



Saldanha Bay Municipality
Annual financial statements
for the year ended 30 June 2019



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Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity	Municipality
Municipal demarcation code	WC014
Mayoral committee	Kruger André Mohale Sinah Steyn Elizabeth Scholtz Sharon Truter Andre
Executive Mayor	Koen Marius
Deputy Executive Mayor	Vaughan Eventhia
Speaker	Daniels Olwene
Councillors	Girimane Nonkululeko Khulu Thulani Kordom Geraldine Kotze Jaco Mafenuka Siyabulelo Makwetu Monde Mankay Ezelle Mitchell Leonard Nackerdien Ebrahim Rossouw Theresa Salmon Tanduxolo Schippers Francois Schrader Miranda Sipholi Goodman Van Nooi Charleen Van Tura Sucilla Venter Andries 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 Officers	Mettler Heinrich (3 December 2018 - Current) Louw Godfrey (3 September 2018 to 30 November 2018) Bosman Richard (1 August 2018 to 31 August 2018) Voges Pierre (1 August 2017 to 31 July 2018)
Chief Finance Officer (CFO)	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
Bankers	Standard Bank of South Africa Limited
Auditors	Auditor-General of South Africa



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ABSA	Amalgamated Banks of South Africa
ASB	Accounting Standards Board
ASOD	Average Speed Over Distance
CIDB	Construction Industry Development Board
CIDMS	City Infrastructure Delivery and Management System
COID	Compensation for Occupational Injuries and Diseases
CPI	Consumer Price Index
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
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
IGRAP	Interpretation of the Standards of Generally Recognised Accounting Practice
MDRG	Municipal Drought Relief Grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSA	Municipal Systems Act
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



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SASRIA	South African Special Risk Insurance Association
SBIDZ LiCo	Saldanha Bay Industrial Development Zone Licencing Company (SOC) Ltd
SBM	Saldanha Bay Municipality
SETA	Sector Education and Training Authority
SCM	Supply Chain Management
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WCA	Workers Compensation Assistance
WCDM	West Coast District Municipality
WIP	Work in Progress
WWTW	Waste Water Treatment Works



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Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (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 was given unrestricted access to all financial records and related data.

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

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

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting 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 30 June 2020 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 7 to 109, which have been prepared on the going concern basis, were approved by the accounting officer on 29 November 2019.

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 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.



Mr Heinrich Mettler
Municipal Manager
29 November 2019
Vredenburg



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	95 912 380	71 772 812
Inventories	3	20 671 769	18 171 729
Investments	4	504 330 175	565 114 285
Receivables from exchange transactions	5&7	119 998 103	88 996 601
Receivables from non-exchange transactions	6&7	30 940 596	32 073 247
Prepayments	8	3 966 519	3 732 248
Operating lease asset	9	295 734	228 530
		776 115 276	780 089 452
Non-Current Assets			
Property, plant and equipment	10	2 762 887 516	2 677 599 519
Intangible assets	11	10 178 755	12 435 329
Investment property	12	15 870 000	15 110 000
Heritage assets	13	3 298 260	3 228 733
		2 792 234 531	2 708 373 581
Total Assets		3 568 349 807	3 488 463 033
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	92 604 577	103 306 543
Consumer deposits	15	23 266 757	21 134 001
VAT payable	16	10 230 523	3 008 463
Unspent conditional grants and receipts	17	37 174 475	46 817 255
Borrowings	18	18 761 706	17 163 902
Finance lease obligation	19	109 062	48 514
Operating lease liability	9	125 067	86 163
Employee benefit obligations	20	33 359 037	31 549 863
Provisions	21	8 210 558	2 436 202
		223 841 762	225 550 906
Non-Current Liabilities			
Borrowings	18	124 860 318	143 622 023
Finance lease obligation	19	120 751	-
Employee benefit obligations	20	116 173 302	108 893 957
Provisions	21	91 350 773	79 459 838
		332 505 144	331 975 818
Total Liabilities		556 346 906	557 526 724
Net Assets		3 012 002 901	2 930 936 309
Accumulated surplus		3 012 002 901	2 930 936 309

* See Note 48



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Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	613 159 887	596 524 358
Rental of facilities and equipment	23	13 931 141	15 713 409
Interest earned - external investments	24	50 424 721	48 222 292
Interest earned - outstanding receivables	25	10 199 245	9 104 976
Agency services	26	6 571 242	5 755 634
Licences and permits	27	1 783 142	1 625 326
Other income	28	22 167 969	53 577 693
Total revenue from exchange transactions		718 237 347	730 523 688
Revenue from non-exchange transactions			
Property rates	29	209 067 901	192 546 502
Interest earned - outstanding property rates	30	3 434 691	3 647 624
Government grants & subsidies	31	161 469 564	144 047 550
Fines	32	22 953 970	33 636 716
Other income	33	6 078 105	4 583 963
Total revenue from non-exchange transactions		403 004 231	378 462 355
Total revenue		1 121 241 578	1 108 986 043
Expenditure			
Employee related costs	34	(340 385 622)	(316 024 070)
Remuneration of councillors	35	(11 833 450)	(11 392 515)
Depreciation and amortisation	36	(136 395 450)	(125 291 620)
Impairment of assets	37	(24 994 627)	(42 789 730)
Finance costs	38	(34 801 337)	(35 086 837)
Bad debts written-off	39	(37 578 699)	(29 111 666)
Bulk purchases	40	(275 684 162)	(254 272 008)
Contracted services	41	(93 951 834)	(68 943 794)
Transfers and subsidies	42	(3 479 976)	(3 410 574)
Inventories written-off		(743 053)	(807 482)
General expenses	43	(84 128 796)	(80 047 434)
Total expenditure		(1 043 977 006)	(967 177 730)
Operating surplus		77 264 572	141 808 313
Gains and losses			
Actuarial gains	20	2 478 545	4 574 578
Fair value adjustments	44	760 000	(760 000)
Gain on reversal of provision		967 114	4 043 979
Gain (loss) on disposal of assets and liabilities		(427 659)	120 527
Gain (loss) on foreign exchange		23 999	(125 273)
Other losses		-	(126 231)
Surplus for the year		81 066 571	149 535 893

* See Note 48



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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus
Opening balance as previously reported	2 779 533 775
Correction of errors	1 866 641
Balance at 01 July 2017 as restated*	2 781 400 416
Surplus for the year	149 535 893
Balance at 01 July 2018 as restated*	2 930 936 330
Surplus for the year	81 066 571
Balance at 30 June 2019	3 012 002 901

* See Note 48



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Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Taxes and fines		214 251 363	195 764 075
Service charges		569 196 892	563 681 424
Grants		148 981 961	162 403 430
Interest received		51 208 833	43 701 454
Other receipts		50 625 100	47 973 611
		<u>1 034 264 149</u>	<u>1 013 523 994</u>
Payments			
Employee costs and remuneration of councillors		(351 156 240)	(322 308 109)
Suppliers and other		(460 757 126)	(394 080 243)
Finance costs		(16 245 645)	(16 494 852)
		<u>(828 159 011)</u>	<u>(732 883 204)</u>
Net cash flows from operating activities	45	<u>206 105 138</u>	<u>280 640 790</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(224 364 672)	(196 789 606)
Proceeds from sale of property, plant and equipment	10	1 970 809	2 524 691
Purchase of other intangible assets	11	(2 191 262)	(5 306 517)
Purchases of heritage assets	13	(69 527)	-
Net movement in investments		60 000 000	(55 000 000)
		<u>(164 654 652)</u>	<u>(254 571 432)</u>
Net cash flows from investing activities		<u>(164 654 652)</u>	<u>(254 571 432)</u>
Cash flows from financing activities			
Proceeds from borrowings		-	17 822 852
Repayment of borrowings		(17 163 901)	(19 024 330)
Movement in finance leases		(147 017)	(283 297)
		<u>(17 310 918)</u>	<u>(1 484 775)</u>
Net cash flows from financing activities		<u>(17 310 918)</u>	<u>(1 484 775)</u>
Net increase in cash and cash equivalents		<u>24 139 568</u>	<u>24 584 583</u>
Cash and cash equivalents at the beginning of the year		71 772 812	47 188 229
Cash and cash equivalents at the end of the year	2	<u>95 912 380</u>	<u>71 772 812</u>

* See Note 48



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Annual Financial Statements for the year ended 30 June 2019

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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	599 250 556	-	599 250 556	613 159 887	13 909 331	2
Rental of facilities and equipment	16 404 552	-	16 404 552	13 931 141	(2 473 411)	(15)
Interest received - external investments	50 975 674	-	50 975 674	50 424 721	(550 953)	(1)
Interest received - outstanding receivables	10 480 711	-	10 480 711	10 199 245	(281 466)	(3)
Agency services	6 021 855	-	6 021 855	6 571 242	549 387	9
Licences and permits	1 341 461	-	1 341 461	1 783 142	441 681	33
Other income	18 668 997	-	18 668 997	22 167 969	3 498 972	19
Total revenue from exchange transactions	703 143 806	-	703 143 806	718 237 347	15 093 541	
Revenue from non-exchange transactions						
Property rates	213 142 563	-	213 142 563	209 067 901	(4 074 662)	(2)
Interest earned - outstanding property rates	2 589 269	-	2 589 269	3 434 691	845 422	33
Government grants & subsidies	167 607 112	-	167 607 112	161 469 564	(6 137 548)	(4)
Fines	28 932 925	-	28 932 925	22 953 970	(5 978 955)	(21)
Other income	1 999 997	-	1 999 997	6 078 105	4 078 108	204
Total revenue from non-exchange transactions	414 271 866	-	414 271 866	403 004 231	(11 267 635)	
Total revenue	1 117 415 672	-	1 117 415 672	1 121 241 578	3 825 906	
Expenditure						
Employee related costs	(364 357 914)	-	(364 357 914)	(340 385 622)	23 972 292	7
Remuneration of councillors	(12 153 718)	-	(12 153 718)	(11 833 450)	320 268	3
Depreciation and amortisation	(140 762 315)	-	(140 762 315)	(136 395 450)	4 366 865	3
Impairment of assets	456 524	(15 637 083)	(15 180 559)	(24 994 627)	(9 814 068)	(65)
Finance costs	(23 978 135)	-	(23 978 135)	(34 801 337)	(10 823 202)	(45)
Bad debts written-off	(54 724 284)	15 637 083	(39 087 201)	(37 578 699)	1 508 502	4
Bulk purchases	(298 363 819)	-	(298 363 819)	(275 684 162)	22 679 657	8
Contracted services	(108 212 164)	356 133	(107 856 031)	(93 951 834)	13 904 197	13
Transfers and subsidies	(3 505 507)	-	(3 505 507)	(3 479 976)	25 531	1
Inventories written-off	-	-	-	(743 053)	(743 053)	(100)
General expenses	(103 663 857)	(356 133)	(104 019 990)	(84 128 796)	19 891 194	19
Total expenditure	(1 109 265 189)	-	(1 109 265 189)	(1 043 977 006)	65 288 183	
Operating surplus	8 150 483	-	8 150 483	77 264 572	69 114 089	
Gains and losses						
Actuarial gains	-	-	-	2 478 545	2 478 545	100
Fair value adjustments	-	-	-	760 000	760 000	100
Gain on reversal of provision	-	-	-	967 114	967 114	100
Loss on disposal of assets	-	-	-	(427 659)	(427 659)	(100)
Gain on foreign exchange	-	-	-	23 999	23 999	100
Surplus for the year	8 150 483	-	8 150 483	81 066 571	72 916 088	



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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	%
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Cash and cash equivalents	82 344 419	-	82 344 419	95 912 380	13 567 961	16
Inventories	14 016 939	-	14 016 939	20 671 769	6 654 830	47
Investments	412 178 517	-	412 178 517	504 330 175	92 151 658	22
Receivables from exchange transactions	99 699 104	-	99 699 104	119 998 103	20 298 999	20
Receivables from non-exchange transactions	33 971 652	-	33 971 652	30 940 596	(3 031 056)	(9)
Prepayments	3 732 248	-	3 732 248	3 966 519	234 271	6
Operating lease asset	228 530	-	228 530	295 734	67 204	29
	646 171 409	-	646 171 409	776 115 276	129 943 867	
Non-Current Assets						
Property, plant and equipment	2 840 500 804	385 473	2 840 886 277	2 762 887 516	(77 998 761)	(3)
Intangible assets	12 169 994	(455 000)	11 714 994	10 178 755	(1 536 239)	(13)
Investment property	15 110 000	-	15 110 000	15 870 000	760 000	5
Heritage assets	3 228 733	69 527	3 298 260	3 298 260	-	-
	2 871 009 531	-	2 871 009 531	2 792 234 531	(78 775 000)	
Total Assets	3 517 180 940	-	3 517 180 940	3 568 349 807	51 168 867	
Liabilities						
Current Liabilities						
Payables from exchange transactions	113 547 505	-	113 547 505	92 604 577	(20 942 928)	(18)
Consumer deposits	23 134 002	-	23 134 002	23 266 757	132 755	1
VAT payable	13 680 394	-	13 680 394	10 230 523	(3 449 871)	(25)
Unspent conditional grants and receipts	38 389 365	-	38 389 365	37 174 475	(1 214 890)	(3)
Borrowings	17 075 067	-	17 075 067	18 761 706	1 686 639	10
Finance lease obligation	-	-	-	109 062	109 062	100
Operating lease liability	-	-	-	125 067	125 067	100
Employee benefit obligations	34 878 667	-	34 878 667	33 359 037	(1 519 630)	(4)
Provisions	2 436 202	-	2 436 202	8 210 558	5 774 356	237
	243 141 202	-	243 141 202	223 841 762	(19 299 440)	
Non-Current Liabilities						
Borrowings	126 608 644	-	126 608 644	124 860 318	(1 748 326)	(1)
Finance lease obligation	-	-	-	120 751	120 751	100
Employee benefit obligations	118 411 381	-	118 411 381	116 173 302	(2 238 079)	(2)
Provisions	85 959 842	-	85 959 842	91 350 773	5 390 931	6
	330 979 867	-	330 979 867	332 505 144	1 525 277	
Total Liabilities	574 121 069	-	574 121 069	556 346 906	(17 774 163)	
Net Assets	2 943 059 871	-	2 943 059 871	3 012 002 901	68 943 030	
Accumulated surplus	2 943 059 871	-	2 943 059 871	3 012 002 901	68 943 030	2



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Annual Financial Statements for the year ended 30 June 2019

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	213 297 453	-	213 297 453	214 251 363	953 910	-
Service charges	578 756 149	-	578 756 149	569 196 892	(9 559 257)	(2)
Grants	150 631 251	-	150 631 251	148 981 961	(1 649 290)	(1)
Interest received	50 975 674	-	50 975 674	51 208 833	233 159	-
Other receipts	57 555 685	-	57 555 685	50 625 100	(6 930 585)	(12)
	1 051 216 212	-	1 051 216 212	1 034 264 149	(16 952 063)	
Payments						
Employee costs and remuneration of councillors	(343 476 411)	-	(343 476 411)	(351 156 240)	(7 679 829)	(2)
Suppliers and other	(438 287 597)	-	(438 287 597)	(460 757 126)	(22 469 529)	(5)
Finance costs	(16 194 612)	-	(16 194 612)	(16 245 645)	(51 033)	-
	(797 958 620)	-	(797 958 620)	(828 159 011)	(30 200 391)	
Net cash flows from operating activities	253 257 592	-	253 257 592	206 105 138	(47 152 454)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(269 061 240)	-	(269 061 240)	(224 364 672)	44 696 568	17
Proceeds from sale of property, plant and equipment	2 700 000	-	2 700 000	1 970 809	(729 191)	(27)
Purchase of other intangible assets	(2 022 503)	-	(2 022 503)	(2 191 262)	(168 759)	(8)
Purchases of heritage assets	(69 527)	-	(69 527)	(69 527)	-	-
Net movement in investments	42 842 352	-	42 842 352	60 000 000	17 157 648	40
Net cash flows from investing activities	(225 610 918)	-	(225 610 918)	(164 654 652)	60 956 266	
Cash flows from financing activities						
Repayment of borrowings	(17 075 067)	-	(17 075 067)	(17 163 901)	(88 834)	(1)
Finance lease payments	-	-	-	(147 017)	(147 017)	100
Net cash flows from financing activities	(17 075 067)	-	(17 075 067)	(17 310 918)	(235 851)	
Net increase in cash and cash equivalents	10 571 607	-	10 571 607	24 139 568	13 567 961	128
Cash and cash equivalents at the beginning of the year	71 772 812	-	71 772 812	71 772 812	-	-
Cash and cash equivalents at the end of the year	82 344 419	-	82 344 419	95 912 380	13 567 961	

Please refer to note 61 for explanations of material budget variances.



