



Saldanha Bay Municipality
Annual Financial Statements
for the year ended 30 June 2018

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	Municipality
Municipal demarcation code	WC014
Executive Mayor	Koen Marius
Deputy Executive Mayor	Vaughan Eventhia
Mayoral committee	Kruger André Mohale Sinah Steyn Elizabeth Van Tura Sucilla Venter Andries
Speaker	Daniels Olwene
Councillors	Don Ryan (Resigned, 28 February 2018) Girimane Nonkululeko Khulu Thulani Kordom Geraldine Kotze Jaco Mafenuka Siyabulelo Makwetu Monde Mankay Ezelle Mitchell Leonard Mpeko Dolly (Deceased, 25 May 2018) Nackerdien Ebrahim Pronk Frank Rossouw Theresa (From 8 May 2018 - Current) Salmon Tanduxolo (From 13 June 2018 - Current) Schippers Francois Scholtz Sharon Schrader Miranda Sipholi Goodman Skei Joubert (Resigned, 30 April 2018) Van Nooi Charleen (From 30 May 2018 - Current) Williams Avril Wilsnach Maryam

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General Information

Grading of municipal Council for the upper limits for Councillors	Grade 4
Grading of remuneration of municipal manager and senior managers	Grade 4
Wage curve categorisation	Grade 5
Accounting Officer	Dr. Voges Pierre
Chief Financial Officer	Smith Gerrit (Acting period: 23 February 2017 - 31 July 2017) Vorster Stefan
Business address	15 Main Road Vredenburg Western Cape South Africa 7380
Postal address	Private Bag X 11 Vredenburg Western Cape South Africa 7380
Banker	Standard Bank of South Africa Limited
Auditors	Auditor General South Africa

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List of abbreviations used

ASB	Accounting Standards Board
ASOD	Average Speed Over Distance
CIDMS	City Infrastructure Delivery and Management System
COID	Compensation for Occupational Injuries and Diseases
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DORA	Division of Revenue Act
EPWP	Expanded Public Works Programme
FAQs	Frequently Asked Questions
FMG	Financial Management Grant
FMSG	Financial Management Support Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
LSA	Long Service Award
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
mSCOA	Municipal Standard Chart of Accounts
MSIG	Municipal System Improvement Grant
PAYE	Pay As You Earn
PPE	Property, Plant and Equipment
PTIS	Public Transport Infrastructure Grant
RSEP	Regional Socio-Economic Project
SALGA	South African Local Government Association
SARS	South African Revenue Services
SBIDZ LiCo	Saldanha Bay Industrial Development Zone Licencing Company (SOC) Ltd
SETA	Sector Education and Training Authority
SCM	Supply Chain Management
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

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WCA	Workers Compensation Assistance
WCDM	West Coast District Municipality
WIP	Work in Progress

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Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with South African Standards of GRAP including any interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgement and estimates.

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

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

The accounting officers have reviewed the municipality's cash flow forecast for the year to end 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 7 to 109, which have been prepared on the going concern basis, were approved and signed by the municipal manager on 31 August 2018.

The accounting officer further certifies that the salaries, allowances and benefits of councillors and payments made to councillors for loss of office, if any, as disclosed in note 35 and 58 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Accounting Officer

Mr. Phumzile Mbaliswana

30 November 2018

Vredenburg

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current assets			
Cash and cash equivalents	2	71 772 812	47 188 229
Inventories	3	15 436 567	12 480 784
Investments	4	565 114 285	505 593 448
Trade and other receivables from exchange transactions	5	89 387 607	82 799 688
Trade and other receivables from non-exchange transactions	6	31 980 882	29 572 587
Prepayments	7	3 732 248	3 192 604
Operating lease asset	8	228 530	184 023
VAT receivable	9	-	3 634 267
		777 652 931	684 645 630
Non-Current Assets			
Property, plant and equipment	10	2 680 544 021	2 576 241 062
Intangible assets	11	11 606 808	9 784 135
Investment property	12	15 110 000	15 870 000
Heritage assets	13	3 228 733	3 228 733
		2 710 489 562	2 605 123 930
Total Assets		3 488 142 493	3 289 769 560
Liabilities			
Current liabilities			
Payables from exchange transactions	14	103 424 289	79 604 777
Consumer deposits	15	21 134 001	19 529 675
VAT payable	9	2 496 584	-
Unspent conditional grants and receipts	16	46 936 628	29 755 425
Borrowings	17	17 205 463	19 046 042
Finance lease obligation	18	48 514	24 892
Operating lease liability	8	86 163	206 817
Employee benefit obligation	19	31 549 864	27 083 819
Provisions	20	2 436 202	10 623 526
Deferred rental income	21	-	2 180 112
		225 317 708	188 055 085
Non-Current Liabilities			
Borrowings	17	143 535 288	142 917 900
Finance lease obligation	18	-	48 514
Employee benefit obligation	19	108 893 957	102 813 181
Provisions	20	79 459 838	76 401 105
		331 889 083	322 180 700
Total Liabilities		557 206 791	510 235 785
Net assets		2 930 935 702	2 779 533 775
Accumulated surplus		2 930 935 702	2 779 533 775

* See Note 50 & 46

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	595 859 411	535 406 506
Rental of facilities and equipment	23	16 378 356	15 572 708
Interest earned - external investments	24	48 222 292	44 709 043
Interest earned - outstanding receivables	25	9 104 976	8 407 704
Agency services	26	5 755 634	4 951 837
Licences and permits	27	1 625 326	1 319 159
Other income	28	20 658 009	14 215 989
Total revenue from exchange transactions		697 604 004	624 582 946
Revenue from non-exchange transactions			
Property rates	29	192 546 502	185 584 772
Interest earned - outstanding property rates	30	3 647 624	3 119 575
Government grants and subsidies	31	137 410 668	120 443 466
Fines	32	31 535 398	33 675 736
Other income	33	37 404 629	42 109 874
Total revenue from non-exchange transactions		402 544 821	384 933 423
Total revenue		1 100 148 825	1 009 516 369
Expenditure			
Employee related costs	34	316 016 310	279 267 719
Remuneration of councillors	35	11 389 313	10 330 136
Depreciation, amortisation and impairment losses	36	127 902 561	120 095 749
Finance costs	37	34 947 105	28 028 338
Debt impairment	38	38 257 510	21 192 912
Bad debts written-off		28 654 966	26 484 164
Bulk purchases	39	254 248 547	270 464 079
Contracted services	40	61 747 872	54 322 756
Transfers and subsidies	41	3 410 574	3 072 625
Inventories written-off		440 643	803 948
General expenses	42	79 427 396	73 004 140
Total expenditure		956 442 797	887 066 566
Operating surplus		143 706 028	122 449 803
Gains and losses			
Gain on reversal of provision		4 043 979	-
Gain on disposal of assets		120 527	1 019 731
Other losses		(126 231)	-
Loss on exchange differences		(125 273)	(31 719)
Fair value adjustments	43	(760 000)	770 000
Actuarial gains	19	4 574 576	7 242 920
Surplus for the year		151 433 606	131 450 735

* See Note 50 & 46

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus
Opening balance as previously reported	2 555 622 469
Correction of errors	92 460 571
Balance at 01 July 2016 as restated*	2 648 083 040
Surplus for the year	131 450 735
Balance at 01 July 2017 as restated*	2 779 502 096
Surplus for the year	151 433 606
Balance at 30 June 2018	2 930 935 702

* See Note 50 & 46

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Taxes and fines		195 939 887	195 750 080
Service charges		562 535 326	536 285 313
Grants		162 748 523	142 240 561
Interest received		43 701 454	45 487 813
Other receipts		48 590 849	36 100 707
		<u>1 013 516 039</u>	<u>955 864 474</u>
Payments			
Employee costs and remuneration of councillors		(322 297 149)	(285 660 950)
Suppliers and other		(393 217 603)	(442 927 646)
Finance costs		(16 355 120)	(12 819 878)
		<u>(731 869 872)</u>	<u>(741 408 474)</u>
Net cash flows from operating activities	47	<u>281 646 167</u>	<u>214 456 000</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(198 092 820)	(188 737 237)
Proceeds from sale of property, plant and equipment		2 524 692	2 418 237
Purchase of other intangible assets		(5 306 518)	(10 994 465)
Purchases of heritage assets	13	-	(1 645 931)
Net movement from investments		(55 000 000)	(73 000 000)
		<u>(255 874 646)</u>	<u>(271 959 396)</u>
Net cash flows from investing activities		<u>(255 874 646)</u>	<u>(271 959 396)</u>
Cash flows from financing activities			
Proceeds from borrowings		17 822 852	58 180 000
Repayment of borrowings		(19 046 043)	(22 627 124)
Finance lease payments		121 920	(2 950)
		<u>(1 101 271)</u>	<u>35 549 926</u>
Net cash flows from financing activities		<u>(1 101 271)</u>	<u>35 549 926</u>
Net movement in cash and cash equivalents		<u>24 670 250</u>	<u>(21 953 470)</u>
Cash and cash equivalents at the beginning of the year		47 188 229	69 141 699
Cash and cash equivalents at the end of the year	2	<u>71 858 479</u>	<u>47 188 229</u>

* See Note 50 & 46

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	%
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	569 800 527	-	569 800 527	595 859 411	26 058 884	5
Rental of facilities and equipment	5 666 070	-	5 666 070	16 378 356	10 712 286	189
Interest earned - outstanding receivables	9 077 284	-	9 077 284	9 104 976	27 692	-
Agency services	5 000 000	-	5 000 000	5 755 634	755 634	15
Licences and permits	1 420 128	-	1 420 128	1 625 326	205 198	14
Other income	24 996 543	-	24 996 543	20 658 009	(4 338 534)	(17)
Interest earned - investments	44 442 446	-	44 442 446	48 222 292	3 779 846	9
Total revenue from exchange transactions	660 402 998	-	660 402 998	697 604 004	37 201 006	

Revenue from non-exchange transactions

Property rates	201 848 730	-	201 848 730	192 546 502	(9 302 228)	(5)
Interest earned - outstanding property rates	3 195 000	-	3 195 000	3 647 624	452 624	14
Other income	4 068 729	-	4 068 729	37 404 629	33 335 900	819
Government grants and subsidies	156 070 952	-	156 070 952	137 410 668	(18 660 284)	(12)
Donated assets	34 606 776	-	34 606 776	-	(34 606 776)	(100)
Fines, penalties and forfeits	37 426 023	-	37 426 023	31 535 398	(5 890 625)	(16)
Total revenue from non-exchange transactions	437 216 210	-	437 216 210	402 544 821	(34 671 389)	

Total revenue

1 097 619 208 - **1 097 619 208** **1 100 148 825** **2 529 617**

Expenditure

Employee related costs	(331 548 194)	-	(331 548 194)	(316 016 310)	15 531 884	(5)
Remuneration of councillors	(11 489 684)	-	(11 489 684)	(11 389 313)	100 371	(1)
Depreciation and amortisation	(136 123 810)	-	(136 123 810)	(127 902 561)	8 221 249	(6)
Finance costs	(23 078 761)	-	(23 078 761)	(34 947 105)	(11 868 344)	51
Debt Impairment	(34 355 089)	12 239 859	(22 115 230)	(38 257 510)	(16 142 280)	73
Bad debts written-off	(17 227 499)	(12 239 859)	(29 467 358)	(28 654 966)	812 392	(3)
Bulk purchases	(306 629 352)	-	(306 629 352)	(254 248 547)	52 380 805	(17)
Contracted services	(87 847 409)	(1 222 177)	(89 069 586)	(61 747 872)	27 321 714	(31)
Transfers and Subsidies	(3 970 501)	(14 000)	(3 984 501)	(3 410 574)	573 927	(14)
Inventories written-off	-	-	-	(440 643)	(440 643)	100
General Expenses	(99 832 576)	1 236 177	(98 596 399)	(79 427 396)	19 169 003	(19)
Total expenditure	(1 052 102 875)	-	(1 052 102 875)	(956 442 797)	95 660 078	

Operating surplus

45 516 333 - **45 516 333** **143 706 028** **98 189 695**

Gain on disposal of assets	-	-	-	120 527	120 527	100
Loss on foreign exchange	-	-	-	(125 273)	(125 273)	100
Fair value adjustments	-	-	-	(760 000)	(760 000)	100
Actuarial gains	-	-	-	4 574 576	4 574 576	100
Gain on reversal of provision	-	-	-	4 043 979	4 043 979	100
Other losses	-	-	-	(126 231)	(126 231)	100
	-	-	-	7 727 578	7 727 578	

Surplus for the year

45 516 333 - **45 516 333** **151 433 606** **105 917 273**

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	%
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	14 721 363	-	14 721 363	15 436 567	715 204	5
Investments	527 094 700	-	527 094 700	565 114 285	38 019 585	7
Operating lease asset	442 096	-	442 096	228 530	(213 566)	(48)
Trade and other receivables from exchange transactions	83 228 692	-	83 228 692	89 387 607	6 158 915	7
Trade and other receivables from non-exchange transactions	45 890 354	-	45 890 354	31 980 882	(13 909 472)	(30)
Prepayments	3 192 604	-	3 192 604	3 732 248	539 644	17
Cash and cash equivalents	41 044 393	-	41 044 393	71 772 812	30 728 419	75
	715 614 202	-	715 614 202	777 652 931	62 038 729	

Non-Current Assets

Investment property	15 870 000	-	15 870 000	15 110 000	(760 000)	(5)
Property, plant and equipment	2 597 235 052	-	2 597 235 052	2 680 544 021	83 308 969	3
Intangible assets	6 431 486	-	6 431 486	11 606 808	5 175 322	80
Heritage assets	3 228 733	-	3 228 733	3 228 733	-	-
	2 622 765 271	-	2 622 765 271	2 710 489 562	87 724 291	

Total Assets

3 338 379 473 - **3 338 379 473** **3 488 142 493** **149 763 020**

Liabilities

Current Liabilities

Borrowings	11 375 803	-	11 375 803	17 205 463	5 829 660	51
Finance lease obligation	48 514	-	48 514	48 514	-	-
Operating lease liability	-	-	-	86 163	86 163	100
Payables from exchange transactions	70 108 442	-	70 108 442	103 424 289	33 315 847	48
VAT payable	3 617 918	-	3 617 918	2 496 584	(1 121 334)	(31)
Consumer deposits	23 942 035	-	23 942 035	21 134 001	(2 808 034)	(12)
Employee benefit obligation	28 800 379	-	28 800 379	31 549 864	2 749 485	10
Unspent conditional grants and receipts	34 027 759	-	34 027 759	46 936 628	12 908 869	38
Provisions	10 623 526	-	10 623 526	2 436 202	(8 187 324)	(77)
	182 544 376	-	182 544 376	225 317 708	42 773 332	

Non-Current Liabilities

Borrowings	136 336 146	-	136 336 146	143 535 288	7 199 142	5
Finance lease obligation	503 009	-	503 009	-	(503 009)	(100)
Employee benefit obligation	113 378 219	-	113 378 219	108 893 957	(4 484 262)	(4)
Provisions	81 744 219	-	81 744 219	79 459 838	(2 284 381)	(3)
	331 961 593	-	331 961 593	331 889 083	(72 510)	

Total Liabilities

514 505 969 - **514 505 969** **557 206 791** **42 700 822**

Net Assets

2 823 873 504 - **2 823 873 504** **2 930 935 702** **107 062 198**

Accumulated surplus	2 823 873 504	-	2 823 873 504	2 930 935 702	107 062 198	4
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Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	%
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxes and fines	201 774 781	-	201 774 781	195 939 887	(5 834 894)	(3)
Service charges	563 917 857	-	563 917 857	562 535 326	(1 382 531)	-
Grants	157 050 504	-	157 050 504	162 748 523	5 698 019	4
Interest income	56 714 730	-	56 714 730	43 701 454	(13 013 276)	(23)
Other receipts	50 510 239	-	50 510 239	48 590 849	(1 919 390)	(4)
	1 029 968 111		- 1 029 968 111	1 013 516 039	(16 452 072)	
Payments						
Employee costs and remuneration of councillors	(286 910 313)	-	(286 910 313)	(322 297 149)	(35 386 836)	12
Suppliers and other	(494 731 202)	-	(494 731 202)	(393 217 603)	101 513 599	(21)
Finance costs	(14 363 118)	-	(14 363 118)	(16 355 120)	(1 992 002)	14
	(796 004 633)		- (796 004 633)	(731 869 872)	64 134 761	
Net cash flows from operating activities	233 963 478		- 233 963 478	281 646 167	47 682 689	
Cash flows from investing activities						
Purchase of property, plant and equipment	(241 174 622)	-	(241 174 622)	(198 092 820)	43 081 802	(18)
Proceeds from sale of property, plant and equipment	-	-	-	2 524 692	2 524 692	100
Net movement from investments	-	-	-	(55 000 000)	(55 000 000)	100
Purchase of intangible assets	(5 306 518)	-	(5 306 518)	(5 306 518)	-	-
Net cash flows from investing activities	(246 481 140)		- (246 481 140)	(255 874 646)	(9 393 506)	
Cash flows from financing activities						
Repayment of borrowings	(11 560 005)	-	(11 560 005)	(19 046 043)	(7 486 038)	65
Proceeds from borrowings	17 822 852	-	17 822 852	17 822 852	-	-
Finance lease payments	135 688	-	135 688	121 920	(13 768)	(10)
Net cash flows from financing activities	6 398 535		- 6 398 535	(1 101 271)	(7 499 806)	
Net movement in cash and cash equivalents	(6 119 127)	-	(6 119 127)	24 670 250	30 789 377	(503)
Cash and cash equivalents at the beginning of the year	47 163 519	-	47 163 519	47 188 229	24 710	-
Cash and cash equivalents at the end of the year	41 044 392		- 41 044 392	71 858 479	30 814 087	

The explanations of material differences between the approved budget and actual amounts are included in note 61 of the annual financial statements.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Summary of significant accounting policies

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

The municipality's principal accounting policies, which are in all material aspects consistent with those applied in the previous year, are set out below. The details of any changes in accounting policies are explained in the note thereto. The historical cost convention has been used, except where indicated otherwise. Management has used assessments and estimates in preparing the annual financial statements which are based on the best information available at the time of preparation.

1.1 Basis of presentation

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

Presentation currency

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

Going concern assumption

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

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Level of rounding

The amounts presented in the financial statements have been rounded-off to the nearest Rand.

1.2 Significant judgements and sources of estimation uncertainty

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

Impairment of trade receivables

The calculation of the impairment of trade receivables is based on a payment percentage assessment of the individual debtors of the municipality. If an individual debtor has a payment percentage of more than 90%, impairment is not considered. In instances where the payment percentage is less than 90%, the individual debtor is impaired based on the actual non-payment percentage of the outstanding debt.

Impairment testing

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

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The carrying value less impairment provision of trade receivables are assumed to approximate their fair value.

Provisions

Management's judgement is required when recognising and measuring provisions, contingent liabilities and contingent assets.

Useful lives of infrastructure and other assets

The municipality's management annually determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norms or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

Post-retirement benefits

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

Other key assumptions for post-retirement benefits are based on current market conditions. Additional information is disclosed in Note 19 - Employee benefit obligation.

Effective interest rate

The municipality used the most relevant contractual risk rate applicable where relevant to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for debtors impairment

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

1.3 Standards, amendments to standards and interpretations issued but not yet effective

In the current year the municipality has adopted all new and revised standards and interpretations issued by the ASB that are relevant to its operations and are effective. The following GRAP standards have been issued, but are not yet effective during the current reporting period and the municipality did not early adopt these GRAP standards.

Reference	Topic	Effective date
GRAP 18	Segment reporting (Effective date for municipalities not yet determined)	1 April 2015
GRAP 20	Related party disclosures	1 April 2019
GRAP 32	Service concession arrangements (Grantor)	1 April 2019
GRAP 34	Separate financial statements	Unknown
GRAP 35	Consolidated financial statements	Unknown
GRAP 36	Investments in associates and joint ventures	Unknown
GRAP 37	Joint arrangement	Unknown
GRAP 38	Disclosure of interest in other entities	Unknown
GRAP 108	Statutory receivables	1 April 2019
GRAP 109	Accounting by principals and agents	1 April 2019
GRAP 110	Living and non-living resources	1 April 2020
iGRAP17	Service concession arrangements where a grantor controls a significant residual interest in an asset	Unknown

GRAP 18 Segment Reporting is effective from 1 April 2015. The implementation of GRAP 18 is delayed, in terms of Directive 5, for municipalities for the 2017/18 financial year and municipalities are not required to apply or early adopt GRAP 18. The implementation date of GRAP 18 is 1 April 2019.

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Accounting Policies

1.3 Standards, amendments to standards and interpretations issued but not yet effective (continued)

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.

1.4 Housing Development Fund

The Housing Development Fund was established in terms of the Housing Act, Act 107 of 1997.

Sections 15(5) and 16 of the Housing Act, which came into effect on 1 April 1998, required the Municipality to maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund and is fully cash-backed.

