- Little to no management of refuse dump sites.
- Refuse collection trucks are old and experience regular breakdowns.
- Illegal dumping of refuse.
- Waste disposal sites' fencings are damaged, or non-existent.
- Recycling initiatives are not formalised or non-existent.

The suggested remedies include:

- Plant and equipment need to be acquired for this purpose.
- New trucks to be purchased or service to be outsourced.
- Awareness campaigns to be implemented.
- Adequate budget to be provided in order to fence dump sites.
- Recycling initiatives need to be investigated and implemented.
- Informal recycling activities need to be formalised.

2.6 SPATIAL PLANNING

(a) Preparation and approval process of SDF:

The Spatial Development Framework was last reviewed and adopted in May 2007. The framework needs to be reviewed within five years.

2.7 HOUSING

(a) Housing

The Department of Human Settlements is responsible for housing delivery in the Koukamma Municipal Area. The municipality, as the local authority, acts as a facilitator between the community and the provincial department.

(b) Level and standards in housing services

The lowest level of access to housing is in the form of informal settlements which occurs in Louterwater and Koomansbos (which is privately owned land). Access to RDP Housing affords the highest level of access to housing. The quality standard of housing provided in the municipal area is a 40 square meter RDP House.

(c) Annual performance as per key performance indicators in housing services

	Indicator name	Total number of household/customer expected to benefit	Estimated backlogs (Actual numbers)	Target set for the f. year under review	Number of HH/customer reached	Percentage of achievement during the year
1	Percentage of households living in informal settlements	310	310	310	0	0%
2	Percentage of informal settlements that have	0	310	0	0	0%

	been provided with basic services					
3	Percentage of households in formal housing that conforms to the minimum building standards for residential houses	5942	0	0	0	100%

d. Major challenges in housing services and remedial actions

The major challenges facing the delivery of housing services during this financial year included:

- Only one housing officer is employed and underutilised

The suggested remedies include:

- To revisit the function to make better use of personnel

2.8. LAND USE MANAGEMENT

In a context of Koukamma Municipality, the applicable legislation that governs and regulates the land use management activities within its jurisdiction includes the following:

- The Land Use Planning Ordinance, Ordinance 15 of 1985
- Section 8 Zoning Scheme Regulations as promulgated in 1988

However, Koukamma Municipality has over a number of years battled to create an internal capacity to undertake this work hence it strategically formed a mutual relationship with Kouga Development Agency which is regulated by the Service Level Agreement (SLA) to undertake this assignment.

a. Major challenges in spatial planning services and remedial actions

One of the principal challenges that Koukamma Municipality had overtime grappled with was the question of spatial planning with relevance to the accurate information and usage of such data to harness and sustain its planning capacity, its ability to ensure alignment, coordination including monitoring and evaluation mechanisms. As a consequence, Koukamma Municipality is faced by the pertinent challenge of constantly updating the spatial development plan with accurate, reliable and credible data for purposes of prudent planning and integration of all services. However, without a dedicated person to manage and coordinate the project with the necessary capacity and expertise, such a project may not take off the ground in a manner as envisaged.

2.8 INDIGENT POLICY IMPLEMENTATION:

(a) Preparation and approval process of the indigent policy

An indigent policy was adopted by Council in May 2010.

(b) Implementation of the policy

Workshops were held in all settlements and townships in order to obtain a comprehensive and up to date indigent register which has been implemented in accordance with the policy since 1 July 2010.

2.9 OVERALL SERVICE DELIVERY BACKLOGS

Basic service delivery area	**30 June 2008/9**			**30 June 2009/10**		
Water backlogs (6KL/month)	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (No. HH not receiving the minimum standard service)	100 (Louterwater informal settlement)	0	0	100 (Louterwater informal settlement)	0	0
Backlogs to be eliminated (%: total HH identified as backlog/total number of HH in the municipality	1.5%	0	0	1.5%	0	0
Spending on new infrastructure to eliminate backlogs (R000)	0	0	0	0	0	0
Spending on renewal of existing infrastructure to eliminate backlog (R000)	0	0	0	0	0	0
Total spending to eliminate backlogs (R000)	0	0	0	0	0	0
Spending on maintenance to ensure no new backlogs (R000)	0	0	0	0	0	0
Electricity backlogs (50KWH/month)						
Backlogs to be eliminated (No. HH not receiving the minimum standard service)	1878	1200	1378	1878	1200	1878

Backlogs to be eliminated (%: total HH identified as backlog/total numb of HH in the municipality	4% (Koomansbos privately owned land)	0	0	4% (Koomansbos privately owned land)	0	0
Spending on new infrastructure to eliminate backlogs (R000)	0	0	0	0	0	0
Spending on renewal of existing infrastructure to eliminate backlog (R000)	R3,5m	R3,5m	R3,54m	R3,5m (Rollover)	R3,5m (Rollover)	R3,54m (Rollover)
Total spending to eliminate backlogs (R000)	R3,5m	R3,5m	R3,54m	R3,5m (Rollover)	R3,5m (Rollover)	R3,54m (Rollover)
Spending on maintenance/rehabilitation to ensure no new backlogs (R000)	R3,5m	R3,5m	R3,54m	R3,5m (Rollover)	R3,5m (Rollover)	R3,54m (Rollover)
Sanitation backlogs (VIP)	N/A	N/A	N/A	N/A	N/A	N/A
Backlogs to be eliminated (No. HH not receiving the minimum standard service)	100 (Louterwater Informal Settlements) 40 (Eerstervier) 60 (Koomansbos)	40	40	100 (Louterwater Informal Settlements) 60 (Koomansbos)	0	0
Backlogs to be eliminated (%: total HH identified as backlog/total numb of HH in the municipality	3%	0.6%	0.6%	2%	0	0
Spending on new infrastructure to eliminate backlogs (R000)	R650,000	R650,000	R650,000	0	0	0
Spending on renewal of existing infrastructure to eliminate backlog (R000)	0	0	0	R15m	R9,5m	R9,5m
Total spending to eliminate backlogs (R000)	R650,000	R650,000	R650,000	R15m	R9,5m	R9,5m