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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

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.

1.4 Comparative figures

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

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.

1.5 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:



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Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables

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

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.

Allowance for slow moving, damaged and obsolete stock

Management's judgement is required when determining the write down of stock to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the inventory note.

Fair value estimation

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

Impairment testing

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

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 determines the estimated useful lives and related depreciation charges for the useful lives of infrastructure and other assets. This estimate is based on industry norms or technical advice. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

Other key assumptions for post retirement obligation are based on current market conditions. Additional information is disclosed in Note 20 - Employee benefit obligations.

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 impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows.



Saldanha Bay Municipality

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Accounting Policies

1.6 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	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
IGRAP 17	Service concession arrangements where a grantor controls a significant residual interest in an asset	Unknown
IGRAP 18	Recognition and derecognition of land	1 April 2019
IGRAP 19	Liabilities to pay levies	1 April 2019
Guideline	Accounting for Arrangements Undertaken in terms of the National Housing Programme	1 April 2019

*GRAP 18 Segment Reporting was effective from 1 April 2015. The implementation of GRAP 18 was delayed, in terms of Directive 5, for municipalities for the 2018/19 financial year and municipalities are not required to apply or early adopt GRAP 18. The implementation date of GRAP 18 is 1 April 2020.

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.

1.7 Budget information

The approved budget covers the fiscal period from 01 July 2018 to 30 June 2019.

The approved budget is prepared on an accrual basis and presented in accordance with the GRAP reporting framework.

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

A difference of 10% or more, and if the amount exceeds R5 million, between budgeted and actual amounts is regarded as material. Comparative information is not required.

1.8 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, then their costs are their fair value as at the date of acquisition.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. 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 inventories are manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing, construction or production process.

Subsequently inventories are measured at the lower of cost and net realisable value. However, inventories are measured at the lower of cost and current replacement cost where they are held for;

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



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Accounting Policies

1.8 Inventories (continued)

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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 "developer", "principal" or "agent" when executing the delivery of houses.

When the municipality is acting as the "developer" or "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.

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.

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

1.9 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.

1.10 Financial instruments

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



Accounting Policies

1.10 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 (directly or through the use of an allowance account) for impairment or uncollectibility.

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

Liquidity risk is the risk encountered by an entity 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.



Accounting Policies

1.10 Financial instruments (continued)

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

Classification

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

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost

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

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants arising from contractual agreements (not statutory grants)	Financial liability measured at amortised cost



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Accounting Policies

1.10 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity 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.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the 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.

Gains and losses

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

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



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.10 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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



Accounting Policies

1.10 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, 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 entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

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.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

Accounting Policies

1.10 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

1.11 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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



Accounting Policies

1.11 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Asset class	Depreciation method	Average useful life
Land		Indefinite
Machinery and equipment	Straight line	2 - 65
Furniture and office equipment	Straight line	2 - 40
Transport assets	Straight line	5 - 40
Computer equipment	Straight line	2 - 40
Infrastructure	Straight line	1 - 99
Community assets	Straight line	3 - 70
Other assets	Straight line	3 - 70

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

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

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

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

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

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

Assets 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.



Accounting Policies

1.11 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10). The expenditure to repair and maintain property, plant and equipment comprises of goods and services and contracted services. These cost excludes labour cost.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.12 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.13 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.

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 13). Cost incurred to repair and maintain heritage assets comprises of goods and services and contracted services. These costs excludes labour cost.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13). 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.

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.



Saldanha Bay Municipality

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Accounting Policies

1.13 Heritage assets (continued)

Subsequent measurement

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

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.

Impairment

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

Transfers

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

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

Derecognition

The municipality derecognises heritage asset 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 included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback). 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.

1.14 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.

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

An intangible asset is recognised when:

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

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

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

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



Accounting Policies

1.14 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	1 - 18
Other intangible assets	Straight line	Indefinite

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11). 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.

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

1.15 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.

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

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



Accounting Policies

1.15 Investment property (continued)

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.

Fair value

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

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

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

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

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

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

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.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 12). Cost incurred to repair and maintain investment property comprises of goods and services and contracted services. These cost excludes labour cost.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 12). 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.

1.16 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 note 61 (Capital expenditure by vote) and Annexure B (Operating expenditure by vote) where an analysis of the budgeted and actual expenditure is presented.



Accounting Policies

1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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



Accounting Policies

1.19 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 57.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.26.
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

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

1.20 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.



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Accounting Policies

1.20 Leases (continued)

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.21 Revenue from exchange transactions

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

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

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

Measurement

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

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.



Accounting Policies

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

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

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

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

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.

Interest, royalties and dividends

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

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

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

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

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

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

1.22 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.

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.



Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

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.

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

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

Recognition

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

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

Measurement

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

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

Taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.



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Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, 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.

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 measured at the best estimate of the inflow of resources to the municipality.

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 fine will not be revenue of the collecting entity.

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.

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 disclose the nature and type of services in-kind received during the reporting period.

1.23 Investment income

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

1.24 Borrowing costs

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

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

1.25 Employee benefits

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



Accounting Policies

1.25 Employee benefits (continued)

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 employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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-employment benefits

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

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.



Accounting Policies

1.25 Employee benefits (continued)

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

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 and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity 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.

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

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

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



Accounting Policies

1.25 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

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

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



Accounting Policies

1.25 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Other post retirement obligations

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

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

1.26 Impairment of cash and non-cash-generating assets

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

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

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

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

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- None of the assets are managed with the objective of generating positive cash flows are expected to be significantly higher than the cost of the asset; and
- Although certain services assets generate positive cash flows, these are used for cross subsidisation of services assets that generate negative cash flows.



Accounting Policies

1.26 Impairment of cash and non-cash-generating assets (continued)

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of non-cash-generating assets.

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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



Accounting Policies

1.26 Impairment of cash and non-cash-generating assets (continued)

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.27 Internal reserves

Housing development fund

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



Accounting Policies

1.27 Internal reserves (continued)

Capital replacement reserve (CRR)

This reserve is to be used for future capital expenditure from own funds only and may not be used for maintenance or other operating expenditure. The capital replacement reserve must be cash-backed. The annual contribution to be based on the budget, funds and reserves policy. The balance of the capital replacement reserve is invested in short-term investments.

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.

Employee benefit reserve

The aim to the reserve is to ensure sufficient cash resources are available for the future payment of employee benefits. The contributions to the reserve must be made in accordance with the directives set in the budget, funds and reserves policy. The balance of the employee benefit reserve is partially cash backed and is invested in short-term investments.

Non-current provisions reserve

The aim to the reserve is to ensure sufficient cash resources are available for the future payment of non-current provisions. The contributions to the reserve must be made in accordance with the directives set in set in the budget, funds and reserves policy. The balance of the non-current provisions reserve is fully cash backed and is invested in short-term investments.

1.28 Cash-backed liabilities

In terms of the municipality's the budget, funds and reserves policy the following the liabilities below are also fully cash-backed and invested in short-term investments:

Unutilised conditional grants

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

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.

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

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

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

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Accounting Policies

1.29 Related parties (continued)

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

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management 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 is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

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

1.30 Accounting by principals and agents

Identification

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 its behalf and for its own 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).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.



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Accounting Policies

1.30 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

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

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

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

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

1.31 Service concession arrangements: Entity as grantor

Identification

Service concession arrangement is a contractual arrangement between a grantor and an operator in which an operator uses the services concession asset to provide a mandated function on behalf of a grantor for a specified period, where the operator is compensated for its services over the period of service concession arrangement.

A grantor is the entity that grants the right to use the service concession asset to the operator.

A mandated function involves the delivery of a public service by an operator on behalf of a grantor that falls within the grantor's mandate.

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.

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

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

Recognition of asset and liability

The entity recognises an asset provided by the operator and an upgrade to an existing asset of the entity, as a service concession asset if the entity controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and if the entity controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement. This applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset).



Accounting Policies

1.31 Service concession arrangements: Entity as grantor (continued)

After initial recognition or reclassification, service concession assets are clearly identified from other assets within the same asset category, and are clearly identified from owned and/or leased assets.

Where the entity recognises a service concession asset, and the asset is not an existing asset of the entity (grantor), the entity (grantor) also recognises a liability.

The entity does not recognise a liability when an existing asset of the entity is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

Measurement of asset and liability

The entity initially measures the service concession asset as follows:

- Where the asset is not an existing asset of the entity, the asset is measured at its fair value.
- Where the asset is an existing asset of the entity and it meets the recognition criteria of a service concession asset, the asset is reclassified as a service concession asset, and the asset is accounted for in accordance with the policy on Investment property, Property, plant and equipment, Intangible assets, or Heritage assets, as appropriate.

The entity initially measures the liability at the same amount as the service concession asset, adjusted by the amount of any other consideration from the entity to the operator, or from the operator to the entity.

Financial liability model

Where the entity has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the entity accounts for the liability as a financial liability.

The entity allocates the payments to the operator and accounts for them according to their substance as a reduction in the liability recognised, a finance charge, and charges for services provided by the operator.

The finance charge and charges for services provided by the operator in a service concession arrangement are accounted for as expenses.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the entity to the operator are allocated by reference to the relative fair values of the service concession asset and the services.

Where the asset and service components are not separately identifiable, the service component of payments from the entity to the operator is determined using estimation techniques.

Grant of a right to the operator model

Where the entity does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the entity accounts for the liability as the unearned portion of the revenue arising from the exchange of assets between the entity and the operator.

The entity recognises revenue and reduces the liability according to the substance of the service concession arrangement.

Dividing the arrangement

If the entity pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it accounts separately for each part of the total liability.

Other liabilities, contingent liabilities and contingent assets

The entity accounts for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the policy on Provisions, Contingent liabilities and contingent assets and Financial instruments.



Accounting Policies

1.31 Service concession arrangements: Entity as grantor (continued)

Other revenues

The entity accounts for revenues from a service concession arrangement, other than those relating to the grant of a right to the operator model, in accordance with the Standard of GRAP on Revenue from exchange transactions.

1.32 Commitments

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

1.33 Events after reporting date

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

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

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

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

1.34 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The municipality participates as a non-accredited municipality in the national housing programme. The municipality's roles and responsibilities in the housing development process are set out in the binding arrangements entered into with the Western Cape Department of Human Settlements. The municipality assesses the terms and conditions of each contract concluded with the Western Cape Department of Human Settlements to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, the municipality considers whether it is a contractor.

The binding arrangements entered into with the Western Cape Department of Human Settlements are non-commercial fixed price contracts. The objective of the arrangements is to construct low cost houses for the beneficiaries of the National Housing Programme in return for full reimbursement of costs from the department through a housing grant or subsidy.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as inventory until the houses are handed over when the municipality retains the risks and rewards associated with ownership of the low cost houses. On handover of the houses, the cost per house handed over is recognised as an expense in the period in which it was handed over.

The expenses are recognised in the period they are incurred when the municipality does not retain the risks and rewards associated with ownership of the low cost houses during the construction period.



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Notes to the Annual Financial Statements

Figures in Rand 2019 2018

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	25 490	25 710
Bank balances	95 886 890	71 747 102
	95 912 380	71 772 812

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings, if available, or historical information about counterparty default rates.

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

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Primary Bank Account - 083290044	95 484 776	70 675 281	46 379 960	95 443 123	71 380 510	47 163 519
MFMA Section 12 Account - 282503331	443 767	366 592	-	443 767	366 592	-
Standard Bank - Traffic Fines Payment Account - 083290702	-	-	-	-	-	-
Standard Bank - Company Deposit Identifier - 082437238	-	-	-	-	-	-
Total	95 928 543	71 041 873	46 379 960	95 886 890	71 747 102	47 163 519

3. Inventories

Consumable stores	14 428 793	14 578 368
Top structures not transferred	5 651 133	3 029 287
Water	591 843	564 074
	20 671 769	18 171 729
Carrying value of inventories carried at fair value less costs to sell	20 671 769	18 171 729

During the year stock issued from consumable stores amounted to R26 043 839 (2018: R30 015 204). An amount of R414 417 (2018: R440 643) for consumable stores were written off. R12 505 942 (2018: R8 248 501) for top structures transferred to beneficiaries and R89 097 090 (2018: R79 361 508) for water consumed was expensed in the statement of financial performance.



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Figures in Rand	2019	2018
4. Investments		
Current assets		
At amortised cost	504 330 175	565 114 285
Institutions holding the deposits		
ABSA	111 041 862	71 198 707
FNB	71 536 699	111 946 137
Standard Bank	83 680 730	129 010 943
Nedbank	127 478 836	123 521 597
Investec	110 592 048	129 436 901
	504 330 175	565 114 285

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. Refer to note 50.

The different institutions have external credit ratings from rating agencies.