In terms of section 14(4)(d)(ii)(aa) of the Housing Act, read with, inter alia, section 16(2), it is required that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, to be paid into a separate operating account, and be utilised by the municipality for housing development in accordance with the National Housing Policy.

1.5 Budget information

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The annual budget figures have been presented in accordance with the GRAP reporting framework. Separate statements of comparison of budget and actual amounts, which forms part of the annual financial statements, has been prepared.

The comparison of budget and actual amounts is presented on the same accounting basis, same classification basis and for the same municipality and period as for the approved budget. The budget of the municipality is taken through a stakeholder consultative process and upon approval the approved budget it is made publicly available.

A difference of 10% or more, and if the amount exceeds R1 million, between budgeted and actual amounts is regarded as material.

1.6 Investments

Investments are short-term deposits invested with various financial institutions for a period longer than three months, but not more than twelve months in accordance with the cash management and investment policies of the municipality.

Short-term deposits are not classified as part of cash and cash equivalents as these investments are not readily convertible to known amounts of cash. The short-term investments do not have a short maturity of three months or less from the date of acquisition and do not meet the definition of cash and cash equivalents in accordance with GRAP 2.

Recognition

The municipality recognises investments as a current asset when the funds have been transferred to the financial institution.

Measurement

The investments are initially measured at fair value plus the transaction costs that are directly attributable to their acquisition. The fair value is the total amount initially invested at the banking institution.

The investments are subsequently measured at amortised cost using the effective interest rate method. The gains on the investments are recognised in surplus or deficit through the amortisation process.

Derecognition

The municipality derecognises investments on maturity of the investments when the contractual rights to the cash flows from the investments are settled by the financial institutions.

Accounting Policies

1.7 Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year.

1.8 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain.

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the statement of financial performance.

Depreciation rates

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The depreciable amount is determined after taking into account an asset's residual value, where applicable. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated useful asset lives:

Saldanha Bay Municipality

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Accounting Policies

1.8 Property, plant and equipment (continued)

Asset type	Estimated useful lives (years)
Community Assets	15 - 70
Computer Equipment	2 - 40
Electrical Infrastructure	
• High voltage substations	15 - 60
• High voltage transmission conductors	5 - 50
• Low voltage networks	5 - 70
• Medium voltage networks	9 - 70
• Medium voltage Substations	6 - 60
Roads Infrastructure	6 - 99
Sanitation Infrastructure	5 - 99
Solid Waste Infrastructure	1 - 50
Storm water Infrastructure	10 - 70
Water Supply Infrastructure	
• Distribution	15 - 99
• Pump Stations	6 - 50
• Reservoirs	15 - 99
Furniture and Office Equipment	2 - 40
Land	Indefinite
Libraries	20 - 60
Machinery and Equipment	2 - 65
Transport Assets	5 - 40
Other Assets	3 - 70

The residual value, and the useful life and depreciation method of each asset, if not insignificant, is reviewed annually with the effect of any changes in estimates accounted for on a prospective basis as a change in accounting estimate in the statement of financial performance.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is available for use. All assets under construction which have exceeded the initial planned completion date by two years are considered to be taking a significantly longer period of time to complete than expected.

Assets held under finance leases are depreciated over the useful lives on the same basis as owned assets or, where appropriate, the term of the relevant lease and are recognised in the statement of financial performance.

Costs incurred to repair and maintain property, plant and equipment comprises of goods and services and contracted services. These cost excludes labour cost.

1.9 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as provision for rehabilitation of landfill sites.

Accounting Policies

1.9 Site restoration and dismantling cost (continued)

The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit. The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.10 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

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

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

Heritage assets are stated at cost, less accumulated impairment losses. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

The gain or loss arising from the disposal or retirement of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying value and is recognised in the statement of financial performance. Heritage assets are not depreciated, since their long economic life and high residual value means that any depreciation would be immaterial. Heritage assets are considered to have indefinite useful lives.

Heritage Assets under construction are carried at cost. All assets under construction which have exceeded the initial planned completion date by two years are considered to be taking a significantly longer period of time to complete than expected.

Cost incurred to repair and maintain heritage assets comprises of goods and services and contracted services. These costs excludes labour cost.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Saldanha Bay Municipality

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Accounting Policies

1.10 Heritage assets (continued)

Impairment

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

Transfers

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

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

Derecognition

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

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

1.11 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

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

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

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

Item	Useful life
Computer software, other	1 - 15
Other intangible assets	Indefinite

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Accounting Policies

1.11 Intangible assets (continued)

An intangible asset is defined as an identifiable non-monetary asset without physical substance, held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

The municipality recognises computer development software costs as intangible assets if the costs are clearly associated with an identifiable and unique system controlled by the municipality, and have a probable benefit exceeding one year. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

The residual value, amortisation method and useful life, if not insignificant, are reassessed annually, with the effect of any changes in estimate accounted for on a prospective basis.

All intangible assets under construction which have exceeded the initial planned completion date by two years are considered to be taking a significantly longer period of time to complete than expected.

Costs incurred to repair and maintain intangible assets comprises of goods and services and contracted services. These costs excludes labour cost.

1.12 Investment property

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

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

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

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

The municipality recognises investment property using the fair value model. The fair value is adjusted at each reporting date by means of the appointment of an independent valuer that holds a professional valuation qualification. The adjustment is recognised in the statement of financial performance as a fair value adjustment.

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

All investment property under construction which have exceeded the initial planned completion date by two years are considered to be taking a significantly longer period of time to complete than expected.

Where investment properties are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition.

Revenue earned from rental of investment property is disclosed as part of rental of facilities and equipment and are thus not disclosed separately, as they are not material. Expenses in respect of investment property are disclosed as other expenditure and not disclosed separately as they are not material.

Investment property was not tested for impairment as the impairment is taken into account with the determination of the fair value at reporting date.

Investment property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property. All gains or losses, which result from the derecognition are recognised in the statement of financial performance.

Cost incurred to repair and maintain investment property comprises of goods and services and contracted services. These cost excludes labour cost.

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Accounting Policies

1.12 Investment property (continued)

Fair value

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

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

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

1.13 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, or for no or a nominal consideration, and then their costs are their fair value as at the date of acquisition.

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.

Inventories are subsequently valued at the lower of cost (determined on the weighted-average basis) and net realisable value, unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

An assessment of net-realizable value is performed at each reporting period, when inventory is written down to their estimated net realisable values, and are recognised as an expense in the statement of financial performance.

When differences arise on the valuation of inventory, the amount of any reversal or any write-down of inventories is recognised as an adjustment in the statement of financial performance in the period in which it occurs.

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

Housing inventory is low cost houses still in process of construction, or completed and not yet transferred. These houses are entirely funded by the National Department of Human Settlements, through the Western Cape Department of Human Settlements.

In terms of GRAP standards a municipality can either be regarded to be the "principal" or "agent" when executing the delivery of houses.

When the municipality is acting as the "principal" all costs are recognised as inventory up to the point of transfer to the allocated beneficiaries, whereafter the cost is expensed through the statement of financial performance.

Housing inventory is measured at the lower of cost and current replacement cost as houses will be distributed through a non-exchange transaction.

When the municipality is acting as the "agent" all transfers received by the Western Cape Department of Human Settlements is recorded initially as a liability in the statement of financial position. Any payments or costs pertaining to human settlement housing activities are debited against the liability.

1.14 Financial instruments

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

A financial instrument is recognised if the municipality becomes a party to the contractual provisions of the instrument.

Accounting Policies

1.14 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or un-collectability.

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

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

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

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

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

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

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

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

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

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

The municipality measures all financial assets and financial liabilities after initial recognition by using the two categories of, financial instruments at fair value, or financial instruments at amortised cost.

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:

Class:	Category - measured at:
Trade and other receivables from non-exchange transactions	Amortised cost
Trade and other receivables from exchange transactions	Amortised cost
Cash and cash equivalents	Amortised cost
Investments	Amortised cost

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another municipality. Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

Saldanha Bay Municipality

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Accounting Policies

1.14 Financial instruments (continued)

Class:	Category - measured at:
Trade and other payables from non-exchange transactions	Amortised cost
Borrowings	Amortised cost
Finance lease liability	Amortised cost
Consumer deposits	Amortised cost

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

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment. If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised as revenue or expense in the statement of financial performance.

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

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

In this case, the municipality derecognises the asset and recognises separately any rights and obligations created or retained in the transfer.

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

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

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

The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of financial performance.

Interest relating to a financial instrument is recognised as revenue or expense in the statement of financial performance.

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

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with the terms used in the public sector, either through established practices or legislation.

Accounting Policies

1.14 Financial instruments (continued)

Fair value measurement considerations:

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

1.15 Unauthorised expenditure

Unauthorised expenditure is defined as any expenditure incurred by a municipality not in accordance with section 15 or 11(3) of the MFMA, and includes an overspending of the total amount appropriated in the municipality's approved budget, an overspending of the total amount appropriated for a vote in the approved budget, an expenditure from a vote unrelated to the department or functional area covered by the vote, an expenditure of money appropriated not in accordance for that specific purpose, a spending of an allocation not in accordance with any conditions of the allocation, or a grant made by the municipality not in accordance with the MFMA.

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

Refer to Annexure C (Capital expenditure by vote) and Annexure D (Operating expenditure by vote) where an analysis of the budgeted and actual expenditure is presented.

1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, Act 56 of 2003, the Municipal Systems Act, Act 32 of 2000, the Public Office Bearers Act, Act 20 of 1998, or is in contravention of the municipality's supply chain management policy.

Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 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 and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Provisions

A provision is recognised when the municipality has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

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

Accounting Policies

1.18 Provisions (continued)

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.

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

Contingent liabilities and contingent assets and are not recognised, but are disclosed in note 56 and 57 respectively.

1.19 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality through the lease agreement. Assets subject to finance leases are recognised in the statement of financial position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are expensed over the course of the lease arrangement in the statement of financial performance.

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

Assets subject to a finance lease are measured at the lower of the fair value of the assets and the present value of the future minimum lease payments. Subsequent to initial recognition these capitalised assets are depreciated over the contract term.

The finance lease liability recognised at initial recognition is measured at the present value of the future minimum lease payments. Subsequent to initial recognition this liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest rate method.

The finance charges resulting from the finance lease are expensed through the statement of financial performance. The finance cost accrual is determined using the effective interest method.

The lease expense recognised for operating leases is charged to the statement of financial performance on a straight-line basis over the term of the relevant lease. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the statement of financial position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be. This resulting asset and/ or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

The finance lease liabilities are derecognised when the municipality's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the municipality no longer expects any economic benefits or service potential to flow from the asset.

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

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

Municipality as lessor

For those leases that meet the definition of a finance lease, where the municipality is the lessor, the municipality derecognises the asset subject to the lease at the inception of the lease. Along with the derecognition of the asset the municipality recognises a finance lease receivable. Finance lease income is allocated to between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the statement of financial performance as it accrues.

Accounting Policies

1.19 Leases (continued)

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income in the statement of financial performance.

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

Finance lease receivables are recognised at an amount equal to the municipality's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance. The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

Finance lease receivables are derecognised when the municipality's right to the underlying cash flows expire or when the municipality no longer expects economic benefits to flow from the finance lease receivable.

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

Operating leases - lessee

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

1.20 Revenue from exchange transactions

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

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

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; and

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the municipality.

Revenue from interest earned is recognised, in the statement of financial performance, using the effective interest rate method.

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

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Accounting Policies

1.20 Revenue from exchange transactions (continued)

Rendering of services

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

The stage of completion of the transaction at the reporting date can be measured reliably; and

The cost incurred for the transaction and the cost to complete the transaction can be measured reliably.

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

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

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

Sale of goods

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

The municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;

The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.21 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets.

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

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

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

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

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

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

Saldanha Bay Municipality

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Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

Fines

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

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

Assets arising from fines are initially measured at its fair value at the date of acquisition, which is the best estimate of the inflow of economic benefits. The probability of non-payment is not considered at initial recognition.

The non-payment of traffic fines is estimated at subsequent measurement with reference to historical data and payment trend analysis. An impairment loss is recognised in surplus and deficit.

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

Bequests

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

Gifts and donations, including goods in-kind

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

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Accounting Policies

1.21 Revenue from non-exchange transactions (continued)

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality discloses the nature and type of services in-kind received during the reporting period.

1.22 Investment income

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

1.23 Borrowing costs

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

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

1.24 Employee benefits

Retirement benefits plans

The municipality provides retirement benefits for its employees and councillors. Retirement benefits consist of defined contribution plans and defined-benefit plans.

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

Defined-benefit plans are post-employment benefit plans other than defined-contribution plans. The defined-benefit funds are actuarially valued based on the projected unit credit method. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities. The contributions and lump sum payments are charged against the statement of financial performance in the year in which they become payable.

Short-term and long-term employee benefits

Short-term employee benefits encompass all those benefits that become payable in the short-term, i.e. within a financial year or within 12 months after the financial year. Therefore, short-term employee benefits include remuneration, compensated absences and contractually agreed bonuses. No performance bonuses are paid by the municipality.

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The municipality provides long-service awards to eligible employees, after completion of every five years' service and the liability thereof is based on an actuarial valuation. The projected unit credit method has been used to value the obligation.

Actuarial gains and losses on the long-term incentives are fully accounted for in the statement of financial performance.

Post-retirement healthcare aid plan

The municipality provides post-retirement benefits by subsidising the medical healthcare contributions of certain retired staff. According to the rules of the medical aid funds with which the municipality is associated, a member on retirement is entitled to remain a continued member of such medical aid fund, and the municipality will continue to subsidise medical contributions in accordance with the provisions of the employee's employment contract.

The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past, or accrued and future in-service element. The liability is recognised at the fair value of the obligation, together with any adjustments required. The projected unit credit method has been used to value the obligation. Refer to note 19.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.24 Employee benefits (continued)

Multi-employer plans

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

The municipality classifies a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan, assets and costs associated with the plan in the same manner as for any other defined benefit plan. When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

1.25 Impairment of cash and non-cash generating assets

The municipality classifies its assets as non-cash generating assets as none of the assets on its own generates cash inflows or are held with the primary objective of generating a commercial return or profits. Although certain services realise surpluses surpluses are used for cross subsidisation of services that operate at a deficit.

At the end of each reporting period, the carrying amounts of non-cash-generating assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount or recoverable service amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable service amount of a non-cash-generating asset is the higher of fair value less costs to sell, and value-in-use. The value-in-use is the present value of the remaining service potential of the asset, and is determined using the most appropriate of the depreciated replacement cost, restoration cost or service units approach.

The discount rate used reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount or recoverable service amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. An impairment loss is recognised immediately in surplus or deficit.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount or recoverable service amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

1.26 Impairment of specific assets

Property plant and equipment

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

Intangible assets

Intangible assets with indefinite useful lives as well as intangible assets not yet available for use are tested for impairment at the same time every year, as well as whenever there is an indication that the asset may be impaired.

Investment property held at fair value

The investment property was not tested for impairment as the impairment is taken into account with determination of the fair value at reporting date.

Saldanha Bay Municipality

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Accounting Policies

Heritage assets

The calculation in respect of the impairment of heritage assets is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of heritage assets.

Trade receivables

The calculation in respect of the impairment of trade receivables 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. This was performed, as far possible, on individual debtor level and across all debtor classes.

1.27 Recognition of material transactions

When the final accounts have been closed, any transaction that occurs in respect of a prior period, is considered by management individually and collectively for materiality and the annual financial statements are amended with transactions that are material in amount or by nature.

1.28 Cash-backed reserves and provisions

In terms of the municipality's budget implementation and management, funds and reserves and virement policy the following reserves, provisions and liabilities are fully cash-backed and invested in short-term deposits:

Unutilised conditional grants

The balance of all conditional grants received where the conditions have not been met.

Housing development fund

The balance of the housing development fund that is administered in terms of and in accordance with the Housing Act, Act 107 of 1997.

Unspent loans

The balance of external loan funding received and not yet spent for the purpose why the loans were obtained.

Loan redemption reserve

The loan redemption reserve is defined as a cash-backed amount that consists of the portion of depreciation that is set aside for the redemption of external loans annually.

Provision for rehabilitation of landfill sites

The balance of the provision for the rehabilitation of landfill sites as provided for in terms of GRAP 19.

Employee benefits obligation

The balance of the employee benefit obligation as provided for in terms of GRAP 25.

Self-insurance reserve

A self-insurance reserve has been established to fund claims that may occur which will not be covered by external insurers.

Accounting Policies

1.28 Cash-backed reserves and provisions (continued)

Capital replacement reserve

This reserve serves the purpose of providing an internal funding source for the acquisition of capital assets and projects. The following sources of revenue are included in the capital replacement reserve:

- A percentage of the annual depreciation amount;
- Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- Further cash surpluses appropriated as contributions in each annual or adjustments budget, as and when this can be afforded by the municipality;
- Revenue amounts equal to public contributions for bulk services contributions for funding of bulk services, i.e. capital contributions; and
- Net cash proceeds received from land sales. These net proceeds may only be utilised to fund municipal land development.

Consumer deposits

The balance of consumer deposits held in cash by the municipality.

Working Capital

An estimated amount approximately 1/12th of the total operating expenditure.

1.29 Related parties

The municipality has used the disclosure requirements as per GRAP 20 – Related party disclosures to formulate its accounting policy.

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

Individuals as well as their close family members, and/or entities are therefore 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.

Management is regarded as a related party and comprises the councillors, executive mayor, mayoral committee members, municipal manager, executive directors and all other managers reporting directly to the municipal manager or as designated by the municipal manager.

Close family members are regarded as those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality. A person is considered to be a close member of the family of another person if they are married or live together in a relationship similar to a marriage, or are separated by no more than two degrees of natural or legal consanguinity or affinity.

The municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

Saldanha Bay Municipality

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Accounting Policies

1.30 Principal-agent arrangements

The municipality has used the principles of GRAP 109 - Accounting by Principals and Agents to formulate its accounting policy for principal-agent arrangements.

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on behalf and for its benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

When the municipality enters into binding agreements, it determines whether it is party to a principal-agent arrangement and assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that results from transactions with the parties are for the benefit of another entity or for its own benefit.

A principal recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement.

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

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

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the Standards of GRAP.

1.31 Service-concession arrangement

The municipality has used the principles of GRAP 32 – Service concession arrangements: Grantor to formulate its accounting policy.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which:

- (a) the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and
- (b) the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- (a) is provided by the operator which:
 - (i) the operator constructs, develops, or acquires from a third party; or
 - (ii) is an existing asset of the operator; or
- (b) is provided by the grantor which:
 - (i) is an existing asset of the grantor; or
 - (ii) is an upgrade to an existing asset of the grantor.

An operator is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset. WCDM acts as the operator in the service-concession arrangement.

A grantor is the entity that grants the right to use the service concession asset to the operator. The municipality acts at the grantor in the service-concession arrangement with the WCDM.

When the municipality enters into the service-concession arrangement, it determines whether it is party to the arrangement and assesses whether it is the grantor or the operator in accounting for revenue, expenses, assets and/or liabilities that results from the arrangement.

The municipality recognises assets and liabilities arising from service concession arrangement in accordance with the requirements of the Standards of GRAP.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.32 Capital Commitments

Capital commitments disclosed in the annual financial statements represent the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date. The municipality discloses capital commitments exclusive of VAT.

1.33 Events after the reporting date

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

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

If non-adjusting events after the reporting date are material, the municipality discloses the nature and an estimate of the financial effect.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
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2. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Cash on hand	25 710	24 710
Cash at bank	71 747 102	47 163 519
	71 772 812	47 188 229

Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank, excluding cash on hand that are neither past nor impaired can be assessed by reference to external credit ratings, if available, or historical information.

The municipality had the following bank accounts with Standard Bank SA Limited

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Primary Bank Account - 083290044	70 675 281	46 379 960	68 817 786	71 380 510	47 163 519	69 118 989
MFMA Section 12 Account - 282503331	366 592	-	-	366 592	-	-
Traffic Fines Payment Account - 083290702	-	-	-	-	-	-
Company Deposit Identifier - 082437238	-	-	-	-	-	-
Total	71 041 873	46 379 960	68 817 786	71 747 102	47 163 519	69 118 989

3. Inventories

Closing balance of inventories

Consumable stores	14 578 368	11 535 352
Top structures not transferred	294 125	294 125
Water	564 074	651 307
	15 436 567	12 480 784

Carrying value of inventories carried at fair value less costs to sell	15 436 597	12 480 784
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During the year stock issued from consumable stores amounted to R30 015 204 (2017: R26 387 864). An amount of R440 643 (2017: R803 948) for consumable stores were written off. Rnil (2017: R64 015) for top structures and R78 349 835 (2017: R106 311 825) for water services were expensed in the statement of financial performance.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
4. Investments		
Summary of investments (Section 125(2)(b) of the MFMA):		
Short-term deposits	565 114 285	505 593 448
Institutions holding the deposits		
ABSA	71 198 707	119 338 751
First National Bank	111 946 137	70 878 274
Standard Bank	129 010 943	96 959 636
Nedbank	123 521 597	101 791 657
Investec	129 436 901	116 625 130
	565 114 285	505 593 448

The value of the investments has been measured at amortised cost using the effective interest rate method.