Spending on maintenance to ensure no new backlogs (R000)	R1m	R650,00 0	R650,00 0	R1,2m	R850,00 0	R850,00 0
Road Maintenance Backlogs						
Backlogs to be eliminated (No. HH not receiving the minimum standard service)	250km	250km	100km	250km	250km	245km
Backlogs to be eliminated (%: total HH identified as backlog/total numb of HH in the municipality	100%	100%	40%	100%	100%	98%
Spending on new infrastructure to eliminate backlogs (R000)	0	0	0	0	0	0
Spending on renewal of existing infrastructure to eliminate backlog (R000)	170m	0	0	170m	110m	110m
Total spending to eliminate backlogs (R000)	170m	0	0	170m	110m	110m
Spending on maintenance to ensure no new backlogs (R000)	0	0	0	0	0	0
Refuse removal						
Backlogs to be eliminated (no. HH not receiving the minimum standard service)	1432	1 508 950	3 255 693	401	5 46 000	4 256788
Backlogs to be eliminated (%: total HH identified as backlog/total numb of HH in the municipality	1031	1 021 506	4 455 000	7%		
Spending on new infrastructure to eliminate backlogs (R000)	0	0	0	180 000	180 000	180 000
Spending on renewal of existing infrastructure to eliminate backlog (R000)	18 000	18 000	18 000			
Total spending to eliminate backlogs (R000)	18 000	18 000	18 000			

Spending on maintenance to ensure no new backlogs (R000)			18 000			
Housing and Town Planning						
Backlogs to be eliminated (No. HH not receiving the minimum standard service)	310	0	0	350	0	0
Backlogs to be eliminated (%: total HH identified as backlog/total numb of HH in the municipality	5%	0	0	5.9%	0	0
Spending on new infrastructure to eliminate backlogs (R000)	R23m	0	0	R26m	0	0
Spending on renewal of existing infrastructure to eliminate backlog (R000)	R21m	R21m	R2m	R21m (Rollover)	R21m (Rollover)	R12.8m
Total spending to eliminate backlogs (R000)	R44m	R21m	R2m	R47m	R21m	R12.8m
Spending on maintenance to ensure no new backlogs (R000)	R110m	0	0	R110m	R110m	0

CHAPTER 3: LOCAL ECONOMIC DEVELOPMENT – KPA 3

3.1 BRIEF PRESENTATION OF LED STRATEGY

The LED strategy was funded by Thina Sinako and Urban Econ was the service provider facilitating it in May 2009. The first draft document was adopted by Council in October 2009, and the final report for the strategy was adopted by Council in May 2010.

The overall objective of developing the LED Strategy is to develop a conducive environment for to stimulate economic growth and development, thereby improving basic living conditions and reducing unemployment. The LED Strategy will identify economic opportunities and potential in the area, which will enable Koukamma Municipality to actively seek investment and create an environment conducive to development.

The LED unit was established in May 2008, it was previously combined with IDP. It was then discovered that the office was overloaded by these two functions LED and IDP and was then split. Currently the unit is running with a LED Coordinator who reports to the Municipal Manager, and an administrative assistant. The review of the 09/10 organogram then identifies the Tourism Officer in addition to the unit.

The roles and responsibilities of the LED Office include:

- To integrate and coordinate the efforts of other national, provincial and local government department in the implementation of LED projects identified in the strategy.
- Attending LED Forum meetings
- To take forward issues of relevance raised at the LED Forum and ensure two way communication between the forum and the Municipality
- Communicate with private sector and sector associations
- Implementing LED projects identified in the KKLM LED Strategy and based on the focus areas of LED in the Municipality and monitoring the LED projects through the monitoring and evaluation framework on a regular basis
- Facilitating LED projects
- Plan and promote LED projects that require outside support for implementation
- Integrating and coordinating the efforts of other national, provincial and local government departments in the implementation of LED projects

Stakeholder relationships have been identified as a critical sucsess factor for LED in Koukamma. The raltionship between Koukamma Municipality and other Koukamma stakeholders is not effective and therefore needs to be resolved. The most obvious challenge is the relationship between Koukamma Municipality and the private sector. Some of the projects identified are aimed at improving and integrating the relationships between the municipality, local businesses and the local community.

3.2 PROGRESS TOWARDS ACHIEVING THE LED STRATEGY OBJECTIVE

(a) Improve public and market confidence

Approximately 56 650 ha of land still need to be redistributed within the Koukamma. This land reform should, as a first priority, be implemented in the key focus areas (primary and secondary nodes). The following broad key deliverables are set for Koukamma Municipality (KKLM ABP & Land Availability Audit, 2008):

- 12 000 ha to be distributed before 2014
- Average of approximately 2000 ha per annum between 2008 and 2014 to be redistributed
- Approximately 6237 ha per annum between 2015 and 2025 to be redistributed

The table below gives an indication of land reform status in Koukamma.

Land redistribution in Koukamma

	Grants/ Beneficiaries	**Total Project Cost in R**	**Grant Approved in R**	**% Ha of total**	**% Grant Approved per Municipality**	**Average Grant approved/ beneficiary in R**
KKLM	1,769	107,641,809	54,716,767	11.41	35.58	30,931
CDM	8,853	252,064,950	153,767,909	100.00	100.00	17,369

The land reform process in Koukamma has to date created 1769 beneficiaries with 9609 ha of land. This represents 11.41% of the total hectares land which is available for land reform in the Cacadu District. This has resulted in Grant spending of over R54 million at an average land price of R8477 per ha.

Land redistribution in Koukamma

	Land Area	**Land Available (White owned)**	**30% Target**	**Land Redistribution 1994-2008**	**Remaining Target**	**% Achieved**
KKLM	357371	300720	90216	9609	80607	11.92
CDM	5824329.81	4724988	1417496.37	84105.56	1333390.8	6.31

Koukamma has 56 650 ha of land which is excluded from the land restitution process. This means that 80 607 ha is still to be redistributed within the Municipal area. 12% of the land earmarked for redistribution has been distributed. This figure is higher than the Cacadu District Municipality average of 6.31% land redistribution.

Keeping in mind the land capability map it is clear that there is no redistribution in arable land areas. This therefore means that the remaining 17% of the targeted land reform should be in areas that provide opportunities for sustainable agricultural development. High potential agricultural land is situated along both sides of the N2 form the eastern and western boundaries of the KKLM.