5. Receivables from exchange transactions

5.1 Net balance

Consumer debtors - Electricity	33 095 805	31 431 805
Consumer debtors - Water	37 978 255	35 173 879
Consumer debtors - Sewerage	8 184 224	7 261 213
Consumer debtors - Refuse	9 050 222	7 703 497
Sundry receivables	989 395	1 231 581
Recoverable losses	33 399	-
Other receivables	30 666 803	6 194 626
	119 998 103	88 996 601

5.2 Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions with a payment ratio more than 90% are not considered to be impaired. In instances where the payment ratio is less than 90%, the individual debtor is impaired based on the actual non-payment percentage of outstanding debt. At 30 June 2019, R 44 272 730 (2018: R 37 746 231) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3 773 156	2 125 698
2 months past due	1 766 979	1 618 493
3 months past due	1 457 511	1 409 710
4 to 12 months past due	7 337 439	7 868 174
More than a year past due	29 937 645	24 724 156
	44 272 730	37 746 231



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Figures in Rand	2019	2018
5. Receivables from exchange transactions (continued)		
5.3 Reconciliation of provision for impairment		
Opening balance	(107 954 435)	(88 581 696)
Impairments	(17 767 603)	(26 804 871)
VAT movement	1 161 478	7 432 132
	(124 560 560)	(107 954 435)

As at 30 June 2019, the current portion of the housing selling schemes non-current receivables of R153 524 (2018: R197 268) were impaired and provided for. The amount of the provision was R (153 524) as at 30 June 2019 (2018: R (197 268)).

6. Receivables from non-exchange transactions

6.1 Net balance

Consumer debtors - Rates	21 226 297	19 580 516
Fines	9 714 299	12 492 731
	30 940 596	32 073 247

6.2 Receivables from non-exchange transactions impaired

As at 30 June 2019, traffic fines of R 32 018 430 (2018: R 45 587 840) were impaired and provided for. The amount of the provision was R 22 304 131 as at 30 June 2019 (2018: R 33 095 109).

As at 30 June 2019, other receivables from non-exchange transactions of R nil (2018: R 33 821) were impaired and provided for. The amount of the provision was R nil as at 30 June 2019 (2018: R 33 821).

The ageing of the traffic fines is as follows:

6.3 Summary of traffic fines by ageing

Current (0 - 30 days)	1 189 174	1 763 568
31 - 60 days	1 431 749	2 202 396
61 - 90 days	1 239 949	2 555 167
91 - 120 days	1 126 476	2 239 432
121 - 365 days	10 867 535	14 987 203
> 365 days	16 163 547	21 840 074
	32 018 430	45 587 840

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

Opening balance	(66 177 693)	(53 172 800)
Reversal of impairments/(impairments)	7 714 961	(13 004 893)
	(58 462 732)	(66 177 693)



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Figures in Rand	2019	2018
7. Consumer debtors disclosure		
7.1 Calculation of net balance		
Gross balances		
Consumer debtors - Rates	57 333 055	52 577 435
Consumer debtors - Electricity	35 536 816	33 758 286
Consumer debtors - Water	94 017 762	81 539 150
Consumer debtors - Sewerage	34 980 579	30 499 505
Consumer debtors - Refuse	40 175 724	34 619 111
Housing receivables	3 201 901	3 532 848
Sundry receivables	5 989 424	6 807 510
	271 235 261	243 333 845
Less: Allowance for impairment		
Consumer debtors - Rates	(36 106 758)	(32 996 919)
Consumer debtors - Electricity	(2 441 011)	(2 326 481)
Consumer debtors - Water	(56 039 507)	(46 365 271)
Consumer debtors - Sewerage	(26 796 355)	(23 238 292)
Consumer debtors - Refuse	(31 125 502)	(26 915 614)
Housing receivables	(3 201 901)	(3 532 848)
Sundry receivables	(5 000 029)	(5 575 929)
	(160 711 063)	(140 951 354)
Net balance		
Consumer debtors - Rates	21 226 297	19 580 516
Consumer debtors - Electricity	33 095 805	31 431 805
Consumer debtors - Water	37 978 255	35 173 879
Consumer debtors - Sewerage	8 184 224	7 261 213
Consumer debtors - Refuse	9 050 222	7 703 497
Sundry receivables	989 395	1 231 581
	110 524 198	102 382 491
7.2 Summary by ageing		
Rates		
Current (0 -30 days)	4 875 947	4 392 742
31 - 60 days	945 437	820 093
61 - 90 days	633 457	699 729
91 - 120 days	592 309	595 688
121 - 365 days	3 179 011	4 064 821
> 365 days	11 000 136	9 007 443
	21 226 297	19 580 516
Electricity		
Current (0 -30 days)	29 113 095	28 616 078
31 - 60 days	1 266 371	303 706
61 - 90 days	196 257	204 869
91 - 120 days	121 289	112 077
121 - 365 days	553 389	555 171
> 365 days	1 845 404	1 639 904
	33 095 805	31 431 805



Saldanha Bay Municipality

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Figures in Rand	2019	2018
7. Consumer debtors disclosure (continued)		
Water		
Current (0 -30 days)	13 232 459	14 154 989
31 - 60 days	1 688 448	1 275 001
61 - 90 days	1 006 808	958 720
91 - 120 days	879 017	1 048 842
121 - 365 days	4 296 943	4 871 579
> 365 days	16 874 580	12 864 748
	37 978 255	35 173 879
Sewerage		
Current (0 -30 days)	1 210 829	1 046 591
31 - 60 days	291 368	230 115
61 - 90 days	229 753	184 401
91 - 120 days	198 529	178 610
121 - 365 days	1 090 259	947 113
> 365 days	5 163 486	4 674 383
	8 184 224	7 261 213
Refuse		
Current (0 -30 days)	1 354 433	1 287 228
31 - 60 days	405 383	276 487
61 - 90 days	282 513	218 696
91 - 120 days	241 699	203 484
121 - 365 days	1 283 801	1 147 151
> 365 days	5 482 393	4 570 451
	9 050 222	7 703 497
Sundries		
Current (0 -30 days)	114 361	357 150
31 - 60 days	121 586	40 390
61 - 90 days	51 648	51 807
91 - 120 days	16 977	(133 304)
121 - 365 days	113 046	347 160
> 365 days	571 777	568 378
	989 395	1 231 581



Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
7. Consumer debtors disclosure (continued)		
7.3 Summary by customer classification		
Consumers and other		
Current (0 -30 days)	40 681 366	35 794 758
31 - 60 days	7 298 227	6 129 278
61 - 90 days	5 302 585	4 667 244
91 - 120 days	4 735 830	3 766 340
121 - 365 days	24 680 048	24 397 180
> 365 days	103 820 246	84 167 829
	<u>186 518 302</u>	<u>158 922 629</u>
Less: Allowance for impairment	(133 504 561)	(115 731 847)
	<u>53 013 741</u>	<u>43 190 782</u>
Industrial/ commercial		
Current (0 -30 days)	42 458 448	46 476 334
31 - 60 days	2 584 735	1 653 344
61 - 90 days	1 455 880	1 480 958
91 - 120 days	1 125 166	1 231 035
121 - 365 days	5 555 213	7 540 756
> 365 days	18 520 576	16 136 284
	<u>71 700 018</u>	<u>74 518 711</u>
Less: Allowance for impairment	(27 206 502)	(25 219 508)
	<u>44 493 516</u>	<u>49 299 203</u>
National and Provincial Government		
Current (0 -30 days)	5 948 836	5 254 577
31 - 60 days	2 012 520	156 497
61 - 90 days	223 797	246 357
91 - 120 days	88 765	122 408
121 - 365 days	760 131	2 083 495
> 365 days	3 982 892	2 029 172
	<u>13 016 941</u>	<u>9 892 506</u>
Total		
Current (0 -30 days)	89 088 650	87 525 669
31 - 60 days	11 895 482	7 939 119
61 - 90 days	6 982 262	6 394 559
91 - 120 days	5 949 761	5 119 783
121 - 365 days	30 995 392	34 021 431
> 365 days	126 323 714	102 333 285
	<u>271 235 261</u>	<u>243 333 846</u>
Less: Allowance for impairment	(160 711 063)	(140 951 355)
	<u>110 524 198</u>	<u>102 382 491</u>
8. Prepayments		
Prepaid expenses	<u>3 966 519</u>	<u>3 732 248</u>
9. Operating leases		
Current assets	295 734	228 530
Current liabilities	(125 067)	(86 163)
	<u>170 667</u>	<u>142 367</u>

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

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Figures in Rand 2019 2018

9. Operating leases (continued)

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	2 863 765	4 766 783
- in second to fifth year	751 096	3 614 861
	3 614 861	8 381 644

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 (2018: 1 to 3 years) and escalation rates vary from 8% to 10% (2018: 8% to 10%) per year.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	1 092 878	831 357
- in second to fifth year	493 968	546 522
	1 586 846	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 (2018: 1 to 10 years). The escalation rates of the lease agreements vary from 5% to 12% (2018: 5% to 12%). There are no contingent rents receivable.

10. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	511 542 931	-	511 542 931	482 734 046	-	482 734 046
Machinery and equipment	76 864 767	(49 917 469)	26 947 298	71 574 243	(43 548 844)	28 025 399
Furniture and office equipment	24 909 354	(15 162 557)	9 746 797	24 941 563	(15 734 636)	9 206 927
Transport assets	147 634 207	(91 726 122)	55 908 085	136 722 317	(81 546 013)	55 176 304
Computer equipment	26 232 586	(16 590 592)	9 641 994	26 226 347	(15 616 664)	10 609 683
Infrastructure	3 631 257 549	(1 751 321 793)	1 879 935 756	3 485 389 095	(1 653 616 032)	1 831 773 063
Community assets	282 181 286	(80 677 399)	201 503 887	266 015 771	(70 922 655)	195 093 116
Other Assets	116 752 499	(49 091 731)	67 660 768	110 161 719	(45 180 738)	64 980 981
Total	4 817 375 179	(2 054 487 663)	2 762 887 516	4 603 765 101	(1 926 165 582)	2 677 599 519

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	482 734 046	30 000 000	(636 688)	(554 427)	-	-	511 542 931
Machinery and equipment	28 025 399	6 110 760	(191 437)	-	(6 996 934)	(490)	26 947 298
Furniture and office equipment	9 206 927	3 050 696	(321 331)	-	(2 154 593)	(34 902)	9 746 797
Transport assets	55 176 304	12 417 074	(308 783)	-	(11 376 510)	-	55 908 085
Computer equipment	10 609 683	2 118 721	(400 486)	-	(2 685 924)	-	9 641 994
Infrastructure	1 831 773 063	156 800 104	(8 083)	-	(95 526 395)	(13 102 933)	1 879 935 756
Community assets	195 093 116	16 915 371	(53 868)	-	(10 298 116)	(152 616)	201 503 887
Other assets	64 980 981	7 725 666	(477 792)	-	(2 958 128)	(1 609 959)	67 660 768
Total	2 677 599 519	235 138 392	(2 398 468)	(554 427)	(131 996 600)	(14 900 900)	2 762 887 516

Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	483 594 061	282 019	(787 002)	(355 032)	-	-	482 734 046
Machinery and equipment	27 749 280	7 317 870	(76 435)	-	(6 965 316)	-	28 025 399
Furniture and office equipment	10 006 310	1 428 894	(89 180)	-	(2 139 097)	-	9 206 927
Transport assets	54 161 307	12 144 869	(521 926)	-	(10 607 946)	-	55 176 304
Computer equipment	10 795 876	2 357 902	(254 296)	269 279	(2 559 078)	-	10 609 683
Infrastructure	1 745 545 345	178 688 692	-	(1 004 319)	(88 642 154)	(2 814 501)	1 831 773 063
Community assets	175 942 915	26 499 611	-	729 357	(8 078 767)	-	195 093 116
Other assets	67 054 041	2 405 986	(675 325)	(853 127)	(2 943 412)	(7 182)	64 980 981
	2 574 849 135	231 125 843	(2 404 164)	(1 213 842)	(121 935 770)	(2 821 683)	2 677 599 519

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 18.

Assets subject to finance lease (Net carrying amount)

Machinery and equipment	470 649	332 488
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10. Property, plant and equipment (continued)

Assets subject to a service concession arrangement

Reconciliation of Service Concession Assets 2019

	Included in Infrastructure	Total
Opening balance	132 074 265	132 074 265
Additions	1 098 071	1 098 071
Depreciation	(3 736 055)	(3 736 055)
	129 436 281	129 436 281

Reconciliation of Service Concession Assets 2018

	Included in Infrastructure	Total
Opening balance	135 401 570	135 401 570
Additions	402 908	402 908
Depreciation	(3 730 212)	(3 730 212)
	132 074 266	132 074 266

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 until 30 June 2020. The other parties to this arrangement are Bergrivier 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 of the water function 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 commercial consumers). 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.

Property, plant and equipment in the process of being constructed or developed

Reconciliation of Work-in-Progress 2019

	Included in Infrastructure	Included in Community	Included in Other assets	Total
Opening balance	184 719 732	4 796 662	1 168 010	190 684 404
Additions/capital expenditure	84 241 092	6 162 287	3 452 920	93 856 299
Projects impaired	(7 954 119)	-	-	(7 954 119)
Transferred to completed items	(128 647 756)	(3 745 762)	(840 537)	(133 234 055)
	132 358 949	7 213 187	3 780 393	143 352 529

Reconciliation of Work-in-Progress 2018

	Included in Infrastructure	Included in Community	Included in Other assets	Total
Opening balance	204 495 567	57 557 903	39 511	262 092 981
Additions/capital expenditure	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)
Transfers between classes	(9 689)	862 816	(853 127)	-
	184 719 732	4 796 662	1 168 010	190 684 404

Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
10. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Contracted services	43 537 767	28 906 997
General expenses	10 892 690	12 038 883
Workshop costs	5 618 515	5 482 149
	60 048 972	46 428 029
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 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.	3 319 880	3 013 156
Investigate and design sewerage works: Jacobs Bay 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.	1 095 726	756 891
Paving - Parking Area Langebaan 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.	47 966	47 966
Upgrade 66 Kiloivolts Voltage Transformer and Current Transformer During the construction phase of the new Transformer 4, the municipality could not gain access to the position of the voltage transformer and current transformer (location). After the project was completed it was found that access to the site with a truck and crane is now impossible. The municipality then proceeded to install a new gate on the accessible side of the site to be completed during 2019/20. The one current transformer had a oil leak which first had to be repaired.	287 673	287 673
Replace 56 Kiloivolts Breaker Saldanha For 3 years in a row now, the contractors on the Labour tender for this work, has declined the order to proceed at a very late stage of the individual financial years. This work is highly specialised. To be finalised in 2019/20.	404 200	404 200
	5 155 445	4 509 886



Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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)		
Refurbish Shelley Point desalination plant Expenditure relates to the planning phase of the project and environmental studies done. The funding for the project has not been secured in full to continue with the project.	721 941	636 681
Danger Bay Desalination Project The expenditure was incurred by WCDM on the Danger Bay Desalination projects planning phase. The planning included the environmental impact assessments and obtaining a successful environmental authorization for the project and preliminary planning and design of the infrastructure.	19 136 797	19 136 797
The environmental authorization was transferred to the municipality and the validity was extended to 13 August 2023. The municipality applied for Grant funding of R660 000 000.00 to implement the project. In May 2019, the municipality was allocated R70 050 000 in Government Gazette 42464 towards the project over the next three financial years. Council has not yet taken a decision to proceed with the project and fund the shortfall.		
	19 858 738	19 773 478

Other Information:

Provision has been made for the estimated cost of rehabilitating landfill sites, included in infrastructure, as disclosed in note 21. Infrastructure assets were assessed during the year to determine whether there are any indicators of impairment. Refer to note 37.