Short-term deposits are invested with various banking institutions for a period longer than three months, but not exceeding twelve months in accordance with the cash management and investment policy. This information is disclosed in terms of Section 125(2)(b) of the MFMA.

All unspent conditional grants and certain provisions and reserves, which are included in the short-term investments above, have been ring-fenced and may not be utilised for any other purposes.

The different institutions have external credit ratings from rating agencies.

5. Trade and other receivables from exchange transactions

2018	Gross balance	Allowance for impairment	Net balance
Trade receivables - services			
Electricity	33 758 286	(2 326 481)	31 431 805
Water	81 539 150	(46 365 271)	35 173 879
Sewerage	30 499 505	(23 238 292)	7 261 213
Refuse	34 619 111	(26 915 614)	7 703 497
	180 416 052	(98 845 658)	81 570 394
Other receivables			
Sundry receivables	7 638 969	(5 575 929)	2 063 040
Housing receivables	3 532 849	(3 532 849)	-
Other receivables	5 754 173	-	5 754 173
	16 925 991	(9 108 778)	7 817 213
	197 342 043	(107 954 436)	89 387 607

* See Note 50 & 46

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
5. Trade and other receivables from exchange transactions (continued)		
2017	Gross balance	Allowance for impairment
		Net balance
Trade receivables - services		
Electricity	33 532 633	(2 469 210)
Water	61 036 624	(31 903 270)
Sewerage	28 219 823	(21 216 719)
Refuse	29 547 643	(21 858 957)
	<u>152 336 723</u>	<u>(77 448 156)</u>
		<u>74 888 567</u>
Other receivables		
Sundry receivables	9 355 598	(7 386 013)
Housing receivables	3 747 527	(3 747 527)
Other receivables	5 941 536	-
	<u>19 044 661</u>	<u>(11 133 540)</u>
		<u>7 911 121</u>
	<u>171 381 384</u>	<u>(88 581 696)</u>
		<u>82 799 688</u>
Reconciliation of the receivables impairment provision		
Balance at beginning of the year		(88 581 696)
Contributions to allowance		(2 240 379)
VAT Movement		7 346 466
Balance at end of year		<u>(107 954 436)</u>
		<u>(88 581 696)</u>
Summary by ageing		
Electricity		
Current (0 -30 days)	28 616 078	28 569 864
31 - 60 days	303 706	336 950
61 - 90 days	204 869	124 156
91 - 120 days	112 077	101 794
121 - 365 days	555 171	452 943
> 365 days	1 639 904	1 477 716
	<u>31 431 805</u>	<u>31 063 423</u>
Water		
Current (0 -30 days)	14 154 989	12 440 234
31 - 60 days	1 275 001	906 044
61 - 90 days	958 720	615 264
91 - 120 days	1 048 842	498 106
121 - 365 days	4 871 579	2 561 483
> 365 days	12 864 748	12 112 223
	<u>35 173 879</u>	<u>29 133 354</u>

Saldanha Bay Municipality

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5. Trade and other receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	1 046 591	717 258
31 - 60 days	230 115	263 733
61 - 90 days	184 401	214 728
91 - 120 days	178 610	185 860
121 - 365 days	947 113	1 036 933
> 365 days	4 674 383	4 584 592
	7 261 213	7 003 104
Refuse		
Current (0 -30 days)	1 287 228	1 171 338
31 - 60 days	276 487	304 680
61 - 90 days	218 696	231 958
198469	203 484	200 348
121 - 365 days	1 147 151	1 126 664
> 365 days	4 570 451	4 653 698
	7 703 497	7 688 686
Sundries		
Current (0 -30 days)	757 700	292 203
31 - 60 days	60 294	83 867
61 - 90 days	77 337	312 405
91 - 120 days	(198 995)	45 726
121 - 365 days	518 237	232 321
> 365 days	848 467	1 003 063
	2 063 040	1 969 585
Other (specify)		
Current (0 -30 days)	5 347 880	5 205 537
> 365 days	406 293	735 999
	5 754 173	5 941 536

Saldanha Bay Municipality

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5. Trade and other receivables from exchange transactions (continued)

Ageing of debtors by customer classification

2018	Residential consumers	Industrial / Commercial	National and Provincial Government	Other receivables	Total
Current (0 - 30 days)	28 739 295	36 468 334	4 123 081	5 754 173	75 084 883
31 - 60 days	4 809 427	1 297 321	122 798	-	6 229 546
61 - 90 days	3 662 221	1 162 055	193 308	-	5 017 584
91 - 120 days	2 955 313	965 949	96 049	-	4 017 311
121 - 365 days	19 143 603	5 916 964	1 634 845	-	26 695 412
> 365 days	66 043 515	12 661 571	1 592 219	-	80 297 305
Subtotal	125 353 374	58 472 194	7 762 300	5 754 173	197 342 041
Allowance for impairment	(96 899 058)	(11 055 377)	-	-	(107 954 435)
	28 454 316	47 416 817	7 762 300	5 754 173	89 387 606
2017	Residential consumers	Industrial / Commercial	National and Provincial Government	Other receivables	Total
Current (0 - 30 days)	41 302 288	20 323 810	1 467 210	5 941 536	69 034 844
31 - 60 days	3 993 692	1 281 965	94 185	-	5 369 842
61 - 90 days	3 005 256	1 615 848	110 324	-	4 731 428
91 - 120 days	2 478 561	639 030	43 455	-	3 161 046
121 - 365 days	12 192 841	4 224 028	364 308	-	16 781 177
> 365 days	57 868 265	12 075 877	2 358 905	-	72 303 047
Subtotal	120 840 903	40 160 558	4 438 387	5 941 536	171 381 384
Allowance for impairment	(65 647 895)	(22 933 801)	-	-	(88 581 696)
	55 193 008	17 226 757	4 438 387	5 941 536	82 799 688

Credit quality of trade and other receivables from exchange transactions

All trade receivables that are past due at the end of the reporting period are considered for impairment. It is expected that the trade receivables not impaired will be received by the municipality.

Trade and other receivables from exchange transactions impaired

The municipality calculated the payment trend of each client for the year, in order to ensure that trade and other receivables from exchange transaction are disclosed at fair value.

Bad debts of R10 726 262 (2017: R16 424 035) were written off during the year.

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6. Trade and other receivables from non-exchange transactions

Total receivables from non-exchange transactions

2018

	Gross balances	Allowance for impairment	Net balance
Trade receivables - Property rates	52 577 436	(32 996 919)	19 580 517
Traffic fines	43 943 220	(31 542 855)	12 400 365
Other receivables	33 821	(33 821)	-
	96 554 477	(64 573 595)	31 980 882

2017

	Gross balances	Allowance for impairment	Net balance
Trade receivables - Property rates	42 907 479	(25 690 237)	17 217 242
Traffic fines	39 409 857	(27 311 233)	12 098 624
Other non-exchange receivables	376 209	(119 488)	256 721
	82 693 545	(53 120 958)	29 572 587

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Figures in Rand	2018	2017 Restated*
6. Trade and other receivables from non-exchange transactions (continued)		
Reconciliation of the debtors impairment provision		
Opening balance	(53 120 958)	(33 922 481)
Provision for impairment	(11 452 637)	(19 198 477)
	(64 573 595)	(53 120 958)

Ageing of debtors by customer classification

2018	Traffic fines	Other non-exchange receivables	Rates residential	Rates industrial / commercial	Rates national and provincial government	Total
Current (0 - 30 days)	758 444	-	7 886 921	10 008 000	1 131 497	19 784 862
31 - 60 days	2 092 477	-	1 319 851	356 024	33 699	3 802 051
61 - 90 days	2 473 874	-	1 005 023	318 903	53 049	3 850 849
91 - 120 days	2 078 675	-	811 026	265 085	26 359	3 181 145
121 - 365 days	14 906 146	-	5 253 577	1 623 792	448 650	22 232 165
> 365 days	21 633 605	33 821	18 124 314	3 474 713	436 952	43 703 405
Subtotal	43 943 221	33 821	34 400 712	16 046 517	2 130 206	96 554 477
Allowance for impairment	(31 542 855)	(33 821)	(18 832 788)	(14 164 131)	-	(64 573 595)
	12 400 366	-	15 567 924	1 882 386	2 130 206	31 980 882
2017	Traffic fines	Other non-exchange receivables	Rates residential	Rates industrial / commercial	Rates national and provincial government	Total
Current (0 - 30 days)	2 313 758	256 722	10 711 865	5 271 068	380 527	18 933 940
31 - 60 days	2 208 935	-	1 035 781	332 483	24 427	3 601 626
61 - 90 days	2 209 064	-	779 426	419 077	28 613	3 436 180
91 - 120 days	1 925 955	-	642 825	165 735	11 270	2 745 785
121 - 365 days	16 819 601	-	3 162 266	1 095 520	94 485	21 171 872
> 365 days	13 932 544	119 487	14 986 151	3 131 932	611 793	32 781 907
Subtotal	39 409 857	376 209	31 318 314	10 415 815	1 151 115	82 671 310
Allowance for impairment	(27 311 233)	(119 488)	(19 022 556)	(6 645 446)	-	(53 098 723)
	12 098 624	256 721	12 295 758	3 770 369	1 151 115	29 572 587

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

All trade receivables that are past due at the end of the reporting period are considered for impairment. It is expected that the trade receivables not impaired will be received by the municipality.

Trade and other receivables from non-exchange transactions

Summary by ageing - Property rates

Current (0 - 30 days)	4 392 742	4 515 903
31 - 60 days	820 093	786 951
61 - 90 days	699 729	545 574
91 - 120 days	595 688	458 721
121 - 365 days	4 064 821	2 383 073
>365 days	9 007 445	8 549 255
	19 580 518	17 239 477

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6. Trade and other receivables from non-exchange transactions (continued)

Trade and other receivables from non-exchange transactions impaired

The municipality calculated the payment trend of each client for the year, in order to ensure that receivables from non-exchange transactions are disclosed at fair value.

Bad debts of R17 928 704 (2017: R10 060 129) were written off during the year.

7. Prepayments

Prepaid expenses	3 732 248	3 192 604
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8. Operating leases

Current assets	228 530	184 023
Current liabilities	(86 163)	(206 817)
	142 367	(22 794)

Operating leases - as lessee (expense)

At the reporting date the municipality had outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due

- within one year	3 018 855	2 870 319
- in second to fifth year inclusive	2 430 415	1 372 996
	5 449 270	4 243 315

Operating lease payments represent rentals payable by the municipality for certain of its office properties. No contingent rent is payable. The term pertaining to the leases ranges from 1 to 3 years (2017: 1 to 3 years) and escalation rates vary from 8% to 10% (2017: 8% to 10%) per year.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	1 181 552	831 357
- in second to fifth year inclusive	1 329 080	546 522
	2 510 632	1 377 879

Operating leases consist of rentals on the letting of premises. Lease agreements are non-cancellable and have terms from 1 to 10 years (2017: 1 to 10 years). The escalation rates of the lease agreements vary from 5% to 12% (2017: 5% to 12%). There are no contingent rents receivable.

9. VAT receivable

VAT (payable) / receivable by the municipality	(2 496 584)	3 634 267
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VAT is payable on the payment basis. VAT is paid over to SARS on a net basis only when actual payments are received by the municipality and when actual payments are made to suppliers. The balance above is inclusive of accruals and provisions, where relevant.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

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10. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	485 182 505	-	485 182 505	485 687 490	-	485 687 490
Machinery and equipment	71 058 172	(43 316 201)	27 741 971	64 205 279	(37 104 333)	27 100 946
Furniture and office equipment	21 680 637	(12 971 912)	8 708 725	20 809 796	(11 697 274)	9 112 522
Transport assets	136 722 317	(81 546 013)	55 176 304	127 083 517	(72 922 204)	54 161 313
Computer equipment	25 951 960	(15 607 366)	10 344 594	25 724 494	(14 928 619)	10 795 875
Other Assets	207 240 273	(104 711 334)	102 528 939	205 806 106	(98 522 958)	107 283 148
Infrastructure	3 433 997 600	(1 619 973 662)	1 814 023 938	3 258 547 769	(1 533 801 909)	1 724 745 860
Community	212 788 511	(43 749 529)	169 038 982	186 674 425	(37 597 702)	149 076 723
Libraries	11 748 878	(3 950 815)	7 798 063	11 733 108	(3 455 923)	8 277 185
Total	4 606 370 853	(1 925 826 832)	2 680 544 021	4 386 271 984	(1 810 030 922)	2 576 241 062

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	485 687 490	282 017	(787 002)	-	-	485 182 505
Machinery and equipment	27 100 946	7 322 980	(76 435)	(6 605 520)	-	27 741 971
Furniture and office equipment	9 112 522	1 428 892	(89 180)	(1 743 509)	-	8 708 725
Transport assets	54 161 313	12 144 861	(521 926)	(10 607 944)	-	55 176 304
Computer equipment	10 795 875	2 352 795	(254 296)	(2 549 780)	-	10 344 594
Other Assets	107 283 148	2 775 745	(675 326)	(6 847 446)	(7 182)	102 528 939
Infrastructure	1 724 745 860	178 688 688	-	(86 596 110)	(2 814 500)	1 814 023 938
Community	149 076 723	26 114 088	-	(6 151 829)	-	169 038 982
Libraries	8 277 185	15 770	-	(494 892)	-	7 798 063
Total	2 576 241 062	231 125 836	(2 404 165)	(121 597 030)	(2 821 682)	2 680 544 021

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	477 869 402	8 334 188	(636 100)	120 000	-	-	485 687 490
Machinery and equipment	28 112 490	4 822 473	(103 973)	38 855	(5 747 493)	(21 406)	27 100 946
Furniture and office equipment	9 049 752	1 855 251	(58 883)	-	(1 651 904)	(81 694)	9 112 522
Transport assets	58 922 790	5 081 096	(80 231)	-	(9 762 342)	-	54 161 313
Computer equipment	11 484 105	2 166 842	(40 084)	-	(2 673 178)	(141 810)	10 795 875
Other Assets	110 003 459	4 370 565	(479 172)	-	(6 611 249)	(455)	107 283 148
Infrastructure	1 667 065 777	142 408 047	(60)	-	(84 033 865)	(694 039)	1 724 745 860
Community	92 365 877	61 770 580	-	-	(5 059 734)	-	149 076 723
Libraries	8 771 650	-	-	-	(494 465)	-	8 277 185
Total	2 463 645 302	230 809 042	(1 398 503)	158 855	(116 034 230)	(939 404)	2 576 241 062

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

Pledged as security

No assets are pledged as security for external borrowings. Refer note 17.

Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
10. Property, plant and equipment (continued)		
Assets subject to a service concession arrangement		
Reconciliation of Service Concession Assets 2018		
	Included within Infrastructure	Total
Opening balance	135 401 569	135 401 569
Additions	402 908	402 908
Depreciation	(3 730 212)	(3 730 212)
	132 074 265	132 074 265

Reconciliation of Service Concession Assets 2017

	Included within Infrastructure	Total
Opening balance	138 484 782	138 484 782
Additions	622 716	622 716
Depreciation	(3 705 929)	(3 705 929)
	135 401 569	135 401 569

In 2006 the municipality entered into a service concession arrangement with the WCDM for an initial period on 10 years wherein the WCDM operates the municipality's assets to provide bulk water to the municipality to distribute to its consumers. The agreement was subsequently extended three times until 30 June 2019. The other parties to this arrangement are Bergvriër municipality and Swartland municipality which also appointed the WCDM as an operator.

The WCDM uses the bulk water services assets to provide water to the local municipalities and private users. In terms of the service level agreement the local municipalities determine a tariff, in consultation with the WCDM, that allows the WCDM to recover the costs the WCDM incurs in the provision of the bulk water services. The local municipalities also pay the WCDM an administrative fee of 10% of the operational costs which is also included in the tariff above.

The local municipalities recognise the costs recovered by the WCDM through the tariff as expenditure in their respective financial statements by its nature, as bulk purchases for water. The local municipalities also recognise all revenue earned from providing water to consumers, through monthly billing of the consumers, within their respective areas of jurisdiction.

The WCDM also provides water services to third parties and bills the third parties directly (farmers in remote areas and some big businesses). The provision of the water to these third parties is approved by the local municipalities when the tariff for the year is approved. The water provided to third parties by the WCDM is thus recognised in their records in line with GRAP 32.

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included within Other assets	Total
Opening balance	204 495 567	57 557 903	39 511	262 092 981
Additions	109 436 552	3 462 067	1 991 626	114 890 245
Projects impaired	(119 707)	-	-	(119 707)
Transferred to completed items	(129 082 991)	(57 086 124)	(10 000)	(186 179 115)
	184 729 421	3 933 846	2 021 137	190 684 404

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*		
10. Property, plant and equipment (continued)				
Reconciliation of Work-in-Progress 2017				
	Included within Infrastructure	Included within Community	Included within Other assets	Total
Opening balance	93 118 745	5 865 664	1 483 329	100 467 738
Additions	124 949 721	54 869 784	39 511	179 859 016
Projects impaired	(52 485)	-	-	(52 485)
Transferred to completed items	(13 520 414)	(3 177 545)	(1 483 329)	(18 181 288)
	<u>204 495 567</u>	<u>57 557 903</u>	<u>39 511</u>	<u>262 092 981</u>
Repair and maintain of property, plant and equipment				
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance				
Contracted services			28 721 153	23 078 337
General expenses			11 907 271	10 596 862
Workshop costs			5 702 229	4 004 980
			<u>46 330 653</u>	<u>37 680 179</u>
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected				
Investigate and design sewerage works: Britannia Bay			3 013 156	2 879 936
The project is still in the design phase. Construction will commence once the design phase has been completed. Therefore, the completion date cannot be accurately determined.				
Investigate and design sewerage works: Jacobs Bay			756 891	756 891
The project is still in planning and design phase, which means the completion date cannot be accurately determined until the detailed design phase is completed in order for the tendering process to commence.				
Paving - Parking Area Langebaan			47 966	47 966
Awaiting completion of the 3rd phase of the Oostewal construction project to be completed - An expected completion date cannot be accurately determined at this stage.				
			<u>3 818 013</u>	<u>3 684 793</u>

Saldanha Bay Municipality

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Figures in Rand	2018	2017 Restated*
10. Property, plant and equipment (continued)		
Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
Stormwater System Skool Street, Vredenburg	443 905	443 905
As a result of other projects prioritised during the budget process, this project has been put on hold until budget can be secured to commence with the project.		
Upgrading of Canopies: Erf 1200 Paternoster	240 000	240 000
The contractor is currently involved with a legal dispute with his professional engineer and steel erector. Even though the reviewed expected completion date is less than 2 years from the original date, we are still awaiting the final outcome of the legal dispute.		
Desalination Project	19 136 797	19 136 797
Expenditure relates to the planning phase of the project and environmental studies done. The funding for the project has not yet been secured and the approval from National Government is still outstanding. The project may be fully halted if no funding is received.		
	19 820 702	19 820 702

Other Information:

Provision has been made for the estimated cost of rehabilitating landfill sites, included in infrastructure, as disclosed in note 20. Infrastructure assets were assessed during the year to determine whether there are any indicators of impairment. Refer to note 62.

All moveable assets were reviewed for changes in useful life and conditions. This resulted in changes of accounting estimates which was applied prospectively. Refer to note 49.

All completed projects were unbundled in line with the CIDMS asset hierarchy.

Saldanha Bay Municipality

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11. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and other, externally generated	17 308 462	(5 701 654)	11 606 808	15 754 511	(5 970 376)	9 784 135

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software and other, externally generated	9 784 135	5 306 518	(3 325 562)	(158 283)	11 606 808

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Computer software and other, externally generated	1 950 648	10 994 505	(8)	(38 855)	(3 122 155)	9 784 135

Intangible assets have finite useful lives. The estimated remaining useful life is reviewed at each reporting period. The intangible assets have not been pledged as security.

Saldanha Bay Municipality

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12. Investment property		
Investment property at fair value	<u>15 110 000</u>	<u>15 870 000</u>

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	15 870 000	(760 000)	15 110 000

Reconciliation of investment property - 2017

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	15 220 000	(120 000)	770 000	15 870 000

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

Details of valuation

The date of the most recent revaluations was on 30 June 2018. The valuation was performed by Mr Igshaan Oosterwyk, an employee of SBM. Mr Oosterwyk is a registered Professional Associated Valuer with the SA Council for Valuers Profession, registration number 5902, and member of the SA Institute of Valuers and has the appropriate experience in performing valuation of investment properties.

The valuation for the land portion was based on adapted comparable sales and for the improvements there-on on replacement costs.

All assumptions used were based on current market conditions.

The investment property has not been pledged as security.