Trade opportunities in Koukamma include:

- Value chain analysis
- Developing facilities for the secondary economy such as informal trading stands
- Disseminate information on business opportunities and market information
- Organising emerging businesses into a forum
- Integrating emerging businesses and established businesses on existing stakeholder forums
- Local procurement

Trade constraints in Koukamma include:

- Difficulties in getting land zoned for retail development
- Income leakage from area
- Lack of a critical mass to support retails developments
- Lack of information on business opportunities in Koukamma
- Lack of information on procedures to be followed to do business in Koukamma
- The big gap and separation between the informal and formal sectors

Infrastructure is one of the most vital requirements for social and economic development. Economic infrastructure available in the region includes:

ROADS

Roads are a key economic infrastructure as goods and services cannot be moved if there is an inadequate or non-existent road infrastructure. The poor state of roads within Koukamma will affect business and investment as well as the mobility of the population. The agriculture, manufacturing and trade sectors which are heavily involved with logistics in Koukamma have been set back at times because of the poor state of the road network. The existence of unmaintained roads also acts as a great obstacle to tourism since the main access for tourists to the region is via road.

RAIL

The railway route plays a vital role in the logistics for agriculture sector. There is scope for use by other economic sectors as the railway transport costs per ton is one of the cheapest forms of transport. The revitalisation of the Apple Express will have positive spin offs for all sectors of the economy but especially the tourism, trade and transportation sectors.

AIR

The development of a public airstrip and the upgrading of existing facilities could create an opportunity for greater access to Koukamma, be it for tourism or business.

WASTE MANAGEMENT

Poor waste management can adversely affect the tourism sector by negatively impacting on the image of the area. It also can affect the potential for new investment and business retention. It also poses potential health problems to the community. An intervention is required to address the shortage of waste sites. This creates the opportunities around recycling and conversion of waste into bio-mass supply. Thus creating jobs out of what is becoming a hazardous problem to the Koukamma community. There is no refuse removal done in the rural areas. From a rural tourism perspective this is not positive. Therefore, regular waste management should be made available in all areas.

ELECTRICITY

Reliable, uninterrupted electricity supply is vital to advance economic development in the municipality. Without any electricity both businesses and individuals will not be able to operate efficiently. Constant, reliable and available electricity provides the opportunity to develop areas with potential which previously could not be exploited due to lack of access to energy.

WATER AND SANITATION

As a result of inadequate water supply and poor water quality the region faces a serious threat to investment and business retention. Business expansion and investment will be discouraged due to lack of water and sanitation. Considering the fact that the Koukamma region is built around the agriculture sector, inadequate water supplies will have serious implication for growth, employment and the livelihoods of people. Reliable, quality water and sanitation services are primary needs of the tourist industry. Without these necessities, the tourism could be negatively affected. The current water supply is not enough to meet potential businesses demand. A LED agro-processing project, such as a dairy factory, requires a large amount of water on a daily bases for production.

TELECOMMUNICATIONS

Mobile communications and the internet play a critical role in the modern business environment. A well- established telecommunication network in Koukamma LM will improve both the competitiveness and efficiency of local business while at the same time encouraging the introduction of new business ventures.

(a) Comparative and competitive advantages for industrial activities

A product that has a more competitive function in a specific economy (regional or sub-regional) compared to the aggregate economy (provincial or national), constitutes a comparative advantage in that economy. This is thus an indicator of whether or not a specific economy produces a product or renders a service more efficiently than elsewhere in the aggregate economy.

The comparative advantage that a specific sector has in the economy may be measured through the calculation of the location quotient. The "location quotient" compares the relative contribution of a sector in the local economy, with the contribution of the sector to the regional economy. By interpretation, a location quotient of more than one would indicate that the local economy enjoys a comparative advantage in that particular sector, and vice versa. A location quotient, as a tool, does not take into consideration external factors, such as government policies, investment incentives and proximity to markets etc., which can influence the comparative advantages of an area.

The location quotient can be interpreted as follows:

- A Location Quotient greater than 5 is very high and suggests a high level of local dependence on this sector
- If the location quotient is greater than 1.25, than that sector is serving the needs that extend beyond the boundaries of the local area. This sector is therefore likely to be 'exporting' goods and services.
- If the location quotient is between 0.75 and 1.25, the community is self-sufficient in this sector. A Location Quotient of 1 occurs when a local percentage employment is equal to provincial percentage employment.
- If the location quotient is less than 0.75, local needs are not being met by the sector and the municipality is importing goods and services in that sector.

The table below presents the location quotient for each economic sector in Koukamma Local Municipality against the Eastern Cape Province for 2001 and 2007.

Location Quotient

SECTOR	2001	2007
Agriculture	5.94	6.30
Mining	0.95	1.22
Manufacturing	0.63	0.67
Electricity & Water	2.05	2.36
Construction	0.66	0.80
Trade	0.88	1.02
Transport & Communication	0.36	0.40
Finance and business services	0.38	0.45
Community services	0.37	0.40

(b) Intensify Enterprise Support and Business Development

The types of business development services (BDS) provided to SMMEs include:

- Registration of SMME's
- Training of SMME's
- Assistance in Business Plans

The following formal SMMEs have been established within the municipal area:

Name	Area
Villa of the Khoi	Joubertina
Joubertina Cleansing Services	Joubertina

Louterwater Nursery	Louterwater
Sandrift Bakery	Nompumelelo Village
Clarkson Women Sewing	Clarkson
Masakane Project	Joubertina
Women in Arts & Culture	Woodlands
Women on the move	Krakeel
Women in Agriculture	Clarkskon
Wittekleibos Dairy Project	Wittekleibos
Essential Oils	Woodlands
Tee & Zet	Kareedouw
Woodlands Cut Flower	Woodlands
Eve Brand	Misgund
Honeybush Tea	Langkloof Area
Stormsriver Crafters	Stormsriver
Coastal Care	Clarkson & Woodlands

The following new employment opportunities were established through the Expanded Public Works Program

- Short term employment – 66
- Long term employment – none

(c) Social Investment Programme

The LED Strategy identifies the need for a social investment programme but the programme is yet to be developed.

