Ugu District Municipality
(Registration number DC21)
Annual financial statements
for the year ended 30 June 2020
Auditor General South Africa (AGSA)

General Information

Legal form of entity	Municipality (MFMA)
Nature of business and principal activities	Local government
Municipal capacity	High Capacity
Council committee	
Mayor	Cllr S Ngcobo - As from 08 October 2019
Acting Mayor	Cllr PH Mthiyane - as from 1 June 2019 to 07 October 2019
Deputy Mayor	Cllr PH Mthiyane
Speaker	Cllr NH Gumede
Other council committee members	Cllr LMR Ngcobo
	Cllr SP Mthethwa
	Cllr L Mzimela
	Cllr AD Ngubo
	Cllr NT Dlamini
Other councillors	Cllr NY Mweshe
	Cllr DMM Hlengwa
	Cllr S Chetty
	Cllr H Mbatha
	Cllr MA Manyoni
	Cllr R Nair
	Cllr S Mngomezulu
	Cllr D Nciki
	Cllr HJ Ngubelanga
	Cllr MPL Zungu
	Cllr JJ East
	Cllr GD Henderson
	Cllr SR Ngcobo
	Cllr A Rajaram
	Cllr TA Disane
	Cllr SE Khawula
	Cllr BE Machi
	Cllr ZZ Msani
	Cllr B Ntusi
	Cllr K Dladla
	Cllr M Gcwabe
	Cllr SN Caluza
	Cllr TB Cele
	Cllr TW Dube
	Cllr NCP Mqwebu
Traditional Leaders	Inkosi MP Ngcobo
	Inkosi EZ Mkhize
	Inkosi BS Nzimakwe
	Inkosi ZGB Msomi
	Inkosi ZR Qwabe
	Inkosi EZ Jali
	Inkosi B Cele
Grading of local authority	Grade 5

General Information

Chief Finance Officer (CFO)	Mrs L Sotshede CFO (Acting as from 1 December 2019)
Accounting Officer	Mr DD Naidoo
Registered office	28 Connor Street Port Shepstone Kwazulu-Natal 4240
Business address	28 Connor Street Port Shepstone Kwazulu-Natal 4240
Postal address	PO Box 33 Port Shepstone Kwazulu-Natal 4240
Auditors	Auditor General South Africa (AGSA)
Preparer	The annual financial statements preparation was supervised by: Mrs L Sotshede
Website	www.ugu.gov.za

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

	Abbreviations
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
AGSA	Auditor General of South Africa
COGTA	Department of Cooperative Governance and Traditional Affairs
FMG	Finance Management Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cashflow forecast for the year to 30 June 2021 and has also considered a wide range of factors, such as current and expected revenue streams, debt repayment schedules and potential sources of replacement financing, financial recovery plan and turnarounds strategies as well as the ability to continue providing services. In light of this, together with that fact that the municipality does not have any intention to curtail it operations in the near future, the accounting officer is of the view that the going concern assumption is appropriate and the financial statements have to been prepared on these basis.

Although the Accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's chief financial officer.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on page 7 to 96, which have been prepared on the going concern basis, were approved by the Accounting Officer, on 31 October 2020 and were signed by :

Accounting Officer
Mr DD Naidoo

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2020.

Audit Committee members and attendance

The Audit Committee consists of the members listed hereunder and should meet four (4) times per annum as per its approved terms of reference. During the current year six (6) meetings were held.

Name of member	Number of meetings attended
Paul Preston- Chairperson (Retired 6 December 2019)	4
Bongeka Jojo- Chairperson (as from 28 May 2020)	6
Chantel Elliott-External Member	6
Zwile Zulu-External Member	6
Leah Khumalo-External Member (Appointed - 01 April 2020)	2

Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 166 of the MFMA and Treasury Regulation 3.1.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effeciency and effectiveness of internal control

The Audit Committee has considered the work performed by internal audit on a quarterly basis and reviewed the findings on internal controls. The Audit Committe notes that there has been improvement in internal controls in the areas of financial reporting, performance reporting and compliance with legislation.

In line with Section 62(c)(ii) of the MFMA, internal audit provides the Audit Committee and Management with reasonable assurance that the internal controls are adequate and effective. This is achieved by an approved risk based internal audit plan, internal audit assessing the adequacy of controls mitigating the risks and the Audit Committee monitoring implementation of corrective actions.

Report of the Auditor- General South Africa

The Audit Committee has;

- reviewed the AGSA management report and management responses there to;
- on a quarterly basis reviewed the municipal departments' implementation plan for all the issues raised in the prior year;

Evaluation of annual financial statements

The Audit Committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the municipality’s compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.
- reviewed and discussed the report and audit opinion of the Auditor-General with the Auditor-General and management.

These financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by Municipal Finance Management Act and Division of Revenue Act.

The Audit Committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Audit Committee Report

Internal audit

The Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

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Chairperson of the Audit Committee

Date: ______________________

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	3	12 956 035	6 573 015
Current portion of long term receivables	4	24 573	21 085
Receivables from non-exchange transactions	7	27 767 981	72 028 665
Receivables from exchange transactions	8	236 082 093	202 613 060
Other receivables from exchange transactions	9	15 991 402	13 130 964
Cash and cash equivalents	10	80 024 312	50 914 276
		372 846 396	**345 281 065**
Non-Current Assets			
Investment property	11	32 867 000	31 650 000
Property, plant and equipment	12	3 649 228 869	3 576 351 562
Intangible assets	13	6 466 618	9 439 475
Investments in controlled entities	14	200	200
Long term portion receivables	4	2 297 349	3 088 589
Other financial assets	5	4 145 569	3 959 875
		3 695 005 605	**3 624 489 701**
Total Assets		**4 067 852 001**	**3 969 770 766**
Liabilities			
Current Liabilities			
Current portion of long term liabilities	15	7 985 767	24 199 707
Operating lease liability	6	6 630 080	5 561 744
Payables from exchange transactions	16	608 573 902	423 164 097
VAT payable	17	19 182 791	2 736 559
Consumer deposits	18	21 752 394	21 663 801
Unspent conditional grants and receipts	19	6 544 651	21 353 663
Provisions	20	30 528 237	27 683 395
Employee benefit obligation	21	3 882 235	1 153 682
Other employees benefits	22	1 454 000	1 514 546
		706 534 057	**529 031 194**
Non-Current Liabilities			
Long term portion of long term liabilities	15	52 615 523	60 837 218
Employee benefit obligation	21	18 160 392	19 694 366
Other employee benefits	22	18 896 000	19 189 178
		89 671 915	**99 720 762**
Total Liabilities		**796 205 972**	**628 751 956**
		3 271 646 029	**3 341 018 810**
Accumulated surplus		3 271 646 029	3 341 018 810

* See Note 49

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	351 776 519	268 654 967
Rental of facilities and equipment	24	3 090 903	2 204 693
Other income	26	3 532 458	6 104 693
Interest income	27	16 374 895	8 920 797
Total revenue from exchange transactions		**374 774 775**	**285 885 150**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	28	816 337 694	734 943 000
Donations	12	12 268 036	17 951 618
Other revenue	29	14 562 864	38 273 288
Total revenue from non-exchange transactions		**843 168 594**	**791 167 906**
Total revenue	25	**1 217 943 369**	**1 077 053 056**
Expenditure			
Employee related costs	30	(411 966 617)	(391 110 793)
Remuneration of councillors	31	(10 467 359)	(9 440 438)
Depreciation and amortisation	32	(216 727 635)	(219 185 752)
Finance costs	36	(21 032 368)	(11 811 065)
Operating lease rentals	37	(7 982 195)	(7 266 238)
Impairment of debtors	34	(97 866 813)	(27 531 926)
Bad debts written off	35	(5 508 246)	-
Bulk purchases	38	(142 810 778)	(131 957 145)
Contracted services	39	(196 182 569)	(199 499 404)
Transfers and subsidies	40	(41 102 028)	(20 542 308)
Operational costs	41	(53 856 009)	(161 018 976)
Total expenditure		**(1 205 502 617)**	**(1 179 364 045)**
Operating surplus (deficit)		**12 440 752**	**(102 310 989)**
Assets written-off	12	(75 676 407)	(53 371 194)
Fair value adjustments	42	1 217 000	-
Actuarial gains/(losses)	22&21	5 444 677	(1 794 128)
Profit on disposal of assets	43	1 063 224	-
Impairment of property plant and equipment	33	(12 839 898)	(20 910 153)
Assets transferred to other municipalities	12	(1 022 129)	-
		(81 813 533)	**(76 075 475)**
Deficit for the year		**(69 372 781)**	**(178 386 464)**

* See Note 49

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**4 615 028 665**	**4 615 028 665**
Changes in net assets		
Prior year error correction	(1 095 623 391)	(1 095 623 391)
Net impact of adjustments recognised directly in net assets	(1 095 623 391)	(1 095 623 391)
Deficit for the year	(178 386 464)	(178 386 464)
Total recognised income and expenses for the year	(1 274 009 855)	(1 274 009 855)
Total changes	(1 274 009 855)	(1 274 009 855)
Restated* Balance at 01 July 2019	**3 341 018 810**	**3 341 018 810**
Changes in net assets		
Deficit for the year	(69 372 781)	(69 372 781)
Total changes	(69 372 781)	(69 372 781)
Balance at 30 June 2020	**3 271 646 029**	**3 271 646 029**
Note(s)	49	

* See Note 49

Ugu District Municipality
(Registration number DC21)
Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		273 738 980	363 478 553
Grants		801 528 682	756 180 000
Interest income		10 258 677	8 920 797
Rental of facilities		508 589	-
Other income		3 532 458	5 922 743
		1 089 567 386	1 134 502 093
Payments			
Payroll related costs		(412 016 239)	(400 854 585)
Payments to suppliers		(240 855 288)	(388 690 168)
Finance costs		(21 032 368)	(11 811 065)
		(673 903 895)	(801 355 818)
Net cash flows from operating activities	45	**415 663 491**	**333 146 275**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(362 995 350)	(302 286 506)
Proceeds from sale of biological assets that form part of an agricultural activity		1 063 224	-
Purchase of other financial assets		(185 694)	-
Net cash flows from investing activities		**(362 117 820)**	**(302 286 506)**
Cash flows from financing activities			
Repayment of liabilities		(24 435 635)	(21 462 082)
Net cash flows from financing activities		**(24 435 635)**	**(21 462 082)**
Net increase in cash and cash equivalents		**29 110 036**	**9 397 687**
Cash and cash equivalents at the beginning of the year		50 914 276	41 516 589
Cash and cash equivalents at the end of the year	10	**80 024 312**	**50 914 276**