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 47.

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

11. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	16 815 057	(6 636 302)	10 178 755	18 167 271	(5 731 942)	12 435 329

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Impairment loss	Total
Computer software, other	12 435 329	2 191 262	(7 901)	(4 398 850)	(41 085)	10 178 755



Saldanha Bay Municipality

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11. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Transfers received	Amortisation	Impairment loss	Total
Computer software, other	9 784 136	5 306 517	858 809	(3 355 850)	(158 283)	12 435 329

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

12. Investment property

	2019			2018		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	15 870 000	-	15 870 000	15 110 000	-	15 110 000

Reconciliation of investment property - 2019

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

Reconciliation of investment property - 2018

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

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 effective date of the revaluations was 30 June 2019. Revaluations were 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.

These assumptions are based on current market conditions.

The investment property has not been pledged as security.



Saldanha Bay Municipality

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13. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art collections, antiquities and exhibits	12 000	-	12 000	12 000	-	12 000
Historical monuments	1 062 302	-	1 062 302	1 062 302	-	1 062 302
Historical buildings	2 223 958	-	2 223 958	2 154 431	-	2 154 431
Total	3 298 260	-	3 298 260	3 228 733	-	3 228 733

Reconciliation of heritage assets 2019

	Opening balance	Additions	Total
Art collections, antiquities and exhibits	12 000	-	12 000
Historical monuments	1 062 302	-	1 062 302
Historical buildings	2 154 431	69 527	2 223 958
	3 228 733	69 527	3 298 260

Reconciliation of heritage assets 2018

	Opening balance	Total
Art collections, antiquities and exhibits	12 000	12 000
Historical monuments	1 062 302	1 062 302
Historical buildings	2 154 431	2 154 431
	3 228 733	3 228 733

No expenditure was incurred to repair and maintain heritage assets.

14. Payables from exchange transactions

Trade payables	74 558 594	81 133 323
Payments received in advance	4 655 458	7 291 968
Retentions	8 958 048	10 125 395
Other payables	861 055	275 307
Unallocated deposits	3 571 422	4 480 550
	92 604 577	103 306 543

15. Consumer deposits

Electricity	13 319 757	12 490 260
Water	7 742 768	7 003 603
Refuse	1 974 103	1 445 941
Regional services levies	230 129	194 197
	23 266 757	21 134 001

Guarantees held in lieu of electricity and water deposits	4 243 961	4 275 961
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Figures in Rand	2019	2018
16. VAT payable		
VAT payable	10 230 523	3 008 463
<p>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.</p>		
17. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	10 022 003	-
Human Settlement Development Grant (HSDG)	19 841 632	30 193 807
Electricity Masterplan Grant (EMG)	353 443	-
Fire Services Grant (FSG)	-	1 604 413
Urban Renewal Projects Grant (URPG)	-	5 725 102
Regional Social Economic Projects Grant (RSEP)	1 800 001	7 031 287
Financial Management Capacity Building Grant (FMCBG)	307 337	253 717
Community Development Workers Grant (CDWG)	-	71 362
Disaster and Emergency Services Grant (DESG)	1 538 453	-
Financial Management Support Grant (FMSG)	466 154	358 115
Whole of Society Approach Grant (WOSA)	1 272 000	-
Transnet Grant	1 573 452	1 573 452
Unspent public contributions and donations	-	6 000
	37 174 475	46 817 255
Unspent conditional grants and receipts by source		
National government	10 022 003	-
Provincial government	25 579 020	45 237 803
Public entities	1 573 452	1 573 452
Private entities	-	6 000
	37 174 475	46 817 255
Movement during the year		
Balance at the beginning of the year	46 817 255	29 755 426
Received during the year	78 064 076	92 022 006
Interest for the year	156 681	488 147
Income recognition during the year	(81 088 479)	(74 887 957)
Other conditions met during the year	(953 587)	(125 267)
Grants repaid	(5 821 471)	(435 100)
	37 174 475	46 817 255

These amounts are invested in a ring-fenced investment until utilised. See note 50.

During the current financial year the municipality was appropriated an RSEP grant of R3 300 000. However, only R1 800 000 of this allocation was paid-over to the municipality. The municipality considers the R1 500 000 still receivable as its RSEP allocation for the current financial year was never reduced.

The balance of advances received by the municipality, through the Human Settlement Development Grant (HSDG), on contracts with the Western Cape Department of Human Settlements for the construction of low cost houses where the municipality has been appointed as a Project Developer was R4 324 568 (2018: R6 193 821).

Refer to appendix D for more details.



Saldanha Bay Municipality

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Figures in Rand	2019	2018
18. Borrowings		
At amortised cost		
ABSA - WCDM	6 409 173	9 140 140
DBSA - WCDM	10 156 781	15 390 457
DBSA	127 056 070	136 255 328
	143 622 024	160 785 925
Non-current liabilities	124 860 318	143 622 023
Current liabilities	18 761 706	17 163 902
	143 622 024	160 785 925
Balance at the beginning of the year	160 785 925	161 987 403
Loans redeemed	(17 163 901)	(19 024 330)
New loans	-	17 822 852
	143 622 024	160 785 925

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

The value of the borrowings assumed by the municipality as part of the service concession arrangement with the WCDM is R16 565 953 (2018: R24 530 597) 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 (2018: 10 to 15 years) and at interest rates varying from 6.75% to 13.38% (2018: 6.75% to 13.38%) 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.

Refer to appendix A for more information.



Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
19. Finance lease obligation		
Minimum lease payments due		
Within one year	127 544	75 080
- in second to fifth year	127 542	-
	<u>255 086</u>	<u>75 080</u>
Less: future finance charges	(25 273)	(26 566)
Present value of minimum lease payments	<u>229 813</u>	<u>48 514</u>
Present value of minimum lease payments due		
Within one year	109 062	48 514
- in second to fifth year inclusive	120 751	-
	<u>229 813</u>	<u>48 514</u>
Non-current liabilities	120 751	-
Current liabilities	109 062	48 514
	<u>229 813</u>	<u>48 514</u>

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.

20. Employee benefit obligations

Total employee benefit obligation liability

Present value

Post-retirement healthcare benefit	103 872 574	97 797 100
Long service awards	18 692 267	16 269 301
Staff bonuses	9 738 716	9 102 295
Staff Leave	17 228 782	17 275 124
	<u>149 532 339</u>	<u>140 443 820</u>
Non-current liabilities	116 173 302	108 893 957
Current liabilities	33 359 037	31 549 863
	<u>149 532 339</u>	<u>140 443 820</u>

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

20.1 Post-retirement healthcare benefit

Defined benefit plan

Present value of unfunded defined benefit obligation	<u>103 872 574</u>	<u>97 797 100</u>
Non-current liabilities	99 785 225	93 829 297
Current liabilities	4 087 349	3 967 803
	<u>103 872 574</u>	<u>97 797 100</u>



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20. Employee benefit obligations (continued)

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

Opening balance	97 797 100	93 356 783
Benefits paid	(3 912 953)	(3 563 827)
Net expense recognised in the statement of financial performance	9 988 427	8 004 144
	103 872 574	97 797 100

Net expense recognised in the statement of financial performance

Employee cost	4 209 033	4 415 253
Finance cost	9 144 890	8 808 281
Actuarial gains	(3 365 496)	(5 219 390)
	9 988 427	8 004 144

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

Key financial assumptions

Discount rate	9.42%	9.54%
CPI	4.50%	5.84%
Health care cost inflation rate	6.86%	7.34%
Net effective discount rate	2.40%	2.05%

Key demographic assumptions

Average retirement age	62	63
Continuation of membership at retirement	75%	100%
Proportion assumed married at retirement	60%	90%
Proportion of eligible current non-member employees joining the scheme by retirement	15%	5%
Mortality during employment	SA85-90	SA85-90
Mortality post-retirement	PA(90) -1 with a 1% mortality improvement p.a. from 2010	PA(90)

Withdrawals

Age	Females	Males
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55+	-	-

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20. Employee benefit obligations (continued)

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 9.42% (2018: 9.54%) per annum has been used. The corresponding index-linked yield at this term is 3.38% (2018: 3.02%). These rates were deduced from the yield curve obtained from the Johannesburg Stock 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 60% of eligible employees on a healthcare arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

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 2019

Assumption	Change	In-service	Continuation	Total	% change
Central assumptions		48.543	55.329	103.873	
Healthcare inflation	+1%	59.285	61.469	120.754	16%
	-1%	40.169	50.106	90.275	-13%
Discount rate	+1%	40.408	50.262	90.671	-13%
	-1%	59.110	61.374	120.484	16%
Post-retirement mortality	-1 yr	49.956	57.206	107.162	3%
Average retirement age	-1 yr	52.716	55.329	108.045	4%
Continuation of membership at retirement	-10%	38.190	55.329	93.519	-10%

Sensitivity analysis on current-service and interest costs (R millions) for financial year ended 30 June 2019

Assumption	Change	Service cost	Interest cost	Total	% change
Central assumptions		4.209	9.145	13.354	
Healthcare inflation	+1%	5.180	10.570	15.750	18%
	-1%	3.451	7.981	11.432	-14%
Discount rate	+1%	3.503	8.851	12.353	-7%
	-1%	5.120	9.447	14.567	9%
Post-retirement mortality	-1 yr	4.345	9.469	13.814	3%
Average retirement age	-1 yr	4.504	9.574	14.077	0%
Continuation of membership at retirement	-10%	3.405	8.270	11.675	-13%

Present value of the obligation for the current and for the previous four periods

	2019	2018	2017	2016	2015
Healthcare benefit obligation	103 872 575	97 797 000	93 356 783	89 478 104	89 589 000



Saldanha Bay Municipality

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20. Employee benefit obligations (continued)

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

	2019	2018	2017	2016	2015
Liabilities: (Gain) / Loss	(186 000)	1 720 000	6 202 000	(8 149 000)	2 627 000

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

	2021	2020
Estimated contribution	(4 367 743)	(4 087 351)



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Figures in Rand	2019	2018
20. Employee benefit obligations (continued)		
20.2 Long-service awards		
Other long-term employee benefit obligation		
Present value of unfunded defined benefit obligation	18 692 267	16 269 301
Present value of the unfunded accrued liability		
Non-current liabilities	16 388 077	15 064 660
Current liabilities	2 304 190	1 204 641
	18 692 267	16 269 301
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	16 269 301	14 943 270
Benefits paid	(1 240 290)	(1 824 825)
Net expense recognised in the statement of financial performance	3 663 256	3 150 856
	18 692 267	16 269 301
Net expense recognised in the statement of financial performance		
Current service cost	1 416 961	1 301 401
Finance cost	1 359 344	1 204 641
Actuarial loss	886 951	644 814
	3 663 256	3 150 856

The long-service award is payable after 10 years and thereafter 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 2019 the total number of eligible employees was 973 (2018: 967).

Key assumptions used for the long-service awards

Key financial assumptions

Discount rate	8.26%	8.68%
CPI	4.62%	5.25%
Normal salary inflation rate	CPI plus 1%	CPI plus 1%
Normal salary increase rate	6.50%	7.00%
Net effective discount rate	2.50%	2.29%

Key demographic assumptions

Average retirement age	62	63
Mortality during employment	SA85-90	SA85-90
Mortality post-retirement	PA(90)	PA(90)



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20. Employee benefit obligations (continued)

Withdrawals

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

Age	Females	Males
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55+	-%	-%

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%
44+	-%

LSA arrangement

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:

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 8.26% (2018: 8.68%) 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 8.26% (2018: 8.68%) is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.00% (2018: 2.78%). 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 7.78 years.



Saldanha Bay Municipality

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Figures in Rand 2019 2018

20. Employee benefit obligations (continued)

Sensitivity analysis on the accrued liability (R millions) for the financial year ended 30 June 2019

Assumption	Change	Liability	% change
Central assumptions		18.692.	
General salary inflation	+1%	20.054	7%
	-1%	17.473	-7%
Discount rate	+1%	17.431	-7%
	-1%	20.127	8%
Average retirement age	-2 yrs	16.460	-12%
	2 yrs	20.842	12%
Withdrawal rates	-50%	21.656	16%

Sensitivity analysis on current-service and interest costs (R millions) for the financial year ended 30 June 2019

Assumption	Change	Service cost	Interest Cost	Total	% change
Central assumptions		1.417	1.359	2.776	
General salary inflation	+1%	1.546	1.465	3.011	8%
	-1%	1.303	1.264	2.568	-8%
Discount rate	+1%	1.312	1.407	2.719	-2%
	-1%	1.537	1.301	2.838	3%
Average retirement age	-2 yrs	1.263	1.179	2.443	-12%
	-1 yr	1.572	1.532	3.105	12%
Continuation of membership at retirement	-50%	1.871	1.645	3.516	27%

Present value of the obligation for the current and for the previous four periods

	2019	2018	2017	2016	2015
Accrued liability	18 692 267	16 269 300	14 943 270	14 752 840	13 596 075

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

	2019	2018	2017	2016	2015
Liabilities: (Gain) / Loss	948 544	945 390	(206 928)	183 993	(768 327)

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

	2021	2020
Estimated contribution	(1 845 782)	(2 304 188)

20.3 Staff bonuses

Staff bonuses	9 738 716	9 102 295
Bonuses reconciliation		
Opening balance	9 102 295	8 254 550
Benefits paid	(9 102 295)	(8 254 550)
Net expense recognised in the statement of financial performance	<u>9 738 716</u>	<u>9 102 295</u>



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Figures in Rand	2019	2018
20. Employee benefit obligations (continued)		
20.4 Staff leave		
Staff Leave	17 228 782	17 275 124
Staff leave reconciliation		
Opening balance	17 275 124	13 342 397
Benefits paid	(1 801 177)	(1 639 490)
Net expense recognised in the statement of financial performance	1 754 835	5 572 217
	17 228 782	17 275 124

20.5 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 of R34 642 799 (2018: R31 883 098) 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 of the defined benefit scheme is 27%; 9% by the members and 18% by their councils. The actuarial valuation report at 30 June 2018 disclosed an actuarial valuation amounting to R1 776 181 000 (30 June 2017: R1 859 077 000), with a nett accumulated surplus of R63 423 000 (2017 : R46 989 000), with a funding level of 103.7% (30 June 2017 : 102.6%).