Saldanha Bay Municipality

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13. Heritage assets

	2018			2017		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Antiquities	12 000	-	12 000	12 000	-	12 000
Historical monuments	204 326	-	204 326	204 326	-	204 326
Historical buildings	2 154 431	-	2 154 431	2 154 431	-	2 154 431
Cultural buildings	857 976	-	857 976	857 976	-	857 976
Total	3 228 733	-	3 228 733	3 228 733	-	3 228 733

Reconciliation of heritage assets 2018

	Opening balance	Total
Antiquities	12 000	12 000
Historical monuments	204 326	204 326
Historical buildings	2 154 431	2 154 431
Cultural Buildings	857 976	857 976
	3 228 733	3 228 733

Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Antiquities	12 000	-	12 000
Historical monuments	204 326	-	204 326
Historical buildings	508 500	1 645 931	2 154 431
Cultural buildings	857 976	-	857 976
	1 582 802	1 645 931	3 228 733

14. Payables from exchange transactions

Trade payables	84 494 121	62 533 621
Payments received in advance	7 291 968	5 069 019
Retentions	10 125 395	10 589 182
Other payables	624 841	774 214
Unidentified payments debtors	887 964	638 741
	103 424 289	79 604 777

15. Consumer deposits

Electricity	12 490 260	11 752 848
Water	7 003 603	6 804 496
Refuse	1 445 941	972 331
Regional services levies	194 197	-
Total	21 134 001	19 529 675
Guarantees held in lieu of electricity and water deposits	4 275 961	4 148 346

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16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
National government	-	435 100
Provincial government	45 357 176	27 627 773
Public entities	1 573 452	1 679 552
Other	6 000	13 000
	46 936 628	29 755 425
Movement during the year		
Balance at the beginning of the year	29 755 426	46 465 441
Received during the year	92 022 006	84 188 091
Interest for the year	488 147	748 445
Income recognition during the year	(62 682 354)	(56 267 944)
Other conditions met during the year	(8 644 800)	(38 879 345)
Reallocation of funds	(3 566 697)	(2 541 667)
Grants repaid	(435 100)	(3 957 596)
Balance unspent at the end of the year	46 936 628	29 755 425
These unspent amounts are invested until utilised.		
Regional Socio-Economic Project		
Balance at the beginning of the year	6 206 439	3 604 048
Received during the year	1 650 000	9 500 000
Conditions met - transferred to revenue	(825 153)	(6 897 609)
Conditions still to be met	7 031 286	6 206 439
Expanded Public Works Program		
Received during the year	1 500 000	1 071 000
Conditions met - transferred to revenue	(1 500 000)	(1 071 000)
Conditions still to be met	-	-
Financial Management		
Received during the year	1 550 000	1 475 000
Conditions met - transferred to revenue	(1 550 000)	(1 475 000)
Conditions still to be met	-	-
Municipal Infrastructure		
Received during the year	19 687 000	18 532 000
Conditions met - transferred to revenue	(19 686 824)	(18 532 000)
Reallocation of funds	(176)	-
Conditions still to be met	-	-
Municipal drought relief		
Received during the year	24 510 000	-
Current year interest	36 080	-
Conditions met - transferred to revenue	(22 934 208)	-
Reallocation of funds	(7 459)	-
Conditions still to be met	1 604 413	-

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
16. Unspent conditional grants and receipts (continued)		
Public Transport Infrastructure		
Received during the year	101 592	126 000
Conditions met - transferred to revenue	(101 592)	(126 000)
Conditions still to be met	-	-
Human Settlement Development		
Balance at the beginning of the year	14 503 032	20 159 483
Received during the year - agent	14 925 162	37 682 980
Received during the year - capital projects	16 380 903	5 148 111
Movements in housing debtor	(342 387)	(444 624)
Conditions met - agent	(8 644 801)	(38 879 345)
Reallocation of funds	-	(2 085 521)
Grant repaid	-	(3 957 596)
Services - capital projects	(6 508 769)	(3 120 456)
Conditions still to be met	30 313 140	14 503 032
Provincial Library		
Received during the year	6 769 000	6 268 000
Conditions met - transferred to revenue	(6 769 000)	(6 268 000)
Conditions still to be met	-	-
Department of water and sanitation		
Received during the year	250 000	-
Conditions met - transferred to revenue	(250 000)	-
Conditions still to be met	-	-
Transnet Donation		
Balance at the beginning of the year	1 679 553	8 603 600
Conditions met - transferred to revenue	(106 100)	(6 924 047)
Conditions still to be met	1 573 453	1 679 553
Accelerate Community Infrastructure Programme		
Received during the year	-	1 885 000
Conditions met - transferred to revenue	-	(1 885 000)
Conditions still to be met	-	-

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Figures in Rand	2018	2017 Restated*
16. Unspent conditional grants and receipts (continued)		
Financial Management Support		
Balance at the beginning of the year	880 569	1 004 559
Received during the year	630 000	220 000
Interest	8 115	75 865
Conditions met - transferred to revenue	(962 439)	(383 583)
Reallocation of funds	(198 130)	(36 272)
Conditions still to be met	358 115	880 569
Integrated Electrification Programme		
Balance at the beginning of the year	435 100	-
Received during the year	3 000 000	2 000 000
Grant repaid	(435 100)	-
Conditions met - transferred to revenue	(3 000 000)	(1 564 900)
Conditions still to be met	-	435 100
Vredenburg Urban Renewal Project		
Balance at the beginning of the year	5 370 825	11 229 924
Current year interest	435 838	663 958
Conditions met - transferred to revenue	(81 559)	(6 523 057)
Conditions still to be met	5 725 104	5 370 825
Acceleration of Housing Delivery		
Balance at the beginning of the year	-	354 517
Conditions met - transferred to revenue	-	(354 517)
Conditions still to be met	-	-
Community Development Workers		
Received during the year	74 000	75 000
Current year interest	1 202	-
Conditions met - transferred to revenue	(3 840)	(75 000)
Conditions still to be met	71 362	-
Spatial Development Framework		
Balance at the beginning of the year	470 520	500 000
Conditions met - transferred to revenue	(470 520)	(29 480)
Conditions still to be met	-	470 520
Thusong Centre		
Balance at the beginning of the year	54 204	105 728
Interest	-	6 476
Conditions met - transferred to revenue	(54 204)	(58 000)
Conditions still to be met	-	54 204

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Figures in Rand	2018	2017 Restated*
16. Unspent conditional grants and receipts (continued)		
Other		
Balance at the beginning of the year	155 146	903 578
Received during the year	994 349	205 000
Interest	6 913	2 146
Conditions met - transferred to revenue	(895 348)	(955 578)
Reallocation of funds	(1 341)	-
Conditions still to be met	259 719	155 146

Refer to appendix D for more details.

17. Borrowings

Borrowings at amortised cost	160 740 751	161 963 942
Non-current liabilities		
Non-current liabilities	143 535 288	142 917 900
Current liabilities	17 205 463	19 046 042
	160 740 751	161 963 942
Balance at the beginning of the year	161 963 942	126 411 065
Loans redeemed	(19 046 043)	(22 627 123)
New loans	17 822 852	58 180 000
Balance at year end	160 740 751	161 963 942

Long-term liabilities have been utilised in accordance with the MFMA.

The value of the remaining liabilities assumed by the municipality as part of the service concession arrangement with the WCDM is R24 530 596 (2017: R34 844 093) which are included in the balance above. The WCDM entered into loan agreements with financial institutions in order to construct and/or upgrade some of the service concession assets. The municipality is responsible for servicing the loans.

Pledged as security

No assets were pledged as security for external borrowings.

Long term borrowings are repaid over periods varying from 10 to 15 years (2017: 10 to 15 years) and at interest rates varying from 6.75% to 11.86% (2017: 6.75% to 13%) per annum.

The amortised cost of the long-term liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

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18. Finance lease obligation		
Minimum lease payments due		
- within one year	75 080	100 105
- in second to fifth year inclusive	-	75 080
less: future finance charges	(26 566)	(101 779)
	48 514	73 406
Present value of minimum lease payments due		
- within one year	48 514	24 892
- in second to fifth year inclusive	-	48 514
	48 514	73 406
Non-current liabilities	-	48 514
Current liabilities	48 514	24 892
	48 514	73 406

The term period pertaining to this lease is two years. Interest rates are linked to the prime interest rate at the contract date. The lease has fixed repayments and no arrangement has been entered into for contingent rent. The municipality's obligation under the finance lease is secured by the lessor's charge over the leased asset.

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Figures in Rand	2018	2017 Restated*
19. Employee benefit obligation		
Total employee benefit obligation liability		
Present value of post-retirement healthcare benefits	97 797 099	93 356 783
Present value of long-service awards	16 269 300	14 943 270
Staff bonuses	9 102 295	8 254 550
Staff leave	17 275 125	13 342 397
	140 443 819	129 897 000
The liability is split between:		
Non-current liabilities		
Present value of the post-retirement healthcare benefits	93 829 296	89 694 737
Present value of the long-service awards	15 064 661	13 118 444
	108 893 957	102 813 181
Current liabilities		
Present value of the post-retirement healthcare benefits	3 967 803	3 662 046
Present value of the long-service awards	1 204 641	1 824 826
Staff bonuses	9 102 295	8 254 550
Staff leave	17 275 125	13 342 397
	31 549 864	27 083 819
The actuarial valuation was performed by Chanan Weiss from ARCH Actuarial Consulting CC (Registration 1998/023194/23). ARCH Actuarial Consulting CC is not connected to the municipality.		
Reconciliation of employee benefit obligations		
19.1 Post-retirement healthcare benefit		
Defined benefit plan		
Present value of unfunded defined benefit obligation	97 797 099	93 356 783
Non-current liabilities	93 829 296	89 694 737
Current liabilities	3 967 803	3 662 046
	97 797 099	93 356 783
Changes in the present value of the unfunded defined benefit obligation:		
Opening balance	93 356 783	90 131 643
Benefits paid	(3 563 828)	(3 276 533)
Net expense recognised in the statement of financial performance	8 004 144	6 501 673
Closing balance	97 797 099	93 356 783
Net expense recognised in the statement of financial performance:		
Employee cost	4 415 253	4 685 779
Actuarial gain	(5 219 390)	(6 132 590)
Finance cost	8 808 281	7 948 484
	8 004 144	6 501 673

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19. Employee benefit obligation (continued)

The post-retirement healthcare benefit is a defined benefit plan and consists of the fixed contribution percentage that is paid to various medical aid plans by the municipality consisting of LA Health, Key Health, Bonitas, Fed Health, Samwumed and Hosmed.

The employees of the municipality and their dependants are currently entitled to a subsidy of 70% of the medical scheme contributions after they retire or in the case of death. This percentage is reduced if an employee did not complete a required service period before retirement. Widow(er)s and orphans of in-service members are entitled to a subsidy of 60% of the contribution payable. Upon a member's death-in retirement, the surviving dependants will continue to receive the same benefits.

Key assumptions used for the post-retirement healthcare benefit

	2018	2017
Key financial assumptions		
Discount rate	9.54%	9.62%
CPI	5.84%	6.40%
Health care cost inflation rate	7.34%	7.90%
Net effective discount rate	2.05%	1.59%
Key demographic assumptions		
Average retirement age	63	63
Continuation of membership at retirement	100%	100%
Proportion assumed married at retirement	90%	90%
Proportion of eligible current non-member employees joining the scheme by retirement	5%	5%
Mortality during employment	SA85-90	SA85-90
Mortality post-retirement	PA(90)	PA(90)

Withdrawals

Allowance was made for the withdrawals of existing members and the assumed withdrawal rates as listed below:

Age	Females	Males
20-29	24%	16%
30-39	18%	12%
40-49	10%	8%
50-54	4%	4%
55	2%	2%
55+	0%	0%

Discount rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 9.54% (2017: 9.62%) per annum has been used. The corresponding index-linked yield at this term is 3.02% (2017: 2.55%). These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on the reporting date.

Family profile

It has been assumed that female spouses will be five years younger than their male counterparts. Further, it was assumed that 90% of eligible employees on a healthcare arrangement at retirement will have an adult dependant. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Saldanha Bay Municipality

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Figures in Rand	2018	2017 Restated*
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19. Employee benefit obligation (continued)

Medical scheme option

It has been assumed that in-service members and continuation members will remain on the same medical scheme and option. In-service non-members were assumed to join Samwumed Option B, should they join a scheme by retirement and continue to receive the post-employment subsidy.

Sensitivity analysis on the accrued liability (R millions) for the financial year ended 30 June 2018.

Assumption	Change	In-service	Continuation	Total	% change
Central assumptions		49.078	48.720	97.797	
Healthcare inflation	+1%	59.296	53.447	112.742	15%
	-1%	40.978	44.607	85.585	-12%
Discount rate	+1%	41.188	44.718	85.906	-12%
	-1%	59.169	53.391	112.559	15%
Post-retirement mortality	-1 yr	50.669	50.523	101.192	3%
Average retirement age	-1 yr	53.571	48.720	102.290	5%
Continuation of membership at retirement	-10%	39.908	47.720	88.627	-9%

Sensitivity analysis on current-service and interest costs (R millions) for financial year ended 30 June 2018.

Assumption	Change	Service cost	Interest cost	Total	% change
Central assumptions		4.415	8.808	13.224	
Healthcare inflation	+1%	5.434	10.223	15.657	18%
	-1%	3.622	7.657	11.279	-15%
Discount rate	+1%	3.673	8.481	12.154	-8%
	-1%	5.377	9.151	14.528	10%
Post-retirement mortality	-1 yr	4.565	9.131	13.696	4%
Average retirement age	-1 yr	4.198	9.032	13.230	0%
Continuation of membership at retirement	-10%	3.590	7.949	11.539	-13%

The present value of the obligation for the current and for the previous four periods are as follows:

	2018	2017	2016	2015	2014
Healthcare benefit obligation	R97 797 000	R93 356 783	R89 478 104	R88 588 882	R75 076 000

History of experience adjustments arising on the planned - Gains and Losses:

Experience adjustments	2018	2017	2016	2015	2014
Liabilities: (Gain) / Loss	R1 720 000	R6 202 000	(R8 149 000)	R2 627 000	Unknown*

* Insufficient information provided in previous report.

Employer's best estimate of contributions expected to be paid in respect of the healthcare benefit obligation:

	2020	2019
Estimated contribution	(R4 259 040)	R3 951 407

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Figures in Rand	2018	2017 Restated*
19. Employee benefit obligation (continued)		
19.2 Long-service awards		
Other long-term employee benefit obligation		
Present value of the unfunded accrued liability	16 269 300	14 943 270
Non-current liabilities	15 026 133	13 118 444
Current liabilities	1 243 167	1 824 826
	16 269 300	14 943 270
Changes in the present value of the liability:		
Opening balance	14 943 270	14 752 840
Benefits paid	(1 824 826)	(1 266 837)
Net expense recognised in the statement of financial performance	3 150 856	1 457 267
Closing balance	16 269 300	14 943 270
Net expense recognised in the statement of financial performance:		
Current service cost	1 301 401	1 348 504
Finance cost	1 204 641	1 219 085
Actuarial gain	644 814	(1 110 322)
	3 150 856	1 457 267

The long-service award is payable after every five years of continuous service. The long service award provision is an estimate of the liability based on the current staff turnover. All permanent employees are entitled to a specified number of days additional leave plus additional remuneration based on their completed years of service. The employee may convert the additional leave into a cash amount. At the end of 30 June 2018 the total number of employees was 967 (2017: 960).

Key assumptions used for the long-service awards

Discount rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.68% (2017: 8.57%) per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long-service awards, for each employee. The 8.68% (2017: 8.57%) is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 2.78% (2017: 2.54%). These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on the reporting date.

The liability-weighted average term of the total liability is 8.03 years.

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19. Employee benefit obligation (continued)

	2018	2017
Key financial assumptions		
Discount rate	8.68%	8.57%
Consumer price inflation	5.25%	6.40%
Normal salary inflation rate	CPI plus 1%	CPI plus 1%
Normal salary increase rate	7%	7.36%
Net effective discount rate	2.29%	2.05%
Key demographic assumptions		
Average retirement age	63	63
Mortality during employment	SA85-90	SA85-90
Mortality post-retirement	PA(90)	PA(90)

Withdrawal

The assumed rates of withdrawal from service are set out below:

Age	Females	Males
20-29	24%	16%
30-39	18%	12%
40-49	10%	8%
50-54	4%	4%
55	2%	2%
55+	0%	0%

Normal salary inflation rate

The assumed rate of salary inflation was set as the expected future CPI plus 1%. In addition to the normal salary inflation rate, the following promotional salary increases were assumed:

Age	Promotional increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45+	0%

LSA arrangement assumptions

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

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19. Employee benefit obligation (continued)

Sensitivity analysis on the accrued liability (R millions) for the financial year ended 30 June 2018.

Assumption	Change	Liability	% change
Central assumptions		16.269	
General salary inflation	+1%	17.490	8%
	-1%	15.175	-7%
Discount rate	+1%	15.140	-7%
	-1%	17.553	8%
Average retirement age	-2 yrs	14.126	-13%
	2 yrs	18.263	12%
Withdrawal rates	-50%	19.559	20%

Sensitivity analysis on current-service and interest costs (R millions) for the financial year ended 30 June 2018.

Assumption	Change	Service cost	Interest Cost	Total	% change
Central assumptions		1.301	1.205	2.506	
General salary inflation	+1%	1.423	1.300	2.723	9%
	-1%	1.194	1.119	2.314	-8%
Discount rate	+1%	1.202	1.247	2.449	-3%
	-1%	1.416	1.153	2.568	3%
Average retirement age	-2 yrs	1.158	1.042	2.199	-14%
	-1 yr	1.442	1.355	2.797	13%
Continuation of membership at retirement	-50%	1.741	1.468	3.209	28%

The present value of the obligation for the current and for the previous four periods are as follows:

	2018	2017	2016	2015	2014
Accrued liability	R16 269 300	R14 943 270	R14 752 840	R13 596 075	R13 513 000

History of experience adjustments arising on the planned - Gains and Losses:

Experience adjustments	2018	2017	2016	2015	2014
Liabilities: (Gain) / Loss	945 390	(R206 928)	R183 993	(R768 327)	Unknown*

* Insufficient information provided in previous reports.

Employer's best estimate of contributions expected to be paid in respect of the long-service awards:

	2020	2019
Estimated contribution	R2 315 236	R1 213 131

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Figures in Rand	2018	2017 Restated*
19. Employee benefit obligation (continued)		
19.3 Staff bonuses		
Bonuses reconciliation		
Opening balance	8 254 550	7 656 993
Benefits paid	(8 254 550)	(7 656 993)
Net expense recognised in the statement of financial performance	9 102 295	8 254 550
Closing balance	9 102 295	8 254 550
19.4 Staff leave		
Staff leave reconciliation		
Opening balance	13 342 397	13 026 009
Benefits paid	(1 639 489)	(1 209 574)
Net expense recognised in the statement of financial performance	5 572 217	1 525 962
Closing balance	17 275 125	13 342 397

19.5 Multi-employer plans

Retirement benefit information

The municipality makes provision for post-retirement benefits to eligible councillors and employees who belong to different pension schemes. These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

The only obligation for the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions. The total expense recognised in the Statement of Financial Performance for employees comprises R31 798 660 (2017: R28 559 311) and councillors of R361 377 (2017: R283 430) respectively and represents contributions payable to these plans by the municipality at rates specified in the rules of the plans.

These schemes are subject to a tri-annual, bi-annual or annual actuarial valuation as set out hereunder. The amounts included are the latest available actuarial valuations for the fund.

LA Retirement Fund:

The LA Retirement Fund operates both as a defined benefit and defined contribution scheme.

Defined benefit scheme

The contribution rate payable under the defined benefit section is 27%, 9% by the members and 23.06 % (period 1 February 2012 - 30 June 2014) and 26.77% (period 1 July 2014 - 30 June 2015) by their councils. The actuarial valuation report at 30 June 2017 disclosed an actuarial valuation amounting to R1 859 077 000 (30 June 2016: R3 631 518 000), with a nett accumulated surplus of R46 989 000 (2016: R67 791 000), with a funding level of 102.6% (30 June 2016: 103.5%).

Defined contribution scheme

The actuarial valuation report at 30 June 2017 indicated that the defined contribution scheme of the fund is in a sound financial position, with assets amounting to RR1 911 937 000 (30 June 2016: R1 960 970 000), net investment reserve of Rnil (30 June 2013: Rnil) and with a funding level of 100% (2016: 100%).

The actuary concluded that:

- the Pensioner account has a funding level of 102.6% with a surplus of R47 million and is in a sound financial condition as at the valuation date;

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19. Employee benefit obligation (continued)

- there is a surplus of R47.0million in the DB Section excluding the surplus in the Pensioner Account. The surplus has been allocated to the Pensioner Account;
- the overall funding level in respect of the DB Section including the Pensioner Account is 101.3% with a surplus of R47 million.
- the DC Section has a funding level of 100% and is in a sound Financial condition;
- overall the fund is in a sound financial condition with a surplus of R47 million and the overall funding level of 102.6%; and
- the Trustees awarded a 3.3% pension increase effective 1 January 2018.

Furthermore:

- all the active members have now all been converted to the DC Section;
- there is no longer any contribution rate shortfall as this only applied to 29 residual DB Section active members, that have now also converted to the DC Section; and
- both the DC Section and the DB Section were fully funded as at the valuation date.