* See Note 49

Ugu District Municipality

(Registration number DC21)
Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	714 454 762	(97 469 423)	**616 985 339**	351 776 519	**(265 208 820)**	Appendix E(1)
Rental of facilities and equipment	739 713	-	**739 713**	3 090 903	**2 351 190**	Appendix E(1)
Other income	2 285 247	(896 939)	**1 388 308**	3 532 458	**2 144 150**	Appendix E(1)
Interest received	4 374 808	(702 755)	**3 672 053**	16 374 895	**12 702 842**	Appendix E(1)
Total revenue from exchange transactions	**721 854 530**	**(99 069 117)**	**622 785 413**	**374 774 775**	**(248 010 638)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	792 200 453	7 276 914	**799 477 367**	816 337 694	**16 860 327**	Appendix E(1)
Public contributions and donations	-	-	**-**	12 268 036	**12 268 036**	
Licences and permits	-	-	**-**	14 562 864	**14 562 864**	
Total revenue from non-exchange transactions	**792 200 453**	**7 276 914**	**799 477 367**	**843 168 594**	**43 691 227**	
Total revenue	**1 514 054 983**	**(91 792 203)**	**1 422 262 780**	**1 217 943 369**	**(204 319 411)**	
Expenditure						
Employee related costs	(383 967 773)	(7 574 761)	**(391 542 534)**	(411 966 617)	**(20 424 083)**	Appendix E(1)
Remuneration of councillors	(14 091 118)	615 610	**(13 475 508)**	(10 467 359)	**3 008 149**	Appendix E(1)
Depreciation and amortisation	(50 349 377)	(159 650 623)	**(210 000 000)**	(216 727 635)	**(6 727 635)**	Appendix E(1)
Finance costs	(1 857 094)	(2 249 638)	**(4 106 732)**	(21 032 368)	**(16 925 636)**	Appendix E(1)
Operating lease rentals	-	-	**-**	(7 982 195)	**(7 982 195)**	Appendix E(1)
Impairment of debtors	-	(10 000 000)	**(10 000 000)**	(97 866 813)	**(87 866 813)**	Appendix E(1)
Bad debts written off	-	-	**-**	(5 508 246)	**(5 508 246)**	Appendix E(1)
Bulk purchases	(130 625 000)	25 600 000	**(105 025 000)**	(142 810 778)	**(37 785 778)**	Appendix E(1)
Contracted services	(205 812 190)	(12 584 431)	**(218 396 621)**	(196 182 569)	**22 214 052**	Appendix E(1)
Transfers and subsidies	(18 723 364)	-	**(18 723 364)**	(41 102 028)	**(22 378 664)**	Appendix E(1)
Operational costs	(387 910 905)	70 833 455	**(317 077 450)**	(66 695 907)	**250 381 543**	Appendix E(1)
Total expenditure	**(1 193 336 821)**	**(95 010 388)**	**(1 288 347 209)**	**(1 218 342 515)**	**70 004 694**	
Operating deficit	**320 718 162**	**(186 802 591)**	**133 915 571**	**(399 146)**	**(134 314 717)**	
Loss on disposal of assets and liabilities	-	-	**-**	(75 676 407)	**(75 676 407)**	
Fair value adjustments	-	-	**-**	1 217 000	**1 217 000**	
Actuarial gains	-	-	**-**	5 444 677	**5 444 677**	
Impairment of property plant and equipment	-	-	**-**	(12 839 898)	**(12 839 898)**	Appendix E(1)
Assets transfered to other municipalities	-	-	**-**	(1 022 129)	**(1 022 129)**	Appendix E(1)
	-	**-**	**-**	**(82 876 757)**	**(82 876 757)**	
Deficit for the year	**320 718 162**	**(186 802 591)**	**133 915 571**	**(83 275 903)**	**(217 191 474)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**320 718 162**	**(186 802 591)**	**133 915 571**	**(83 275 903)**	**(217 191 474)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Assets						
Current Assets						
Inventories	7 371 817	37 916 586	**45 288 403**	12 956 035	**(32 332 368)**	
Current portion of long term receivables	29 691	152 713	**182 404**	24 573	**(157 831)**	
Receivables from exchange transactions	-	-	**-**	15 991 402	**15 991 402**	
Receivables from non-exchange transactions	241 442 737	629 476 769	**870 919 506**	27 767 981	**(843 151 525)**	
Receivables from exchange transactions	105 178 175	71 189 316	**176 367 491**	236 082 093	**59 714 602**	
Cash and cash equivalents	4 285 954	53 167 731	**57 453 685**	80 024 313	**22 570 628**	
	358 308 374	**791 903 115**	**1 150 211 489**	**372 846 397**	**(777 365 092)**	
Non-Current Assets						
Investment property	43 049 276	237 912 843	**280 962 119**	32 867 000	**(248 095 119)**	
Property, plant and equipment	4 149 521 350	181 222 265	**4 330 743 615**	3 649 228 869	**(681 514 746)**	
Intangible assets	13 464 080	74 409 555	**87 873 635**	6 466 618	**(81 407 017)**	
Investments in controlled entities	-	-	**-**	200	**200**	
Long term portion of receivables	84 536	434 804	**519 340**	2 297 349	**1 778 009**	
Other financial assets	-	-	**-**	4 145 569	**4 145 569**	
	4 206 119 242	**493 979 467**	**4 700 098 709**	**3 695 005 605**	**(1 005 093 104)**	
Total Assets	**4 564 427 616**	**1 285 882 582**	**5 850 310 198**	**4 067 852 002**	**(1 782 458 196)**	
Liabilities						
Current Liabilities						
Current portion of long term liabilities	20 511 262	-	**20 511 262**	7 985 767	**(12 525 495)**	
Operating lease liability	-	-	**-**	6 630 080	**6 630 080**	
Payables from exchange transactions	140 200 457	1 135 897 621	**1 276 098 078**	608 573 902	**(667 524 176)**	
VAT payable	-	-	**-**	19 182 791	**19 182 791**	
Consumer deposits	22 139 109	73 761 892	**95 901 001**	21 752 394	**(74 148 607)**	
Employee benefit obligation	-	-	**-**	3 882 235	**3 882 235**	
Unspent conditional grants and receipts	-	-	**-**	6 544 651	**6 544 651**	
Provisions	33 968 069	174 713 131	**208 681 200**	30 528 237	**(178 152 963)**	
Other employees benefits	-	-	**-**	1 454 000	**1 454 000**	
	216 818 897	**1 384 372 644**	**1 601 191 541**	**706 534 057**	**(894 657 484)**	
Non-Current Liabilities						
Long term liabilities	51 818	73 171 386	**73 223 204**	52 615 523	**(20 607 681)**	
Employee benefit obligation	-	-	**-**	18 160 392	**18 160 392**	
Provisions	21 899 714	-	**21 899 714**	-	**(21 899 714)**	
Other employee benefits	-	-	**-**	18 896 000	**18 896 000**	
	21 951 532	**73 171 386**	**95 122 918**	**89 671 915**	**(5 451 003)**	
Total Liabilities	**238 770 429**	**1 457 544 030**	**1 696 314 459**	**796 205 972**	**(900 108 487)**	
	4 325 657 187	**(171 661 448)**	**4 153 995 739**	**3 271 646 030**	**(882 349 709)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Accumulated surplus	4 325 657 187	(171 661 448)	**4 153 995 739**	3 271 646 030	**(882 349 709)**	

Ugu District Municipality
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Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	429 356 374	(4 632 551)	**424 723 823**	326 780 824	**(97 942 999)**	
Grants	763 641 000	60 111 014	**823 752 014**	804 708 000	**(19 044 014)**	
Interest income	4 284 049	(886 421)	**3 397 628**	16 374 895	**12 977 267**	
Other income	3 643 294	(1 515 273)	**2 128 021**	4 434 396	**2 306 375**	
	1 200 924 717	**53 076 769**	**1 254 001 486**	**1 152 298 115**	**(101 703 371)**	
Payments						
Payroll related costs	(398 058 881)	(6 959 151)	**(405 018 032)**	(411 786 083)	**(6 768 051)**	
Payment to suppliers	(800 510 860)	171 945 374	**(628 565 486)**	(316 516 278)	**312 049 208**	
Finance costs	(1 857 094)	497 722	**(1 359 372)**	(21 032 368)	**(19 672 996)**	
Taxes on surpluses	(18 723 364)	-	**(18 723 364)**	-	**18 723 364**	
	(1 219 150 199)	**165 483 945**	**(1 053 666 254)**	**(749 334 729)**	**304 331 525**	
Net cash flows from operating activities	**(18 225 482)**	**218 560 714**	**200 335 232**	**402 963 386**	**202 628 154**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(352 741 129)	87 627 354	**(265 113 775)**	(343 232 021)	**(78 118 246)**	
Decrease (Increase) in non-current debtors	618 000	(283 935)	**334 065**	(185 694)	**(519 759)**	
Net cash flows from investing activities	**(352 123 129)**	**87 343 419**	**(264 779 710)**	**(343 417 715)**	**(78 638 005)**	
Cash flows from financing activities						
Repayment of current portion of long term liabilities	(24 305 316)	-	**(24 305 316)**	(24 435 635)	**(130 319)**	
Increase decrease in consumer deposit	881 000	(405 692)	**475 308**	-	**(475 308)**	
Net cash flows from financing activities	**(23 424 316)**	**(405 692)**	**(23 830 008)**	**(24 435 635)**	**(605 627)**	
Net increase/(decrease) in cash and cash equivalents	(393 772 927)	305 498 441	**(88 274 486)**	35 110 036	**123 384 522**	
Cash and cash equivalents at the beginning of the year	51 909 188	10 683 866	**62 593 054**	50 914 276	**(11 678 778)**	
Cash and cash equivalents at the end of the year	**(341 863 739)**	**316 182 307**	**(25 681 432)**	**86 024 312**	**111 705 744**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2020											
Financial Performance											
Service charges	714 454 762	(97 469 423)	616 985 339	-		616 985 339	351 776 519		(265 208 820)	57 %	49 %
Interest received	4 374 808	(702 755)	3 672 053	-		3 672 053	16 374 895		12 702 842	446 %	374 %
Transfers recognised - operational	792 200 453	7 276 914	799 477 367	-		799 477 367	525 555 123		(273 922 244)	66 %	66 %
Other own revenue	3 024 960	(896 939)	2 128 021	-		2 128 021	28 911 126		26 783 105	1 359 %	956 %
Total revenue (excluding capital transfers and contributions)	**1 514 054 983**	**(91 792 203)**	**1 422 262 780**	**-**		**1 422 262 780**	**922 617 663**		**(499 645 117)**	**65 %**	**61 %**
Employee costs	(347 306 195)	(40 776 891)	(388 083 086)	-	-	(388 083 086)	(411 966 617)	(20 902 293)	(23 883 531)	106 %	119 %
Remuneration of councillors	(13 124 969)	-	(13 124 969)	-	-	(13 124 969)	(10 467 359)	-	2 657 610	80 %	80 %
Debt impairment	(10 000 000)	-	(10 000 000)			(10 000 000)	(97 866 813)	(74 104 455)	(87 866 813)	979 %	979 %
Depreciation and asset impairment	(50 349 377)	(159 650 623)	(210 000 000)			(210 000 000)	(229 567 533)	-	(19 567 533)	109 %	456 %
Finance charges	(28 000 000)	-	(28 000 000)	-	-	(28 000 000)	(21 032 368)	-	6 967 632	75 %	75 %
Materials and bulk purchases	(130 625 000)	25 600 000	(105 025 000)	-	-	(105 025 000)	(142 810 778)	(37 778 825)	(37 785 778)	136 %	109 %
Transfers and grants	(20 212 726)	-	(20 212 726)	-	-	(20 212 726)	(41 102 028)	(20 721 832)	(20 889 302)	203 %	203 %
Other expenditure	(323 731 628)	(189 248 702)	(512 980 330)	-	-	(512 980 330)	(340 227 555)	-	172 752 775	66 %	105 %
Total expenditure	**(923 349 895)**	**(364 076 216)**	**(1 287 426 111)**	**-**	**-**	**(1 287 426 111)**	**(1 295 041 051)**	**(153 507 405)**	**(7 614 940)**	**101 %**	**140 %**
Surplus/(Deficit)	**590 705 088**	**(455 868 419)**	**134 836 669**	**-**		**134 836 669**	**(372 423 388)**		**(507 260 057)**	**(276)%**	**(63)%**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	290 889 000	-	290 889 000	-		290 889 000	290 782 571		(106 429)	100 %	100 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	12 268 036		12 268 036	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**881 594 088**	**(455 868 419)**	**425 725 669**	**-**		**425 725 669**	**(69 372 781)**		**(495 098 450)**	**(16)%**	**(8)%**
Surplus/(Deficit) for the year	**881 594 088**	**(455 868 419)**	**425 725 669**	**-**		**425 725 669**	**(69 372 781)**		**(495 098 450)**	**(16)%**	**(8)%**

Capital expenditure and funds sources

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total capital expenditure	330 738 000	(49 700 000)	281 038 000	-		281 038 000	275 569 447		(5 468 553)	98 %	83 %
Sources of capital funds											
Transfers recognised - capital	281 038 000	-	281 038 000	-		281 038 000	265 426 492		(15 611 508)	94 %	94 %
Internally generated funds	49 700 000	(49 700 000)	-	-		-	-		-	DIV/0 %	- %
Total sources of capital funds	**330 738 000**	**(49 700 000)**	**281 038 000**	**-**		**281 038 000**	**265 426 492**		**(15 611 508)**	**94 %**	**80 %**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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 Transfer of functions between entities under common control

Definitions

An acquiree is the municipality and / or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the municipality that obtains control of the acquiree or transferor.

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

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality’s objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

1.3 Transfer of functions between entities under common control (continued)

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:
- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

1.4 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:

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down 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 operation surplus note.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 21.

Allowance for doubtful debts

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

1.5 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.

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.

Accounting Policies

1.5 Investment property (continued)

Fair value

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

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

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

If the entity 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 entity 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 entity 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 entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity 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.

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

1.6 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, its 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.

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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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 live.

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	5 to 30 years
Infrastructure - Security measures	Straight line	7 to 25 years
Infrastructure - Sewerage	Straight line	7 to 60 years
Infrastructure - Water	Straight line	5 to 100 years
Other - Computer equipment	Straight line	3 to 10 years
Other - Furniture and fittings	Straight line	3 to 15 years
Other - Office equipment	Straight line	3 to 15 years
Other - Plant and equipment	Straight line	10 to 15 years
Other - Specialised vehicles	Straight line	5 to 15 years

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

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

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

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

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

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

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

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

Accounting Policies

1.6 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).

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

1.7 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.

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.

Internally generated goodwill is not recognised as an intangible asset.