Defined contribution scheme

The actuarial valuation report at 30 June 2018 indicated that the defined contribution scheme of the fund is in a sound financial position, with a assets amounting to R2 018 237 (30 June 2017 : R1 911 937 000), net investment reserve of Rnil (30 June 2017 : Rnil) and with a funding level of 100% (2017 : 100%).

The municipality has 8 employees (2018 : 8 employees) that are members on this fund.

Cape Joint Retirement Fund:

The most recent statutory valuation performed as at 30 June 2017 revealed that the assets of the fund amounted to R21 359 000 000 (30 June 2016: R20 075 000 000), with funding levels of 127.3% and 100% (30 June 2016 118.0% and 100%) for the Pensions Account and the Share Account respectively. 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.



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20. Employee benefit obligations (continued)

The municipality has 786 employees (2018 : 773 employees) and 15 Councillors (2018: 13 Councillors) that are members of this fund.

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 stated that the assets of the fund amounted to R7 720 948 000 (30 June 2011: R6 574 750 000), 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 187 employees (2018 : 192 employees) that are members of this fund.

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 stated 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 most recent statutory valuation performed as at 30 June 2015 stated 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. The municipality has 1 councillor (2018 : 1 councillor) that is a member 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 2018 stated that the assets of the fund amounted to R14 298 600 (30 June 2015: R13 231 200), with funding levels of 96.0% (30 June 2015: 100%). The actuary recommended that employers continue to contribute at the current rate of 19.18% of pensionable salary.

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 pensionable salary.



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2018

20. Employee benefit obligations (continued)

The most recent statutory valuation performed as at 30 June 2015 stated 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.

The municipality has no members in this fund.



Saldanha Bay Municipality

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Figures in Rand	2019	2018
21. Provisions		
Environmental rehabilitation	99 561 331	81 896 040
Non-current liabilities	91 350 773	79 459 838
Current liabilities	8 210 558	2 436 202
	99 561 331	81 896 040

Reconciliation of provisions - 2019

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	81 896 040	7 894 778	9 770 513	99 561 331

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	87 024 630	8 017 938	(7 114 371)	(6 032 157)	81 896 040

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	8 210 558	6 901 771
Vredenburg	1 July 2019	70 936 780	55 493 077
Hopefield (1)	30 June 2020	4 647 780	4 348 990
Hopefield (2)	30 June 2020	5 089 907	4 889 132
Kalkrug	1 July 2019	10 676 306	10 263 070
		99 561 331	81 896 040

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. Refer to note 50.



Saldanha Bay Municipality

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Figures in Rand	2019	2018
22. Service charges		
Sale of electricity	303 774 007	301 681 745
Sale of water	191 096 754	187 363 150
Refuse removal	88 551 104	79 370 246
Sewerage and sanitation charges	71 262 208	61 995 169
Revenue forgone	(41 524 186)	(33 885 952)
	613 159 887	596 524 358
23. Rental of facilities and equipment		
Rental of property, plant and equipment	14 810 528	16 376 602
Rental of investment property	1 739	1 754
Revenue forgone	(881 126)	(664 947)
	13 931 141	15 713 409
24. Interest earned - external investments		
Interest revenue		
Investments	45 297 542	44 380 634
Bank	5 117 058	3 841 658
Other	10 121	-
	50 424 721	48 222 292
25. Interest earned - outstanding receivables		
Electricity	434 738	349 665
Refuse removal	2 533 194	2 232 991
Sewerage and sanitation	2 159 321	2 067 194
Water	4 418 344	3 531 888
Other	653 648	923 238
	10 199 245	9 104 976
<p>The municipality levies interest on rates outstanding after the due date for payment at prime +1% per annum (2018: prime +1% per annum).</p>		
26. Agency services		
Commission: Vehicle licences	6 571 242	5 755 634
<p>The municipality acts as an agent for the Department of Transport and Public Work and manages the issuing of vehicle licenses for a commission.</p>		
27. Licences and permits		
Licences and permits	1 783 142	1 625 326
<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>		



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Figures in Rand	2019	2018
28. Other income		
Administrative fees	81 881	74 631
Building plan fees	3 850 532	3 820 234
Bad debts recovered	-	139 766
Bursary repayment	112 486	86 771
Cemetery and burial	720 492	658 079
Clearance certificates	481 530	347 203
Encroachment fees	343 085	247 302
Insurance claims	6 271 127	3 426 292
Town planning	554 526	868 693
Legal fees	96 028	40 501
Photocopies and faxes	104 514	111 826
Cleaning and removal	220 638	142 884
Tender document	61 405	86 604
Development charges	7 411 180	41 898 009
Request for information	88 179	77
Staff recoveries	267 939	173 284
Inspection fees	152 665	188 274
Transaction handling fees	348 784	316 932
Sundry income	1 000 978	950 331
	22 167 969	53 577 693
29. Property rates		
Property rates	223 848 284	201 984 867
Less: Income forgone	(14 780 383)	(9 438 365)
	209 067 901	192 546 502
Valuations		
Residential	27 249 637 190	25 562 387 550
Commercial	5 104 510 850	5 230 599 200
State	1 547 463 500	1 156 195 500
Municipal	866 562 830	849 818 020
Small holdings and farms	952 591 235	1 908 702 680
Other	537 435 246	593 683 161
	36 258 200 851	35 301 386 111

Valuations on land and buildings are performed every four years. The last general 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 0.5676 cents in the Rand (2018: 0.5330 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.



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Figures in Rand	2019	2018
30. Interest earned - outstanding property rates		
Property rates	<u>3 434 691</u>	<u>3 647 624</u>

The municipality levies interest on rates outstanding after the due date for payment at prime +1% per annum (2018: prime + 1% per annum).



Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
31. Government grants and subsidies		
Operating grants		
Equitable share	80 432 001	71 511 001
Expanded Public Works Programme Integrated Grant (EPWP)	2 055 000	1 500 000
Financial Management Grant (FMG)	1 515 938	1 468 139
Municipal Infrastructure Grant (MIG)	955 050	984 348
Maintenance of Road Infrastructure Grant (MRIG)	100 800	101 592
Regional Social Econimical Projects Grant (RSEP)	-	180 000
SETA - Skills Development Subsidy	597 883	688 349
Library Services Grant (LSG)	7 243 000	6 769 000
Financial Management Support Grant (FMSG)	641 643	1 053 831
Environmental Affairs and Development Planning (EADPG)	-	424 038
Human Settlement Development Grant (HSDG)	14 554 135	6 636 883
Other	714 636	259 385
	108 810 086	91 576 566
Capital grants		
Municipal Infrastructure Grant (MIG)	107 780	15 882 334
Human Settlement Development Grant (HSDG)	40 292 109	6 508 770
Water Services Infrastructure Grant (WSIG)	150 000	250 000
Integrated National Electrification Programme Grant (INEPG)	3 000 000	3 000 000
Financial Management Grant (FMG)	-	35 404
Regional Social Economic Projects Grant (RSEP)	6 201 267	572 462
Urban Renewal Projects Grant (URPG)	-	71 543
Disaster and Emergency Services Grant (DESG)	187 439	22 447 410
Development of Sport and Facilities Grant (SARG)	227 428	-
Municipal Service Delivery and Capacity Building Grant (MSDCBG)	-	282 600
Transnet Grant	-	106 100
VAT on DoRA	993 455	3 314 361
Other	1 500 000	-
	52 659 478	52 470 984
	161 469 564	144 047 550
<p>The municipality earned contract revenue of R14 554 135 (2018: R6 636 883) through the Human Settlement Development Grant (HSDG) on contracts with the Western Cape Department of Human Settlements for the construction of low cost houses where the municipality has been appointed as a Project Developer.</p>		
<p>Included in above are the following grants and subsidies:</p>		
Conditional grants	81 037 563	72 536 549
Unconditional grants	80 432 001	71 511 001
	161 469 564	144 047 550
Grant revenue by source		
National government	89 657 107	98 383 936
Provincial government	70 312 457	45 557 514
Public entities	-	106 100
Private entities	1 500 000	-
	161 469 564	144 047 550
Equitable Share		
<p>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.</p>		

Saldanha Bay Municipality

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Figures in Rand 2019 2018

31. Government grants and subsidies (continued)

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.

32. Fines

Traffic Fines	22 913 710	33 567 090
Library books	40 560	51 426
Fines imposed on Councillors	-	2 000
Court Traffic Fines	(300)	16 200
	<u>22 953 970</u>	<u>33 636 716</u>

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 historical information, 18.71% (2018: 13.68%) of all fines issued will be withdrawn, reduced or the offender will be given a rebate when settling the traffic fine.

33. Other income

Donated assets	38 696	233 735
Forfeits	6 039 409	4 350 228
	<u>6 078 105</u>	<u>4 583 963</u>

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.



Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
34. Employee related costs		
Municipal Manager and directors	7 513 699	8 088 402
Other employees	332 871 923	307 935 668
	340 385 622	316 024 070
Remuneration of Municipal Manager		
Basic salary	1 032 618	1 068 419
Contributions to UIF, medical and pension funds	23 677	-
Travelling allowance	259 594	260 369
Telephone allowance	16 038	16 915
Housing allowance	14 000	-
Other	30 657	-
	1 376 584	1 345 703
Remuneration of Chief Financial Officer		
Basic salary	1 127 428	1 049 221
Contributions to UIF, Medical and Pension Funds	246 543	230 713
Travelling allowance	281 560	262 305
Housing Allowance	76 214	76 214
Telephone allowance	18 000	18 000
Other	(4 206)	-
	1 745 539	1 636 453
Director: Community and Operational Services		
Basic salary	911 226	919 120
Contributions to UIF, Medical and Pension Funds	210 220	212 746
Travelling allowance	177 285	229 780
Housing allowance	32 698	38 904
Telephone allowance	15 969	18 000
Acting allowance	2 378	-
Other	9 578	12 105
	1 359 354	1 430 655
Director: Infrastructure and Planning Services		
Basic salary	997 760	985 013
Contributions to UIF, Medical and Pension Funds	230 045	211 821
Travelling allowance	249 205	219 720
Housing allowance	24 398	24 398
Telephone allowance	18 000	18 000
Other	(42 445)	12 061
	1 476 963	1 471 013



Saldanha Bay Municipality

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Figures in Rand	2019	2018
34. Employee related costs (continued)		
Director: Economic Development & Strategic Services		
Basic salary	90 893	527 735
Acting allowance	28 319	8 741
Contributions to UIF, Medical and Pension Funds	20 579	121 355
Travelling allowance	4 333	178 134
Housing allowance	2 380	6 373
Telephone allowance	1 500	8 640
Other	905	-
	148 909	850 978
Director: Corporate Services and Public Safety		
Basic salary	1 055 445	983 246
Contributions to UIF, Medical and Pension Funds	189 822	176 984
Travelling allowance	158 185	147 487
Housing allowance	14 934	14 934
Telephone allowance	18 000	18 000
Other	(30 036)	12 949
	1 406 350	1 353 600
Municipal Manager and directors	7 513 699	8 088 402
Other employees		
Acting allowances	1 397 143	1 545 561
Bargaining council levy	99 442	95 366
Basic salaries	204 266 670	185 238 265
Bonuses	16 188 783	15 124 070
Defined contribution plans	33 890 643	31 102 526
Employers contributions: Group life insurance	1 912 826	2 268 377
Employers contributions: Health care	11 394 739	10 472 555
Employers contributions: UIF	1 758 836	1 686 304
Employers contributions: WCA	1 748 370	1 800 224
Expense: Post retirements healthcare benefits	4 209 035	4 415 253
Housing allowance	1 783 980	2 534 530
Long-service awards	1 416 956	1 399 786
Municipal staff: Leave gratuity	1 821 705	5 572 215
Other allowances	339 515	341 960
Overtime payments	21 778 461	18 450 502
Scarcity allowance municipal staff	269 388	248 254
Standby allowance municipal staff	8 763 535	7 702 394
Telephone allowance	1 350 695	1 308 363
Travelling allowance	18 481 201	16 629 163
	332 871 923	307 935 668

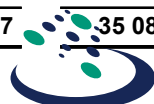


Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
35. Remuneration of councillors		
Executive Mayor	903 871	870 814
Deputy Executive Mayor	731 975	705 529
Mayoral Committee Members	3 445 016	3 321 055
Speaker	731 975	705 529
Councillors	6 020 613	5 789 588
	11 833 450	11 392 515
Remuneration of councillors by nature		
Basic salary	8 891 470	8 533 402
Motor vehicle allowance	1 277 882	1 228 609
Medical aid contributions	92 801	87 068
Pension contributions	383 826	361 377
Cell phone and other allowances	1 187 471	1 182 059
	11 833 450	11 392 515
36. Depreciation and amortisation		
Property, plant and equipment	131 996 600	121 935 770
Intangible assets	4 398 850	3 355 850
	136 395 450	125 291 620
37. Impairment of assets		
Impairments		
Property, plant and equipment	14 900 900	2 821 683
The municipality had some of its infrastructure projects halted or terminated while in the process of being constructed or developed due to performance of service provider. The municipality also had some of its assets damaged during service delivery protests.		
Intangible assets	41 085	158 283
Computer Software and Licences no longer in use		
Receivables from exchange transactions	17 767 603	26 804 871
Receivables from exchange transactions with a payment ratio more than 90% are not considered to be impaired. The municipality impairs the non-payment portion of all debtors whose payment ratios is below 90%.		
Receivables from non-exchange transactions	(7 714 961)	13 004 893
Rates receivables with a payment ratio more than 90% are not considered to be impaired. The municipality impairs the non-payment portion of all debtors whose payment ratios is below 90%. Traffic fine receivables are impaired based on a three-year average payment ratio of all fines.		
	24 994 627	42 789 730
38. Finance costs		
Amortisation of deferred rental income	-	72 978
Employee benefit obligation	10 504 232	10 012 922
Finance leases	55 605	193 236
Borrowings	16 154 585	16 296 105
Provision for the rehabilitation of landfill site	7 894 778	8 017 938
Trade and other payables	35 455	5 511
Unspent conditional grants	156 682	488 147
	34 801 337	35 086 837



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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
39. Bad debts written off		
Trade and other receivables from exchange transactions	7 525 889	10 550 452
Trade and other receivables from non-exchange transactions	30 052 810	18 561 214
	37 578 699	29 111 666
40. Bulk purchases		
Electricity	230 731 421	213 264 206
Water	44 952 741	41 007 802
	275 684 162	254 272 008
41. Contracted services		
Outsourced services		
Security services	12 322 483	10 404 584
Traffic fines management	1 586 149	1 782 294
Other outsourced services	8 686 713	4 840 803
Consultants and professional services		
Business and advisory	9 339 154	11 702 976
Legal cost	1 502 298	1 100 847
Infrastructure and planning	3 111 070	2 594 420
Other consultants and professional services	802 689	804 440
Contractors		
Building	11 762 340	7 730 561
Catering services	709 835	402 773
Haulage	6 634 561	2 699 366
Maintenance of buildings and facilities	3 105 916	2 243 062
Maintenance of equipment	1 401 624	1 248 325
Maintenance of unspecified assets	30 163 042	19 893 735
Other contractors	2 823 960	1 495 608
	93 951 834	68 943 794

The municipality incurred contract expenses of R11 762 340 (2018: R7 730 561) for Contractors and R414 966 (2018: R151 101) for Consultants on contracts with the Western Cape Department of Human Settlements for the construction of low cost houses where the municipality has been appointed as a Project Developer.