The nature of the assets is suitable for the Fund, except that the proportion of direct property underlying the pensioner liabilities may represent an over-concentration of assets in this class. The assets are appropriately matched relative to the term and nature of the active member liabilities. The Fund's investment strategy is suitable. Finally the risk benefits are partially re-insured and this is appropriate for the size and nature of the Fund.

The municipality has 9 employees and 14 Councillors that are members on this fund as at 30 June 2018 .

Cape Joint Retirement Fund:

The statutory valuation performed as at 30 June 2016 revealed that the assets of the fund amounted to R20 075 000 000 (30 June 2015: R18 322 177 000), with funding levels of 118% and 100.5% (30 June 2015: 112.1% and 100%) for the Pensions Account and the Share Account respectively. The Preservation Pension Account showed a surplus of Rnil and was 100% funded for both 2016 & 2015. The contribution rate paid by the members (7,50%/9%) and the municipalities (19,50%/18%) is sufficient to fund the benefits accruing from the fund in the future. The actuary certified that the structure of the assets is appropriate relative to the nature of the liabilities, given normal circumstances and that the Fund is in a sound financial condition as at the valuation date.

The municipality has 755 employees that are members of this fund as at 30 June 2018.

Municipal Workers Retirement Fund:

The Municipal Workers Retirement Fund is a defined contribution scheme. Members contribute at a rate of not less than 7.5% of salaries, as required by the Rules. The employers contribute at a total rate of not less than 18%. From 1 July 2017, members and employers that fall under other bargaining councils or forums are not bound by the above minimum contribution rates. The statutory valuation performed as at 30 June 2017 revealed that the assets of the fund amounted to R7,720,948.000 (30 June 2011 : R6,574,75.00), with funding levels of 102.0% (30 June 2014: 111.7%). As a percentage of members' Fund Credits, the investment smoothing reserve has decreased from 5.6% to 4.9% over the valuation period. As a percentage of the market value of assets, it has decreased marginally from 4.6% to 4.4%. The Fund's assets are sufficient to cover the members' Fund Credits, the targeted levels of the risk benefits reserve and the data and processing error reserve, and an investment smoothing reserve of 4.9% of members' Fund Credits as at 30 June 2017. In addition, there is brought-forward surplus of some R152.8 million which has been allocated to former members and is awaiting payment. The Fund is therefore in a sound financial position. The municipality has 199 employees that are members of this fund as at 30 June 2018.

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19. Employee benefit obligation (continued)

The Municipal Councillors Pension Fund:

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The statutory valuation performed as at 30 June 2015 revealed that the assets of the fund amounted to R2 551 861 000 (30 June 2014: R2 229 410 000), with funding levels of 101.08% (30 June 2014: 98.83%). The contribution rate paid by the members (13.75%) and council (15%) is sufficient to fund the benefits accruing from the fund in the future. The actuary certified that the fund was in a sound financial condition as at 30 June 2015, in that the assets of the fund were sufficient to cover the accrued service liabilities including the recommended contingency reserves in full. The municipality has 1 councillors that are members of this fund.

South African Local Authorities Pension Fund:

The pension fund operates both as a defined benefit and defined contribution scheme.

The statutory valuation performed as at 1 July 2016 revealed that the assets of the fund amounted to R13 700 300 (30 June 2015: R13 231 200), with funding levels of 100% (30 June 2015: 100%). The highest contribution rate paid by the members was 7.92% and by Council 20.78%.

It is the actuary's opinion that:

- they are satisfied with the investment strategy of the fund;
- the nature of the assets is, in their opinion, suitable for the nature of the liabilities of the fund as defined in the rules of the fund;
- the matching of assets with the liabilities of the fund is adequate; and
- the insurance arrangements are appropriate compared to the cover provided can be regarded as financially sound at the valuation date.

National Fund for Municipal Workers:

The fund operates as a defined contribution fund and in terms of the rules of the fund category A and category C members contribute at a rate as agreed upon by the Local Authority and the member, subject to an absolute minimum contribution of 2% and 5% of their remuneration respectively. Category C-Members, appointed after 1 July 2012, who are not part of the Schedule shall make monthly contributions to the Fund equal to 7.5% of their Remuneration.

The Local Authority must contribute in respect of category A and category C members such an amount as agreed between the Local Authority and the fund, subject to a minimum contribution rate of 2% and 5% of their remuneration respectively. Category B members are members who belong to both category A and C and the Local Authority must, on behalf of such members, not contribute less than 7% of their remuneration. The contribution rates stipulated above include the amount payable towards the insured risk benefits policy.

The fund operates as a defined contribution fund and in terms of the rules of the fund category A and category C members contribute at a rate as agreed upon by the Local Authority and the member, subject to an absolute minimum contribution of 2% and 5% of their remuneration respectively.

The statutory valuation performed as at 30 June 2015 revealed that the assets of the fund amounted to R10 050 029 000 (30 June 2014 : R9 031 759 000), with funding levels of 100.42% (30 June 2014: 100.10%). The actuary certified that the assets of the fund are sufficient to cover 100.42% of the members' liabilities, also that it can be expected that the funding level of a fund of this nature will fluctuate around 100%, for example due to timing differences in investment and receipt of monies, slight mismatching of assets and liabilities and processing errors.

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20. Provisions		
Environmental rehabilitation provision		
Provision for rehabilitation of landfill sites	81 896 040	87 024 631
Non-current liabilities	79 459 838	76 401 105
Current liabilities	2 436 202	10 623 526
	81 896 040	87 024 631

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reduction due to re- measurement or settlement without cost to entity	Total
Provision for rehabilitation of landfill sites	87 024 631	8 017 938	(7 114 372)	(6 032 157)	81 896 040

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reduction due to re- measurement or settlement without cost to entity	Total
Provision for rehabilitation of landfill sites	84 185 302	5 472 832	(2 633 503)	-	87 024 631

There are five sites under consideration, being the Vredenburg landfill, Langebaan landfill, Saldanha (Kalkrug) landfill and two landfill sites in Hopefield. A reconciliation of the environmental rehabilitation provision for these sites is provided below.

	Actual (estimated) rehabilitation start date		
Langebaan	1 March 2017	6 901 771	14 093 378
Vredenburg	1 July 2019	55 493 077	54 414 816
Hopefield (1)	30 June 2020	4 348 990	4 044 319
Hopefield (2)	30 June 2020	4 889 132	4 569 969
Kalkrug	1 July 2019	10 263 070	9 902 149
		81 896 040	87 024 631

The estimation of the liability to rehabilitate the landfill sites was performed by One Pangaea Expertise & Solutions, a firm of specialist waste management consultants. The firm is registered with the South African Council of Engineers. One Pangaea Expertise & Solutions is not connected to the municipality.

An appropriate discount rate was used to determine the present value of the future environmental rehabilitation liability.

The funds to rehabilitate these landfill sites are included in the short-term investments. The funds are ring-fenced to ensure that this liability is cash-backed.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
21. Deferred rental income		
Deferred rental income - current portion	-	2 180 112
Reconciliation of deferred rental income		
Opening balance	2 180 112	3 837 883
Deferred rental income in the current year	-	375 111
Interest expense	72 978	214 892
Rental income earned in the current year	(2 253 090)	(2 247 774)
	-	2 180 112
22. Service charges		
Sale of electricity	301 681 745	300 489 994
Sale of water	187 363 150	139 635 783
Refuse removal	79 370 246	68 653 930
Sewerage and sanitation charges	61 330 222	57 624 646
Revenue forgone	(33 885 952)	(30 997 847)
	595 859 411	535 406 506
23. Rental of facilities and equipment		
Rental of property, plant and equipment	17 041 549	15 557 767
Rental of investment property	1 754	4 545
Other	-	709 199
Revenue forgone	(664 947)	(698 803)
	16 378 356	15 572 708
24. Interest earned - external investments		
Attorneys monies in trust	-	3 160
Banking institutions	48 222 292	44 705 883
	48 222 292	44 709 043
25. Interest earned - outstanding receivables		
Electricity	349 665	415 517
Refuse removal	2 232 991	1 816 352
Sewerage	2 067 194	1 958 129
Water	3 531 888	3 027 810
Other	923 238	1 189 896
	9 104 976	8 407 704
26. Agency services		
Commission: Vehicle licences	5 755 634	4 951 837

The municipality acts as an agent for the Department of Transport and Public Work and manages the issuing of vehicle licenses for a commission.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
27. Licences and permits		
Licences and permits	<u>1 625 326</u>	<u>1 319 159</u>
<p>The municipality earns revenue from applications for driver's and learner's licences and from issuing of public driving permits, driver's and learner's licences.</p>		
28. Other income		
Administrative fees	84 574	27 519
Building plan fees	3 820 311	3 326 330
Bad debt recovered	139 766	55 107
Bursaries refunded	86 771	105 283
Capital contributions	8 945 145	5 434 000
Cemetery fees	658 079	504 624
Cleaning of open spaces	82 727	543 841
Clearing certificates	347 203	373 629
Encroachment fees	247 302	259 502
Garden refuse removals	10 798	73 139
Insurance claims	3 426 292	420 271
Land-use planning	868 693	332 277
Legal fees	40 501	325 710
Photocopies and faxes	111 826	104 722
Refuse dump fees	60 157	572 986
Sundry income	1 280 146	1 386 459
Tender documents	86 604	48 769
Trade union representative	361 114	321 821
	<u>20 658 009</u>	<u>14 215 989</u>

Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
29. Property rates		
Property rates	201 984 867	194 270 731
Building clause levy	-	20 402
Less: Income forgone	(9 438 365)	(8 706 361)
	192 546 502	185 584 772

Valuations

Residential	25 562 387 550	19 624 636 002
Business/Commercial	5 230 599 200	3 346 382 130
State	1 156 195 500	954 420 000
Municipal	849 818 020	552 914 482
Small holdings and farms	1 908 702 680	1 996 853 650
Other	593 683 161	761 570 847
Total property valuations	35 301 386 111	27 236 777 111

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2017. Interim valuations are processed on a regular basis and when needed to take into account changes in individual property values due to alterations and subdivisions.

A residential rate of 0.5330 cents in the Rand (2017: 0.6648 cents in the Rand) was used to determine assessment rates on categories based on the following ratios:

Residential property	1:1
Residential business	1:1.4
Private open spaces	1:1
Residential nature reserve	1:0.3
Public service infrastructure property	1:0.10
Public benefit organisation property	1:0.25
Agricultural property	1:0.10

Rates are levied on an annual or monthly basis.

30. Interest earned - outstanding property rates receivables

Property rates	3 647 624	3 119 575
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The municipality levies interest on rates outstanding after the due date for payment at prime +1% per annum (2017: prime + 1% per annum).

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
31. Government grants and subsidies		
Operating grants		
Equitable share	71 511 001	62 832 000
Expanded Public Works Programme Grant (EPWP)	1 500 000	1 071 000
Financial Management Grant (FMG)	1 468 139	1 380 349
Municipal Infrastructure Grant (MIG)	984 348	926 600
Public Transport Infrastructure Grant (PTIS)	101 592	126 000
Regional Socio-Economic Project (RSEP)	180 000	587 850
SETA - Skills Development Grant	688 349	181 403
Financial Management Support Grant (FMSG)	1 053 831	399 076
Library Grant	6 769 000	6 268 000
Thusong Centre	54 204	58 000
Other operating government grants and subsidies	625 379	742 045
Community Development Workers Grant (CDW)	3 840	74 168
	<u>84 939 683</u>	<u>74 646 491</u>
Capital grants		
National government	19 167 738	16 842 234
Provincial government	29 882 786	19 564 266
Public entities	106 100	6 174 047
Other	-	101
VAT on DORA grants	3 314 361	3 216 327
	<u>52 470 985</u>	<u>45 796 975</u>
	<u>137 410 668</u>	<u>120 443 466</u>
Split between:		
Conditional grants received	65 899 667	57 611 466
Unconditional grants received	71 511 001	62 832 000
	<u>137 410 668</u>	<u>120 443 466</u>

Equitable share

In order to qualify for a 100% indigent subsidy, the qualifying income for a household must be R4 300 or less per month. The income limits for seasonal workers will be calculated over a period of one year.

The second category is based on an income of R5 350 per month, such households will receive an indigent subsidy of 70% of the above-mentioned category.

All indigent subsidies are funded from the equitable share.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 10 of 2014), no significant changes in the level of government grant funding is expected over the forthcoming three financial years.

* See Note 50 & 46

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
32. Fines		
Traffic fines	31 481 972	33 629 204
Library books	51 426	46 532
Fines imposed on Councillors	2 000	-
	31 535 398	33 675 736

Key assumptions made with the recognition of revenue on traffic fines:

Revenue from traffic fines is recognised on a net basis after adjusting the fines issued for the probability of the traffic fines being withdrawn, reduced, written off (struck off) or the offender being given a rebate when settling the traffic fine. Based on past history, 12.95% (2017: 18.64%) of all fines issued will be withdrawn, reduced or the offender will be given a rebate when settling the traffic fine.

33. Other income

Forfeits	4 218 031	38 073
Donated assets	33 186 598	42 071 801
	37 404 629	42 109 874

Services in-kind

The municipality received services in-kind under voluntary or non-voluntary schemes which included free training, workshops and technical assistance from government departments and entities. These services in-kind have not been recognised as they were assessed not to be significant to the municipality's operations and/or basic service delivery objectives. The municipality also received in-kind support from National and Provincial government to help deal with the water crisis including the release of water from the Berg River Dam into the Misverstand Dam, when the water supply of the municipality was going to run out. This support was significant to the municipality's basic service delivery objectives relating to water. However, the cost and fair value of these services in-kind could not be measured reliably thus is not recognised in the financial statements.

34. Employee related costs

Acting allowance	1 554 302	1 695 322
Bargaining council levy	95 952	89 157
Basic salaries	190 927 308	171 776 239
Bonuses	15 124 070	13 245 680
Defined contribution plans	31 798 660	28 559 311
Employers contributions: Group life insurance	2 279 896	2 070 846
Employers contributions: Health care	10 608 686	9 831 930
Employers contributions: UIF	1 686 304	1 582 286
Employers contributions: WCA	1 797 555	1 532 040
Expense: Post retirements healthcare benefits	4 415 253	4 685 782
Housing allowance	2 688 977	2 713 898
Long-service awards	1 399 784	1 348 501
Municipal staff: Leave gratuity	5 572 215	1 525 964
Other allowances	341 960	434 592
Overtime	18 450 502	15 581 460
Scarcity allowance municipal staff	248 254	228 034
Standby allowance municipal staff	7 702 394	6 540 984
Travelling allowance	17 926 960	14 824 386
Telephone allowance	1 397 278	1 001 307
Total	316 016 310	279 267 719

The remuneration of staff is within the upper limits of the SALGA bargaining council determinations.

* See Note 50 & 46

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
35. Remuneration of councillors		
Basic salaries	8 530 199	8 011 765
Cell phone allowances	1 182 059	724 000
Healthcare contributions	87 068	87 890
Housing benefits and allowances	-	68 362
Pension Contributions	361 377	283 430
Travelling allowances	1 228 610	1 154 689
Total	11 389 313	10 330 136
<p>The remuneration of political office bearers and councillors are within the upper limits as determined by the framework envisage in section 219 of the Constitution. Refer to note 58 for the details.</p>		
36. Depreciation, amortisation and impairment losses		
Property, plant and equipment	121 597 033	116 034 230
Impairment losses - Property, plant and equipment	2 821 683	939 404
Intangible assets	3 483 845	3 122 115
	127 902 561	120 095 749
37. Finance costs		
Provision for the rehabilitation of landfill site	8 017 938	5 077 553
Amortisation of deferred rental income	72 978	214 892
Borrowings	16 274 395	12 797 802
Unspent conditional grants	488 147	748 445
Employee benefit obligation	10 012 922	9 167 570
Finance leases	75 214	22 076
Trade and other payables	5 511	-
	34 947 105	28 028 338
38. Debt impairment		
Impairment - Trade and other receivables from exchange transactions	26 804 871	2 240 379
Impairment - Trade and other receivables from non-exchange transactions	11 452 639	19 198 473
Impairment - Non-current receivables	-	(245 940)
	38 257 510	21 192 912
39. Bulk purchases		
Electricity	213 264 206	217 620 004
Water	40 984 341	52 844 075
	254 248 547	270 464 079
40. Contracted services		
Consultant and professional services	16 051 582	7 499 866
Outsourced services	17 847 219	22 131 667
Other contractors	27 849 071	24 691 223
	61 747 872	54 322 756

Included in outsourced services is an amount of R10 404 584 (2017: R8 465 092) which relates to security services

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
41. Transfers and subsidies		
Saldanha Bay Tourism Organisation	2 325 887	2 215 130
Other	1 084 687	857 495
	3 410 574	3 072 625

The municipality provides grant funding to the Saldanha Bay Tourism Organisation to support tourism within the municipal boundaries.

42. General expenses

Advertising	1 823 169	1 183 276
Audit fees	3 809 083	3 875 468
Bank charges	3 047 687	2 544 664
Bursaries	431 127	395 921
Commission paid	4 473 195	3 758 532
Conferences and delegations	219 330	112 716
Entertainment	84 784	232 437
Eskom	3 463 305	3 278 892
Firebrigade fees - WCDM	-	4 501 022
Fuel and oil	12 782 667	11 610 188
Insurance	3 049 182	2 870 960
License fees - computers	4 458 024	2 895 840
License fees - vehicles	1 210 196	1 269 551
Magazines, books and periodicals	89 124	55 337
Membership fees	3 219 214	2 828 441
Other	741 465	1 617 559
Postage	1 433 387	1 327 435
Remuneration of ward committees	718 650	628 616
Rental of buildings	3 257 216	3 107 284
SDL	2 594 934	2 258 419
Stocks and material	18 281 718	14 563 205
Telephone cost	5 436 528	4 588 326
Travel - overseas	14 198	18 595
Travel and subsistence	1 974 161	1 565 377
Uniforms	2 815 052	1 916 079
	79 427 396	73 004 140

43. Fair value adjustment

Investment property carried at fair value	(760 000)	770 000
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Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
44. Non-current receivables		
Housing selling schemes loans	197 268	245 940
Impairment for housing schemes loans	(197 268)	(245 940)
Total	-	-
Reconciliation of non-current receivables impairment provision		
Balance at the beginning of the year	(245 939)	(507 400)
Reversal of contribution	48 671	184 040
Bad debt written off against the allowance	-	77 421
	(197 268)	(245 939)

On 30 June 2018 non-current receivables of R197 268 (2017: R245 940) were fully impaired and provided for. An amount of R0 (2017: R77 421) was written-off as irrecoverable.

45. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	89 387 607	89 387 607
Cash and cash equivalents	71 772 812	71 772 812
Investments	565 114 285	565 114 285
	726 274 704	726 274 704

Financial liabilities

	At amortised cost	Total
Borrowings	(160 740 751)	(160 740 751)
Finance lease obligation	(48 514)	(48 514)
Trade and other payables from exchange transactions	(96 132 321)	(96 132 321)
Consumer deposits	(21 134 001)	(21 134 001)
	(278 055 587)	(278 055 587)

* See Note 50 & 46

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
45. Financial instruments disclosure (continued)		
2017		
Financial assets		
	At amortised cost	Total
Trade and other receivables from exchange transactions	82 799 688	82 799 688
Cash and cash equivalents	47 188 229	47 188 229
Investments	505 593 448	505 593 448
	635 581 365	635 581 365
Financial liabilities		
	At amortised cost	Total
Borrowings	(161 963 942)	(161 963 942)
Finance lease obligation	(73 406)	(73 406)
Trade and other payables from exchange transactions	(74 535 758)	(74 535 758)
Consumer deposits	(19 529 675)	(19 529 675)
	(256 102 781)	(256 102 781)
Financial instruments in Statement of Financial Performance		
2018		
	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	57 327 268	57 327 268
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(16 355 120)	(16 355 120)
	40 972 148	40 972 148
2017		
	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	53 116 747	53 116 747
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(12 819 878)	(12 819 878)
	40 296 869	40 296 869

*Interest is calculated using effective interest method.