3.3 Annual performance as per key performance indicators in LED

	Indicator name	**Target set for the year**	**Achievement level during the year (absolute figure)**	**Achievement percentage during the year**
1	Percentage of LED Budget spent on LED related activities.	Due to lack of funding, no targets were set	No figures as indicated due f=lack of funding	Not applicable
2	Number of LED stakeholder forum held	3 stakeholders that exist	No figures as indicated due f=lack of funding	Not applicable
3	Percentage of SMME that have benefited from a SMME support program	SEDA assisted on this programme due to budget constraints however no figures available	No figures as indicated due f=lack of funding	Not applicable
4	Number of job opportunities created through EPWP	No EPWP Projects were undertaken and therefore no jobs	No figures as indicated due f=lack of funding	Not applicable

		created		
5	Number of job opportunities created through PPP	Due to lack of relations between the Municipality and Private Sector, no jobs were created	IAs a result, no statistical account	Not applicable

3.4 CHALLENGES REGARDING LED STRATEGY IMPLEMENTATION

The major challenges regarding LED include:

- Insufficient funding for the implementation
- The KKLM area is a very vast area
- Human Resources development
- Lack of commitment from external stakeholders
- Political interference

The suggested remedies include:

- Municipality to avail enough funds for the registrations and workshops for projects.
- Investigate MIG Funding for LED
- Prepare business plans
- Review the organogram for the LED department.
- Development of the SMME data base for the Municipality.
- Appointment of the newly identified vacancies in the Organogram.
- LED Coordinator to take ownership and play a monitoring and coordinating role in these projects

CHAPTER 4 – MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT

4.1 AUDITED FINANCIAL STATEMENT

The audited financial statement are contained in the report, please refer to the relevant pages as indicated in the table of contents.

MEDIUM CAPACITY MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

These Annual Financial Statements have been prepared in accordance with the Accounting Standards as prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and also in terms of the standards and principles contained in Directives 4 and 5 issued by the ASB.

1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2009 and 30 June 2010 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:
(a) is required by a Standard of GRAP; or
(b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flow.

1.2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognized in Annual Financial Statements:

1.2.1 Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1. BASIS OF PRESENTATION (continued)

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

1. 2. 2 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on *Financial Assets Classification* and Accounting Policy 6.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.

1. 2. 3 Impairment of Financial Assets

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

• Impairment of trade receivables
The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have
defaulted on payments already due, and an assessment of their ability to make payments based on their

creditworthiness.
This was performed per service-identifiable categories across all classes of debtors.

1. 2. 4 Defined Benefit Plan Liabilities

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

1. 2. 5 Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities as set out in notes, 12 and 49 respectively. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1. 3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1. 4 GOING CONCERN ASSUMPTION

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

1. 5 OFFSETTING

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

1. BASIS OF PRESENTATION (continued)

1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - October 2009

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The ASB Directive 5 paragraph 29 allows for the Municipality to select and apply the principles established in a Standard of GRAP that has been issued, but is not yet in effect, in developing an appropriate accounting policy dealing with a particular transaction or event before applying paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not yet adopted these Standards:
Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not yet been adopted by the municipality:

IAS 36 Impairment of assets - amended version effective 1 January 2010
IAS 39 Financial Instruments: Recognition and Measurement - amended version effective 1 January 2010

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. STATUTORY FUNDS AND RESERVES

2. 1 Housing development fund/Housing operating account

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

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

3. PROPERTY, PLANT AND EQUIPMENT

3. 1 Initial Recognition

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

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

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it was located.

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

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

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

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

3. 2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalized if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalized when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognizes the part of the asset being replaced and capitalizes the new component.

Subsequently all property plant and equipment, including for Infrastructure Assets, are measured at cost (or deemed cost).

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

3. 3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. 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. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

	Years		**Years**
Infrastructure		***Buildings***	***30 - 100***
Roads and Paving	10 - 100		
Electricity	45 - 50	***Other***	

Water	15 - 100	Specialist Vehicles	10 - 15
Sewerage	15 - 100	Other Vehicles	5 - 15
Landfill Sites	10 - 65	Office Equipment	3 - 7
		Furniture and Fittings	5 - 15
Community		Watercraft	15 - 20
Recreational Facilities	15 - 60	Bins and Containers	5 - 15
Security	5	Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	2 - 15

Depreciation only commences when the asset is available for use, unless stated otherwise.

These were not reviewed in the previous and current financial years as required by GRAP 17. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the year ending 30 June 2010 but must comply with the measurement requirements for the year ending 30 June 2012. It must however identify and correctly classify all PPE on an assets register during the 2010.

3. 4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3. 5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3. 6 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3. 7 Housing Development Fund Assets

The Housing Development Fund contains letting schemes that is included in Council's Property Plant and Equipment. All surpluses generated from the letting schemes are transferred to the Housing Development Fund.

3. 8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognized 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 item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

3. 9 Impairment of assets

3. 9. 1 Impairment of Cash generating assets

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

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

3. PROPERTY, PLANT AND EQUIPMENT (continued)

For the previous and current year under review, the municipality did not perform impairment testing on its assets as required by GRAP 17. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2010 but must comply with the measurement requirements for the year ending 30 June 2012. It must however identify and correctly classify all PPE on an assets register during the 2010.

3. 9. 2 Impairment of Non-Cash generating assets

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

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

3. 9. 2 Impairment of Non-Cash generating assets (continued)

An impairment loss is recognized for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

For the previous and current year under review, the municipality did not perform impairment testing on its assets as required by GRAP 17. The municipality applied ASB directive 4 which states that the municipality need not comply with the measurement requirements of GRAP 17 for the years ending 30 June 2010 but must comply with the measurement requirements for the year ending 30 June 2012. It must however identify and correctly classify all PPE on an assets register during the 2010.

4. INTANGIBLE ASSETS

4. 1 Initial Recognition

Identifiable non–monetary assets without physical substance are classified and recognized as intangible assets. The municipality recognizes an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalized. Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalized development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21/ IAS 36.

4. INTANGIBLE ASSETS (continued)

4. 1 Initial Recognition (continued)

Intangible assets are initially recognized at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the
cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortization and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset 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.