1.7 Intangible assets (continued)

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	Straight line	2 to 5 years
Servitudes	Straight line	Infinite

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

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 an 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).

1.8 Investments in controlled entities

In the municipality's separate annual financial statements, investments in controlled entities are carried at cost.

1.9 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.

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.

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.

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.

Accounting Policies

1.9 Financial instruments (continued)

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.

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

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

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

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

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

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.

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.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition at cost less impairment:

Impairment and collectibility 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 are 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.

1.9 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 recognises 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 recognises 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.

Accounting Policies

1.9 Financial instruments (continued)

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.

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.

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.

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.

Restricted funds held for minor beneficiaries

The funds are classified under financial instruments, and are held as restricted cash. These funds are recognised under the Statement of financial position. The funds are managed and kept in a separate bank account. They are released or mature once the minor beneficiary reaches the age as stipulated in the original employee insurance policy, through following the Municipality’s accounting payment process.

1.10 Tax

Value added tax

The Municipality accounts for value added tax on an accural basis but claimed / paid over to SARS on a cash basis in accordance with Section 15 (2) of the Value Added Tax (Act No. 89 of 1991).

1.11 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 municipality assesses the classification of each element separately.

Accounting Policies

1.11 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 interest rate implicit in the lease.

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 payment 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.

1.12 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for:

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

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

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

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

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

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.

Consumable stores, raw materials, work - in - progress and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on the ordinary course of business). If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

1.12 Inventories (continued)

Water inventory:

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not been treated, therefore not regonised in the statement of financial position.

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

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

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

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

1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

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.

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also 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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

1.14 Impairment of 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.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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.

1.15 Employee benefits

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

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

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

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

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

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

1.15 Employee benefits (continued)

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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.

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.

1.15 Employee benefits (continued)

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.

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.

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

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

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

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

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

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

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

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

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the 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;

1.15 Employee benefits (continued)

- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

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

The 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.

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

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

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

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

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

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

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

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

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

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

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

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

1.15 Employee benefits (continued)

Termination benefits

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

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

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

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

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

1.16 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.

1.16 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 a 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.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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.

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Accounting Policies

1.17 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 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.

Sale of goods

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

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

Rendering of services

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

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

When 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.

1.18 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of municipal 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.

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

Service charges

Service charges are levied in terms of approved tariffs.

Service charges from water are based on consumption. Metres are read on a monthly basis are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional metre reading of consumption are recognised as revenue when invoiced. Adjustments to provisional meter reading of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

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

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

Finance Income

Interest earned on investments is recognised in the statement of financial performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance.

(i) Interest earned on unspent conditional grants is allocated directly to the creditor: Unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

Rental received

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

1.19 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, other than increases relating to contributions from owners.

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.

1.19 Revenue from non-exchange transactions (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an 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.

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

Recognition

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

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

Measurement

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

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

Transfers

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.

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.

Grants in aid

The municipality transfers money to individuals, originisations and other sectors of goverment from time to time. When making these transfer, the municipality does not:
- Receive any goods or services directly in return, as would be expected in a purchase or sale transactions
- Expect to be repaid in future; or

1.19 Revenue from non-exchange transactions (continued)
- Expect a financial return, as would be expected from an investment .

These transfers are recognised in the financial performance as expenses in the period that the events give rise to transfer occurred.

Government grants

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

The municipality assesses the degree of certainity attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with these transactions will flow to the entity. An announcement at the beginning of the financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period,such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a reimbursement basis, revenue is recognised when the qualifying expenses have been incurred and to the extent that any other restriction have been complied with.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations it would be enforced by the transferor, a liability is recogonised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforcable, or were past experience has indicated that the transferror has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period which they become receivable.

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

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Public contrbution and donation received

Public contributions and donations received are recognised as revenue when:
- It is probable that the economic benefits or services potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in - kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced when the revenue is recognised as the conditions are satisfied.

Assets acquired from non- exchange transactions are measured at fair value in accordance with the Standards of GRAP.

Revenue from recovery of unauthorised, irregular and wasteful expenditure

1.19 Revenue from non-exchange transactions (continued)

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

1.20 Investment income

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

1.21 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.

1.22 Comparative figures

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

Retrospective application requires the adjustment of the opening balance and comparative information for each affected line-item. If the adjustment relates to periods before the comparative year, it will be made against the opening balance of accumulated surplus/deficit.

1.23 Unauthorised expenditure

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

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

1.24 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.

1.25 Irregular expenditure

Irregulat expenditure, in relation to a municipality or municipal entity, means -

(a) Irregular expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; or

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act; or

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 32(1) to 32(5) of the MFMA requires the following (effective from 1 April 2008):

Accounting Policies

1.25 Irregular expenditure (continued)

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

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

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

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

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.

1.26 Budget information

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

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

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.27 Related parties

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

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

Accounting Policies

1.27 Related parties (continued)

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

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

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

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction is at arms length and 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.

1.28 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.

Figures in Rand		2020	2019 Restated*

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality does not have standards and interpretation that its has chosen to early adopt

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20 - Related Party Disclosures	01 April 2019	The impact of the is not material.
• GRAP 108 - Statutory Receivables	01 April 2019	The impact of the is not material.
• GRAP 109 - Accounting by Principals and Agents	01 April 2019	The impact of the is not material.
• IGRAP 17 - Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	The impact of the is not material.
• IGRAP 18 - Recognition and Derecognition of Land	01 April 2019	The impact of the is not material.
• IGRAP 19 - Liabilities to Pay Levies	01 April 2019	The impact of the is not material.

3. Inventories

		2020	2019
Consumable stores		8 740 924	5 866 378
Water for distribution		4 215 111	706 637
		12 956 035	**6 573 015**

Consumable stores

		2020	2019
Opening balance		5 866 378	7 014 297
Purchases		14 142 820	15 424 629
Utilised		(11 268 274)	(16 572 548)
		8 740 924	**5 866 378**

Inventory pledged as security

None of the inventories have been pledged as security for the municipality's financial liabilities.

Water for distribution

		2020	2019
Opening balance		706 637	578 965
System input volume		571 856 039	347 055 222
Billed authorised consumption		(433 062 811)	(219 440 444)
Water losses	38	(112 173 764)	(57 681 659)
Unbilled authorised consumption		-	(47 501 364)
Apparent losses		(26 578 151)	(22 431 755)
Other		3 467 161	127 672
Closing balance		**4 215 111**	**706 637**

4. Current portion of Long term receivables

At amortised cost

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Current portion of Long term receivables (continued)

Sundry recoveries Sundry recoveries are made of recoveries that are receivable from employees as results of damages to municipality belongings and employee has acknowlegded the liability. The sundry recoveries are not secured and are interest free. The average term of these balances 1 to 5 years.	3 197 358	3 237 383
	3 197 358	3 237 383
Impairments	(875 436)	(127 709)
	2 321 922	**3 109 674**

Non-current assets		
At amortised cost	2 297 349	3 088 589
Current assets		
At amortised cost	24 573	21 085

5. Other financial assets

Other financial assets includes restricted cash to the value of (2020: R 4 145 569) and (2019: R 3 959 875), which relates to funds held for minor beneficiaries.

6. Operating lease liability

Remeasurement value	(6 630 080)	(5 561 744)

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable operating leases the current assets and current liabilities (accrual) have been recognised as above.

Amounts payable under operating leases

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has resulted in an increase in the current year expenditure of R 1 068 336 (2019: R 1 084 881).

The following restrictions have been imposed by the municipality in terms of the lease agreements:

(i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.

(ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.

(iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

Operating lease liability		
Balance at beginning of year	(5 561 744)	(4 476 863)
Lease smoothing impact	(1 068 336)	(1 084 881)
	(6 630 080)	**(5 561 744)**

Leasing arrangements

At the reporting date the following minimum lease payments were payable under non-cancellable operating leases for property, plant and equipment, which are payable as follows:

Up to 1 year	(200 186)	(181 988)
2 to 5 years	(1 021 972)	(929 265)
More than 5 years	(47 918 437)	(48 212 029)
	(49 140 595)	**(49 323 282)**

Figures in Rand	2020	2019

7. Receivables from non-exchange transactions

Payments made in advance	117 931	155 656
Water availability charges	82 545 135	118 701 760
Sundry deposits	3 065 840	3 065 840
Provision for doubtful debts	(57 960 925)	(49 894 591)
	27 767 981	**72 028 665**

Sundry deposits relates to a deposit held by Eskom. There hasn't been any movement in the current year.

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 4 153 568 (2019: R 2 749 064) were past due but not impaired.

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

1 month past due	1 864 573	1 374 532
2 months past due	1 085 817	-
3 months past due	1 046 390	1 374 532
	3 996 780	**2 749 064**

The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

8. Receivables from exchange transactions

Gross balances		
Water	524 635 535	426 383 692
Sewerage	94 810 724	69 767 253
	619 446 259	**496 150 945**
Less: Allowance for impairment		
Water	(321 788 185)	(252 352 228)
Sewerage	(61 575 981)	(41 185 657)
	(383 364 166)	**(293 537 885)**
Net balance		
Water	202 847 350	174 031 464
Sewerage	33 234 743	28 581 596
	236 082 093	**202 613 060**

Figures in Rand	2020	2019

8. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

	2020	2019
Water		
Current (0 -30 days)	58 961 755	36 143 948
31 - 60 days	20 281 897	17 582 531
61 - 90 days	4 070 432	13 096 780
91 - 120 days	17 156 307	9 974 547
121 - 365 days	100 586 087	96 990 467
> 365 days	323 579 057	259 990 694
	524 635 535	**433 778 967**
Sewerage		
Current (0 -30 days)	9 547 904	8 811 311
31 - 60 days	5 274 904	4 670 259
61 - 90 days	4 466 581	3 618 005
91 - 120 days	4 420 353	2 983 316
121 - 365 days	25 414 331	20 773 558
> 365 days	45 686 652	29 960 231
	94 810 725	**70 816 680**
Industrial		
Current (0 -30 days)	13 388 455	32 126 217
31 - 60 days	5 507 935	15 315 941
61 - 90 days	6 063 601	11 172 158
91 - 120 days	3 773 493	9 396 186
121 - 365 days	23 321 110	89 608 254
> 365 days	65 636 636	285 507 899
	117 691 230	**443 126 655**
Residential/Households		
Current (0 -30 days)	30 238 824	13 088 010
31 - 60 days	18 912 098	5 070 578
61 - 90 days	16 647 785	4 284 131
91 - 120 days	17 752 073	2 561 662
121 - 365 days	101 456 210	19 837 303
> 365 days	358 429 740	50 268 966
	543 436 730	**95 110 650**
National and provincial government		
Current (0 -30 days)	26 846 801	12 931 064
31 - 60 days	2 250 012	1 898 118
61 - 90 days	(13 098 618)	1 325 100
91 - 120 days	1 127 486	1 009 119
121 - 365 days	9 475 467	9 785 200
> 365 days	14 262 141	14 455 321
	40 863 289	**41 403 922**

Figures in Rand	2020	2019

8. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(376 859 636)	(327 603 871)
Contributions to allowance - water	(65 574 822)	(39 134 918)
Contributions to allowance - sewer	(16 772 883)	(10 120 847)
	(459 207 341)	**(376 859 636)**

In line with GRAP 104, the entity has assessed observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

(i) adverse changes in the payment status of borrowers in characterised by increased number of delayed payments); and

(ii) national economic conditions that correlate with defaults on the assets in the group due to a contracting economy and additional shocks from COVID-19. Lockdown measures have caused revenues and employment rates to fall precipitously.

The assessment for impairment was carried out as per GRAP 104.

No receivables from exchange transactions have been pledged as collateral for liabilities of the municipality.

9. Other receivables from exchange transactions

Insurance debtor	8 664 505	8 751 303
Rental of premises and facilities	5 694 932	3 311 590
Sundry debtors	1 631 965	1 068 071
	15 991 402	**13 130 964**

Sundry receivables are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality. These comprise of 11 sundry debtors 6 municipalities and 5 businesses. The services provided to municipalities include but not limited to the following': Job evaluation fees, remuneration of an employee, fraud and corruption fees, salga games etc. The business sundry debtors are billed rental fees.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	626	2 476
Bank balances	15 063 910	30 276 616
Short-term deposits	63 753 389	20 035 231
Minor Beneficiary Funds in Bank	613 913	594 189
Other cash and cash equivalents	2 476	5 763
	79 434 314	**50 914 275**

Cash and cash equivalents held by the entity that are not available for use by the economic entity (minor beneficiary funds in the bank)	4 145 569	3 959 875

For the purposes of the Statement of Financial Position and the Cash Flow Statement, cash and cash equivalents include cash-on-hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts

Included in Cash and cash equivalents is restricted cash to the value of (2020: R 4 145 569) and (2019: R 3 959 875), which relates to funds held for minor beneficiaries.