* See Note 50 & 46

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments

Statement of Financial Position 30 June 2017

	As previously reported	Correction of error	Reclassifying adjustments	Restated
Assets				
Current Assets				
Cash and cash equivalents	47 188 229	-	-	47 188 229
Inventories	12 480 784	-	-	12 480 784
Investments	505 593 448	-	-	505 593 448
Trade and other receivables from exchange transactions	81 019 561	1 780 127	-	82 799 688
Trade and other receivables from non-exchange transactions	29 490 003	82 584	-	29 572 587
Prepayments	3 192 604	-	-	3 192 604
Operating lease asset	184 023	-	-	184 023
VAT receivable	3 852 879	(218 612)	-	3 634 267
	683 001 531	1 644 099	-	684 645 630
Non-Current Assets				
Property, plant and equipment	2 544 503 384	31 737 678	-	2 576 241 062
Intangible assets	9 784 135	-	-	9 784 135
Investment property	15 870 000	-	-	15 870 000
Heritage assets	3 228 733	-	-	3 228 733
	2 573 386 252	31 737 678	-	2 605 123 930
Total Assets	3 256 387 783	33 381 777	-	3 289 769 560
Liabilities				
Current Liabilities				
Payables from exchange transactions	79 604 777	-	-	79 604 777
Consumer deposits	19 529 675	-	-	19 529 675
Unspent conditional grants and receipts	29 780 175	(24 750)	-	29 755 425
Borrowings	18 116 474	929 568	-	19 046 042
Finance lease obligation	24 892	-	-	24 892
Operating lease liability	206 817	-	-	206 817
Employee benefit obligation	27 083 819	-	-	27 083 819
Provisions	10 623 526	-	-	10 623 526
Deferred rental income	2 180 112	-	-	2 180 112
	187 150 267	904 818	-	188 055 085
Non-Current Liabilities				
Borrowings	153 260 518	(10 342 618)	-	142 917 900
Finance lease obligation	48 514	-	-	48 514
Employee benefit obligation	102 813 181	-	-	102 813 181
Provisions	76 401 105	-	-	76 401 105
	332 523 318	(10 342 618)	-	322 180 700
Total Liabilities	519 673 585	(9 437 800)	-	510 235 785
Net Assets	2 736 714 198	42 819 577	-	2 779 533 775

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Net Assets

Accumulated surplus	2 736 714 198	42 819 577	-	2 779 533 775
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Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Trade and other receivables from exchange transactions

The municipality continued to provide indigent subsidy to households whose applications had already expired. The subsidies are now reserved.

Trade and other receivables from non-exchange transactions

The municipality did not provide indigent subsidy to some households that had approved application forms.

VAT receivable

The VAT impact of the indigent subsidy error is now also adjusted for.

Property, plant and equipment

The SBIDZ LiCo entered into an agreement with the municipality to upgrade the Saldanha Bay Waste Water Treatment Works (WWTW) on behalf of the municipality. The legal ownership of the upgrades was transferred to the municipality during the 2017/18 financial year. However, during the investigation of an insurance claim for a fire that occurred at the WWTW it was determined that the control of the upgrades together with the risk and rewards associated with ownership had already transferred to the municipality during the 2016/17 financial year. The upgrades are now recognised as an asset of the municipality in the year in which it obtained control.

Assets purchased by the WCDM as part of the service concession arrangement are now recognised by the municipality together with the related depreciation. The transactions were previously not recorded due to incorrect application of the financial reporting framework.

Two transformers were sold on auction in the 2013/2014 final year, however only one was removed from the asset register. Therefore the disposal of the remaining transformer is now accounted for on the asset register and corrected in the accounting records. Depreciation was calculated for the asset remaining of the asset register in 2016/2017 and depreciation is now corrected.

During a system migration in the 2016/2017 financial year, the useful lives of the assets were correctly converted on the system, however the depreciation end dates were incorrect. This resulted in assets with remaining useful life and depreciable amount not being depreciated. This is now corrected.

The municipality changed its class of assets for property, plant and equipment. The implementation of mSCOA on 1 July 2017 ensured that the items of property, plant and equipment are classified consistently across all the municipalities. The mSCOA classification provided for more classes which meant that the municipality now has more information that will enhance the user's understanding of the financial statements and that the information will be comparable. The classes of property, plant and equipment were changed to the following to enhance the user's understanding of the financial statements:

Land

Plant and machinery

Furniture and fixtures

Motor vehicles

IT equipment

Infrastructure

Community

Libraries

Other assets

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

The changes did not have an impact on the line items in the financial statements as they only affect the disclosure in the property, plant and equipment note to the financial statements as follows:

	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	(268 493 572)	92 328 247	(176 165 325)
Machinery and equipment	64 205 279	(37 104 333)	27 100 946
Furniture and office equipment	20 809 796	(11 697 274)	9 112 522
Transport assets	127 083 517	(72 922 204)	54 161 313
Computer equipment	25 724 494	(14 928 619)	10 795 875
Other Assets	(42 401 255)	44 363 297	1 962 042
Community Assets	66 441 935	716 795	67 158 730
Libraries	11 733 108	(3 455 923)	8 277 185
Leased Assets	(76 356)	9 320	(67 036)
Infrastructure	(5 026 946)	2 690 694	(2 336 252)
	-	-	-

Impact on the reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	-	-	-	-	-	-	-
Buildings	(143 349 588)	(40 077 500)	476 062	-	6 785 701	-	(176 165 325)
Machinery and equipment	28 112 490	4 822 473	(103 973)	38 855	(5 747 493)	(21 406)	27 100 946
Furniture and office equipment	9 049 752	1 855 251	(58 883)	-	(1 651 904)	(81 694)	9 112 522
Transport assets	58 922 790	5 081 096	(80 231)	-	(9 762 342)	-	54 161 313
Computer equipment	11 484 105	2 166 842	(40 084)	-	(2 673 178)	(141 810)	10 795 875
Other Assets	(1 830 050)	(10 125 491)	(193 437)	(38 855)	13 904 965	244 910	1 962 042
Community Assets	31 503 832	36 549 109	-	-	(894 211)	-	67 158 730
Libraries	8 771 650	-	-	-	(494 465)	-	8 277 185
Leased	-	(76 356)	-	-	9 320	-	(67 036)
Infrastructure	(2 664 980)	(195 425)	546	-	523 607	-	(2 336 252)
Total	-	-	-	-	-	-	-

Impact on the reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	-	(3 644 324)	3 644 324	-
Additions	-	35 597 559	(35 597 559)	-
Transferred to completed items	(201 130)	(1 350 630)	1 551 760	-
	(201 130)	30 602 605	(30 401 475)	-

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

VAT payable

The VAT impact of the indigent subsidy is now also adjusted for.

Unspent conditional grants and receipts

Conditions were met in the 2016/2017 financial year on the FMSG, but not yet recognised against the liability. A correction was therefore made to adjust the opening balance.

Borrowings

Interest and redemption on liabilities recognised as part of the service concession arrangement are now being recorded. The transactions were previously not recorded due to incorrect application of the financial reporting framework.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Statement of Financial Performance for the year ended 30 June 2017

	As previously reported	Correction of error	Reclassifying adjustments	Restated*
Revenue				
Revenue from exchange transactions				
Service charges	533 384 741	2 021 765	-	535 406 506
Rental of facilities and equipment	15 572 708	-	-	15 572 708
Interest earned - investments	44 709 043	-	-	44 709 043
Interest earned - outstanding receivables	8 407 704	-	-	8 407 704
Agency services	4 951 837	-	-	4 951 837
Licences and permits	1 319 159	-	-	1 319 159
Gains on disposal of assets	1 341 205	-	(1 341 205)	-
Other income	14 254 063	(38 074)	-	14 215 989
Total revenue from exchange transactions	623 940 460	1 983 691	(1 341 205)	624 582 946
Revenue from non-exchange transactions				
Property rates	185 481 634	103 138	-	185 584 772
Interest earned - outstanding property rates	3 119 575	-	-	3 119 575
Government grants and subsidies	117 202 391	3 241 075	-	120 443 466
Fines	33 675 736	-	-	33 675 736
Other income	3 216 327	38 893 547	-	42 109 874
Total revenue from non-exchange transactions	342 695 663	42 237 760	-	384 933 423
Total revenue	966 636 123	44 221 451	(1 341 205)	1 009 516 369
Expenditure				
Employee related costs	277 735 679	1 532 040	-	279 267 719
Remuneration of councillors	10 330 136	-	-	10 330 136
Loss on disposal of assets	321 472	-	(321 472)	-
Depreciation, amortisation and impairment losses	109 138 906	10 956 843	-	120 095 749
Finance costs	23 686 080	4 342 258	-	28 028 338
Debt impairment	47 196 273	(26 003 361)	-	21 192 912
Bad debts written-off	-	26 484 164	-	26 484 164
Bulk purchases	284 842 103	(14 378 024)	-	270 464 079
Contracted services	57 286 824	(2 964 068)	-	54 322 756
Transfers and subsidies	2 215 130	857 495	-	3 072 625
Inventories written-off	803 948	-	-	803 948
General expenses	72 429 616	574 524	-	73 004 140
Total expenditure	885 986 167	1 401 871	(321 472)	887 066 566
Loss on foreign exchange	(31 719)	-	-	(31 719)
Gain or loss on disposal of assets	-	-	1 019 731	1 019 731
Fair value adjustments	770 000	-	-	770 000
Actuarial gains	7 242 920	-	-	7 242 920
	7 981 201	-	1 019 731	9 000 932
(Deficit) surplus for the year	88 631 157	42 819 580	(2)	131 450 735

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Service charges

The municipality continued to provide indigent subsidy to households whose applications had already expired. The subsidies are now reserved.

Property rates

The municipality continued to provide indigent subsidy to households whose applications had already expired. The subsidies are now reserved.

Government grants and subsidies

Conditions were met in the 2016/2017 financial year on the FMSG, but not yet recognised against the liability. A correction was therefore made to recognise the revenue.

The VAT on DORA grants forgone by National Treasury in terms of MFMA Circular No 48 and MFMA Circular No 58 were previously included under other income and this is now corrected.

Other Income

The SBIDZ LiCo entered into an agreement with the municipality to upgrade the Saldanha Bay Waste Water Treatment Works (WWTW) on behalf of the municipality. The legal ownership of the upgrades was transferred to the municipality during the 2017/18 financial year. However, during the investigation of an insurance claim for a fire that occurred at the WWTW it was determined that the control of the upgrades together with the risk and rewards associated with ownership had already transferred to the municipality during the 2016/17 financial year. The fair value of the upgrades is now recognised as revenue of the municipality in the year in which it obtained control the upgrades to the WWTW.

The VAT on DORA grants forgone by National Treasury in terms of MFMA Circular No 48 and MFMA Circular No 58 is now included under government grants and subsidies.

Employee related costs

The WCA was included as part of general expenditure as it was regarded as an operational cost and not employee benefit costs. There are currently differing views in practice wherein other practitioners and auditors view the expenditure as employee benefit costs. As a result of these differing views the expenditure is now accounted for as employee benefit costs.

Depreciation, amortisation and impairment losses

Assets purchased by the WCDM as part of the service concession arrangement are now recognised by the municipality together with the related depreciation. The transactions were previously not recorded due to incorrect application of the financial reporting framework.

Two transformers was sold on auction in the 2013/2014 final year, however only one was removed from the asset register. Therefore the disposal of the remaining transformer is now accounted for on the asset register and corrected in the accounting records. Depreciation was calculated for the asset remaining of the asset register in 2016/2017 and depreciation is now corrected.

During a system migration in the 2016/2017 financial year, the useful lives of the assets were correctly converted on the system, however the depreciation end dates were incorrect. This resulted in assets with remaining useful life and depreciable amount not being depreciated. This is now corrected.

Debt impairment

The debtors raised in respect of the indigent subsidy error are now impaired as the recovery of some is doubtful.

Bad debts were previously written off against the provision for doubtful debt. This is now corrected.

Bad debts written-off

Bad debts were previously written off against the provision for doubtful debt. This is now corrected

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Finance cost

Interest on liabilities recognised as part of the service concession arrangement is now being recorded. The transactions were previously not recorded due to incorrect application of the financial reporting framework.

Bulk purchases

The payment to the WCDM relating to the service concession arrangement are now accounted for according to their substance, as a reduction in the liability recognised, a finance charge and charges for services provided by the operator. The portion relating to the liability and finance charge is now removed from bulk purchases.

Contracted services

Some general expenditure line items were incorrectly classified as contracted services and is now being corrected.

Transfers and subsidies

Some transfers and subsidies were incorrectly classified as general expenditure and are now being corrected.

Gain or loss on disposal of assets

The gain or loss on disposal of assets is reclassified to below operational expenditure together with other gains and losses.

General expenses

The WCA was included as part of general expenditure as it was regarded as an operational cost and not employee benefit costs. There are currently differing views in practice wherein other practitioners and auditors view the expenditure as employee benefit costs. As a result of these differing views the expenditure is now accounted for as employee benefit costs.

Some general expenditure line items were incorrectly classified as contracted services and is now being corrected.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Statement of Financial Position 30 June 2016

	As previously reported	Correction of error	Reclassifying adjustments	Restated*
Assets				
Current assets				
Inventories	11 267 640	294 125	-	11 561 765
Trade and other receivables from exchange transactions	91 488 289	(253 322)	-	91 234 967
Current assets with no adjustments	542 113 711	-	-	542 113 711
	644 869 640	40 803	-	644 910 443
Non-current assets				
Property, plant and equipment	2 326 991 850	136 653 450	-	2 463 645 300
Non-current assets with no adjustments	18 753 450	-	-	18 753 450
	2 345 745 300	136 653 450	-	2 482 398 750
Liabilities				
Current liabilities				
Borrowings	9 572 268	9 413 050	-	18 985 318
Current liabilities with no adjustments	168 682 271	-	-	168 682 271
	178 254 539	9 413 050	-	187 667 589
Non-current liabilities				
Borrowings	72 605 116	34 820 632	-	107 425 748
Non-current liabilities with no adjustments	184 132 816	-	-	184 132 816
	256 737 932	34 820 632	-	291 558 564
Total liabilities	434 992 471	44 233 682	-	479 226 153
Net assets	2 555 622 469	92 460 571	-	2 648 083 040
Net assets				
Accumulated surplus	2 555 622 469	92 460 571	-	2 648 083 040

Inventory

The municipality was acting as a principle in a low cost housing arrangement with the Department of Human Settlements. An error was made in the prior year where the houses were transferred to the incorrect beneficiaries. The municipality is in the process of transferring the houses to the correct beneficiary. The municipality was acting as a principle therefore the top structures should be recognised as part of its inventory.

Trade and other receivables from exchange transactions

An amount was refunded to the municipality based on penalty waived by SARS. A debtor was accrued for based on amount receivable from SARS. However when interest was calculated the interest rate used by the municipality was different from the published interest rate by SARS. Therefore a journal was processed to correct the difference in the interest calculated.

Property, Plant and equipment

The municipality entered into a service concession arrangement in 2006 with the WCDM. The arrangement was not accounted for correctly at initial adoption of standards of GRAP in 2009 as the WCDM continued to account for the assets even though the municipality had control over them. The error is now corrected.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

46. Prior period errors and reclassifying adjustments (continued)

Borrowings

The municipality entered into a service concession arrangement in 2006 with the WCDM. The arrangement was not accounted for correctly at initial adoption of standards of GRAP in 2009 as the WCDM continued to account for the assets even though the municipality had control over them. The loans that were taken up by the WCDM are now also recognised by the municipality.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
47. Cash generated from operations		
Surplus	151 433 606	131 450 735
Adjustments for:		
Non-cash items:		
Depreciation, amortisation and impairment losses	127 902 561	120 095 749
Other losses	126 231	-
Fair value adjustments	760 000	(770 000)
Vat movement on debtor	(1 578 384)	(231 629)
Debt impairment	38 257 510	21 192 912
Rental income earned	(2 253 090)	(2 247 774)
Bad debt written off	28 654 966	26 484 164
Inventories written-off	440 643	803 948
Non-exchange assets received	(33 186 598)	(42 071 801)
Gain on disposal of assets	(120 527)	(1 019 733)
Actuarial gains	(4 574 576)	(7 242 920)
Gain on reversal of provision	(4 043 979)	-
Interest earned	(4 520 838)	778 770
Finance cost	(16 355 120)	15 208 460
Loss on foreign exchange	125 273	-
Other changes		
Inventories	(3 396 426)	(1 722 967)
Operating lease assets and liabilities	(44 507)	2 940
Employee benefit obligation	10 546 820	2 404 865
Provisions	(5 128 591)	(2 238 224)
Unspent conditional grants	17 181 203	(17 458 461)
VAT receivable	3 634 267	(102 742)
VAT payable	2 496 584	-
Operating lease liability	(120 654)	32 711
Trade and other receivables from exchange transactions	(33 307 125)	(20 802 779)
Trade and other receivables from non-exchange transactions	(13 860 934)	(15 329 624)
Prepayments	(539 644)	53 251
Non-current receivables	-	261 460
Payables from exchange transactions	23 693 281	4 313 888
Consumer deposits	1 604 326	2 235 690
Deferred rental income	(2 180 112)	375 111
	281 646 167	214 456 000

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
48. Utilisation of borrowings reconciliation		
Unspent borrowings at the beginning of year	27 358 518	28 404 962
New loan	17 822 852	58 180 000
Utilised during the year to finance property, plant and equipment	(30 211 294)	(59 226 444)
Balance at year end	14 970 076	27 358 518

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date. Refer to note 51.

49. Change in accounting estimate

During the year under review the municipality assessed the conditions of property, plant and equipment. The estimation of rehabilitation cost for the landfill sites, the remaining useful lives of other assets as well as reviewed residual lives resulted in additional depreciation. The change in accounting estimate led to a net decrease on property, plant and equipment to the amount of R3 450 842 (2017: R4 816 163). Refer to note 10. The estimation of rehabilitation cost for the landfill sites resulted in the provision being decreased by R6 032 157 which resulted in a R1 988 178 decreased assets and the remaining R4 043 979 was allocated directly to profit and loss.

Furthermore, the traffic fines being withdrawn and reduced decreased from 18.64% to 14.41% thus the estimated average success ratio for traffic fines increased from 81.36% to 85.59%. The average non-payment ratio of traffic fines also increased from 69.3% to 72%. The increase in success ratio resulted in an increase in traffic fines receivables and revenue amounting to R3 828 062 (2017: R3 940 986).

Category and reason for change in accounting estimate

Property, plant and equipment - Remaining useful lives reviewed	5 257 688	(5 211 439)
Property, plant and equipment - Residual value reviewed	181 332	-
Landfill sites - Increase / (decrease) in estimated rehabilitation cost	(1 988 178)	395 276
Net impact on property, plant and equipment	3 450 842	(4 816 163)

Category and reason for change in accounting estimate

Traffic fines receivables - Increase in success ratio	3 828 062	-
Provision for impairment - Non-payment ratio reviewed	-	(3 940 986)
Net impact on traffic fines receivables	3 828 062	(3 940 986)

50. Change in accounting policy

There were no changes to any accounting policy for the 2017/18 financial year.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
51. Cash-backed reserves and provisions		
Available funds		
Cash and cash equivalents	71 772 812	47 188 229
Investments	565 114 285	505 593 448
Less: Cash-backed reserves and provisions		
Unutilised conditional grants	(46 936 628)	(29 780 175)
Housing development fund	(2 961 701)	(2 737 829)
Unspent loans	(14 970 076)	(27 358 518)
Loan redemption reserve	(17 205 468)	(19 046 042)
Provision for rehabilitation of landfill sites	(81 896 040)	(87 024 631)
Employee benefits obligation	(110 000 000)	(129 897 000)
Self-insurance reserve	(2 689 585)	(2 689 585)
Consumer deposits	(21 134 001)	(19 529 675)
Capital replacement reserve:		
-Capital replacements	(219 503 227)	(135 788 014)
-Capital contributions	(21 447 545)	(12 502 399)
-New municipal building reserve	(30 000 000)	-
-Land sale proceeds	(6 686 133)	(4 776 580)
Working capital	61 456 693	81 651 229

52. Unauthorised, irregular, fruitless and wasteful expenditure

52.1 Unauthorised expenditure

Balance at the beginning of the year	-	-
Unauthorised expenditure incurred in prior year but identified in current year	23 241 849	-
Less: Amounts written-off (condoned) by Council		
Unauthorised expenditure incurred in prior year but identified in current year	(23 241 849)	-
	-	-

Overspending of the total amount appropriated for a vote as per the approved budget

Paragraph 1 of the MFMA defines unauthorised expenditure, *inter alia*, as an overspending of the total amount appropriated for a vote in the approved budget. During the 2016/17 financial year the budgeted capital vote for "Engineering and Planning Services" was exceeded but this was only identified in the current financial year. The SBIDZ LiCo upgraded the Saldanha Waste Water Treatment Works (WWTW) and donated the upgrades to the municipality. Based on information provided to the municipality by the SBIDZ when the 2016/17 AFS were prepared, the upgrades to the WWTW were only going to be transferred to the municipality during the 2017/18 financial year.

During the 2017/18 financial year, while processing an insurance claim relating to a fire that occurred at the WWTW, the municipality became aware that the risk and rewards associated with ownership of the upgrades to the WWTW together with control of the upgrades had in fact transferred to the municipality during the 2016/17 financial year when the operation of the upgraded components of the WWTW was handed over to the municipality.

This donated asset was not budgeted for as a result, hence the overspending of the vote.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
52.2 Irregular expenditure		
Balance at the beginning of the year	-	62 000
Payments made in the previous financial years where CIDB regulations 25(7A) was not adhered to and identified in the current financial year	30 156 300	-
Payments made in the current financial year where CIDB regulations 25(7A) was not adhered to	14 122 884	-
Payment made in the current financial year where SCM regulations was not adhered to	105 893	-
Payments made not following the due SCM process		5 750
Less: Amounts written-off (condoned) by Council		
Payments made not following due SCM process	-	(67 750)
	44 385 077	-

During the audit for the 2017/18 financial year irregular expenditure amounting to R44 279 184 was identified. The irregular expenditure was as a result of the municipality not adhering to regulation 25(7A) of the Construction Industry Development Board when awarding a contract in the 2015/16 financial year.