4. 2 Subsequent Measurement, Amortization and Impairment

After initial recognition, intangible assets are carried at its cost less any accumulated amortization and any accumulated impairment losses.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortization is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortized, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognized as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortization method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

The estimated useful lives and the amortisation methods were not reviewed in the current financial year as required by GRAP 102. The municipality also did not perform impairment testing on its intangible assets during the year under review. The estimated useful lives and amortisation methods will be reviewed and impairment testing will be done for the year ended 30 June 2012 (and retrospectively where practicable), and any changes therein will be implemented in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

4. 3 Derecognition

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

5. INVESTMENT PROPERTY

5. 1 Initial Recognition

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

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

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

5. INVESTMENT PROPERTY (continued)

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

5. 2 Subsequent Measurement - Cost Model

Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

5. 3 Transitional Provisions

In terms of ASB Directive 4, the municipality is not required to measure investment properties for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 16. The municipality elects to apply ASB Directive 4 for its investment properties and does not measure its investment properties for the above-mentioned period. However, provisional amounts for investment properties are disclosed in the Annual Financial Statements in accordance with ASB Directive 4.

6. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement .

Initial recognition

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value methods and assumptions The fair values of financial instruments are determined as follows:The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs

FINANCIAL INSTRUMENTS (continued)
The effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability 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.

Amortised cost

Amortised cost 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 for impairment or uncollectibility.

6. 1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	**Classification in terms of IAS 39.09**
Short-term Investment Deposits – Call	Loans and receivables
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

6. FINANCIAL INSTRUMENTS (continued)

6. 1 Financial Assets - Classification (continued)

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: available for sale.

6. 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 9)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

(i) Fair value through profit or loss; or
(ii) Other financial liabilities (Financial liabilities measured at amortised cost)
(iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives)

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

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

6. 3 Initial and Subsequent Measurement

6. 3. 1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to group entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

6. 3. 2 Financial Liabilities:

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

FINANCIAL INSTRUMENTS (continued)

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.
Prepayments are carried at cost less any accumulated impairment losses.

Financial guarantee contract

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.
The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

6. 4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from net assets and recognised in the Statement of Financial Performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in Statement of Financial Performance.

Impairment losses recognised in the Statement of Financial Performance for an investment in an equity instrument classified as available-for-sale are not reversed through the Statement of Financial Performance

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the Statement of Financial Performance, the impairment loss must be reversed, with the amount of the reversal recognised in the Statement of Financial Performance.

Financial assets carried at amortised cost

Accounts receivables encompassess long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

6. FINANCIAL INSTRUMENTS (continued)

6. 4 Impairment of Financial Assets (continued)

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, 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 through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

6. 5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

6. 6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the 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, in the Statement of Financial Performance.

7. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.
The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

Risks and exposure are disclosed as follows:

Market Risk

- Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.
- The maximum exposure to cashflow and fair value risk, price risk and foreign currency risk.
- Sensitivity analysis for each of the market risks

Credit Risk

- Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.
- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

Liquidity Risk

- Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.
- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 47.7 to the annual financial statements.

8. INVENTORIES

8. 1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

8. 2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Water and purified effluent are valued by using the (**FIFO / weighted average)** method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

Transitional provisions

The net realisable value of inventory recognised in terms of GRAP 12 have been disclosed for the financial year ended 30 June 2010 in accordance with the requirements of GRAP 12, GRAP 3 and ASB Directive 4.

9. NON-CURRENT ASSETS HELD-FOR-SALE

9. 1 Initial Recognition

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

9. 2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is
calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

10. REVENUE RECOGNITION

10. 1 General

Revenue, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

10. 2 Revenue from Exchange Transactions

10. 2. 1 Service Charges

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

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

10. 2. 2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale and if payment is made five days before year end it's recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

10. 2. 3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:▪ Interest earned on trust funds is allocated directly to the fund.▪ Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if thegrant conditions indicate that interest is payable to the funder.

10. REVENUE RECOGNITION (continued)

10. 2. 4 Tariff Charges

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

10. 2. 5 Income from Agency Services

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

10. 2. 6 Sale of Goods (including Houses)

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

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

10. 2. 7 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

10. 2. 8 Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements
that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

10. 3 Revenue from Non-exchange Transactions

10. 3. 1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

10. 3. 2 Fines

Fines constitute both spot fines and summonses for which revenue is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

10. 3. 3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

10. 3. 4 Other Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

10. 3. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

10. 4 Transitional Provisions

Revenue is initially recognised at fair value for the year ended 30 June 2009 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 and SAICA circular 09/2006.

11. CONDITIONAL GRANTS AND RECEIPTS

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Government grants and conditional receipts are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

12. PROVISIONS

Provisions are recognised when the municipality has a present legal or constructive obligation as a result of past events, 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.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Provision for Restructuring cost

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

the business or part of a business concerned;

-

- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken;
- when the plan will be implemented; and;

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

12. PROVISIONS (continued)

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

Transitional Provisions

In terms of ASB Directive 4, the municipality is not required to measure provisions for reporting periods beginning on or after a date within 3 years following the date of initial adoption of GRAP 19. The municipality elects to apply ASB Directive 4 for its provisions for the above-mentioned period.

13. EMPLOYEE BENEFITS

13. 1 Short-term Employee Benefits

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

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13. 2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

13. 2 1 Defined Contribution Plans

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

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13. 3 Defined Benefit Plans

A **defined benefit plan** is a post- employment benefit plan other than a defined contribution plan.

13. 3. 1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

The municipality recognises actuarial gains and losses in full in the period in which they occur. Actuarial valuations are performed bi-annually.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

13. EMPLOYEE BENEFITS (continued)

13. 3. 2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

13. 3. 3 Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 47 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

13. 3. 4 Defined benefit pension plans

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part
of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.
Actuarial gains or losses are accounted for using the “corridor method”. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

14. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

14. 1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

14. LEASES (continued)

Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

14. 1 The Municipality as Lessee (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

14. 2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

15. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2010 in accordance with the requirements of GRAP 5 and ASB Directive 4.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

16. GRANTS-IN-AID

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

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

17. VALUE ADDED TAX

The Municipality accounts for Value Added Tax on the cash basis.

18. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19. IRREGULAR EXPENDITURE

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

20. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 37 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 37 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

22. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

23. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

24. FOREIGN CURRENCIES

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

25. COMPARATIVE INFORMATION

25. 1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

25. 2 Budget

Budget figures for the prior year have also been included in the Statement of Financial Position.