Figures in Rand	2020	2019

10. Cash and cash equivalents (continued)

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 or historical information about counterparty default rates:

Credit rating	2020	2019
Long-term (AA+) Short-term (AA+)	78 488 910	34 822 751
Long-term (BB) Short-term (B)	5 087 872	20 043 162
	83 576 782	**54 865 913**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA BANK - Primary Account- 406 668 6529	619 864	176 592	10 043 395	619 864	176 592	10 043 395
ABSA BANK - General Account - 406 668 6472	4 823 320	4 262 047	1 254 736	4 998 152	4 262 047	918 197
ABSA BANK - Collections Account - 406 668 6294	893 908	817 567	7 966	893 908	817 567	7 966
ABSA BANK - Consumer Deposits Account - 406 671 0647	1 974 502	2 141 057	662 198	1 974 502	2 141 057	662 198
ABSA BANK - Salaries Account - 406 660 3763	142 334	139 324	63 210	142 334	139 324	57 880
Account Number 406 757 0977 (Sanlam Group Life Account)	4 759 482	4 554 065	4 730 823	4 759 482	4 554 065	4 730 824
ABSA BANK - MIG Project Account - 406 668 6367	179 544	50	50	179 544	50	50
ABSA BANK - Account - 406 895 1879	50 633 933	50	233	50 633 933	50	233
ABSA BANK - Account - 406 895 1879	6 255 605	21 239 932	126 501	6 255 605	21 239 932	126 501
ABSA BANK - Call Account - 406 757 0008	8 031 584	1 499 997	230 048	8 031 584	1 499 997	230 048
ABSA BANK - Notice Deposit Account - 908 888 2297	-	308	454	-	308	454
FNB BANK - Call Account - 62228266335	5 087 872	34 923	20 500	5 087 872	34 923	20 500
Standard BANK - Notice Deposit Account - 058 905 324	-	-	10 000 000	-	-	10 000 000
FNB - Call Account - 74761972882	-	20 000 000	-	-	20 000 000	-
Investec BANK - Call Deposit Account - 110 045 8627	-	-	15 000 000	-	-	15 000 000
Cash on hand	626	5 763	2 950	626	5 763	2 950
Other cash and cash equivalents	2 476	2 476	-	2 476	2 476	-
Total	**83 405 050**	**54 874 151**	**42 143 064**	**83 579 882**	**54 874 151**	**41 801 196**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Ugu Fresh Produce Market	10 954 000	-	10 954 000	10 900 000	-	10 900 000
Ugu Sports and Leisure Centre	21 913 000	-	21 913 000	20 750 000	-	20 750 000
Total	**32 867 000**	**-**	**32 867 000**	**31 650 000**	**-**	**31 650 000**

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Ugu Fresh Produce Market	10 900 000	54 000	10 954 000
Ugu Sports and Leisure Centre	20 750 000	1 163 000	21 913 000
	31 650 000	**1 217 000**	**32 867 000**

Reconciliation of investment property - 2019

	Opening balance	Total
Ugu Fresh Produce Market	10 900 000	10 900 000
Ugu Sports and Leisure Centre	20 750 000	20 750 000
	31 650 000	**31 650 000**

Details of property

Stand 3249, Bhobhoyi
The property is being used as a fresh market produce operation, and improved with three warehouses, the one equipped with ripening rooms in order to support the fresh produce production

- Opening balance	10 900 000	10 900 000
- Fair value adjustment	54 000	-
	10 954 000	**10 900 000**

Farm Lot Ra 5100 ET portion 7, Shelly beach
The property comprises offices, indoor sporting facilities, boardrooms and storage.

- Purchase price: 1 December 2008	20 750 000	20 750 000
- Fair value adjustment	1 163 000	-
	21 913 000	**20 750 000**

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.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

11. Investment property (continued)

Details of valuation

The effective date of the valuation was Tuesday, 30 June 2020. Value assessments were performed by an independent valuers, Ganprop Valuers & Property Consultants. Ganprop Valuers & Property Consultants are not connected to the municipality and are mebers of Professional Valuers Association.

The valuation was based on open market value for existing use.The valuation methodology applied is the income capitalisation approach, whereby the net rental income is capitalised at an appropriate rate, in order to arrive at an estimate of market value

These assumptions are based on current market conditions.

Capitalised net annual income at 12%
Vacancy provision at 5%
Proposed rate of rental is R45/m2

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	430 348	343 515

The direct operating expenses from rental generating property was estimated as 30% of the annual rental income net vacancy rate of 5%.

12. Property, plant and equipment

	2020			2019		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	26 805 466	-	26 805 466	27 827 595	-	27 827 595
Buildings	165 479 949	(46 065 846)	119 414 103	165 479 949	(43 480 904)	121 999 045
Infrastructure	8 618 242 647	(5 160 693 379)	3 457 549 268	8 440 775 169	(5 047 694 801)	3 393 080 368
Other property, plant and equipment	209 105 340	(163 645 308)	45 460 032	210 260 039	(176 815 485)	33 444 554
Total	**9 019 633 402**	**(5 370 404 533)**	**3 649 228 869**	**8 844 342 752**	**(5 267 991 190)**	**3 576 351 562**

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfered to other municipalities	Written-off	Depreciation	Impairment loss	Donations received	Total
Land	27 827 595	-	-	(1 022 129)	-	-	-	-	26 805 466
Buildings	121 999 045	-	-	-	-	(2 584 942)	-	-	119 414 103
Infrastructure	3 393 080 368	354 449 422	-	-	(68 812 122)	(208 339 392)	(12 829 008)	-	3 457 549 268
Other property, plant and equipment	33 444 554	8 545 928	(539 930)	-	-	(8 258 556)	-	12 268 036	45 460 032
	3 576 351 562	**362 995 350**	**(539 930)**	**(1 022 129)**	**(68 812 122)**	**(219 182 890)**	**(12 829 008)**	**12 268 036**	**3 649 228 869**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Written-off	Depreciation	Impairment loss	Donations received	Total
Land	27 827 595	-	-	-	-	-	27 827 595
Buildings	118 177 703	6 406 284	-	(2 584 942)	-	-	121 999 045
Infrastructure	3 356 517 556	281 284 426	(39 453 570)	(205 583 612)	(17 636 050)	17 951 618	3 393 080 368
Other property, plant and equipment	33 463 908	6 497 256	-	(6 516 610)	-	-	33 444 554
	3 535 986 762	**294 187 966**	**(39 453 570)**	**(214 685 164)**	**(17 636 050)**	**17 951 618**	**3 576 351 562**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Property, plant and equipment (continued)

Other details

	2020	2019
Infrastructure assets written-off These consist of assets that could not be found and were written off at their carrying amounts.	-	(40 680 185)
Donations The Municipality received infrastructure assets which included pump station and related items from COGTA in a form of a donation.	-	17 951 618
Right of use transfer The landfill site permit confers the right to Ray Nkonyeni Municipality to direct access to and restrict/deny access to the land. This therefore means that Ray Nkonyeni Municipality controls the land parcels where the landfill site is located. In terms of iGRAP 18 these land parcels will no longer be disclosed by Ugu Distrcit Municipality.	(999 129)	-
Right of use transfer The landfill site permit confers the right to uMdoni Municipality to direct access to and restrict/deny access to land. This therefore means that uMdoni Municipality controls the land parcels where the landfill site is located. In terms of iGRAP 18 these land parcels will no longer be disclosed by Ugu District Municipality.	(23 000)	-

Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

Land	Straight line	Indefinite
Buildings	Straight line	5 to 30 years
Furniture and fixtures	Straight line	3 to 15 years
Motor vehicles	Straight line	4 to 15 years
Office equipment	Straight line	3 to 15 years
IT equipment	Straight line	3 to 10 years
Infrastructure - Security measures	Straight line	7 to 25 years
Infrastructure - Sewerage	Straight line	7 to 60 years
Infrastructure - Water	Straight line	5 to 100 years
Other property, plant and equipment	Straight line	2 to 15 years
Other assets	Straight line	5 to 30 years
Sport Facilities	Straight line	5 to 30 years
Other facilities	Straight line	5 to 30 years
Specialised vehicles	Straight line	10 to 15 years

Figures in Rand	2020	2019

12. Property, plant and equipment (continued)

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

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
PPE underconstruction taking significantly longer to complete than expected	133 696 536	126 632 548
	133 696 536	**126 632 548**

There are assets under construction that are taking significantly longer to complete than expected due to various challenges faced by the municipality. These challenges include but not limited to, delays in environmental approvals; delays in the approval of the application for power supply; delayed registration of servitudes due to prolonged negotiations; community protests and business forums; delays caused by contractors on site; delays in approvals for application of additional funding and lack of funding.

Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
PPE underconstruction projects halted	194 549 039	194 549 039
There are assets unders construction that have been halted due to various challenges faced by the municipality. These challenges include but not limited to, delays in environmental approvals; delays in the approval of the application for power supply; delayed registration of servitudes due to prolonged negotiations; community protests and business forums; delays caused by contractors on site; delays in approvals for application of additional funding and lack of funding.		
	194 549 039	**194 549 039**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Buidlings	Total
Opening balance	771 227 386	38 017 008	809 244 394
Additions	311 865 160	-	311 865 160
Transferred to completed items	(40 127 720)	-	(40 127 720)
	1 042 964 826	**38 017 008**	**1 080 981 834**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Buildings	Total
Opening balance	716 304 229	31 610 725	747 914 954
Additions	261 178 603	6 406 283	267 584 886
Transferred to completed items	(206 255 446)	-	(206 255 446)
	771 227 386	**38 017 008**	**809 244 394**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Maintenance of building and facilities	646 628	2 618 763
Maintenance of equipment	51 920 834	91 052 351
Maintenance of unspecified assets	54 372 654	35 572 882
	106 940 116	**129 243 996**

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.

13. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Servitudes	2 659 160	-	2 659 160	2 659 160	-	2 659 160
Computer software	45 053 143	(41 245 685)	3 807 458	45 053 143	(38 272 828)	6 780 315
Total	**47 712 303**	**(41 245 685)**	**6 466 618**	**47 712 303**	**(38 272 828)**	**9 439 475**

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Servitudes	2 659 160	-	2 659 160
Computer software	6 780 315	(2 972 857)	3 807 458
	9 439 475	**(2 972 857)**	**6 466 618**

Reconciliation of intangible assets - 2019

	Opening balance	**Amortisation**	**Total**
Servitudes	2 659 160	-	2 659 160
Computer software	9 950 987	(3 170 672)	6 780 315
	12 610 147	**(3 170 672)**	**9 439 475**

The amortisation expense has been included in the line item “Depreciation and amortisation” in the Statement of Financial Performance (see note 32).

Intangible assets were assessed for impairment and there were no impairment indicators identified and therefore there was no impairment raised in the year under review.

Pledged as security

No intangible assets have been pledged as security for any liabilities of municipality.

Figures in Rand	2020	2019

13. Intangible assets (continued)

Restrictions

The following restrictions apply to Intangible Assets:

- Financial Software

(i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system

(ii) The system may be used on only one database at any one time.

(iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party’s benefit.

(iv) The municipality has no intellectual property rights to the system.

Refer to Appendix “B” for more detail on Intangible Assets.

Other information

Intangible assets with indefinite usefull life:

	2020	2019
Carrying value of servitudes : Sewerage reticulation	1 486 723	1 486 723
Carrying value of servitudes : Water reticulation	1 172 437	1 172 437
	2 659 160	**2 659 160**

Servitudes are regarded as having indefinite useful lives as they are registered permanently, the agreements not having a maturing date.

14. Investments in controlled entities

Name of company	Held by	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
Ugu South Coast Tourism (Pty) Ltd	Ugu District Municipality	100,00 %	100,00 %	100	100
Ugu South Coast Development Agency NPC	Ugu District Municipality	100,00 %	100,00 %	100	100
				200	**200**

Grants allocated to the entities:		
Ugu South Coast Tourism (Pty) Ltd	22 229 707	14 135 195
Ugu South Coast Development Agency SOC Ltd	12 984 062	6 077 531
	35 213 769	**20 212 726**

The carrying amounts of controlled entities are shown net of impairment losses.

The municipality exercises control in the following companies

Ugu South Coast Tourism (Pty) Ltd is located and commenced its operations on 1 July 2009 in the Ugu District Municipal area, where the value of the investment is considered to be R100, being the issued share capital.

Ugu South Coast Development Agency, Ray Nkonyeni Municipality (former Hibiscus Coast Local Municipality) has entered in a Memorandum of Understanding to transfer of this company to Ugu District Municipality as from 01 July 2014.