42. Transfers and subsidies to third parties

Bursaries to non-employees	514 535	472 834
Saldanha Bay Tourism Organisation	2 465 441	2 325 887
Western Cape Investment and Trade Promotion Agency	-	500 000
Western Cape Development Partnership	500 000	-
Other	-	111 853
	3 479 976	3 410 574

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



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
43. General expenses		
Advertising	1 894 077	1 823 169
Auditors remuneration	4 696 763	3 809 084
Bank charges	3 476 685	3 047 705
Bursaries	546 897	431 127
Commission paid	3 805 368	4 473 195
Conferences and seminars	256 837	219 330
Entertainment	21 005	84 784
Eskom	3 708 106	3 463 305
Fuel and oil	16 015 204	12 782 667
Insurance	3 156 173	3 049 182
License fees - computers	3 855 871	3 961 867
License fees - vehicles	1 476 272	1 298 678
Membership fees	3 502 391	3 219 214
Other expenses	527 845	764 820
Postage and courier	1 481 023	1 433 387
Remuneration of ward committees	635 750	718 650
SDL	2 844 360	2 594 934
Stocks and material	17 227 850	18 904 405
Telephone and fax	4 716 770	4 617 376
Travel - overseas	166 351	17 950
Travel and subsistence	1 717 758	2 067 087
Uniforms	2 843 295	2 812 383
Operating leases	5 556 145	4 453 135
	84 128 796	80 047 434
44. Fair value adjustments		
Investment property carried at fair value	760 000	(760 000)



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
45. Cash generated from operations		
Surplus	81 066 571	149 535 893
Adjustments for:		
Non-cash items:		
Depreciation and amortisation	136 395 180	125 291 625
(Gain) loss on sale of assets and liabilities	427 659	(120 527)
Other losses	-	126 231
(Gain) loss on foreign exchange	(23 999)	125 273
Fair value adjustments	(760 000)	760 000
Rental income earned	-	(2 253 090)
Finance costs	18 555 692	18 591 985
Impairment deficit	24 994 627	42 789 730
Bad debts written off	37 578 699	29 111 666
Movements in employee benefit obligation	1 062 832	5 108 476
Movements in provisions	-	(6 389 594)
Non-exchange assets received	(38 696)	(33 237 907)
Interest earned	784 112	(4 520 838)
Vat movement on debtor	437 893	788 886
Actuarial gains	(2 478 545)	(4 574 578)
Gain on reversal of provision	(967 114)	(4 043 979)
Inventories written-off	743 053	807 482
Working capital and other items:		
Inventories	(2 763 453)	(5 148 298)
Receivables from exchange transactions	(56 294 996)	(43 552 235)
Other receivables from non-exchange transactions	(21 205 199)	(34 066 766)
Prepayments	(234 271)	(539 644)
Payables from exchange transactions	(10 701 961)	23 575 532
VAT	7 222 060	6 642 730
Unspent conditional grants and receipts	(9 799 462)	16 573 684
Consumer deposits	2 132 756	1 604 326
Operating lease assets and liabilities	(28 300)	(165 161)
Deferred rental income	-	(2 180 112)
	206 105 138	280 640 790



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

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46. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Cash and cash equivalents	95 912 380	95 912 380
Investments	504 330 175	504 330 175
Receivables from exchange transactions	119 998 103	119 998 103
	720 240 658	720 240 658

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	(87 949 119)	(87 949 119)
Consumer deposits	(23 266 757)	(23 266 757)
Borrowings	(143 622 024)	(143 622 024)
Unspent conditional grants arising from contractual agreements	(1 573 452)	(1 573 452)
	(256 411 352)	(256 411 352)

2018

Financial assets

	At amortised cost	Total
Cash and cash equivalents	71 772 812	71 772 812
Investments	565 114 285	565 114 285
Receivables from exchange transactions	88 996 601	88 996 601
	725 883 698	725 883 698

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	(96 014 575)	(96 014 575)
Consumer deposits	(21 134 001)	(21 134 001)
Borrowings	(160 785 925)	(160 785 925)
Unspent conditional grants arising from contractual agreements	(1 579 452)	(1 579 452)
	(279 513 953)	(279 513 953)



Saldanha Bay Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
46. Financial instruments disclosure (continued)		
Financial instruments in Statement of financial performance		
2019		
	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	60 623 966	60 623 966
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(16 190 040)	(16 190 040)
	44 433 926	44 433 926
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	(16 301 616)	(16 301 616)
	41 025 652	41 025 652
47. Change in estimate		
Category and reason for change in accounting estimate		
Property, plant and equipment - Remaining useful lives reviewed	8 091 841	5 257 688
Property, plant and equipment - Residual value reviewed	12 452	181 332
Landfill sites - Increase / (decrease) in estimated rehabilitation cost	9 770 513	(6 032 157)
Net impact on property, plant and equipment	17 874 806	(593 137)
Category and reason for change in accounting estimate		
Traffic fines receivables - Increase in success ratio	-	3 828 062
Net impact on traffic fines receivables	-	3 828 062

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 R17 874 806 (2018: R-593 137). Refer to note 10. The estimation of rehabilitation cost for the landfill sites resulted in the provision being increased by R9 770 512 which resulted in R10 737 628 increased assets and the remaining R967 115 was allocated directly to profit and loss.

Furthermore, the traffic fines being withdrawn and reduced remained unchanged from the previous year at 13.68% thus the estimated average success ratio for traffic fines also remained unchanged at 86.32%. The average non-payment ratio of traffic fines decreased from 72.6% in 2018 to 69.7% in the current year.

Saldanha Bay Municipality

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48. Prior-year adjustments

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

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Current assets					
Inventories	E1	15 436 567	2 735 162	-	18 171 729
Trade and other receivables from exchange transactions	E2	89 387 607	(391 006)	-	88 996 601
Trade and other receivables from non-exchange transactions	E3	31 980 882	92 365	-	32 073 247
		136 805 056	2 436 521	-	139 241 577
Non-current assets					
Property, plant and equipment	E1, E4 & E5	2 680 544 020	(2 944 501)	-	2 677 599 519
Intangible assets	E4	11 606 808	828 521	-	12 435 329
		2 692 150 828	(2 115 980)	-	2 690 034 848
Total Assets		2 828 955 884	320 541	-	2 829 276 425
Current liabilities					
Payables from exchange transactions	E2, E6 & E7	103 424 289	(117 746)	-	103 306 543
VAT payable	E8 & E9	2 496 584	511 879	-	3 008 463
Unspent conditional grants and receipts	E1, E9 & E10	46 936 628	(119 373)	-	46 817 255
Borrowings	E11	17 205 463	(41 561)	-	17 163 902
		170 062 964	233 199	-	170 296 163
Non-current liabilities					
Borrowings	E11	143 535 288	86 735	-	143 622 023
		143 535 288	86 735	-	143 622 023
Total Liabilities		313 598 252	319 934	-	313 918 186
Accumulated surplus		2 930 935 702	607	-	2 930 936 309



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

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48. Prior-year adjustments (continued)

Statement of financial performance

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Revenue					
Service charges	E12	595 859 411	664 947	-	596 524 358
Rental of facilities and equipment	E12	16 378 356	(664 947)	-	15 713 409
Other income-Revenue from exchange transactions	E6 & E13	20 658 009	32 919 684	-	53 577 693
Government grants and subsidies	E1	137 410 668	6 636 882	-	144 047 550
Fines	E3	31 535 398	2 101 318	-	33 636 716
Other income - Revenue from non-exchange transactions	E10 & E13	37 404 629	(32 820 666)	-	4 583 963
Total revenue		839 246 471	8 837 218	-	848 083 689
Expenditure					
Employee related costs	E6	(316 016 310)	(7 760)	-	(316 024 070)
Remuneration of councillors	E6	(11 389 313)	(3 202)	-	(11 392 515)
Depreciation and amortisation	E5 & R1	(127 902 561)	(361 846)	2 972 787	(125 291 620)
Impairment of assets	E3 & R1	(38 257 510)	(1 559 433)	(2 972 787)	(42 789 730)
Finance costs	E11 & E7	(34 947 105)	(139 732)	-	(35 086 837)
Bad debts written-off	E3	(28 654 966)	(456 700)	-	(29 111 666)
Bulk purchases	E3	(254 248 547)	(23 461)	-	(254 272 008)
Contracted services	E1 & E7	(61 747 872)	(7 195 922)	-	(68 943 794)
Inventories written-off	E1	(440 643)	(366 839)	-	(807 482)
General expenditure	E8 & E11	(79 427 396)	(620 038)	-	(80 047 434)
Total expenditure		(953 032 223)	(10 734 933)	-	(963 767 156)
Surplus for the year		151 433 608	(1 897 715)	-	149 535 893



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

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48. Prior-year adjustments (continued)

Cash flow statement

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Cash flow from operating activities					
Taxes and fines	E4 & E10	195 854 220	(90 145)	-	195 764 075
Service Charges	E12	562 535 326	1 146 098	-	563 681 424
Grants	E1 & E10	162 748 523	(345 093)	-	162 403 430
Other receipts	E13	48 590 849	(617 238)	-	47 973 611
Employee costs and councillors remuneration	E6	(322 297 149)	(10 960)	-	(322 308 109)
Suppliers and other	E1 & E10	(393 217 603)	(862 640)	-	(394 080 243)
Finance costs	E7 & E11	(16 355 120)	(139 732)	-	(16 494 852)
		237 859 046	(919 710)	-	236 939 336
Cash flow from investing activities					
Purchase of Property, Plant and Equipment	E1, E4 & E5	(198 092 820)	1 303 214	-	(196 789 606)
Cash flow from financing activities					
Repayment of borrowings	E11	(19 046 043)	21 713	-	(19 024 330)
Movement in finance lease	E3	121 920	(405 217)	-	(283 297)
		(18 924 123)	(383 504)	-	(19 307 627)



Saldanha Bay Municipality

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48. Prior-year adjustments (continued)

Presented below are those errors and/or reclassifications that did not have an impact on line items in the statement of financial position, statement of financial performance and cash flow statement and only affected the notes to the statements:

Property, plant and equipment

2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Land	E1 & E14	485 987 490	(2 093 429)	-	483 894 061
Machinery and equipment	E3 & E14	27 100 946	648 334	-	27 749 280
Furniture and office equipment	E14	9 112 522	893 788	-	10 006 310
Transport assets	E14	54 161 313	-	-	54 161 313
Computer equipment	E14	10 795 875	-	-	10 795 875
Infrastructure	E14	1 724 745 860	20 799 485	-	1 745 545 345
Community assets	E14 & R2	149 076 723	18 589 008	8 277 184	175 942 915
Other assets	E14	107 283 148	(40 229 107)	-	67 054 041
Libraries	R2	8 277 184	-	(8 277 184)	-
		2 576 541 061	(1 391 921)	-	2 575 149 140

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Land	E1 & E14	483 089 076	(355 030)	-	482 734 046
Machinery and equipment	E3 & E14	28 390 305	(364 906)	-	28 025 399
Furniture and office equipment	E14	9 602 513	(395 586)	-	9 206 927
Transport assets	E14	55 176 304	-	-	55 176 304
Computer equipment	E14	10 344 595	265 088	-	10 609 683
Infrastructure	E14	1 834 823 423	(3 050 360)	-	1 831 773 063
Community assets	E14 & R2	195 905 074	(332 836)	(479 122)	195 093 116
Other assets	E14	62 299 832	2 681 149	-	64 980 981
Libraries	R2	(479 122)	-	479 122	-
		2 679 152 000	(1 552 481)	-	2 677 599 519



Saldanha Bay Municipality

Annual Financial Statements for the year ended 30 June 2019

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48. Prior-year adjustments (continued)

Errors

The following prior period errors adjustments occurred:

Error 1

During an assessment of housing arrangements, it was identified that arrangements for which the municipality is the developer were incorrectly being accounted for as an agent. Land relating to these arrangements has subsequently been derecognised as property, plant and equipment and recognised as inventory.

Error 2

A receivable and a payable raised relating to high court case no 5687/2016 were settled in the previous financial year.

Error 3

The service provider responsible for issuing traffic fines provided the municipality with incomplete listings of traffic fines issued when the 2017/18 Annual Financial Statements were prepared. The listings were subsequently updated and correcting journals were processed in the general ledger.

Error 4

Computer software procured as part of an infrastructure and community projects which was incorrectly unbundled as property, plant and equipment and has now been moved to intangible assets.

Error 5

According to the contract concluded with the service provider responsible for issuing traffic fines, certain assets will become the property of the municipality at the end of each contract. The arrangement has been assessed as a finance lease arrangement, assets have been capitalised to property, plant and equipment.

Error 6

Corrections relates to fruitless and wasteful expenditure incurred as a result of staff terminations.

Error 7

An invoice relating to the 2017/18 financial year was not accrued for and subsequently paid during the 2018/19 financial year.

Error 8

The adjustment relates to a change in the VAT apportionment ratio.

Error 9

The adjustment relates to a service provider who supplied services to the municipality in pursuant of contracts relating to the national housing programme, contemplated in the Housing Act, and levied VAT at 15% instead of at 0% (Zero-rated).

Error 10

An adjustment was made to correctly account for a penalty levied to a contractor. The penalty initially decreased the expenditure instead of increasing revenue generated from penalty and fines.

Error 11

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. The current portion of borrowings was calculated based on amortisation schedules which contained errors. Accurate amortisation schedules were subsequently obtained from the WCDM and correcting journals were processed in the general ledger.

Saldanha Bay Municipality

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48. Prior-year adjustments (continued)

Error 12

Some rental income line items were incorrectly classified as service charges and are now being corrected.

Error 13

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 in lieu of development charges. However the assets were transferred to the municipality as a capital transfer (donation). The assets are now correctly accounted for as development charges.

Error 14

National Treasury made changes to the mSCOA chart from version 6.1 to version 6.2 and subsequently version 6.3. The municipality reviewed its 2017/18 asset classes which were based on version 6.1 to align them to version 6.2 and 6.3 changes. During this review the municipality identified that some of the definitions on version 6.1 were incorrectly applied and are now being corrected.

Change in accounting policy

No change in accounting policies occurred during the year under review.

Reclassifications

The following reclassifications adjustment occurred:

Reclassification 1

Impairment losses relating non-current assets was previously classified and presented as "Depreciation, amortisation and impairment losses". All impairment losses or impairment reversals which are in terms of GRAP 21 dealing with impairment of non-cash-generating assets or GRAP 26 dealing with impairment of cash-generating assets are now classified and presented as a single line item called "Impairment of assets".