26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

27. COMMITMENTS

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

▪ Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

▪ Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

▪ Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

▪ Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

▪ Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality

28. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

4.3 GRANTS AND TRANSFER'S SPENDING

APPENDIX F

KOU-KAMMA MUNICIPALITY

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

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies Delayed / Withheld					Reason for Delay / Withholding of Funds	Compliance to Revenue Act (*) See below	Reason for Non-compliance
		June	Sept	Dec	March	June	June	Sept	Dec	March	June	June	Sept	Dec	March	June		Yes / No	
FMG	Nat Treasury	0	2 750 000	0	0	0	0	0	0	0	2 319 612	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MSIG	Nat Treasury	0	400 000	0	0	0	0	0	0	0	342 717	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Equitable Share	Nat Treasury	0	7 448 071	5 958 418	4 817 898	0	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MIG Projects	MIG	0	3 000 000	5 000 000	4 526 000	0	0	0	0	0	12 544 700	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Cacadu DM - MIG Projects	MIG	0	0	0	0	0					0	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Cacadu DM - Disaster Flood Relief	LDM	0	17 936 663	65 269 695	23 775 718	18 642 483	0	17 936 663	65 269 695	23 775 718	18 642 483	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
DBSA - Disaster Flood Relief	Other Gov	0	0	0	0	0	0	0	0	0	0								
Total Grants and Subsidies Received		**0**	**31 534 734**	**76 228 113**	**33 119 616**	**18 642 483**	**0**	**17 936 663**	**65 269 695**	**23 775 718**	**33 849 512**	**0**	**0**	**0**	**0**	**0**			

(*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?

4.4 MEETING OF DONORS' REQUIREMENTS FOR CONDITIONAL GRANTS

All the donor's requirements for the conditional grants for the financial year 2009/2010 were met.

4.5 MUNICIPAL LONG-TERM CONTRACTS

There were no long-term contracts for the 2009/2010 financial year which were applicable.

4.6 ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN FINANCIAL VIABILITY

Due to the fact that Koukamma Municipality did not have a performance management system, it did not have any annual performance which was conducted for the financial year 2009/2010.

4.7 THE AUDITOR-GENERAL REPORTS

4.8 SITUATION OF ARREARS IN PROPERTY RATES AND SERVICE CHARGES

Age Analysis as at 30 June 2010

Balance Type	30 Days	60 Days	90 Days	120 Days	Total	Old Balance	Total
RATES (01)	1314734.8	498791.72	561564.92	3416530.3	5791621.74	13952299	19743920.74
SEWERAGE (02)	738871.4	348782.85	339380.14	2454825.76	3881860.15	13032570.65	16914430.8
REFUSE (03)	351632.19	164076.5	163339.19	1249811.93	1928859.81	6297578.66	8226438.47
SERVICE CHARGES (04)	0	0	0	0	0	35866.76	35866.76
WATER (05)	997425.02	273462.48	271797.9	3321315.36	4864000.76	15816946.92	20680947.68
ELECTRICITY (06)	31394.77	0	0	36474.07	67868.84	1088809.46	1156678.3
RENT (07)	11985.35	1304.99	1304.53	107466.04	122060.91	383475.99	505536.9
LOAN (08)	0	0	0	46924.71	46924.71	852494.88	899419.59
OTHER DEBTORS	5026.4	2042.5	1608	9614.94	18291.84	2196781.77	2215073.61
	3451069.93	1288461.04	1338994.68	10642963.11	16721488.76	53656824.09	70378312.85

CLASSIFICATION

Consumer Code	30 Days	60 Days	90 Days	120 Days	Total	Agreements	Total
HOUSEHOLD (1)	1714791.06	745308.42	735471.62	6695233.41	9890804.51	40559007.45	50449811.96
BUSINESS (2)	275381.74	123957.48	130148.53	709629.77	1239117.52	1792643.39	3031760.91
GOVERNMENT (3)	574964.35	201400.84	238478.02	1519946.46	2534789.67	591757.05	3126546.72
SCHOOL (4)	9865.52	4813.81	4224.48	46146.93	65050.74	76705.41	141756.15
CHURCH (5)	4393.86	2305.13	2256.39	55737.53	64692.91	83207.7	147900.61
FLAT (6)	173737.77	57912.59	76166.62	290341.89	598158.87	0	598158.87
MUNICIPAL (7)	695090.14	151281.25	150912.74	1299477.64	2296761.77	10455704.47	12752466.24
HOSPITAL (8)	666.15	420.35	260.93	8684.67	10032.1	7674.91	17707.01
NON-MUNICIPAL (9)	2179.34	1061.17	1075.35	17764.83	22080.69	89040.73	111121.42
PROVINCIAL GOVT (10)	0	0	0	0	0	1082.98	1082.98
	3451069.93	1288461.04	1338994.68	10642963.13	16721488.78	53656824.09	70378312.87

CHAPTER 5: GOOD GOVERNANCE AND PUBLIC PARTICIPATION – KPA 5

5.1 OVERVIEW OF THE EXECUTIVE AND COUNCIL FUNCTIONS AND ACHOEVEMENTS

The Municipal Council of Koukamma Municipality is comprised of ten (10) Councillors which is constituted and represented as follows:

NAME OF THE COUNCILLORS	PR or WARD COUNCILLORS
Noel O'Connel – Speaker/Mayor	PR Councillor
Nomawabo Mntambo	PR Councillor
Fransua Strydom	PR Councillor
Shiella Reeders	PR Councillor
Dorothy Jacobs	PR Councillor
Fuzile Yake	Ward Councillor
Susan Jacobs	Ward Councillor
Johnny Kettledas	Ward Councillor
Similo Ncethezo	Ward Councillor
Mongezi Wogane	Ward Councillor

In addition, Council had four (4) Section 79 standing committees, namely the Finance and Management, Technical and Infrastructure, Social Development and Special Programmes including LED/Tourism and Empowerment but their functionality was not in good state due to a number of factors like absence of Section 57 Managers. Likewise, Council had established five (5) ward committees however their functionality was unimpressive due to a myriad of reasons, such as distant, resources, non-seating, gap between community and Councillors, unclear programme and plan of activities, just to name but a few. Of interest to note, is that Council had shared services for the audit committee between itself, Kouga and Baviaans Municipalities based on the advice of Cacadu District Municipality in response to resources, better coordination, sharing of experiences and lessons and other related factors.