All eighteen members serving on the board of directors of the municipal entity are nominated by the municipality’s executive committee. (18/18 = 100%) are subject to rotation every 5 years.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Long-term liabilities

At amortised cost

Annuity Loans	60 601 290	85 036 925

The average annuity loans period varying from 1 to 20 (2019: 1 to 20) years and at interest rates varying from 5.00% to 11,51% (2019: 5.00% to 11,51%) per annum. Annuity loans are not secured

Non-current liabilities

At amortised cost	52 615 523	60 837 218

Current liabilities

At amortised cost	7 985 767	24 199 707

16. Payables from exchange transactions

Trade payables	468 224 266	284 591 722
Other creditors	23 769 387	24 992 929
Retentions	74 570 029	65 119 876
Staff bonuses	13 365 915	13 953 138
Debtors with credit balances	28 644 305	34 506 432
	608 573 902	**423 164 097**

Levies payable

Ray Nkonyeni Local Municipality	1 202 279	177 999
uMdoni Local Municipality	511 561	-
uMuziwabantu Local Municipality	290 616	122 058
	2 004 456	**300 057**

The liabilites relating to levies includes taxes, licence fees, concessions, duties, tariffs, charges payable of municipal councils.

17. VAT payable

Net VAT payable	19 182 791	2 736 559

18. Consumer deposits

Water	21 752 394	21 663 801
Guarantees held in lieu of water deposits	3 097 780	3 052 000

No interest is paid to customers for water deposits held.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2020	2019
Unspent conditional grants and receipts		
Disaster Management Grant	1 903 057	20 237 000
Development Planning Shared Services Support	522 595	-
Municipal Infrastructure Grant	282 834	-
Shared Legal Services Grant	1 000 000	1 000 000
AWIP-Malageni Water Supply	75 002	-
AWIP-Umzimkhulu River Temporary Berm	2 700 000	-
Growth Development Summit	61 163	116 663
	6 544 651	**21 353 663**

Movement during the year

	2020	2019
Balance at the beginning of the year	21 353 663	116 663
Receipts during the year	804 708 000	756 180 000
Income recognition during the year	(819 517 012)	(734 943 000)
	6 544 651	**21 353 663**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 40 for reconciliation of grants from National/Provincial Government.

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

20. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Raised	Utilised during the year	Total
Leave provisions	27 683 395	19 818 245	(16 973 403)	30 528 237

Reconciliation of provisions - 2019

	Opening Balance	Raised	Utilised during the year	Reversed during the year	Total
Performance bonus provision	740 644	-	-	(740 644)	-
Leave pay provision	26 378 456	17 338 844	(16 033 905)	-	27 683 395
	27 119 100	**17 338 844**	**(16 033 905)**	**(740 644)**	**27 683 395**

21. Retirement benefit liabilities

Defined benefit plan

	2020	2019
Post-retirement health care		
Balance at beginning of year	20 848 000	18 674 048
Contributions to provision	(1 473 608)	2 173 952
Balance at end of year	19 374 392	20 848 000

21. Retirement benefit liabilities (continued)

	2020	2019
Transfer to current provisions	(1 214 000)	(1 153 682)
	18 160 392	**19 694 318**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member is entitled to continue as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Arch Actuarial Consulting, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The members of the post-employment health care benefit plan are made up as follows:

	2020	2019
In-service members (employees)	500	556
Continuation members	61	58
	561	**614**

The unfunded liability in respect of past service has been estimated as follows:

	2020	2019
In-service members (employees)	9 704 000	11 210 000
Continuation members	9 670 000	9 638 000
	19 374 000	**20 848 000**

The current-service cost for the year ending 30 June 2020 is estimated to be R832 633, whereas the cost for the ensuing year is estimated to be R781 002.

Key assumptions used

The principal assumptions used for the purposes of the actuarial valuations was as follows:

	2020	2019
Discount rates	9.68%	9.04%
Health care cost inflation	5.89%	6.57%
Net effective discount rate	3.58%	2.32%
Expected retirement age - females	62	62
Expected retirement age - males	62	62

Movements in the present value of the defined benefit obligation were as follows:

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

21. Retirement benefit liabilities (continued)

	2020	2019
Balance at beginning of the year	20 847 608	18 674 048
Current services costs	832 633	781 002
Interest cost	1 833 605	1 679 836
Benefits paid	(1 153 689)	(1 090 682)
	22 360 157	20 044 204
Actuarial (gains) / losses	(2 986 157)	803 404
	19 374 000	**20 847 608**

The amounts recognised in the Statement of Financial Performance are as follows:

	2020	2019
Current service cost	832 633	781 002
Interest cost	1 833 605	1 679 836
Actuarial (gains) / losses	(2 986 157)	803 404
Benefits paid	(1 153 689)	(1 090 682)
	(1 473 608)	**2 173 560**

The history of experienced adjustments is as follows:

	2020	**2019**	**2018**	**2017**	**2018**	**2019**
Present value of defined benefit obligation	19 374 000	20 847 607	18 674 000	17 035 000	16 598 421	16 194 781
Net amount	19 374 000	20 847 607	18 674 000	17 035 000	16 598 421	16 194 781
Experienced adjustments on plan liabilities	(1 653 000)	(537 000)	(660 000)	(288 000)	(550 000)	729 000
	17 721 000	**20 310 607**	**18 014 000**	**16 747 000**	**16 048 421**	**16 923 781**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

2020	One percentage point decreas	Once percentage point increase	One percentage point decrease	Once percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	(193 740)	193 740	(3 900)	112 600	(112 600)
Effect on defined benefit obligation	(193 740)	193 740	(208 476)	208 476	(208 476)
	(387 480)	**387 480**	**(212 376)**	**321 076**	**(321 076)**

2019	One percentage point decreas	Once percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	2 447 000	2 366 000	2 415 000
Effect on defined benefit obligation	(2 456 000)	(2 549 000)	(2 487 000)
	(9 000)	**(183 000)**	**(72 000)**

The municipality expects to make contribution of R1,214 million (2019: R1,154 million) to the defined benefit plans during the next financial year.

Figures in Rand	2020	2019

22. Other long-term employee benefits

Provision for long service awards	18 896 000	19 189 178

The movement in non-current provisions are reconciled as follows:

Long-term service		
Balance at beginning of year	20 703 724	19 098 800
Contributions to provision	(353 724)	1 604 924
	20 350 000	20 703 724
Transfer to provisions	(1 454 000)	(1 514 546)
Balance at end of year	**18 896 000**	**19 189 178**

A long-service award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by Arch Acturial Valuers, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 786 (2019: 855) employees were eligible for long-service awards.

The current service costs for the year ending 30 June 2020 is estimated to be R1 454 00, whereas the cost for the ensuing year is estimated to be R 1 514 546.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rates used	7.43%	8,19%
Cost inflation rate	4.03%	5.56%
Net effective discount rate	3.27%	2.49%
Expected retirement age - females	62	62
Expected retirement age - males	62	62

Movements in the present value of the defined benefit obligation were as follows:

Balance at beginning of the year	20 703 724	19 098 800
Current service costs	1 984 507	1 744 843
Interest cost	1 634 835	1 523 588
Benefits paid	(2 458 520)	(2 654 231)
Actuarial losses/(gains)	(1 514 546)	990 724
	20 350 000	**20 703 724**

The history of experienced adjustments is as follows:

	2020	2019	2018	2017	2016	2015
Present value of long service	20 350 000	20 703 724	19 098 800	17 014 533	16 391 695	14 105 372
Net amount	20 350 000	20 703 724	19 098 800	17 014 533	16 391 695	14 105 372
Experienced adjustments on plan liabilities	(1 506 520)	(786 085)	815 469	999 274	904 695	910 954
	18 843 480	**19 917 639**	**19 914 269**	**18 013 807**	**17 296 390**	**15 016 326**

Figures in Rand	2020	2019

22. Other long-term employee benefits (continued)

The effect of a 1% movement in the assumed rate of long-service cost inflation is as follows:

2020	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	19 399 000	17 590 000	19 073 000
Effect on defined benefit obligation	(19 340 000)	(21 498 000)	(19 664 000)
	59 000	**(3 908 000)**	**(591 000)**

2019	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	255 300	(255 300)	(55 400)	55 400
Effect on defined benefit obligation	207 037	(207 037)	207 037	(207 037)
	462 337	**(462 337)**	**151 637**	**(151 637)**

The municipality expects to make a contribution of R1 984 507 (2019: R1 744 843) to the defined benefit plans during the next financial year.

23. Service charges

Sale of water	253 548 268	176 832 054
Sewerage and sanitation charges	98 228 251	91 822 913
	351 776 519	**268 654 967**

24. Rental of facilities and equipment

Premises		
Premises and Facilities	3 090 903	2 204 693

25. Revenue

Service charges	351 776 519	268 654 967
Rental of facilities and equipment	3 090 903	2 204 693
Other income	3 532 458	6 104 693
Interest received	16 374 895	8 920 797
Government grants & subsidies	816 337 694	734 943 000
Public contributions and donations	12 268 036	17 951 618
Other transfer revenue 1	14 562 864	38 273 288
	1 217 943 369	**1 077 053 056**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	351 776 519	268 654 967
Rental of facilities and equipment	3 090 903	2 204 693
Other income	3 532 458	6 104 693
Interest received - investment	16 374 895	8 920 797
	374 774 775	**285 885 150**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	816 337 694	734 943 000
Public contributions and donations	12 268 036	17 951 618
Other transfer revenue 1	14 562 864	38 273 288
	843 168 594	**791 167 906**

26. Other income

Administration fees	-	21 869
Connection fees	784 759	1 128 380
Other revenue	850 139	290 784
Atmospheric emission licenses	17 250	51 750
Tender deposits	89 441	109 605
Water rates certificates	1 106 155	1 122 464
Intergovernmental Fees	288 143	2 941 369
Miscellaneous other revenue	396 571	438 472
	3 532 458	**6 104 693**

27. Investment income

Interest revenue		
Short-term investments	2 610 612	1 939 665
Bank	7 648 065	5 295 805
Interest charged on trade and other receivables	6 116 218	-
Interest received from VAT receivable	-	1 685 327
	16 374 895	**8 920 797**

28. Government grants and subsidies

	2020	2019
Operating grants		
Equitable share	462 844 000	435 877 000
Umzumbe River Trail	2 000 000	-
Finance Management Grant (FMG)	1 865 000	1 865 000
Municipal Disaster Recovery Grant	35 391 625	-
AWIP-uMtamvuna Raw Water Pumpstation Electricity Supply	14 000 000	-
Ugu Broadband Project	1 309 998	-
Ugu Timber Study Project	745 000	-
Expanded Public Works Programme	4 523 000	3 250 000
Rural Transport Services	2 821 000	2 663 000
Growth Development Summit	55 500	-
	525 555 123	**443 655 000**
Capital grants		
Municipal Infrastructure Grant (MIG)	240 755 166	235 888 000
Development Planning and Shared Services	27 405	400 000
Water Services Infrastructure Grant	50 000 000	55 000 000
	290 782 571	**291 288 000**
	816 337 694	**734 943 000**

National: equitable share

The equitable share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by National Treasury.

	2020	2019
Unconditional grants received	462 844 000	435 877 000

Equitable Share

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

All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant.

Umzumbe River Trail

	2020	2019
Current-year receipts	2 000 000	-
Conditions met - transferred to revenue	(2 000 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 19).

Finance Management Grant (FMG)

	2020	2019
Current-year receipts	1 865 000	1 865 000
Conditions met - transferred to revenue	(1 865 000)	(1 865 000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Figures in Rand	2020	2019

28. Government grants and subsidies (continued)

Expanded Public Works Programme

Current-year receipts	4 523 000	3 250 000
Conditions met - transferred to revenue	(4 523 000)	(3 250 000)
	-	-

Conditions still to be met - remain liabilities (see note 19).

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act.

Municipal Disaster Recovery Grant

Balance unspent at beginning of year	20 237 000	-
Current-year receipts	20 237 000	20 237 000
Conditions met - transferred to revenue	(38 570 943)	-
	1 903 057	**20 237 000**

Conditions still to be met - remain liabilities (see note 19).

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment". No funds were withheld.

AWIP-uMtamvuna Raw Water Pumpstation Electricity Supply

Current-year receipts	14 000 000	-
Conditions met - transferred to revenue	(14 000 000)	-
	-	-

AWIP-Malageni Water Supply

Current-year receipts	1 385 000	-
Conditions met - transferred to revenue	(1 309 998)	-
	75 002	-

Municipal Disaster Relief Grant - Covid 19

Current-year receipts	745 000	-
Conditions met - transferred to revenue	(745 000)	-
	-	-

Rural Transport Services

Current-year receipts	2 821 000	3 250 000
Conditions met - transferred to revenue	(2 821 000)	(3 250 000)
	-	-

Development Planning Shared Services Support

Current-year receipts	550 000	400 000
Conditions met - transferred to revenue	(27 405)	(400 000)
	522 595	-

Figures in Rand	2020	2019

28. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19).