Reclassification 2

National Treasury made changes to the mSCOA chart from version 6.1 to version 6.2 and subsequently version 6.3. The municipality reviewed its 2017/18 asset classes which were based on version 6.1 to align them to version 6.2 and 6.3 changes. During this review the municipality reclassified some assets to bring them more aligned between version 6.2 and 6.3.

49. Utilisation of Long-term liabilities reconciliation

Unspent borrowings at the beginning of year	14 970 076	27 358 518
New loans	-	17 822 852
Utilised during the year to finance property, plant and equipment	(10 700 188)	(30 211 294)
	<u>4 269 888</u>	<u>14 970 076</u>

Long-term liabilities have been utilized 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.



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Figures in Rand	2019	2018
50. Cash-backed reserves, liabilities and provisions		
Working capital		
Cash and cash equivalents	95 912 380	71 772 812
Investments	504 330 175	565 114 285
Less: Cash-backed reserves and provisions		
Unspent conditional grants and receipts	(37 174 475)	(46 817 255)
Housing development fund	(3 205 301)	(2 961 701)
Unspent loans	(4 269 888)	(14 970 076)
Loan redemption reserve	(18 761 706)	(17 163 902)
Environmental rehabilitation provision	(99 561 331)	(81 896 040)
Employee benefit obligation	(118 370 562)	(106 214 834)
Consumer deposits	(23 266 757)	(21 134 001)
Capital replacement reserve	(224 631 465)	(281 434 743)
	71 001 070	64 294 545
51. 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	-	(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 Annual Financial Statements 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.



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52. Irregular expenditure		
Balance at the beginning of the year	44 385 077	-
Payments made in the previous financial years where CIDB regulation 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 regulation 25(7A) was not adhered to in the previous years when the award was made	1 517 781	14 122 884
Payment made in the current financial year where SCM regulations was not adhered to	7 748 275	105 893
Expenditure incurred prior to ratification of minor breach of the procurement process	629 225	-
Payments made in the current financial years where section 116(3) of the MFMA was not adhered to and identified in the current financial year	1 049 045	-
Payments made in the previous financial years where section 116(3) of the MFMA was not adhered to and identified in the current financial year	1 167 457	-
Payments made in the current financial years where section 67(1)(a) of the MSA was not adhered to and identified in the current financial year	1 757 758	-
Payments made in the previous financial years where section 67(1)(a) of the MSA was not adhered to and identified in the current financial year	6 959 912	-
Less: Amounts written-off by Council	(54 280 358)	-
	10 934 172	44 385 077

Payments made contrary to regulation 25(7A) of the CIDB:

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. In the current financial year additional expenditure amounting to R26 478 was incurred against this contract.

During the audit of the 2017/18 financial year another award was made where the municipality did not adhere to regulation 25(7A) of the CIDB. No expenditure was however incurred during the 2017/18 financial year. During the 2018/19 financial year expenditure amounting to R1 491 303 was incurred relating to the award. It is anticipated that the project will be completed during the 2019/20 financial year.

Payments made not following the due SCM process:

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 were 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). In the current year expenditure amounting to R7 739 175 was incurred relating to the awards made.

During the 2018/19 financial year irregular expenditure amounting to R9 100 was identified where due SCM processes i.t.o. SCM regulation 17 was not followed prior to incurring the expenditure.

Ratification of minor breach of the procurement process:

During the 2018/19 financial year irregular expenditure amounting to R629 225 was identified. Expenditure was incurred before minor breach identified was ratified by the Accounting Officer through a Ratification of minor breach of the procurement process i.t.o. SCM regulation 36(1)(b) and SCM policy adopted by Council.



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52. Irregular expenditure (continued)

Payments made where section 116(3) of the MFMA was not followed:

During the year-end process for the 2018/19 financial year irregular expenditure amounting to R2 216 502 was identified. The contract of the consultant responsible for professional engineering services for the Development of the Langebaan Waste Facility was not amended in terms of section 116(3) of the MFMA. The irregular expenditure currently under investigation and a report to MPAC and Council will be tabled during the 2019/20 financial year.

Payments made where section 67(1)(a) of the MSA was not followed:

During the 2018/19 financial year the municipality identified irregular expenditure due to the non-compliance to section 67(1)(a) of the MSA. The irregular expenditure amounts to R8 717 670 and dates back to the 2010/11 financial year.

The irregular expenditure was incurred before year-end and was written-off by Council before the annual financial statements were authorised.

53. Fruitless and wasteful expenditure

Balance at the beginning of the year	2 744	-
Interest and penalties accrued on late payments	35 454	5 511
Incorrect salary payment	1 760	14 166
Cancellation of tenders	25 833	-
Cost incurred without receiving any services	41 995	-
Extension of time claim	805 444	-
Less: Amounts recovered by Council		
Incorrect salary payment	(2 744)	(3 262)
Interest on overdue accounts	(35 454)	-
Cost incurred without receiving any services	(41 995)	-
Less: Amounts written-off by Council		
Interest and penalties accrued on late payments	-	(5 511)
Incorrect salary payment	(1 760)	(8 160)
Cancellation of Tenders	(25 833)	-
	805 444	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.

During the 2018/19 financial year fruitless and wasteful expenditure amounting to R35 454 was identified and recovered by the municipality. The expenditure incurred relates to late payments of accounts on which interest was levied.

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, R8 160 was written off by Council in terms of section 32(2) of the MFMA and R2 745 was recovered from the responsible Manager in the 2018/19 financial year.

During the 2018/19 financial year, incorrect salary payments of R1 760 was made to an employee who resigned with immediate effect after payment was received by the 25th of the month.



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53. Fruitless and wasteful expenditure (continued)

Cancelation of tenders

During the 2018/19 financial year two tenders were advertised by the municipality and had to be cancelled. The expenditure incurred relating to adverts placed in the newspapers meet the definition of fruitless and wasteful expenditure. The first tender was cancelled due to section 13(1)(d) of the Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations, 2017 not being adhered to when Health and Safety agreement contained an human error. The second tender was cancelled due to extension of validity period not being requested for all tenderers.

Cost incurred without receiving any services

During the 2018/19 financial year fruitless and wasteful expenditure amounting to R41 995 was identified and subsequently recovered by the municipality. A payment for services delivered was made to a supplier whom submitted two invoices for work already completed.

The fruitless and wasteful expenditure was incurred before year-end and was written-off by Council before the annual financial statements were authorised.

Extension of time claim

During the 2018/19 financial year the municipality received an extension of time claim from a contractor responsible for the civil works to be performed on phase two of the borehole drilling. The claim was received in light of the municipality not timeously applying for the construction works permit which resulted in the contract being extended by 18 working days until 31 January 2019.

54. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 486 065	3 306 497
Amount paid - current year	(3 486 065)	(3 306 497)
	<u>-</u>	<u>-</u>

South African Music Rights and Skills Development Levies

Current year subscription / fee	2 880 449	2 598 864
Amount paid - current year	(2 880 449)	(2 598 864)
	<u>-</u>	<u>-</u>

Audit fees

Opening balance	3 146	10 292
Current year subscription / fee	4 696 763	3 809 084
Amount paid - current year	(4 695 589)	(3 816 230)
	<u>4 320</u>	<u>3 146</u>

PAYE and UIF

Current year subscription / fee	50 407 592	44 959 539
Amount paid - current year	(50 407 592)	(44 959 539)
	<u>-</u>	<u>-</u>



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54. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid deductions		
Opening balance	(4 383)	(4 383)
Current year subscription / fee	73 410 144	67 658 276
Amount paid - current year	(73 410 144)	(67 658 276)
	(4 383)	(4 383)

55. Deviation from supply chain management regulations

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

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

These circumstances are typically for emergency procurement, procurement where goods or services are 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	7 326 746	106 552 551
Sole provider	4 723 501	7 183 314
Impractical or impossible to follow the SCM process	17 248 320	14 183 417
Ad-hoc repairs	1 440 568	972 426
Strip and quote	10 111 893	10 140 970
Minor breaches of the procurement process	6 056	456 700
	40 857 084	139 489 378

The details of the deviations for the year under review amounting to R40 857 085 (2018: R139 489 378) is included as Annexure E.

During the year under review two minor breaches were made to Siyakhula Property Valuers and WEC Consulting Engineers respectively. The municipality did not timeously follow a process to extend the existing contracts with the suppliers in terms of the MFMA and SCM regulations. A minor breach was performed to correct this and enable the municipality to begin with a process to extend the contracts. No expenditure was incurred prior to the extension up until 30 June 2019.



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56. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
Infrastructure assets	23 092 866	103 291 425
Other assets	210 483	2 410 271
Community assets	1 655 512	5 543 942
Intangible assets	-	2 412 720
	24 958 861	113 658 358

A contract for an infrastructure project for the construction of a "class B" landfill site in Vredenburg was awarded to Amandla Joint Venture to the value of R36 489 942 excluding VAT and 10% contingencies on 22 June 2018. The project was however suspended due to an urgent interdict that was awarded to Martin & East on 19 July 2018. The amount spent on the project to date is R4 594 396 excluding VAT.

On the 31 May 2019 judgement was delivered for case 11937/18. The High Court Judgement cancelled the award made to Amandla Joint Venture and substituted them with Martin and East (Pty) Ltd. The contract between the municipality and Martin and East (Pty) Ltd amounting R43 030 118 (including a 7% price escalation and excluding VAT and 10% contingencies) was signed on 28 August 2019.



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57. Contingencies		
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	400 000	500 000
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	650 000	250 000
West Coast Miracles (PTY) Ltd/ V Kearns and 35 Others of SBM, Case no: 13790/18	350 000	-
Van Pletzen & 5 Others/ Stephan & SBM & Minister of Local Government, Case no: 18342/18	100 000	-
Trustees of Corlou Trust & 34 Others/SBM	300 000	-
	5 653 171	4 638 871

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 R400 000.

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 (2018: 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. The matter was postponed *sine die* (indefinite) in the Vredenburg Magistrate's Court on 21 May 2019.

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.

West Coast Miracles (PTY) LTD/V Kearns and 35 Others of SBM, Case no: 13790/18

Application for the eviction of the occupants from Erven 35 and 40, St Helena Bay. The estimated liability towards Council is in the region of R350 000.

Van Pletzen & 5 Others/ Stephan & SBM & Minister of Local Government, Case no: 18342/18

Application for the reviewing and setting aside the approval of building plans in respect of Farm 116 and Farm Fishing Lease no 117 in the Saldanha Bay Municipality, division Malmesbury. The estimated liability towards Council is in the region of R100 000.

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57. Contingencies (continued)		
Trustees of Corlou Trust & 34 Others/SBM		
Application declaring liability to install services infrastructures and provide bulk municipal services to Erven 22, 23 and 24 St Helena Bay. The estimated liability towards Council is in the region of R300 000.		
Contingent assets		
Lateral Unison - Pending insurance claims	2 793 554	356 672
WCDM - Service concession surplus	-	14 946 781
	2 793 554	15 303 453

Outstanding insurance claims

The municipality had 22 (2018: 25) outstanding insurance claims with Lateral Unison as at 30 June 2019 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 R2 793 554 (2018: R356 672).

Service concession surpluses

During the 2017/18 financial year, 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.

The dispute was resolved during the current financial year and it was determined that no surplus was payable to the municipality for the financial years from 2015/16 to 2016/17.

58. Events after the reporting date

Adjusting event

On 13 and 14 November 2018, protests turned violent in the Saldanha Bay area. Several municipal buildings were severely damaged which caused the municipality to lodge these incidents to its Insurers. The claim was forwarded by the Insurers to SASRIA, that in turn considered the municipality's claim for loss of damaged property during these riots. SASRIA appointed a quantity-surveyor to assess the damage and appointed a service provider, TWB Plumbing Services, to repair the damage to municipal buildings. SASRIA proposed that they restore the municipality to the position it was in before the loss by appointing the Consultant and Contractor to perform the restoration work on the affected buildings. During a meeting held with the Insurers on 14 June 2019, they confirmed that the municipality will be reimbursed with the loss it incurred during the riots. The contract was signed by the Municipal Manager on 7 August 2019 and confirms that the loss to the value of R5 704 532 will be paid to the service provider to repair/renew the damaged assets.

In terms of the service concession 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 calculation of the 2017/18 and 2018/19 surplus/deficit and its split between the local municipalities was finalised and agreed on 23 August 2019 and is regarded as an adjusting event after the reporting date. The Statement of Financial Position and Statement of financial Performance have been adjusted to include the surplus amounting to R18 748 297.

Non-adjusting event

The National Credit Amendment Act, 2019 (Act no 7 of 2019) also known as ("Debt Relief Bill"), was assented to and signed by the President. The signed National Credit Amendment Act was published in National Government Gazette 42649 on 19 August 2019. No effective date has yet been set. The municipality has consumers who earn less than R7 500 and anticipates that the value of its consumer debtors will be impacted by the amendment once it becomes effective. The financial impact of the National Credit Amendment Act cannot be reliably estimated.



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59. Related parties

None of the 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.

Composition of management

Municipal Manager and Directors

Municipal Manager	Mettler Heinrich
Chief Financial Officer	Vorster Stefan
Director: Infrastructure and Planning Services	Smith Gerrit
Director: Community and Operational Services	Marais Jacques (Passed on 20 May 2019)
Acting Director: Community and Operational Services	Links Yulene (from 20 May 2019 - current)
Director: Corporate Services and Public Safety	Mbaliswana Phumzile
Acting Director: Economic Development & Strategic Services	De Kock Cornell (1 July 2018 - 28 September 2018)
Acting Director: Economic Development & Strategic Services	Du Plessis Abé (1 October 2018 - 31 December 2018)
Acting Director: Economic Development & Strategic Services	Toesie Rene (15 February 2019 to 31 May 2019)
Director: Economic Development & Strategic Services	De Kock Cornell (1 June 2019 - current)

Mayoral Committee members

Executive Mayor	Koen Marius
Executive Deputy Mayor	Vaughan Eventhia
Finance Services	Venter Andries (1 July 2018 - 13 June 2019)
Finance Services	Mohale Sinah (13 June 2019 - current)
Infrastructure and Planning Services	Kruger André (1 July 2018 - 13 June 2019)
Infrastructure and Planning Services	Vaughan Eventhia (13 June 2019 - current)
Corporate Services and Public Safety	Mohale Sinah (1 July 2018 - 29 October 2018)
Corporate Services and Public Safety	Vaughan Eventhia (29 October 2018 - 13 June 2019)
Corporate Services and Public Safety	Truter Andre (13 June 2019 - current)
Community and Operational Services	Van Tura Sucilla (1 July 2018 - 29 October 2019)
Community and Operational Services	Mohale Sinah (29 October 2018 - 13 June 2019)
Community and Operational Services	Kruger André (13 June 2019 - current)
Economic Development and Tourism Supporting Services	Steyn Elizebeth
Office of the Municipal Manager	Vaughan Eventhia (1 July 2018 - 29 October 2018)
Office of the Municipal Manager	Van Tura Sucilla (29 October 2018 - 13 June 2019)
Office of the Municipal Manager	Scholtz Sharon (13 June 2019 - current)

Speaker

Daniels Olwene

Other Councillors

Girimane Nonkululeko
Khulu Thulani
Kordom Geraldine
Kotze Jaco
Mafenuka Siyabulelo
Makwetu Monde
Mankay Ezelle
Mitchell Leonard
Nackerdien Ebrahim
Pronk Frank (Resigned - 20 September 2018)
Rossouw Theresa
Salmon Tanduxolo
Schippers Francois
Scholtz Sharon (1 July 2018 - 13 June 2019)
Schrader Miranda
Sipholi Goodman



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59. Related parties (continued)

Truter Andre (12 December 2018 - 12 June 2019)
 Van Nooi Charleen
 Van Tura Sucilla (13 June 2019 - current)
 Venter Andries (13 June 2019 - current)
 Williams Avril
 Wilsnach Maryam

Related party transactions

Rent received from related parties

Councillor Francois Schippers	1 072	1 454
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During the 2018/19 financial year the Councillor Francois Schippers leased two properties from the municipality. Councillor Schippers paid rentals of R1 072 including interest (2018: R1 454) for the year. The market related rentals for these two properties are considered to be R10 180 (2018: R10 180).