5.2 PUBLIC PARTICIPATION AND CONSULTATION

The Municipality in this paragraph is expected to present the mechanisms that were implemented during the year to consult the public and give them opportunity to actively participate in the Municipality activities and Council decision making process. Information is especially expected on

- Mayoral Imbizos and implementation of issues raised
- Public hearings
- Customer satisfaction surveys

Concerning the public participation and consultation processes and engagement, Koukamma Municipality had a poor record in this regard and this contributed to some extent of the gap between the Councillors and the communities. This was evident in the absence of meaningful and engaging Mayoral Imbizos with the public as a way of involving communities in the decision-making processes of the Municipality with respect to the budget and service delivery business.

Likewise, the public hearings and customer satisfaction survey were not undertaken in the financial year under question due to the total collapse of the state of public engagement or dialogue between the Koukamma Municipality and the local residents or stakeholder or communities in general. A number of interventions were undertaken such as the formation of the advisory stakeholders forum as an attempt of bridging the gap between all the role players and most profoundly to create sound working relations and enabling environment to deliver quality and sustainable services.

5.3 WARD COMMITTEES' ESTABLISHMENT AND FUNCTIONALITY

Under the Section 139 Intervention in March 2009, public participation was one of the areas identified as requiring support and the re-establishment of ward committees became the critical priority. The process began in May 2009 with the support of an official deployed by the Department of Local Government and Traditional Affairs. Generic policies, charters and funding frameworks relating to public participation were adopted by Council in July 2009. However, during the process of revising the policy for Koukamma Municipality on ward committees, it became evident that there was no agreement amongst the community with regards to the structure of representation on the ward committees.

A process of public hearings was undertaken in order to achieve consensus on this issue prior to proceeding with ward committee elections in the new financial year. Ward committee elections were carried out between August and November 2009. The results were tabled in Council on 15 December 2009 whereupon Council resolved that a Mayoral task team would be appointed to moderate and finalise the ward committee election results, and was done in April 2010. Ward committee members then received training in core municipal processes and service delivery from the LG Seta in May 2010.

5.4 COMMUNITY DEVELOPMENT WORKERS PERFORMANCE MONITORING

During the 2009/2010 financial year, the community development workers did not report to the administration but to the provincial and district authorities and therefore the functionality of community development workers was not measured nor properly monitored which posed its own challenges. This was further compounded by the fact that the Municipality did not provide the required support to the operations of community development workers and as such this created a disjuncture in the alignment, implementation and coordination of the programmes between Koukamma Municipality and the community development workers in undertaking their respective mandates.

5.5 COMMUNICATION STRATEGY

Koukamma Municipality does not have a dedicated communications officer, and there is no infrastructure resource and no formal communications strategy. A draft communication strategy is being prepared by one of the officials located in the Office of the Mayor/Municipal Manager with the assistance of the Provincial GCIS Department.

5.6 INTER-GOVERNMENTAL RELATIONS

There is no coherent inter-governmental relation framework and very few activities took place relating to intergovernmental relations due to the outside location of sector departments as well as absence of Senior Managers at Koukamma Municipality including lack of clarity or better comprehension of the roles and responsibilities of each player or party.

5.7 LEGAL MATTERS

5.7.1 Setting of Legal Unit

Koukamma Municipality had no legal unit and further dismissed its Strategic Director that was assigned with the responsibility to provide legal advice to the Municipal Manager, Management in particular and Council in general. Instead, Koukamma Municipality has for the greater part of the applicable financial year employed the services of legal firms to solicit opinions or seeking representation.

5.7.2 Management of Litigation

During the applicable financial year, Council had dismissed a number of Senior Managers and some took it to the commission for conciliation, mediation and arbitration as part of seeking relief to the decisions of Council. In addition, Koukamma Municipality experienced a number of fraudulent cases which it referred to the South African Police Services whilst it continued within its own internal investigations to ascertain the actual facts of the situation in order to determine the appropriate course of action.

1. Case Load Management with specific reference to:

(a) Favourable cases

Case Name	Recovery (Yes/No)	Reasons for Non-Recovery
No	yes	n/a

(b) Unfavourable Cases

Case Name	Compliance with Judgements (Yes/No)	Reasons for Non-Compliance with Judgements
123/02/2010	yes	n/a

1. Case Age Analysis

Case Name	Nature of the Case	Date of Commencement	Case of 2 Years or Below	Cases Beyond 2 Years	Reasons for Extensive Duration
n/a	n/a	n/a	n/a	n/a	n/a

(c) Default Judgements

Case name	Reasons for default judgement
n/a	n/a

1. Prevention mechanisms of current litigations:

The institution has applied different approaches in dealing with the prevention mechanisms with respect to the current litigation, which ranges from the usage of lawyers and in some cases entering into win-win settlement dealing, based on a case by case.

2. Criminal matters emanating from corruption and fraud

There is one case that emanates from corruption and fraud which is classified as a criminal case and was referred to the South African Police Services however the investigations were still continuing and as such, the Municipality is not in a position to indicate the state of affairs.

5.7.3 Management of Legal Risks

In response to the management of legal risks, the Municipality has used the services of the legal firms with the necessary expertise to advise its actions. Secondly, Council was advised from time to time in order to exercise its decision, as to whether to go the route of legal disputes or seeking mutual and amicable settlement. In addition, the institution attempted to improve its performance on matters that might result to legal risks but observing and adhering to the letter of the law, thus striving to comply and conform with the legal prescripts.

PART 3- FUNCTIONAL AREAS REPORTING AND ANNEXURE

E. FUNCTIONAL AREA SERVICE DELIVERY REPORTING

Introduction

This is a synopsis of the functional areas regarding the performance analysis of the Koukamma Municipality with respect to the key performance areas for the financial year 2009/2010. This synopsis has to be appreciated as a response the intervention undertaken by the Provincial Department of Local Government and Traditional Affairs in line with Section 139(1)(b) of the Constitution of the Republic of South Africa, 1996.

The structure of the report will cover the following areas:

- Principles and terms of reference
- The need for an intervention
- The goals of the intervention
- The achievements of the intervention, and
- The remaining challenges.