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act.

Municipal Infrastructure Grant (MIG)

Current-year receipts	240 755 166	235 888 000
Conditions met - transferred to revenue	(240 472 332)	(235 888 000)
	282 834	**-**

Conditions still to be met - remain liabilities (see note 19).

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure .No funds were withheld.unicipal Disaster Recovery is a grant from Department of Cooperative Government and Traditional Affairs, made availabe to municipality to provide recovery whenever there is a disaster.

Rural Transport Services

Current-year receipts	2 821 000	2 663 000
Conditions met - transferred to revenue	(2 821 000)	(2 663 000)
	-	**-**

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000.

Shared Legal Services Grant

Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
	1 000 000	**1 000 000**

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act

Water Services Infrastructure Grant (WSIG)

Current-year receipts	50 000 000	55 000 000
Conditions met - transferred to revenue	(50 000 000)	(55 000 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 19).

Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities; provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equiping of borehole; provide on site sanitation solutions; support the existing bucket eradication programme intervention informal residential areas; support drought relief projects in affected municipalities.

AWIP-Umzimkhulu River Temporary Berm

Current-year receipts	2 700 000	-

28. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19).

Grants received from CoGTA are aimed at supplementing municipal budgets to assist with the assessment of water service delivery mechanisms, water delivery planning and water services technical support. Funding was also received to assist with the construction of the Ugu Sports and Leisure Centre.

District Growth and Development

	2020	2019
Balance unspent at beginning of year	116 663	116 663
Conditions met - transferred to revenue	(55 500)	-
	61 163	**116 663**

Conditions still to be met - remain liabilities (see note 19).

Provide explanations of conditions still to be met and other relevant information.

29. Other revenue

	2020	2019
Water availability	14 562 864	38 273 288

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

30. Employee related costs

Basic	232 902 007	270 514 145
Stand by allowance	8 504 261	7 937 710
Bonus	18 574 880	17 599 506
Medical aid - company contributions	17 483 066	16 768 560
UIF	1 568 152	1 654 383
WCA	2 410 122	2 469 999
SDL	3 074 797	3 307 192
Leave pay provision charge	7 626 190	3 553 461
Pension fund contribution	44 057 073	40 456 974
Other short term costs	2 817 092	2 184 000
Travel, motor car, accommodation, subsistence and other allowances	10 123 145	9 412 222
Overtime payments	53 300 925	8 443 596
Long-service awards	1 950 692	1 246 701
Acting allowances	1 999 252	894 478
Housing benefits and allowances	1 720 824	2 814 607
Bargaining council	102 290	88 937
Cell allowance	3 006 896	1 594 102
Rental subsidy	744 953	170 220
	411 966 617	**391 110 793**

Remuneration of the Municipal Manager DD Naidoo

Annual remuneration	1 370 306	1 053 133
Housing subsidy	244 000	247 976
Subsistence - non taxable	673	1 158
Company contribution to UIF,Medical aid and Pension Fund	15 078	14 116
Subsistence - taxable	21 916	61 448
Car allowance	175 000	243 000
Telephone	33 000	19 800
	1 859 973	**1 640 631**

Remuneration of the Chief Financial Officer MS Dlamini

Annual Remuneration	204 544	728 218
Housing subsidy	33 531	175 134
Company Contribution to UIF,Medical aid and Pension Fund	4 163	13 375
Subsistance - Taxable	-	7 209
Car allowance	55 885	291 889
Telephone	4 450	15 000
Leave encashed	118 930	-
	421 503	**1 230 825**

July 2019 to 31 August 2019.

30. Employee related costs (continued)

Remuneration of the General Manager: Corporate Services VO Mazibuko

	2020	2019
Annual Remuneration	1 087 382	789 992
Housing subsidy	90 000	86 277
Company Contribution to UIF,Medical aid and Pension Fund	13 726	12 220
Subsistance - Taxable	-	5 319
Acting allowance	19 765	13 752
Car Allowance	302 208	318 972
Telephone	26 700	15 000
	1 539 781	**1 241 532**

Remuneration of the General Manager: Planning and Environment NA Walingo

	2020	2019
Annual Remuneration	815 561	130 531
Acting allowance	34 518	-
Housing subsidy	84 000	14 000
Company contributions to UIF, Medical and Pension Funds	11 344	1 953
Car allowance	289 066	48 178
Telephone	26 700	2 500
	1 261 189	**197 162**

Ms N.A Walingo was appointed on 1 May 2019

Remuneration of the General Manager:Water Services SN Mbewu

	2020	2019
Annual Remuneration	812 874	755 849
Housing subsidy	85 667	21 616
Contributions to UIF, Medical and Pension Funds	12 190	108 574
Subsistence - Non Taxable	3 102	486
Subsistence - Taxable	11 455	46 627
Car allowance	290 097	157 088
Telephone	26 700	4 000
	1 242 085	**1 094 240**

Remuneration of the Chief Financial Officer LZ Sotshede

	2020	2019
Annual Remuneration	643 858	-
Housing subsidy	5 000	-
Subsistance - Non Taxable	58	-
Subsistance - Taxable	2 608	-
Car Allowance	26 787	-
Telephone	15 166	-
Company Contribution to UIF,Medical aid and Pension Fund	6 795	-
	700 272	**-**

Mrs L Sotshede started on 1 December 2019

Remuneration of the Chief Financial Officer SJ Van Rooyen

	2020	2019
Annual Remuneration	155 327	-
Housing subsidy	2 723	-
Acting allowance	94 985	-
Car Allowance	34 816	-
Telephone	4 125	-

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

30. Employee related costs (continued)

Company Contribution to UIF,Medical aid and Pension Fund	49 747	-
	341 723	**-**

Mr SJ Van Rooyen was acting from 1 July 2019 to November 2019.

31. Remuneration of councillors

Mayor	535 084	928 041
Deputy Mayor	580 804	836 284
Speaker	580 804	818 805
Councillors	5 965 293	3 852 018
Allowances	2 736 756	3 005 290
Company contributions	68 618	-
	10 467 359	**9 440 438**

In-kind benefits

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee Members of the municipality serve in a full-time capacity. Each is provided with an office and secretarial support at the cost of the Council in order to enable them to perform their official duties.

The Councillors may utilise official council transportation when engaged in official duties.

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

The Deputy Mayor has one full-time aide, fulfilling various official duties.

The Speaker has one full-time driver.

32. Depreciation and amortisation

Property, plant and equipment	213 754 778	216 015 080
Intangible assets	2 972 857	3 170 672
	216 727 635	**219 185 752**

33. Impairment of property, plant and equipment

Impairments

Property, plant and equipment	12 839 898	20 910 153
The impairment on property, plant and equipment was a result of the detoriating of condition of assets, as well as the accelerated aging of assets.		

34. Impairment of debtors

Water	94 935 388	8 365 724
Sewerage	2 931 425	-
Sundry debtors	-	19 166 202
	97 866 813	**27 531 926**

An impairment loss on financial assets has been incurred and 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 (i.e. the effective interest rate computed at initial recognition) as per GRAP 104.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

35. Bad debts written off

Imfume	2 576 821	-
Hume Housing	2 931 425	-
	5 508 246	**-**

36. Finance costs

Non-current borrowings	3 952 820	6 185 817
Employee benefits obligation	3 468 440	1 144 480
Current borrowings	2 696 031	1 497 598
Interest on late payment	10 915 077	2 983 170
	21 032 368	**11 811 065**

37. Operating lease rentals

Premises and facilities		
Computer equipment	2 964 112	2 522 242
Buildings	2 629 499	2 434 114
Office equipment	2 364 754	2 309 882
Other		
Software	23 830	-
	7 982 195	**7 266 238**

38. Bulk purchases

Water	142 810 778	131 957 145

Water losses

Apparent losses: Unauthorised consumption	6 038 710	14 976 767
Apparent losses: Customer meter inaccuracies	6 853 564	7 454 989
Real losses: Leakage on transmission and distribution mains	10 442 741	10 959 515
Real losses: Leakage and overflows at storage tanks/ reservoirs	549 618	576 817
Real losses: Leakage on service connections up to the point of customer meter	43 969 434	46 145 327
Total	**67 854 067**	**80 113 415**

	Volumes 2020	Volumes 2019		
Units purchased	-	-	131 957 145	142 809 541
Units sold	-	-	306 928 255	366 339 383
Total	**-**	**-**	**438 885 400**	**509 148 924**
Comprising of:				
Apparent losses	1 663 734	2 894 420	22 431 755	263 021 725
Physical/ Real losses	7 092 759	7 442 795	57 681 659	54 961 793
Total	**-**	**-**	**80 113 414**	**317 983 518**

39. Contracted services

Presented previously		
Specialist Services	7 224 872	2 841 218

Figures in Rand	2020	2019

39. Contracted services (continued)

	2020	2019
Outsourced Services		
Administrative and Support Staff	-	862 500
Alien Vegetation Control	80 870	-
Burial Services	130 000	41 400
Business and Advisory	141 460	-
Cleaning Services	3 082 352	7 186 492
Fire Services	1 284 892	1 600 000
Hygiene Services	130 837	67 238
Meter Management	3 514 116	4 053 344
Personnel and Labour	-	160
Professional Staff	138 323	170 908
Refuse Removal	45 425	297 732
Researcher	55 500	47 090
Security Services	34 758 827	24 762 713
Transport Services	10 305	176 664
Water Takers	12 012 475	706 549
Consultants and Professional Services		
Business and Advisory	2 406 120	2 886 612
Infrastructure and Planning	1 689 981	7 557 318
Legal Cost	630 515	1 203 322
Contractors		
Artists and Performers	-	167 500
Building	25 791	99 980
Catering Services	60 545	889 440
Employee Wellness	304 924	27 774
Event Promoters	498 019	940 013
First Aid	117 936	196 811
Haulage	20 544 357	9 441 036
Maintenance of Buildings and Facilities	646 628	2 618 763
Maintenance of Equipment	51 920 834	91 052 351
Maintenance of Unspecified Assets	54 372 654	35 572 882
Pest Control and Fumigation	75 994	59 147
Photographer	39 694	-
Relief Drivers	-	4 411
Sewerage Services	102 471	3 707 266
Sports and Recreation	-	260 770
Prepaid Water Vendors	135 852	-
	196 182 569	**199 499 404**

40. Grants and subsidies paid

	2020	2019
Grants paid to ME's and LM's		
Ugu South Coast Development Agency	6 548 880	6 245 000
Ugu South Coast Tourism	13 341 956	14 135 196
Disaster relief grant - uMzumbe Municipality	12 024 930	-
Disaster relief grant - uMdoni Municipality	4 439 586	-
Disaster relief grant - Ray Nkonyeni Municipality	4 730 936	-
	41 086 288	**20 380 196**
Other subsidies		
Social Relief Grants	15 740	162 112
	41 102 028	**20 542 308**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Operational costs

Accommodation, seminars and travelling	728 281	2 902 068
Accounting fees	908 879	1 820 851
Advertising	806 044	270 012
Auditors remuneration	4 785 471	5 214 090
Bank charges	785 191	797 360
Commission paid	982 900	1 235 258
Consumables	13 240 882	15 424 629
Electricity	(28 167 106)	77 761 919
Events and programmes	-	251 180
Fines and penalties	-	698
Fuel and oil	27 245 263	28 433 302
Insurance	4 108 910	3 826 847
Licenses	4 987 653	7 928 833
Other general expenses	3 886 919	955 847
Postage and courier	949 173	550 898
Printing and stationery	682 126	878 890
Public participation	-	55 000
Sports and recreation	-	60 000
Subscriptions and membership fees	4 133 108	4 250 201
IT support	10 407 496	4 113 335
Training	2 000	-
Travel - local	29 664	-
Uniforms and protective clothing	1 627 395	2 443 999
Vehicle tracking	1 725 760	1 843 759
	53 856 009	**161 018 976**

42. Fair value adjustments

Investment property	1 217 000	-

43. Profit on disposal of assets

Profit on sale of other PPE	1 063 224	-

44. Auditors' remuneration

Fees	4 785 471	5 214 090

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

45. Cash generated from operations

Deficit	(69 372 781)	(178 386 464)
Adjustments for:		
Depreciation and amortisation	216 727 635	219 185 752
Gain on sale of assets and liabilities	74 613 183	53 371 194
Write off of assets	1 022 129	-
Fair value adjustments	(1 217 000)	-
Impairment of property plant and equipment	12 839 898	20 910 153
Impairment of debtors	97 866 813	27 531 926
Bad debts written off	5 508 246	-
Movements in operating lease assets and accruals	1 068 336	1 084 881
Provision as per employee related costs	7 626 190	2 580 385
Movements in provisions	840 855	3 180 618
Other	1 141 612	-
Actuarial gain	(5 444 677)	-
Donations	(12 839 898)	(17 951 618)
Changes in working capital:		
Inventories	(6 383 020)	441 282
Other receivables from exchange transactions	(2 860 438)	27 015 238
Consumer debtors	(128 803 560)	(15 011 185)
Other receivables from non-exchange transactions	36 194 350	9 308 324
Payables from exchange transactions	185 409 805	151 258 500
VAT	16 446 232	6 811 354
Unspent conditional grants and receipts	(14 809 012)	21 237 000
Consumer deposits	88 593	578 935
	415 663 491	**333 146 275**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

46. Related parties

Relationships

Subsidiary	Ugu South Coast Tourism (Pty) Ltd
Subsidiary	Ugu South Coast Development Agency - SOC Ltd
Counsillors	Refer to note 55

In terms of GRAP 20 para 35 remuneration paid by Ugu District municipality to councillors and Municipal Manager and section 57 personnel respectively is a related party transaction.