During the audit for the 2017/18 financial year irregular expenditure amounting to R105 893 was identified. The municipality cancelled contracts with service providers that we unable to perform and awarded the contracts for the outstanding works to the service providers that scored the second highest points during the competitive bidding process. This was found to be not in line with the requirements of SCM regulation 19(a).

52.3 Fruitless and wasteful expenditure

Balance at the beginning of the year	-	3 752 791
Interest and penalties accrued on late payments	5 511	1 276
Cost incurred without receiving any services	-	46 495
Late payments of salaries: Penalties charged to personnel	-	11 906
Incorrect salary payment	14 166	-
Less: Amounts recovered by Council		
Incorrect salary payment	(3 262)	-
Less: Amounts written-off by Council		
External toilets - Defects repaired	-	(3 740 877)
Interest and penalties accrued on late payments	(5 511)	(1 276)
Cost incurred without receiving the required benefit thereof	-	(70 315)
Incorrect salary payment	(8 160)	-
	2 744	-

Interest and penalties accrued on late payments

During the 2017/18 financial year, Eskom was paid late, resulting in interest in the amount of R5 511 to be paid. The amount was written off by Council before 31 August 2018 and the AFS were adjusted with the adjustment event as MPAC resolved that the interest be written off in terms of section 32(2) of the MFMA.

Incorrect salary payments

During the 2017/18 financial year, incorrect salary payments of R14 166 were made to five employees. An amount of R3 262 was recovered from one employee, R2 745 will recovered from the responsible Manager in the 2018/19 financial year and R8 160 was written off by Council in terms of section 32(2) of the MFMA.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
53. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	3 306 497	3 022 971
Amount paid - current year	(3 306 497)	(3 022 971)
	-	-
South African Music Rights and Skills development levies		
Current year subscription / fee	2 598 864	2 332 723
Amount paid - current year	(2 598 864)	(2 332 723)
	-	-
Audit fees		
Balance at the beginning of the year	10 292	5 192
Current year subscription / fee	3 788 011	3 875 468
Amount paid - current year	(3 795 157)	(3 870 368)
	3 146	10 292
PAYE and UIF		
Current year subscription / fee	44 959 539	37 169 614
Amount paid - current year	(44 959 539)	(37 169 614)
	-	-
Pension and Medical Aid Deductions		
Opening balance	(4 383)	-
Current year subscription / fee	67 658 276	62 236 089
Amount paid - current year	(67 658 276)	(62 240 472)
	(4 383)	(4 383)
Councillors' arrear consumer accounts for more than 90 days at reporting date		

The Councillors below had their consumer account in arrear for more than 90 days during the reporting period ended;

30 June 2018	Highest outstanding amount	Aging (in days)
Councillor Schrader ER	218	90
30 June 2017	Highest outstanding amount	Aging (in days)
Councillor MG Makwetu	11 128	120
Councillor M Schrader	1 777	120
Councillor M Girimane	607	120
	13 512	-

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
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54. Deviation from supply chain management regulations

Regulation 12 of the Municipal Supply Chain Regulations 2005 determines that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 of the same regulations also requires that the accounting officer may dispense with the official procurement process in certain circumstances provided that the reasons are recorded and reported to Council.

These circumstances are typically for emergency procurement, procurement where goods or services is available from only one supplier and procurement where it is impractical or impossible to follow the official procedures.

Regulation 36(1)(b) further allows the accounting officer to ratify any minor breaches of the procurement processes which are purely of a technical nature.

Deviations for the year

Emergencies	106 552 551	2 154 917
Sole provider	7 183 314	4 043 575
Impractical or impossible to follow the SCM process	14 183 417	10 610 926
Ad-hoc repairs	972 426	737 305
Strip and quote	10 140 970	9 384 842
Minor breaches of the procurement process	456 700	3 527 748
Total deviations for the year	139 489 378	30 459 313

The details of the deviations for the year under review amounting to R139 489 378 (2017: 30 459 313) are included as Annexure E.

55. Capital commitments

Commitments in respect of capital expenditure

Already contracted for but not provided for

• Infrastructure assets	103 291 425	39 727 932
• Other assets	2 410 271	714 553
• Community assets	5 543 942	13 060 907
• Intangible assets	2 412 720	4 660 243
	113 658 358	58 163 635

The following infrastructure project Vredenburg Landfill site has been suspended due to an urgent interim relief which was awarded to Martin & East on 19 July 2018. The contract value is R36 489 942.54 excl. VAT and 10% contingencies. The amount spent on the project to date is R4 594 395.55 excl. VAT.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
56. Contingent liabilities		
The municipality is currently engaged in litigation which could result in damages or costs being awarded against Council if the claimants are successful in the actions. The following are the estimates.		
Barry John Bickerdyke Stephan: Case no.15307/16	500 000	500 000
Municipal Councillors Pension Fund	-	248 669
Vredenburg Urban Renewal Project	3 853 171	3 853 171
JM Baard/Saldanha Bay Municipality	35 700	-
Martin & East/Saldanha Bay Municipality, Amandla/Khubeka Construction JV: Case no: 11937/18	250 000	-
	4 638 871	4 601 840

Barry John Bickerdyke Stephan: Case no.15307/16

An application for the reviewing and setting aside of a Town Planning resolution, of the Portfolio and Appeals Committee of Council for and an application for departure in respect of Farm 116 and Farm Fishing Lease no 117 in the Saldanha Bay Municipality Division Malmesbury. The estimated liability for Council is estimated at R500 000.

Municipal Councillors Pension Fund

During the reporting period, the municipality received a letter from the Municipal Councillors Pension Fund indicating that the employer's contributions for a councillor towards the Fund was not made since June 2011. The municipality disputed the pension fund's claim. The councillor resigned during the financial year and pension fund paid out his benefits and closed the file.

Vredenburg Urban Renewal Project

The municipality obtained a conditional grant from the Department of Transport and Public Works for the acquisition of 7 properties, 32 hectares of land, to be used for the Vredenburg Urban Renewal Project. The conditions of the grant indicated that the municipality shall transfer to the Department the serviced sites, 4,3145 hectares of the purchased properties, for development by the department. An unspent conditional grant liability has been recognised for the cost associated with servicing the sites. The 7 properties acquired had not been re-zoned to determine the 4,3145 hectares portion to be transferred to the department. The historic cost or fair value of this portion could thus not be reliably measured. There is uncertainty about the amount of the obligation the municipality has under this agreement and the timing of the outflow of the economic benefits and/or service potential is also uncertain. The liability for Council relating to the transfer of the 4,3145 hectare portion is estimated at R3 853 171 (2017: R3 853 171).

JM Baard/Saldanha Bay Municipality

JM Baard made a claim against municipality for damage to vehicle when branch fell from tree on side walk. Currently awaiting trial date. As the trial date has not been confirmed this will give arise to possible obligation. Initially the claim was not reported to the insurers. A request to reopen the claim was made on 28 November 2016. As per memorandum received assistance is required from the legal department to defend the summons received.

Martin & East/Saldanha Bay Municipality, Amandla/Khubeka Construction JV: Case no: 11937/18

Application for an interim interdict and reviewing and setting aside of a tender contract for the construction of a class B landfill cell at the Vredenburg landfill site. The amount is to be paid to council. The matter is still to be settled by Western Cape High court.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
57. Contingent assets		
Lateral Unison - Pending insurance claims	356 672	1 657 430
WCDM - Service concession surplus	14 946 781	-
	15 303 453	1 657 430

Outstanding insurance claims

The municipality had 25 (2017: 25) outstanding insurance claims with Lateral Unison as at 30 June 2018 of which the payout of, according to the municipality's assessment, is only probable and not virtually certain. The settlement of the claims is estimated to be R356 672 (2017: R1 657 430).

Service concession surpluses

The municipality has put a claim against the surpluses made by the WCDM from the 2015/16 financial year. The claim emanates from a decision taken to restrict the construction and/or upgrade services performed by the WCDM from as from the 2015/16 financial year. The municipality's claims that the WCDM made surpluses as a result of this decision. The WCDM is disputing the claim. The matter has been referred for investigation and will be resolved as part of the ongoing S78 process wherein a mediator has been appointed to facilitate the resolution of the outstanding matters.

There is currently uncertainty on how long it would take to resolve the dispute as it involves three other municipalities and is dependent on the outcome of the investigation and the mediated process. The municipality has estimated the fair value of its claim to be R14 946 781 as at 30 June 2018.

Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand

2018

2017
Restated*

58. Related parties

No members of the municipality's management have significant influence over the financial or operating policies of the municipality. No business transactions took place between the municipality and key management personnel and their close family members, unless specifically disclosed. All members of the municipality's management and their close family members receive and pay for services on the same terms and conditions as other ratepayers and residents. All transactions are at arm's length and no bad debt expenses have been recognised in respect of amounts owed by related parties.

58.1. Composition of management

Municipal Manager and Directors

Municipal Manager
Chief Financial Officer
Director: Infrastructure and Planning Services
Director: Community and Operational Services
Director: Corporate Services and Public Safety
Senior Manager: Strategic and Enterprise Risk Services
Acting Director: Economic Development and Tourism Supporting Services

Dr. Voges Pierre
Vorster Stefan
Smith Gerrit
Marais Jacques
Mbaliswana Phumzile
Vacant (Joubert David resigned - 28 February 2018)
Cornell de Kock (28 March 2018 - Current)

Mayoral Committee members

Executive Mayor
Executive Deputy Mayor
Finance Services
Infrastructure and Planning Services
Corporate Services and Public Safety
Community and Operational Services
Economic Development and Tourism Supporting Services

Koen Marius
Vaughan Eventhia
Venter Andries
Kruger André
Mohale Sinah
Van Tura Sucilla
Steyn Elize

Speaker

Daniels Olwene

Other Councillors

Don Ryan (Resigned, 28 February 2018)
Girimane Nonkululeko
Khulu Thulani
Kordom Geraldine
Kotze Jaco
Mafenuka Siyabulelo
Makwetu Monde
Mankay Ezelle
Mitchell Leonard
Mpeko Dolly (Deceased, 25 May 2018)
Nackerdien Ebrahim
Pronk Frank
Rossouw Theresa (From 8 May 2018 - Current)
Salmon Tanduxolo (From 13 June 2018 - Current)
Schippers Francois
Scholtz Sharon
Schrader Mianda
Sipholi Goodman
Skei Joubert (Resigned, 30 April 2018)
Van Nooi Charleen (From 30 May 2018 - Current)
Williams Avril
Wilsnach Maryam

Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand

2018

2017
Restated*

58. Related parties (continued)

Remuneration of management

The compensation of management is set out below. Councillors in this note are compensated according to the Remuneration of Public Office Bearers Act, Act 20 of 1998. The mayoral committee members have executive powers for planning, directing and controlling the activities of the municipality by virtue of their delegation and therefore are disclosed individually. The other councillors have no executive powers and are also disclosed individually.

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

58. Related parties (continued)

58.2 Remuneration of management

	Basic salary	13th Cheque	Car allowance	Contribution to UIF, medical and pension funds	Housing	Telephone allowance	Other	Total
2018								
Municipal Manager	1 068 419	-	260 369	-	-	16 915	44 830	1 390 533
Chief Financial Officer	1 049 221	-	262 305	230 713	76 214	18 000	16 737	1 653 190
Director: Infrastructure and Planning Services	985 013	-	219 720	211 821	24 398	18 000	48 932	1 507 884
Director: Corporate Services and Public Safety	983 246	-	147 487	176 984	14 934	18 000	23 536	1 364 187
Director: Community and Operational Services	919 120	-	229 780	212 746	38 904	18 000	23 470	1 442 020
Senior Manager: Strategic and Enterprise Risk Services*	469 098	58 637	178 134	115 177	6 373	8 640	51 499	887 558
	5 474 117	58 637	1 297 795	947 441	160 823	97 555	209 004	8 245 372
2017								
Municipal Manager	578 442	-	144 611	104 119	65 502	-	15 125	907 799
Chief Financial Officer	978 894	-	244 723	215 707	68 176	10 800	13 072	1 531 372
Director: Infrastructure and Planning Services	893 624	-	207 561	187 922	15 846	900	35 242	1 341 095
Director: Corporate Services and Public Safety	915 840	-	137 376	164 851	13 911	10 800	21 826	1 264 604
Director: Community and Operational Services	856 785	-	214 365	199 868	33 508	10 800	85 834	1 401 160
Senior Manager: Strategic and Enterprise Risk Services	640 052	53 338	248 883	163 446	8 904	10 800	40 518	1 165 941
	4 863 637	53 338	1 197 519	1 035 913	205 847	44 100	211 617	7 611 971

* The Senior Manager Strategic and Enterprise Risk Services resigned with effect from 28 February 2018 and an Acting Director: Economic Development and Tourism Supporting Services was appointed by Council with effect from 28 March 2018 to fulfil this role. However the acting director wasn't paid any additional remuneration during the acting period.

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58. Related parties (continued)

58.3 Remuneration of councillors

2018	Basic salary	Medical healthcare contributions	Travelling allowance	Pension contributions	Housing allowance	Telephone allowance	SDL	Total
Executive Mayor: Koen M	647 543	16 985	161 886	-	-	44 400	-	870 814
Executive Deputy Mayor: Vaughan E	498 965	-	124 741	37 423	-	44 400	-	705 529
Speaker: Daniels O	498 958	-	124 747	37 424	-	44 400	-	705 529
Finance Services: Venter A	619 811	-	-	-	-	44 400	-	664 211
Infrastructure and Planning Services: Kruger A	619 811	-	-	-	-	44 400	-	664 211
Corporate Services and Public Safety: Mohale S	467 804	-	116 929	35 079	-	44 400	-	664 212
Community and Operational Services: Van Tura S	495 849	-	123 962	-	-	44 400	-	664 211
Economic Development and Tourism Supporting Services: Steyn E	426 046	23 305	106 538	63 923	-	44 400	-	664 212
Councillor: Don R	147 527	-	22 129	-	-	28 803	-	198 459
Councillor: Girimane N	222 578	-	22 258	16 693	-	44 400	-	305 929
Councillor: Khulu T	285 643	-	28 564	21 423	-	44 400	-	380 030
Councillor: Kordom G	222 578	-	22 258	16 693	-	44 400	-	305 929
Councillor: Kotze J	237 754	-	23 775	-	-	44 400	-	305 929
Councillor: Mafenuka S	222 578	-	22 258	16 693	-	44 400	-	305 929
Councillor: Makwetu M	231 430	-	23 143	6 956	-	44 400	-	305 929
Councillor: Mankay E	243 283	-	-	18 246	-	44 400	-	305 929
Councillor: Mitchell L	237 754	-	23 775	-	-	44 400	-	305 929
Councillor: Mpeko D	200 606	-	20 061	15 045	-	40 017	-	275 729
Councillor: Nackerdien E	222 578	-	22 258	16 693	-	44 400	-	305 929
Councillor: Pronk F	261 529	-	-	-	-	44 400	-	305 929
Councillor: Rossouw TM	39 897	-	-	-	-	6 773	-	46 670
Councillor: Salmon TL	12 069	-	-	-	-	2 049	-	14 118
Councillor: Schippers F	197 412	-	49 321	14 796	-	44 400	-	305 929
Councillor: Scholtz S	209 223	-	52 306	-	-	44 400	-	305 929
Councillor: Schrader M	182 769	46 778	18 275	13 707	-	44 400	-	305 929
Councillor: Sipholi G	243 283	-	-	18 246	-	44 400	-	305 929
Councillor: Skei J	164 484	-	41 121	12 336	-	37 000	-	254 941
Councillor: Van Nooi CC	23 464	-	-	-	-	4 041	-	27 505
Councillor: Williams A	209 223	-	52 306	-	-	44 400	-	305 929
Councillor: Wilsnach M	237 754	-	23 775	-	-	44 400	-	305 929
Total	8 530 203	87 068	1 226 386	361 376	-	1 184 283	-	11 389 316

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58. Related parties (continued)

2017	Basic salary	Medical healthcare contributions	Travelling allowance	Pension contributions	Housing allowance	Telephone allowance	SDL	Total
Executive Mayor: Koen M	554 895	13 287	128 519	-	-	28 739	-	725 440
Executive Deputy Mayor: Vaughan E	442 249	-	103 626	29 700	1 351	31 574	-	608 500
Speaker: Daniels O	500 232	-	125 058	2 970	-	32 378	-	660 638
Finance Services: Venter A	515 281	-	-	-	-	23 435	-	538 716
Infrastructure and Planning Services: Kruger A	529 693	-	9 445	-	3 855	26 400	-	569 393
Corporate Services and Public Safety: Mohale S	391 726	-	92 814	27 844	-	23 435	-	535 819
Community and Operational Services: Van Tura S	483 200	-	98 383	-	-	26 400	-	607 983
Economic Development and Tourism Supporting Services: Steyn E	397 740	22 725	99 435	59 661	7 116	26 400	-	613 077
Councillor: Don R	241 908	-	41 432	-	1 974	26 400	-	311 714
Councillor: Girimane N	188 391	-	17 498	13 124	-	23 435	-	242 448
Councillor: Khulu T	237 863	-	23 044	16 834	-	23 435	-	301 176
Councillor: Kordom G	188 391	-	17 498	13 124	-	23 435	-	242 448
Councillor: Kotze J	200 322	-	18 691	-	-	23 435	-	242 448
Councillor: Mafenuka S	188 391	-	17 498	13 124	-	23 435	-	242 448
Councillor: Makwetu M	200 322	-	18 691	-	-	23 435	-	242 448
Councillor: Mankay E	206 103	-	-	12 910	-	23 435	-	242 448
Councillor: Mitchell L	223 027	-	22 347	-	1 351	26 400	-	273 125
Councillor: Mpeko D	188 391	-	17 498	13 124	-	23 435	-	242 448
Councillor: Nackerdien E	188 391	-	17 498	13 124	-	23 435	-	242 448
Councillor: Pronk F	267 992	-	15 349	-	1 974	26 400	-	311 715
Councillor: Schippers F	224 010	-	56 003	16 801	10 601	27 074	-	334 489
Councillor: Scholtz S	177 892	-	41 121	-	-	23 435	-	242 448
Councillor: Schrader M	156 197	36 783	14 279	10 709	-	23 435	-	241 403
Councillor: Sipholi G	204 669	-	-	14 345	-	23 435	-	242 449
Councillor: Skei J	183 042	-	45 760	13 728	12 046	26 400	-	280 976
Councillor: Williams A	177 892	-	41 121	-	-	23 435	-	242 448
Councillor: Wilsnach M	200 322	-	18 691	-	-	23 435	-	242 448
Total	7 658 532	72 795	1 101 299	271 122	40 268	679 525	506 595	9 823 541

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58. Related parties (continued)

58.3 Remuneration of councillors (continued)

2017	Basic salary	Medical healthcare contributions	Travelling allowance	Pension contributions	Housing allowance	Telephone allowance	SDL	Total
Outgoing Councillor: Arendze W	21 141	-	5 285	-	1 286	2 965	-	30 677
Outgoing Councillor: Benjamin T	27 712	-	-	-	-	2 965	-	30 677
Outgoing Councillor: Biko M	18 185	-	4 491	2 475	2 561	2 965	-	30 677
Outgoing Councillor: Cillé J	22 117	4 085	3 287	3 082	2 993	2 965	-	38 529
Outgoing Councillor: De Bruin I	27 712	-	-	-	-	2 965	-	30 677
Outgoing Councillor: De Bruyn A	17 962	-	-	2 387	7 363	2 965	-	30 677
Outgoing Councillor: De Bruyn G	15 834	5 037	4 263	1 099	1 479	2 965	-	30 677
Outgoing Councillor: Jordaan B	24 365	-	2 436	-	911	2 965	-	30 677
Outgoing Councillor: Jordaab P	24 365	-	2 436	-	911	2 965	-	30 677
Outgoing Councillor: Louw N	53 041	-	13 260	-	-	2 965	-	69 266
Outgoing Councillor: Mbanze F	15 378	3 577	3 820	1 050	3 886	2 965	-	30 676
Outgoing Councillor: Mgoqi N	16 301	2 395	4 026	2 217	2 773	2 965	-	30 677
Outgoing Councillor: Padayachee H	21 141	-	5 285	-	1 286	2 965	-	30 677
Outgoing Councillor: Riet I	24 365	-	2 436	-	911	2 965	-	30 677
Outgoing Councillor: Vries S	23 615	2 361	-	-	1 736	2 965	-	30 677
	353 234	17 455	51 025	12 310	28 096	44 475	-	506 595
Total	8 011 766	90 250	1 152 324	283 432	68 364	724 000	-	10 330 136

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58. Related parties (continued)

58.4 Transactions with management

During the 2017/18 financial year the Councillor Francois Schippers leased two properties from the municipality. Councillor Schippers paid rentals of R1 454 including interest (2017: R1 454) for the year. The market related rentals for these two properties are considered to be R10 180 (2017: R10 180).