Terms of Reference

- Facilitate and monitor disciplinary hearings for suspended managers
- Facilitate appointment of section 57 managers
- Coordinate and manage project specialists
- Ensure full legal compliance
- Prepare an appropriate environment for forensic investigation
- Identify all irregular, wasteful and unauthorized expenditure
- Ensure risk management and anti-fraud/corruption plans
- Ensure internal audit and financial recovery plans
- Review and improve Council structures
- Ensure turnaround strategies for financial management, service delivery, revenue management, asset management and expenditure

The need for an intervention

The Koukamma Local Municipality had experienced severe performance deficiencies over a long period of time. The most severe consequences of these deficiencies were:

- 5 consecutive years of disclaimers by the AG
- On-going failures to meet financial reporting deadlines
- Inaccurate billings for services
- A lack of legal compliance
- Poor infrastructure maintenance
- A lack of development
- Compromised service delivery
- Undisciplined staff and low morale among employees
- A refusal by the community to pay for services

The Koukamma intervention focused on 4 key areas:

- Governance and Public Participation
- Financial Reporting and Billing Management
- Corporate Services/Human Resources Management
- Technical and Development Services

Key Goals: Governance and Public Participation

- Establish guidelines for Council and rules of order
- Establish internal audit function
- Address recommendations of the SIU
- Improve communication with community
- Manage staff and counselor debt

Key Goals: Financial Reporting and Billing Management

- Compile annual financial reports for 2008/2009 and 2009/2010
- Improve financial record keeping and cleanse data
- Review supply chain management system
- Address issues raised by AG in audit reports
- Prepare 2010/2011 budget
- Develop revenue management and enhancement strategy
- Develop Asset Register
- Manage conditional grants
- Implement cost cutting measures
- Review SCM policy / establish SCM systems
- Develop fraud prevention plan
- Develop SDBIP
- Achieve AG report with no disclaimer

Key Goals: Corporate Services/HRM

- Review organisational structure
- Develop job descriptions and review job design
- Review HR and payroll administration
- Prepare employment contracts for employees
- Review service level agreements for section 57 managers
- Establish records management systems
- Install a performance management system
- Finalise disciplinary matters
- Recruit competent people for critical positions

Key Goals: Technical and Development Services

- Develop systems and procedures for technical projects
- Establish records management systems
- Develop IT infrastructure
- Development of indigent register
- Install PMU section

- Review LED strategy
- Review IDP strategy
- Review disaster management, including water shortages/drought
- Obtain funding for water and sanitation related issues
- Install and repair water meters
- Manage MIG

Achievements: Governance and Public Participation

- Council guidelines and rules of order have been developed and approved by Council
- The lax attitude towards corporate governance processes and the lack of organizational leadership have been addressed
- An internal audit function has been established and staff recruited
- All of the recommendations of the SIU have been implemented
- Steps have been taken to improve communication with community with the establishment of the stakeholder forum
- Plans have been implemented to manage staff and counselor debt

Achievements: Financial Reporting and Billing Management

- Annual financial reports for 2008/2009 were compiled and the AG has started the audit
- The process of compiling the annual financial reports for 2009/2010 has begun
- New financial record keeping systems have been introduced using clean data
- Improved supply chain management policy and system have been achieved with the review if the SCM Policy and structures.
- AG audit queries are being addressed and Operation Clean Audit is supporting ongoing improvements.
- The 2010/2011 budget has been approved
- A revenue management and enhancement strategy has been developed; a Debt Collection Policy has been adopted and promulgated. 4 730 debtors who owe the Municipality a total of R 47 416 683.14 have been contacted.
- An Asset Register has been developed and a draft fraud prevention plan is in place
- Various cost cutting measures have been approved and implemented

Achievements: Corporate Services/HRM

- The new draft organogram was approved by Council and was costed. The new positions will be advertised and interviews completed.
- Appointments of new Municipal Manager and other section 57 managers finalized
- A Performance Management System has been initiated.
- Performance management contracts for Section 57 Managers have been drafted
- Disciplinary matters for the MM and other managers have been finalized
- Change management and organizational climate improvement workshops were held to improve staff morale and discipline
- A consultant has been identified who will:
  - Review HR and payroll administration
  - Prepare employment contracts for employees
  - Establish records management systems

Achievements: Technical and Development Services

- Systems and procedures were developed to improve implementation and monitoring of technical projects as well as records and grant management
- An indigent register was developed with registration of 1950 beneficiaries
- The DLTC was reopened
- An IDP process plan has been developed , a process plan and a community-based representative forum established
- Disaster management plans were reviewed and updated
- Funding of R 177 million was obtained for water and sanitation related issues is nearing completion with various viable projects on the ground
- Water meters are have been installed in various areas and are assisting with the accurate billing for services

The remaining challenges

- The discipline of staff is not yet at a satisfactory level for ongoing achievement of organizational goals
- The skills levels of employees is very low and suitable training and development plans need to be developed

- The maintenance and development of infrastructure, especially water infrastructure is still below standard, largely because staff is not sufficiently skilled in water quality management.
- There is a lack of water resources in the area due to a long term drought and government intervention is required.
- There has been political interference in the work of the Municipality. Local politicians should strive for a better balance between their oversight role and interference.
- The culture of non-payment for services by the community has not been completely overcome and needs more attention
- The new administration of the Municipality requires support from the Provincial Department of Local Government

Other key factors that had a direct and causal effect to the current state of the Municipality included:

- Absence of strong leadership at a political level to take decisive and appropriate decisions.
- Constant interference by political parties in an effort to direct activities of Council resulting at times in Council having to take wrong decisions or delay making decisions.
- Growing militancy on the part of the workers that manifests itself in high of ill discipline which Council is failing to address.
- Employment of under qualified senior managers (All Section 57 employees did not meet the

Conclusion

Generally, it was found that the Municipality has been engulfed in a systematic wave of challenges to a critical level whereby the community of Kou-Kamma experienced an acute decline in corporate governance and the delivery of services. Chief among the contributory factors was a sustained squandering of financial and other resources and serious lapses in corporate governance practices.

- competency levels for the posts)
- An unacceptable level of dishonesty by senior officials. At times deliberately misleading or giving incorrect advice to Council.
- Absence of employment contracts, irregular staff appointments, irregular provision of benefits to staff, irregular remuneration practices.
- Lack of enforcement of the employees’ disciplinary code.
- Disregard of legislation and none or selective application of policies.
- Absence of systems and financial controls.
- Irregular procurement processes and the absence of bid committees.