- The municipality did not conduct any business with any service provider that can be considered a related party.
- The municipality did not trade with service providers that are I the employment nor blacklisted by Treasury.
- The disclosure in relation to paragraph 35 of GRAP 20, remuneration paid by UGU District municipality to councillors and Municipal Manager and section 57. differ from those normally associated with similar transactions with unrelated parties.
- Key Management and Councillors have direct or indirect significant control over the municipality.

Related party balances

Amounts included in Trade receivable (Trade Payable) regarding related parties	2020	2019
Ugu South Coast Tourism (Pty) Ltd	(14 343 249)	(7 880 023)
Ugu South Coast Development Agency SOC	(3 270 520)	(301 030)

Related party transactions

Transfers and subsidies to related parties	2020	2019
Ugu South Coast Development Agency - SOC Ltd	9 335 069	8 874 518
Ugu South Coast Tourism (Pty) Ltd	13 341 956	14 341 956

47. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
	-	-
Other receivables from exchange transactions	7 525 869	7 525 869
Receivables from non-exchange transactions	3 113 683	3 113 683
Consumer debtors	245 266 551	245 266 551
Cash and cash equivalents	79 434 312	79 434 312
	-	-
	-	-
	335 340 415	**335 340 415**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	610 900 177	610 900 177
Other financial liabilities	7 985 767	7 985 767

Figures in Rand	2020	2019

47. Financial instruments disclosure (continued)

VAT payable	14 112 488	14 112 488
	632 998 432	**632 998 432**

2019

Financial assets

	At amortised cost	Total
	-	-
Receivables from non-exchange transactions	8 053 443	8 053 443
Consumer debtors	206 841 597	206 841 597
Other receivables from exchange transactions	4 379 661	4 379 661
Cash and cash equivalents	50 914 276	50 914 276
	270 188 977	**270 188 977**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	24 199 707	24 199 707
Payables from exchange transactions	396 133 921	396 133 921
Taxes and transfers payable (non-exchange)	2 736 559	2 736 559
	423 070 187	**423 070 187**

47. Financial instruments disclosure (continued)

Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

Cash and short-term investments

The carrying amount approximates the fair value because of the short maturity of these instruments.

Long-term investments

The fair value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other financial assets and liabilities

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term liabilities

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2020, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year

The table below analyses financial instruments carried at fair value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

47. Financial instruments disclosure (continued)

Capital risk management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities, bank, cash and cash equivalents and equity, comprising accumulated surplus as disclosed and the statement of changes in net assets.

48. Commitments

Authorised capital expenditure

	2020	2019
Approved and contracted for		
• Property, plant and equipment	370 538 227	491 090 828
Approved and not yet contracted		
• Property, plant and equipment	-	8 632 152
Total capital commitments		
Already contracted for but not provided for	370 538 227	491 090 828
Not yet contracted for and authorised by accounting officer	-	8 632 152
	370 538 227	**499 722 980**

Authorised operational expenditure

	2020	2019
Non Capital Commitments		
• Non Capital Commitments	34 449 674	33 821 244
• Open tenders	-	2 228 790
	34 449 674	**36 050 034**
Total operational commitments		
Already contracted for but not provided for	34 449 674	36 050 035

Total commitments

	2020	2019
Authorised capital expenditure	370 538 227	499 722 980
Authorised operational expenditure	34 449 674	36 050 035
	404 987 901	**535 773 015**

49. Restatement of prior year

Corrections were made to the previous financial year's figures and comparatives restated.

Certain comparative figures have been reclassified to provide a more meaningful interpretation. Details of the corrections and reclassifications are described below:

Current Assets	Previously reported amount	Reclassification	Correction of an error	Restated amount
Inventories (A)	10 305 840	-	(3 732 825)	6 573 015
Receivables from non exchange transactions (B)	101 525 753	(14 817 417)	(14 679 671)	72 028 665
Receivables from exchange transactions (C)	162 199 824	-	40 413 236	202 613 060
Other receivables from exhange transctions (D)	-	12 062 893	1 068 071	13 130 964
	274 031 417	**(2 754 524)**	**23 068 811**	**294 345 704**

Non-current Assets	Previously reported amount	Reclassification	Correction of an error	Restated amount
Property plant and equipment (E)	4 747 931 116	-	(1 136 819 827)	3 611 111 289
Long term portion receivables (F)	334 065	2 754 524	-	3 088 589
	4 748 265 181	**2 754 524**	**(1 136 819 827)**	**3 614 199 878**

Current liabilities	Previously reported amount	Reclassification	Correction of an error	Restated amount
Opearating lease liability (G)	27 350	-	5 534 394	5 561 744
Payables from exchange transactions (H)	375 824 138	-	47 339 959	423 164 097
VAT payables (I)	21 663 801	-	(18 927 242)	2 736 559
Provisions (J)	30 351 623	(2 668 228)	-	27 683 395
Employee benefit obliogation (K)	-	1 153 682	-	1 153 682
Other employees benefits (L)	-	1 514 546	-	1 514 546
	427 866 912	**-**	**33 947 111**	**461 814 023**

49. Restatement of prior year (continued)

Revenue	Previously reported amount	Reclassification	Correction of an error	Restated amount
Service charges (M)	306 736 022	(38 273 288)	192 233	268 654 967
Donations (N)	-	-	17 951 618	17 951 618
Other revenue		38 273 288	-	38 273 288
	306 736 022	**-**	**18 143 851**	**324 879 873**

Expenditure	Previously reported amount	Reclassification	Correction of an error	Restated amount
Employee related costs (O)	391 579 402	(468 609)	-	391 110 793
Depreciation and amortisation (P)	240 366 487	-	(21 180 735)	219 185 752
Impairment of debtors (Q)	40 076 355	(20 901 143)	8 356 714	27 531 926
Impairment of property plant and equipment (R)		20 901 143	9 010	20 910 153
Operating lease rentals (S)	5 337 596	-	1 955 992	7 266 238
Contracted services (T)	190 148 303	-	9 351 101	199 499 404
Assets written-off (U)	28 766 727	-	24 604 467	53 371 194
Operating costs (V)	164 295 071	-	(3 276 095)	161 018 976
Transfers and susidies (W)	20 212 727	-	167 469	20 542 308
Bulk purchases (X)	131 955 553	-	1 592	131 957 145
Actuarial gains/(losses) (Y)	-	1 794 128	-	1 794 128
	1 212 738 221	**1 325 519**	**19 989 515**	**1 234 188 017**

Accumulated surplus	Previously reported amount	Restated surplus for the year	Correction of an error	Restated amount
Balance as at 30 June 2018	4 615 028 665	-	(78 499 075)	4 536 529 590
Assets written off (Z)	-	-	(1 132 895 778)	(1 132 895 778)
Accumulated depreciation (AA)	-	-	104 615 686	104 615 686
Newly found assets (AB)		-	(108 539 735)	(108 539 735)
Deficit for the year (AC)		(178 386 464)	-	(178 386 464)
Operating lease rentals (AD)		-	4 476 863	4 476 863
Other (AE)	-	-	115 218 648	115 218 648
	4 615 028 665	**(178 386 464)**	**(1 095 623 391)**	**3 341 018 810**

A) Correction of consumables utilized by the municipality incorrectly accounted for in the prior year.

B) Reclassification from current portion to long term portion of receivables and Other receivables from exchange transactions and accounting for the provision for impairment

C) Accounting for misstatements in revenue and impairment.

D) Accounting for receivables from exchange transactions not related to service charges

E) Recognition of previously omitted assets and the write off of duplicates assets.

F) Reclassification from current portion to long term portion of receivables

G) Correction of prior smoothing

H) Accounting for payables that were omitted in the prior year (completeness issue)

I) Accounting for the VAT impact on the adjustment made on revenue and expenditure prior correction

49. Restatement of prior year (continued)

J) Reclassification of Employee benefit obligation and Other employees’ benefits accounted for as provisions in the prior year

K) Reclassification of Employee benefit obligation and Other employees’ benefits accounted for as provisions in the prior year

L) Reclassification of Employee benefit obligation and Other employees’ benefits accounted for as provisions in the prior year

M) Accounting for prior year completeness issues as well accounting for discrepancies identified in the revenue figures

N) Recognition of the revenue portion of the donated assets from CoGTA received in the prior year

O) Reclassification of employee related to Actuarial gains/losses

P) Accounting for depreciation of newly found assets in the prior year

Q) Reclassification of impairment of assets accounted under the impairment of debtors and the correction of prior impairment to align it with the latest methodology taking int account the adjustment made to debtors/.

R) Reclassification of impairment of assets accounted under the impairment of debtors and top up of impairment to the prior

S) Accounting for the impact of smoothing in the income statement

T) Accounting for prior omitted invoices relating to contracted services

U) Correction of the loss on disposal of assets not found on site

V) Reclassification of operating costs to Actuarial gains/losses

W) Accounting for omitted invoices for the entities

X) Accounting for errors identified in the eThekwini invoices

Y) Reclassification of Actuarial gains/losses from operating costs and employee related costs and

Z) Accounting for assets written off in the prior year

AA) Accounting for the top up of depreciation of the assets written off

AB) Accounting for newly found assets

AC) Restated surplus for the prior year

AD) Accounting for the impact of smoothing in the prior year

AE) Accounting for the net impact of the prior year adjustments.

Irregular expenditure

Finance cost	Previously reported amount	Correction of an error	Restated amount
Irregular expenditure as previously reported	361 704 849	(8 923 140)	352 781 709

Commitments

Notes to the Annual Financial Statements

49. Restatement of prior year (continued)

	Previously reported	Correction	Restated
Already contracted for but not provided	-	-	-
- Property, plant and equipment	330 693 098	160 397 730	491 090 828
Already contracted for but not provided	-	-	-
- Operating expenditure	36 050 035	(2 228 791)	33 821 244
- Open tenders	-	2 228 790	2 228 790

Irregular expenditure

	Previously reported	Correction	Restated
Irregular expenditure - current year	302 012 347	2 126 360	304 138 707

50. Going concern

Although the Municipality is technically solvent as its total assets exceed its total liabilities, liquidity remains a challenge. The Municipality might not be able to fulfil its financial obligations as it does not have enough investments, cash and other assets to repay it short term obligations.

This significantly contributes to going concern uncertainty as well as severe cash-flow and operational difficulties, especially when coupled with government grants not being paid timeously. The Municipality does not have adequate working capital as it did not have sufficient cash and other resources to pay trade and other payables.

The Municipality's expenditure (such as employee costs, rent, and bulk electricity purchases) exceeds its revenue (such as the equitable share of national revenue, unconditional grants, and consumer revenue for water and sewer services), however the net cash inflows from operating activities indicates that the Municipality is able to reasonably contain its cash operating expenditure and collect reasonably its anticipated revenue.

Further, the Municipality's management and the leadership remains committed to good budgeting and financial management, and for this purpose will monitor the implementation of budgets, including expenditure, revenue collection and borrowing. The effective functioning of the budget processes will contribute significantly to developing and sustaining financial health in the Municipality.

Therefore, in preparation of the Annual Financial Statements for the 2020 financial year, the going concern assumption has however been adopted as they are no plans to significantly curtail the operation of the Municipality in the foreseeable future.