59. Events after the reporting date

Adjusting events:

In October 2018, the municipality confirmed that an employee was fraudulently taking payments from consumers and not recording the payments. Refer to note 63 for the loss confirmed to date, the total loss will be confirmed once the investigation is concluded.

Non-adjusting events:

To the best of our knowledge there were no events and transactions, both favourable and unfavourable, that occurred between the reporting date and the date when the annual financial statements were authorised for issue.

60. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks such as market, credit and liquidity risk.

The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

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60. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the municipality if customers or counter parties to the financial instrument fail to meet their contractual obligation, and arises mainly from the municipality's investments, receivables from exchange and non-exchange transactions, non-current receivables and cash and cash equivalents.

Trade and other receivables

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

Investments and cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only the major commercial banks in South Africa that have a sound credit rating and within the specific guidelines set in the council approved cash management and investment policy. Accordingly, the municipality does not consider its exposure to credit risk significant.

Non-current receivables

The non-current receivables have been fully impaired and provided for thus do not expose the municipality to credit risk.

The carrying amount of the financial assets represents the maximum credit exposure and the carrying amount of the financial assets 30 June 2018 was as follow:

Financial instrument

Trade and other receivables from exchange transactions	89 387 607	82 799 688
Cash and cash equivalents	71 772 812	47 188 229
Investments	565 114 285	505 593 448

Market risk

Foreign exchange risk

The municipality currently procures Microsoft Licences of which the purchase price is denominated in foreign currency (US Dollars) which exposes the municipality to foreign-currency risk. The municipality does not hedge foreign exchange fluctuations. The movement in the currency was not material to the municipality procurement and, consequently, is not elaborated on any further.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Interest rate risk

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

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60. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipality might not be able to meet its obligations as they fall due. The municipality has a prudent liquidity risk management strategy which ensure that it maintains sufficient cash and cash equivalents to meet its objective as they fall due. The short-term investments are invested over terms that ensure that the municipality has a short-term maturing every month to reduce the liquidity risk. The municipality also manages liquidity risk through an ongoing review of future commitments and credit facilities.

The average collection rate of receivables (current billing) is 93.9% (2017: 96.5%). Cash flow forecast are prepared and adequate utilised borrowings facilities are monitored.

2018	Up to 1 year	1 to 5 years	More than 5 years	Total
Borrowings - Total repayments	33 510 631	79 457 851	117 313 032	230 281 514
Borrowings - Interest	(16 305 163)	(42 881 091)	(37 156 941)	(96 343 195)
Finance lease obligation	48 514	-	-	48 514
Payables from exchange transactions	103 424 289	-	-	103 424 289
	<u>120 678 271</u>	<u>36 576 760</u>	<u>80 156 091</u>	<u>237 411 122</u>
2017	Up to 1 year	1 to 5 years	More than 5 years	Total
Borrowings - Total repayments	35 127 892	96 545 399	133 736 115	265 409 406
Borrowings - Interest	(16 081 849)	(50 287 033)	(46 056 163)	(112 425 045)
Payables from exchange transactions	79 604 777	-	-	79 604 777
	<u>98 650 820</u>	<u>46 258 366</u>	<u>87 679 952</u>	<u>232 589 138</u>

Saldanha Bay Municipality

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61. Statement of comparison of budget and actual amounts

Material differences between budget and actual amounts

The reasons for the material variances between the approved budget and the final budget are explained below. A variance is considered material if it is 10% or more and if the amount exceeds R 1 million.

The adjustments made between the approved budget and the final budget include virements that were made after the approval of the final adjustment budget on 8 May 2018. Virements are transfers from one operating cost element or capital project to another, and are made in accordance with the approved budget implementation and management, funds and reserves and virement policy.

61.1 Statement of financial position:

Cash and cash equivalents

Lower capital expenditure than budgeted resulted in more cash available than budgeted. Cash and cash equivalents are managed to earn optimal interest.

Trade and other receivables from non-exchange transactions

The revenue for traffic fines did not increase as anticipated due to less fines issued. The impairment on property rates increased more than anticipated.

Intangible assets

The actual balance of intangible assets at year-end could not be accurately estimated when budgeting.

Borrowings

The variance is mainly due to WCDM water service concession arrangement liabilities that were not budgeted for. When the budget was prepared, the correct accounting treatment for the liabilities had not been confirmed.

Payables from exchange transactions

The trade and other payables at year-end is more than anticipated when budgeting.

VAT payable

The VAT payable at year-end is less due to unpredictability.

Consumer deposits

Consumer deposits increased less than anticipated.

Unspent conditional grants and receipts

The actual unspent grants at year end is more than anticipated due to certain projects that were delayed.

Provisions

The current portion of the landfill site provision decreased due to the liquidation of a contractor that resulted in money expected to be spent in the 2018/17 financial year being reduced as a process to appoint another contractor must now be followed. This could not have been foreseen during the budget process.

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61. Statement of comparison of budget and actual amounts (continued)

61.2 Implementation of the capital budget

The municipality has spent R238 420 533 (2017: R200 678 560) of the capital budget of R319 470 526 (2017: R232 280 911) which translate to a spending ratio of 75% (2017: 86%). The capital expenditure per vote is provided below, as well as the reasons for the lower expenditure.

Vote	Budget	Actual	Variance	% spent
Infrastructure and Planning Services	272 477 985	212 250 590	60 227 395	78%
Economic development and strategic services	19 100 757	8 252 220	10 848 537	43%
Corporate and Protection Services	15 144 917	8 242 164	6 902 753	54%
Community and Operational Services	11 548 017	9 070 578	2 477 439	79%
Finance	1 058 850	558 949	499 901	53
Municipal Manager	90 000	46 032	43 968	51
Council	50 000	-	50 000	0%
Total	319 470 526	238 420 533	81 049 993	75%

Infrastructure and Planning Services

An amount of R 60 227 395 was unspent at 30 June 2018. A total of R 54 259 615 will be rolled over to the next financial year. The reason for the underspending above R1 million is provided below:

- An amount of R 18 941 442 for the Langebaan Road Aquifer Wellfield was unspent at year-end. The municipality received grant funding to the value of R 21.3 million for this project in March 2018. The project only commenced late in the 2017/18 financial year.
- The Upgrading of Laingville Storm water Network was delayed due to the liquidation of the contractor. An amount of R 4 406 790 will be rolled over for the project to be completed in the next financial year.
- Construction for the Upgrading of Oostwal street in Langebaan could only commence in March due to the holiday season. An unspent amount of R 3 052 655 will be rolled over to the next financial year as this is a multi-year project.
- The Services Emergency Housing: Sewerage is a multi-year project of which R2 237 333 was unspent at year end. Work is underway with the installation of services and construction of the communal toilet units. The installation of water and sewer services will be done internally which also delayed the progress. Recent land invasions on the site also delayed the progress of the project.
- An insurance claim for the Upgrading of Saldanha Sewerage Works was settled during June 2018. The work involves the replacement of the burnt out motor control centre at the Saldanha treatment plant. A contractor and consultant has been appointed to complete the work which is foreseen to be completed by December 2019. An amount of R 2 392 319 will be rolled over to the next financial year.
- Due to environmental and technical challenges, the Refurbishment of the Shelly Point Desalination Plant was unspent at 30 June 2018. The unspent amount of R 3 863 319 will therefore be rolled over to the next financial year.
- The Development of the New Landfill site in Langebaan was delayed due to the liquidation of the contractor. An amount of R1 621 848 will be rolled over for the project to be completed in the next financial year.
- The electrification of houses were delayed due to the top structures not completed yet. An amount of R 2 363 626 will be rolled over to the next financial year.
- The access road to the Community Day Clinic situated in the Vredenburg central business district must first be completed before the Building Earthworks and Stabilizing ground grant funded project can be implemented. The unspent amount of R 1 285 788 will be rolled over to the next financial year.
- The contract of the preferred service provider appointed for the Investigation and Upgrading of Vredenburg Main Sewerage System was terminated due to the business being liquidated. A process to appoint another contractor was followed and finalized towards in June 2018. An amount of R 1 091 326 will be rolled over to the next financial year.
- The contract of the preferred service provider appointed for the Investigation and Upgrading of Vredenburg Main Sewerage System was terminated due to the business being liquidated. A process to appoint another contractor was followed and finalized towards in June 2018. An amount of R 1 091 326 will be rolled over to the next financial year.

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61. Statement of comparison of budget and actual amounts (continued)

Economic Development and Strategic Services

An amount of R 10 848 537 was unspent at year end. An amount of R 10 305 651 will be rolled over to the next financial year. Reasons for underspending are as follow:

- RSEP projects is grant funded and tenders have already been awarded for these projects. The projects is ongoing and unspent funds amounting to R 7 031 287 will be rolled over once approved by the grant providers.
- Annual software license renewals mostly deal with the renewal of the Microsoft volume licenses. These licenses are exchange rate dependent and a saving was realised because some of the licenses are linked to the exchange rate.
- The Financial System Software is a committed tender and not all of the new modules have been delivered yet due to a delay in the implementation of certain IMIS components. An amount of R 1 807 752 will be rolled over to the next financial year.

Corporate and Protection Services

An amount of R 6 902 753 was unspent in the 2017/18 financial year. An amount of R 4 709 456 will be rolled over to the next financial year. The major reasons for the underspending of projects are as follow:

- The tender for Fencing in Langebaan and Vredenburg has been awarded. The contractor did not have sufficient material to complete the job at year end. An amount of R 2 049 996 will be rolled over to the next financial year for the project to be completed.
- Funds for the Upgrading of Langebaan Test station was allocated during the adjustment budget process. The project however did not start yet due to the limited time for the supply chain management process to be completed. An amount of R 1 500 000 will be rolled over for the project to be completed in the next financial year.

Community and Operational Services

An amount of R 2 477 439 was unspent in the 2017/18 financial year. An amount of R 2 212 019 will be rolled over to the next financial year. The major reasons for the underspending of projects are among others due to the late awarding of tenders, contractors experiencing financial challenges, challenges with procurement and the sudden passing of one of the service providers.

61.3 Statement of financial performance:

Revenue from exchange transactions

Rental of facilities and equipment

The budgeted revenue for camping fees is disclosed under Other income. This is correct in terms of the MSCOA classification. If the budget for camping fees are included under rental of facilities and equipment, the variance is only 8%.

Other income

The negative variance is mainly due to the revenue for camping fees amounting to R 9 437 024 which was budgeted under other income and not rental of facilities and equipment. Certain items like insurance refund, capital contributions and building plans realised more than budgeted for. If the camping fees budget is deducted, a positive variance of 31% is recorded.

Revenue from non-exchange transactions

Other income

The actual amount for VAT on DORA grants was less than the budgeted amount. The actual amounts in respect of assets donated to the municipality is disclosed under other income whereas the budgeted amount was included under donated assets as per the budget schedules. If the budget for donated assets is included, the variance is only 7%.

Government grants and subsidies

There were less conditions met in respect of National and Provincial grants received than budgeted for.

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61. Statement of comparison of budget and actual amounts (continued)

Donated assets

The donated assets is disclosed under Other income, whereas the budgeted amount is disclosed under Donated assets.

Fines, penalties and forfeits

The actual amount received for fines was less than budgeted for. Fines cannot be accurately budgeted.

Expenditure

Finance cost

The actual amount for interest on the external loans and finance for the rehabilitation of the landfill site was more than budgeted for. The actual amount for interest on grants was less than budgeted for. Interest on post-retirement medical aid benefits for employees amounting to R8 808 298 is however budgeted under employee related cost. Interest of R3 262 877 in respect of water service concession assets financed from loans has been accounted for that has not been budgeted. If these budgeted amount is included under finance cost, the variance is only 10%.

Debt impairment

The actual amount for debt impairment was more than budgeted for. This is mainly due to the increase of receivables.

Bulk purchases

The actual amount for bulk purchases is less than the budgeted amount mainly due to the following:

- Implementation of water restrictions in the 2017/18 financial year. This was due to the water drought in the municipal area. Less water was purchased than budgeted for.
- Accounting for West Coast District Municipality water service concession assets transactions where bulk purchases were reduced which information was not available at the time of budgeting.
- Saving on Electricity bulk purchases with coupled less electricity sales.

Contracted services

Less funds were spent on training, consultants and professional fees, contractors as well as contracted services relating to repairs and maintenance of municipal assets when compared to the budget.

General Expenses

The actual expenditure on general expenditure is lower than budgeted due to lower levels of activities that anticipated. The municipality also managed to secure some services for less than originally anticipated.

Actuarial gains

Actuarial gains on post-retirement benefits were accounted for based on the report received from the actuaries which was not budgeted for due to the uncertainty thereof.

61.4 Cash flow statement

Interest Income

The actual amount for interest income is less than the budgeted amount due to the inclusion of interest on receivables in the budgeted amount.

Employee related cost and remuneration of councillors

The actual payments are more than the budgeted amount due to an inaccurate split between suppliers and employee cost with a nett positive variance of 7%.

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61. Statement of comparison of budget and actual amounts (continued)

Suppliers and other

The actual payments to suppliers is less than budgeted mainly due to a decrease in bulk purchases as result of water restrictions, saving in electricity coupled with an increase in trade payables.

Finance costs

The payment for interest costs was more than anticipated due to the additional finance charges relating to the WCDM water service concession transaction that was not budgeted for.

Purchase of property plant and equipment

The actual capital expenditure was less than budgeted due to only 75% of the capital budget spent.

Proceeds from sale of property, plant and equipment

The proceeds from sale of property, plant and equipment were not provided for in the budget as it was unknown during the budget compilation process.

Net movement from investments

The lower actual capital expenditure resulted in additional funds being available to invest. than budgeted.

Repayment of borrowings

The repayment of borrowing is more than budgeted due to the West Coast District Municipality water service concession transaction that was not budgeted for.

62. Impairment of non-cash generating assets

An entity that prepares and presents annual financial statements under the accrual basis of accounting shall apply GRAP 21 in accounting for the impairment of non-cash generating assets, and GRAP 26 in accounting for the impairment of cash generating assets. Cash generating assets are held with the primary objective of generating a commercial return.

Management has considered both Standards and used the decision tree as per the guide for these Standards, to determine if assets should be treated as cash or non-cash generating.

It was concluded that only GRAP 21 is applicable to the municipality and therefore all assets are accounted for as non-cash generating assets. The amount impaired with respect to these assets is R2 979 966 (2017: R939 404).

The circumstances that led to the impairment are as follows:

Impairment indicators	Asset class		
Assets damaged irreparable	Other	-	245 365
Infrastructure assets replaced due to obsolescence	Infrastructure	776 431	641 556
Project halted not to be completed	Infrastructure	-	52 483
Fire damage	Infrastructure	1 704 439	-
Asset no longer in use and/or licence expired during 2017/18	Intangibles	158 283	-
The demand or the need for services provided by the asset has ceased	Infrastructure	119 707	-
Condition assessed based on CIDMS grading	Infrastructure	221 106	-
		2 979 966	939 404

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
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63. Material losses

CAS 192/05/2018 Allegation of Fraud

An internal investigation after receipt of a complaint by a customer on 10 May 2018 lead to the identification of a fraudulent payment made to a municipal employee amounting to R3 336.60 made on 28 March 2018. The alleged fraudulent transaction was reported to SAPS during May 2018 in accordance with section 32 of the MFMA for criminal investigation. The municipality's internal investigation identified several possible fraudulent payments resulting in the appointment of a forensic investigator on 2 August 2018.

The forensic investigation confirmed that the municipality suffered a loss of R126 230.59 due to the alleged fraud. Suspicious payments that meet the modus-operandi to the total value of R29 412.62 will not be investigated in detail as the costs of a detailed investigation far outweighs the benefits. In considering the nature of the payments made and assessed against the presentation and disclosure requirements, it does not meet the definition of irregular expenditure but rather a withdrawal of funds in terms of section 11 of the MFMA allocated against a consumer account for the repayment of valid credit balances. The disclosure is in terms of section 125(2)(d) of the MFMA.

CAS 303/11/2018 Allegation of Fraud

The municipality received a complaint from a consumer on 10 July 2018 about a payment that was not reflecting on their account. Upon investigation it was found that an employee has been fraudulently taking payments from consumers and not recording the payments. The alleged fraudulent transaction was confirmed in October 2018 and reported to SAPS during November 2018 in accordance with section 32 of the MFMA for criminal investigation. The municipality's internal investigation identified several possible fraudulently unrecorded payments amounting to an estimated loss of R 10 558.50. The total loss will be confirmed once the investigation is concluded.

Water losses	<u>5 980 954</u>	<u>14 774 385</u>
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The losses recorded were 7.62% (2017: 13.91%). These losses are predominantly due to metering inefficiencies, unmetered connections, aging pipeline infrastructure, burst pipes, old reticulation networks and other leakages which are by nature regarded as normal production losses.

Electricity losses	<u>27 423 391</u>	<u>29 294 804</u>
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The energy losses recorded were 10.56% (2017: 11.06%). These losses are the result of technical losses caused by the nature of electricity and the manner of its distribution, via the network, status / condition and age of the network, weather conditions and load on the system as well as non technical losses, e.g. theft and vandalism.

Saldanha Bay Municipality

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Figures in Rand	2018	2017 Restated*
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64. Awards to close family members of persons in the service of the state.

The detail listed below is disclosed in terms of Regulation 45 of the Municipal Supply Chain Regulations 2005 that determines that the municipality must disclose particulars of any awards of more than R2 000 to a person who is a spouse, child or parent of a person in service of the state or has been in service of the state in the previous twelve months.

Name of person or entity

Cederberg Conservation Services CC	225 150	-
Cochoka Waste Management Co-op Ltd	-	77 350
El Paso Guns	3 840	5 600
Extraordinary Systems	-	32 148
Geraldine Suppliers (Pty) Ltd	27 938	-
GIBB (Pty) Ltd	569 772	-
Ikapa Reticulation and Flow CC	169 823	-
Insaf Project CC	-	9 500
LJ Projects & Events	449 755	-
Morrison Bros Services	359 106	-
NCC Environmental Services	-	87 228
Powerrec (Pty) Ltd	811 436	702 655
Siphakame Skills Development	-	230 400
Siroccon International (Pty) Ltd	399 000	424 080
	3 015 820	1 568 961

Cederberg Conservation Services CC

The spouse of Mr CP du Plessis (Director), Ms B du Plessis, is employed at the Cape Nature governmental organisation in Porterville.

Cochokwa Waste Management Co-op Ltd

The parents of the shareholders of this company are in service of the Limpopo Department of Social Development and Gauteng Health Department.

El Paso Guns

The spouse of Mr PS de Kock (Owner), Mrs MC de Kock, is employed by Saldanha Bay Municipality.

Extraordinary Systems

The spouse of Mr P Pretorius (Director), Ms ER Pretorius, is employed by Saldanha Bay Municipality.

Geraldine Suppliers (Pty) Ltd

The child of Mr M Cloete (Director), Mrs B Cloete, is employed at the South African National Defence Force.

GIBB (Pty) Ltd

Mr N Phidza (Director) has various family members in service of the state:

- Mr F Phidza (brother) is employed at the Department of Economic Development.
- Mr R Phidza (brother) is employed at the Department of Sports and Recreation.
- Ms T Phidza (sister) is employed at Eskom Rotek Industries (a wholly owned subsidiary of Eskom Enterprises).
- Mr H Netshikweta (brother-in-law) is employed at the Department of Mineral Resources.
- Ms T Kabi (sister-in-law) is employed at Eskom.

Ikapa Reticulation and Flow CC

The spouse of Mr R Davids (Director), Ms S Davids, is employed at the Western Cape Education Department.

Saldanha Bay Municipality

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Insaf Projects CC

The spouse of Ms N Padayachee (member) was a Councillor (H Padayachee) at Saldanha Bay Municipality until 3 August 2016.

LJ Projects & Events

The spouse of Mr L Jafta (Director), Mrs C Jafta, is employed at the Department of Water and Sanitation.

Morrison Bros Services

The child of Mr Y Morrison (Director), Mr JC Morrison, is employed by Saldanha Bay Municipality.

Powerrec (Pty) Ltd

The mother of Ms V Machimana (Director), Ms B Skosana, is employed at the Gauteng Department of Health.

Siphakame Skills Development

The spouse of Mr N Vacu (director) is employed at the Drakenstein Municipality.

Siroccon International (Pty) Ltd

The parent of Mr C Van Tonder (Director), Mr M van Tonder, is employed at the City of Cape Town.

NNC Environmental Services

The spouse of L Rhoda is employed at the City of Cape Town.

Swartland & West Coast Trading

The spouse of Mrs L Marcus (Director), Mr HP Marcus, is employed at the Department of Health Western Cape. This is a rates tender and during the 2017/2018 financial year no expenditure was incurred.

Rhino Skips

The spouse of Mr R Meeding (Co-owner), Mrs H Meeding, is employed by Saldanha Bay Municipality. This is a rates tender and during the 2017/2018 financial year no expenditure was incurred.