Remuneration of management

Refer to notes 34 and 35 for the disclosure of remuneration of management.

60. Risk management

Financial risk management

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

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

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 is 95.6% (2018: 93.9%). Cash flow forecast are prepared and adequate utilised borrowings facilities are monitored.

2019	Up to 1 year	1 to 5 years	More than 5 years	Total
Borrowings - Capital repayments	18 761 706	51 103 706	73 756 612	143 622 024
Borrowings - Interest	14 476 407	52 812 456	26 381 428	93 670 291
Payables from exchange transactions	87 949 119	-	-	87 949 119
	121 187 232	103 916 162	100 138 040	325 241 434

2018	Up to 1 year	1 to 5 years	More than 5 years	Total
Borrowings - Capital repayments	17 163 902	59 411 104	84 210 918	160 785 924
Borrowings - Interest	16 154 285	58 764 151	34 906 139	109 824 575
Payables from exchange transactions	96 014 575	-	-	96 014 575
	129 332 762	118 175 255	119 117 057	366 625 074



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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.

Receivables from exchange transactions

Receivables from exchange transactions are amounts owing by customers, and are presented net of impairment losses. 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.

Cash and cash equivalents and Investments

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 as at 30 June 2019 was as follow:

Cash and cash equivalents	95 912 380	71 772 812
Investments	504 330 175	565 114 285
Receivables from exchange transactions	119 998 103	88 996 601

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60. Risk management (continued)

Market risks

Interest rate risk

The municipality has interest-bearing assets however, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings, receivables from exchange transactions, cash in current banking institutions and investments. Financial instrument at variable rates expose the municipality to cash flow interest rate risk. Financial instrument at fixed rates expose the municipality to fair value interest rate risk.

At 30 June 2019, if the weighted average interest rate on financial instruments had been 1% higher/lower with all other variables held constant, surplus for the year would have been R 5 766 186 (2018: R 5 650 978) lower/higher, mainly as a result of higher/lower interest income on financial instrument at variable rates.

Cash flow interest rate risk

Financial instrument	Weighted average interest rate	Due in less than a year	Due in one to five years	Due in two to three years	Due in three to four years	Due after five years
Receivables from exchange transactions - normal credit terms	11.25 %	119 998 103	-	-	-	-
Cash in current banking institutions	6.25 %	95 886 890	-	-	-	-
Investments	8.23 %	504 330 175	-	-	-	-

Fair value interest rate risk

Financial instrument	Weighted average interest rate	Due in less than a year	Due in one to five years	Due in two to three years	Due in three to four years	Due after five years
Borrowings	10.40 %	(18 761 706)	(51 103 706)	-	-	(73 756 612)

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.

61. Budget differences

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 R5 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 13 June 2019. 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.

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been assessed to have material variances:



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61. Budget differences (continued)

61.1 Statement of financial performance

	Variance	%	Reasons
Revenue from non-exchange transactions			
Fines	(5 978 955)	(21)	Less fines were issued than anticipated when the budget was prepared.
Expenditure			
Impairment of assets	(9 814 068)	(65)	More traffic fine debtors were impaired than anticipated when the budget was prepared.
Finance costs	(10 823 202)	(45)	Interest on post-retirement medical aid benefits for employees amounting to R8 849 187 is budgeted under employee-related cost. If budgeted under finance cost, the variance is only 5%.
Contracted services	13 904 197	13	Less funds were spent on training, consultants, professional fees and repairs and maintenance of municipal assets than budgeted.
General expenses	19 891 194	19	Actual expenditure on general expenditure is lower than budgeted due to lower levels of expending incurred.

61.2 Statement of financial position

	Variance	%	Reasons
Current assets			
Cash and cash equivalents	13 567 961	16	Lower capital expenditure resulted in more cash available than budgeted.
Inventories	6 654 830	47	An amount of R5.6 million is included in the actual for inventories and relates to top structures not transferred at year end, which could have not been anticipated when budgeting.
Investments	92 151 658	22	Lower capital expenditure resulted in more cash available to invest than budgeted.
Receivables from exchange transactions	20 298 999	20	A Service session surplus amounting to R18.7 million was recognised from the WCDM. This could not have been anticipated when budgeting.
Current liabilities			
Payables from exchange transactions	(20 942 928)	(18)	Payables at year-end are less than what was anticipated when budgeted.
Provisions	5 774 356	237	The liability at year end was more than anticipated when budgeted.

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61. Budget differences (continued)

61.3 Cash flow statement

	Variance	%	Reasons
Cash flows from operating activities			
Other receipts	(6 930 585)	(12)	Received less revenue than anticipated when budgeting.
Cash flows from investing activities			
Purchase of property, plant and equipment	44 696 568	17	Nett cashflow due to underspending of the capital budget. Refer to note 61.4 for the reasons for the underspending of the capital budget.
Proceeds from investments	17 157 648	40	More cash was invested than anticipated when budgeting.
Cash and cash equivalents			
Net increase/(decrease) in cash and cash equivalents	13 567 961	128	Lower capital expenditure resulted in more cash available than budgeted.

61.4 Capital budget

The municipality has spent R237 399 184 (2018: R238 420 533) of the capital budget of R302 125 856 (2018: R319 470 526) which translate to a spending ratio of 79% (2018: 75%). A summary of the budget per vote and the actual expenditure per vote is provided below:



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61. Budget differences (continued)					
Votes	Budget	Actual	Unspent	%	Unspent above R1 million
Infrastructure and Planning Services	249 834 406	202 848 443	46 985 963	81	49 207 629
Economic Development and Strategic Services	20 788 131	12 020 746	8 767 385	58	5 972 751
Community and Operational Services	17 293 330	14 127 317	3 166 013	82	1 200 000
Corporate and Public Safety Services	12 351 870	7 629 211	4 722 659	62	-
Financial Services	1 362 104	670 391	691 713	49	-
Municipal Manager	272 715	47 389	225 326	17	-
Council	223 300	55 687	167 613	25	-
	302 125 856	237 399 184	64 726 672	79	56 380 380

Where the unspent balance of a project is more than R1 million, the reasons thereof are provided below:

Project	Unspent amount	Reasons
Infrastructure & Planning Services		
Langebaan Road Aquifer Well field 2	18 329 672	R6 112 110 has been rolled-over to the 2019/20 financial year. The remaining unspent balance will revert back to the CRR.
Vredenburg Landfil Site Extension	10 438 170	There was a court case between Saldanha bay municipality and the two lowest bidders. The court ruling was only received in June 2019. The funding will now only be spent in the 2019/20 financial year.
Upgrading Oostewal Street Lbn Phase 2	4 329 624	These unspent funds were rolled over to complete the finale phase of the project in the 2019/20 financial year.
Laingville Upgrade Sludge Treatment Phase 4	3 366 381	There was a delay in finalising the tender specifications. Clarity was sought from the Department of Environmental Affairs pertaining the position of the new constructed overflow pond. The funds were rolled over to the 2019/20 financial year.
Bulk Supply Network Improvement	2 540 000	The advertised tender was cancelled prior to award. An appointment will be made from the panel of consultants tender that will be adjudicated in the 2019/20 financial year. The unspent funds were rolled over over to the 2019/20 financial year.
Refurbishment of Shelly Point Desalination Plant	1 443 235	Before the grant funding can be spent, the municipality must enter into agreements with Lucky Star and Shelley Point Homeowners Association. The agreements and survey requirements for the project is taking longer than anticipated. The project will be implemented during the 2019/20 financial year. An application was made to roll over the grant funding to the 2019/20 financial year.
Services Emergency Housing Sewage	1 639 933	The tender for the ablation units had to be re-done and a new tender will be advertised in the 2019/20 financial year. The unspent funds were rolled over to the 2019/20 financial year.
New 10Mva Transformer Vredenburg	1 695 666	The unspent balance represent the savings on a grant funded project.
Intersection Main And Koster Street Extension	1 168 026	The unspent funds were rolled over to 2019/20 financial year. Final completion of the project is scheduled for September 2019.



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61. Budget differences (continued)

Project	Unspent amount	Reasons
Multi Purpose Centre Youth Cafe Construction	1 154 000	A Council decision resolved that the municipality must transfer this amount over to the Department of Social Development in accordance with a Memorandum of Understanding. Due to governance issues, the municipality was unable to spend this amount. The funds have been rolled over to the 2019/20 financial year.
Services Emergency Housing Roads	1 086 605	The unspent balance represents the savings on the project, which will revert back to the CRR.
Upgrade Vredenburg Main Sewerage	1 009 116	The unspent balance represents the savings on the project, which will revert back to the CRR.
Upgrade Langebaan Sewerage Works	1 007 201	These funds will be used in the new financial year as the contract has now been awarded. The unspent funds were rolled over to the 2019/20 financial year.
	<u>49 207 629</u>	

Economic Development and Strategic Services

Witteklip Active Box	2 000 000	The tender for this project has been awarded. An application was made to roll over the grant funding to the 2019/20 financial year.
Financial System Software	1 352 751	The expansion of the solution was put on hold to complete the critical modules already committed. R662 050 was rolled over to the 2019/20 financial year.
Wesbank Landscaping Phase 2	1 320 000	Phase 1 of project had to be completed prior to the commencement of phase 2. There was also a delay with the design. The funds were rolled over to the 2019/20 financial year.
Witteklip Landscaping	1 300 000	The tender for Witteklip Container Box Park has been awarded. An application was made to roll over the grant funding to the 2019/20 financial year.
	<u>5 972 751</u>	

Community and Operational Services

Upgrade fence St Helena Bay depot	1 200 000	The tender was not advertised in terms of the required medium, and the CIDB requires a cooling-off period of six months. The funds were rolled over to the 2019/20 budget year.
"Unspent above R1 million"	<u>56 380 380</u>	

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62. Material losses

Water losses	<u>12 524 994</u>	<u>7 895 594</u>
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The losses recorded were 14.07% (2018: 9.95%). 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>34 713 557</u>	<u>27 423 391</u>
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The energy losses recorded were 12.34% (2018: 10.56%). 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.

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 R23 819.48 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.

CAS 257/10/2019 Allegation of Fraud

After the financial year-end, but before the Annual Financial Statements were authorised for issue an internal investigation lead to the identification of alleged fraudulent activities committed by an employee of the municipality by utilising already processed pre-paid airtime memorandums to prepare cash cheques. The alleged fraudulent transaction was confirmed in September 2019 and reported to SAPS during October 2019 in accordance with section 32 of the MFMA for criminal investigation. The municipality's internal investigation identified several possible fraudulently cash cheque withdrawals and the total loss will be confirmed once the investigation is concluded. At the date when the Annual Financial Statements were ready for issue the investigation was still ongoing.



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63. 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
El Paso Guns	12 700	3 840
Geraldine Suppliers (Pty) Ltd	-	27 938
GIBB (Pty) Ltd	-	569 772
Ikapa Reticulation and Flow CC	-	169 823
LJ Projects & Events	297 667	449 755
Morrison Bros Services	330 622	359 106
Powerrec (Pty) Ltd	-	811 436
Siroccon International (Pty) Ltd	2 561 625	399 000
Mubesko Africa (Pty) Ltd In Consortium With Moore Stephens Mo Inc	472 808	-
Swartland and West Coast Trading	11 903	-
Blackbird Trading 315	45 883	-
Conlog (Pty) Ltd	1 002 176	-
DJ and Sons	228 954	-
J and Sons	908 282	-
Moving Up Trading (Pty)Ltd	153 120	-
Munachiz Trading	6 420	-
Sebenza Trainees	3 370	-
Frank's Hardware	24 528	-
	6 060 058	3 015 820

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.

El Paso Guns

The spouse of Mr PS de Kock (Owner), Mrs MC de Kock, 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.

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.



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63. Awards to close family members of persons in the service of the state (continued)

Powerrec (Pty) Ltd

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

Siroccon International (Pty) Ltd

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

Mubesko Africa (Pty) Ltd In Consortium With Moore Stephens Mo Inc

The wife of Mr Hendri Niehaus (Director), Mrs J Niehaus, is employed at Department of Health Northern Cape.

Conlog (Pty) Ltd

The wife of Mr L Moodley (Director), Mrs N Moodley, is employed by Department of Health.

Moving Up Trading (Pty)Ltd

The wife of Mr K Gqetywa (Director), Mrs Y Gqetywa, is employed by Saldanha Bay Municipality.

J and Sons

The partner of Mr J Fortuin (Director), Ms N Albertus, is employed by Saldanha Bay Municipality.

Blackbird Trading 315

The sister in law of Mrs M Pretorius (Director), Mrs H Meeding, is employed by Saldanha Bay Municipality.

Munachiz Trading

The ex-wife of Mr N Van Wyk (Director), Ms R Adams, is employed by Saldanha Bay Municipality.

Sebenza Trainees

The wife of Mr S Venfolo (Director), Mrs N Matolo, is employed by Saldanha Bay Municipality.

Swartland & West Coast Trading

The spouse of Ms 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), Ms H Meeding, is employed by Saldanha Bay Municipality. This is a rates tender and during the 2018/2019 nor 2017/2018 financial years no expenditure was incurred.

DJ and Sons

The cousin of Mr D Julies, Ms R Farmer, is employed by Saldanha Bay Municipality.

Frank's Hardware

Mr F Pronk, a co-owner of Frank's Hardware was a Councillor of Saldanha Bay Municipality during the past twelve months.