51. Unauthorised expenditure

	2020	2019
Opening balance as previously reported	465 687 110	285 930 032
Opening balance as restated	**465 687 110**	**285 930 032**
Add: Unauthorised Expenditure - current period	295 340 848	228 149 775
Less: Amount written off - current	-	(97 871 812)
Prior year error correction	-	49 479 115
Closing balance	**761 027 958**	**465 687 110**

Analysed as follows: non-cash

	2020	2019
Actuarial loss	-	1 794 128
Depreciation and amortisation	6 727 636	160 949 817
Assets written-off	76 698 536	53 371 194
Impairment loss	12 839 898	20 910 153
Bad debts written-off	5 508 246	-
Impairment loss	87 866 813	24 372 926
	189 641 129	**261 398 218**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

51. Unauthorised expenditure (continued)

Analysed as follows: cash

Bulk purchases	37 785 778	6 955 553
Finance costs	16 925 636	-
Employee related costs	20 424 083	1 677 707
Grants and subsidies	22 378 664	329 582
Leave rentals on operating lease	7 982 195	7 266 238
	105 496 356	**16 229 080**

52. Fruitless and wasteful expenditure

Opening balance as previously reported	13 545 872	9 430 832
Opening balance as restated	**13 545 872**	**9 430 832**
Interest on late payment: Eskom	304 179	72 495
Interest on Umgeni	9 906 209	2 784 163
Interest on Ray Nkonyeni	-	6 755
Interest on Umdoni	988	212
Interest on Umuziwabantu	68 201	-
Interest on Auditor General	62 420	-
Court Penalties	381 394	1 689 642
Interest on Trade Creditors	191 687	68 406
Penalties from Compensation Fund	-	484 523
Written off	-	(991 158)
Closing balance	**24 460 950**	**13 545 870**

53. Irregular expenditure

Opening balance	378 777 215	291 199 164
Add: Irregular Expenditure - current year	277 756 141	319 084 713
Opening balance as restated	**656 533 356**	**610 283 877**
Less: Amounts written-off	-	(231 506 662)
Closing balance	**656 533 356**	**378 777 215**

53. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Three written quotaions not obtained		2 061 568	4 102 507
Non-compliance with CIDB and Local Content requirements		129 612	-
Non-compliance with MFMA SCM Regulations section 29(2) regarding minimum requirements for composition		199 955 553	193 533 898
COVID - Emergency procurement		2 052 117	-
Non-compliance with MFMA SCM Regulation 22		-	106 502 302
Income and expenditure recorded in incorrect period		-	14 946 006
NON COMPLIANCE WITH REG.		73 557 291	-
		277 756 141	**319 084 713**

Irregular Expenditure awaiting condonement for 2019/2020 R277 756 141.

54. Water losses

Water losses		
Unaccounted water losses in Rand Value	20 727 740	30 496 739

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tempered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

Volumes in ML/year:	2020 ML/Year	2019 ML/Year
System input volume	41 814 715	44 781 319
Billed authorised consumption	27 108 783	28 806 404
Unbilled authorised consumption	5 949 439	6 962 855
Apparent losses	1 663 734	2 523 377
Real losses	7 092 759	6 488 684
Estimated non-revenue water	14 705 932	15 974 915
	98 335 362	**105 537 554**

Number of connections	43 337	44 651

Real losses %	20,94 %	14,49 %
Water losses %	16,96 %	21,18 %
Non-revenue water %	35,17 %	35,67 %
	- %	**- %**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

55. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 957 450	3 988 613
Amount paid - current year	(3 957 450)	(3 988 613)
	-	-

No amounts were outstanding at the end of the financial year.

Audit fees

Opening balance	1 995 987	-
Current year subscription / fee	3 951 186	6 093 485
Amount paid - current year	(3 951 186)	(4 097 498)
Amount paid - previous years	(1 995 987)	-
	-	**1 995 987**

No amounts were outstanding at the end of the financial year.

PAYE and UIF

Opening balance	5 387 868	4 394 111
Current year subscription / fee	69 609 702	63 385 643
Amount paid - current year	(69 273 970)	(62 391 886)
	5 723 600	**5 387 868**

Pension and Medical Aid Deductions

Opening balance	9 443 296	4 619 418
Current year subscription / fee	90 709 942	87 391 216
Amount paid - current year	(90 845 344)	(87 186 756)
	9 307 894	**4 823 878**

VAT

VAT payable	19 182 791	2 736 559

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

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor NH Gumede	4 703	18 300	23 003
Councillor ZK Dladla	475	11 097	11 572
Councillor TB Cele	1 113	13 185	14 298
Councillor MA Manyoni	1 980	9 920	11 900
Councillor GD & JE Henderson	618	4 206	4 824
Councillor PH Mthiyane	885	3 692	4 577
Councillor DA Ngubo	1 760	4 257	6 017
Councillor SA Khawula	2 439	784	3 223
	13 973	**65 441**	**79 414**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor NH Gumede	2 780	18 615	21 395
Councillor ZK Dladla	184	9 896	10 080
Councillor TB Cele	2 216	8 000	10 216
Councillor MA Manyoni	178	5 978	6 156
Councillor GD & JE Henderson	2 279	408	2 687
Councillor PH Mthiyane	570	1 149	1 719
	8 207	**44 046**	**52 253**

Non-compliance

In terms on Section 125 (2) (e) of Municipal Finance Management Act 2003, there were no non-compliance were identified during the financial period.

56. S36 Deviation from supply chain management regulations

	2020	2019
Impractical or impossible to follow the official procurement processes	2 060 024	15 802 704

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.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

56. S36 Deviation from supply chain management regulations (continued)

	Reason		Amount 2020	Amount 2019
Section 36(1)(a)(ii)	Goods or services were produced or available from a single provider		1 909 452	14 647 646
Section 36(1)(a)(v)	Impractical or impossible to follow the official procurement processes		150 572	1 155 057
Section 36(1)(a)(i)	Emergencies		2 052 116	-
Total for controlling entity		-	4 112 140	15 802 703
Total for economic entity			**4 112 140**	**15 802 703**

In terms of Section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

The majority of the items mentioned resulted from flood damage that had to be addressed at short notice and the response times did not allow for the complete procurement process to be followed. The balance of items was due to emergency circumstances and economic benefits for the municipality.

Notes to the Annual Financial Statements

Figures in Rand

57. Contingent assets and contigent liabilities

No.	Name of entity/subsidiary	Management's description of matter (including amount claimed and legal counsel)	Management's estimate of the financial exposure (including costs and disbursements)	Legal Services/Counsel remarks
1	Ingrid Gramony	2014 - Plaintiffs husband fell into trench allegedly created by the Municipality for pipeline replacement and died Claim: R1 347 538. Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±350 000.00	Awaiting Trial date
2	PV Conco	2015 - Allegations that the Municipality has built property on land belonging to Umzumbe Municipality without authorisation. They require the municipality to return undistributed and rehabilitated use of land to them.Claim: R 600 000. Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±160 000.00	Pending negotiations to settle
3	Msawenkosi Patrick Sakha	2016 - Claim for damages for pain and suffering. The employee sued the municipality for pain and suffering after not have been appointed on a position that they had acted in and claimed unfair labour practice. Claim: R194 466,87. Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R21 000.00	Attorneys are setting the matter down for trial
4	San Lameer Home Owners Association	2016 - The Municipality is the fourth Respondent of six, Plaintiff alleges that the Municipality has failed to deal with the first respondents lack of compliance to our By-Laws for public health in respect of offensive smell from Pig Farming activities. Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±123 000.00	Awaiting trial date. In the interim briefing Council.
5	Shembe	2017 - Attorneys allege that the Municipality constructed a pipeline on property belonging to Shembe without consultation and compensationClaim: The property was valued at R274 000. Legal Counsel: N/A - Internal representation	Total costs of outstanding legal fees or estimated costs: R±100 000.00	This is not a litigation but a claim for land used without consent.

Notes to the Annual Financial Statements

Figures in Rand

57. Contingent assets and contigent liabilities (continued)

6	Bendigo Electrical cc	June 2018 - Allegation of non-payment for services in respect of building of Phase 1 Disaster Management Centre Legal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R ±20 000.00	Matter is awaiting trial date
7	Shivani Bagratee and 3 others	Nov 2018 -Applicant launched an application to evict the respondents, and those occupying the property through them. The Municipality is the 40th respondent in this allegation. Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±135 000.00	Our application for recession of the order against the municipality has been finalised. The attorneys are attending to the issuing and service of same.
8	Charl Wilcocks	Dec 2018 - The employee alleges that he was unfairly dismissed the arbitrator ruled in favour of the municipality however the former employee referred the arbitrator ruling to the Labour Court for Review. Legal Counsel: Shepstone & Wylie	Total costs of outstanding legal fees or estimated costs: R±101 000.00	Awaiting trial dates.
9	Yvonne Draai	Dec 2018 - Contract employee alleges unfair dismissal after termination of contract employment. Arbitrator found in favour of the municipality however the former employee has referred the arbitrators decision to the Labour Court for review. Legal Counsel: Shepstone & Wylie	Total costs of outstanding legal fees or estimated costs: R±110 000.00	Awaiting trial dates.
10	Cyassound Holdings	Feb 2019 - Cancellation of lease agreement the municipality has instructed the attorneys to cancel the lease and collect the arrear rentals and water account. Legal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R±150 000.00	Matter is in progress.
11	Mr Cool Air-conditioning Pty Ltd	Mar 2019 - Tender objection. The plaintiff applied for interdict alleging that the municipality awarded the incorrect service provider. The court did not grant the interdict and ruled that the municipality may proceed with the award as long as the municipality ensures that the awarded service provider does not break the Occupational Health and Safety Act. Legal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R±100 000.00	The appellant referred the award for review the High Court

57. Contingent assets and contigent liabilities (continued)

Contingent assets

No.	Name of entity/subsidiary	Management’s description of matter (including amount claimed and legal counsel)	Management’s estimate of the financial exposure (including costs and disbursements)	Legal Services/Counsel remarks
1	RNP Agencies	June 2018- Allegation of amounts paid/ deposited by the Municipality to incorrect account. Legal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R±100 000.00	Matter is awaiting trial date

Figures in Rand	2020	2019

58. Events after the reporting date

Management is not aware of any material events after the reporting date.

59. Change in estimate

Property, plant and equipment

A change in the estmated remaining useful lives of various assets of the Municipality based on their assessment conducted as at 30 June 2020 will result in the following decreases in depreciation for property plant and equipment in the 2020 financial year and future periods:

The impact on the statement of financial performance (Depreciation) in the 2019 financial year and future periods		
Infrastructure assets	3 301 790	2 921 938
Other Property plant and equipment	17 943 584	15 879 278
	21 245 374	**18 801 216**

The impact on the statement of financial performance (Depreciation) in the future periods:		
Infrastructure assets	5 754 946	5 092 873
Other Property plant and equipment	4 507 741	3 989 151
	10 262 687	**9 082 024**

60. Awards made to close family member

No.	Awards made to close family member	*Name of the person who is in the service of the state*	*Capacity in which that person who is in the service of the state*	2020	2019
1.	CANTRISTAN (PTY) LTD	*Roshun Hector Moheethlall*	*Foreman Electrician*	46 881	61 776

Awards made as per Section 13(c)(iv) of Municipal Supply Chain Management Regulations.

* See Note 49

Ugu District Municipality
Appendix D
June 2020

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
2 293 159	45 367 246	(43 074 087)	Executive & Council/Mayor and Council	2 618 378	42 080 697	(39 462 319)
211 427 577	87 322 966	124 104 611	Finance & Admin/Finance	241 412 503	80 997 010	160 415 493
6 235 262	7 524 232	(1 288 970)	Public Safety/Police	7 119 555	6 979 153	140 402
470 256	1 582 130	(1 111 874)	Sport and Recreation	536 948	1 467 515	(930 567)
3 758 457	9 131 100	(5 372 643)	Environmental Protection/Pollution Control	4 291 486	8 469 614	(4 178 128)
152 473 519	468 241 321	(315 767 802)	Waste Water Management/Sewerage	174 097 506	434 320 419	(260 222 913)
678 571 581	612 457 092	66 114 489	Water/Water Distribution	774 807 459	568 088 738	206 718 721
3 521 946	3 097 254	424 692	Other/Air Transport	4 021 433	2 872 879	1 148 554
058 751 757	**234 723 341**	**(175 971 584)**		**208 905 268**	**145 276 025**	**63 629 243**
			Municipal Owned Entities			
			Other charges			

Supplementary Information

* See Note 49

Appendix E(1)

June 2020

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2020

	Act. Bal. Rand	Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Service charges	351 776 519	616 985 339	(265 208 820)	(43,0)	Less revenue was realised than anticipated due to the Covid-19 lockdowns.
Rental of facilities and equipment	3 090 903	739 713	2 351 190	317,9	Rental income was higher than expected due to the month-to-month extension of the lease agreements that was not provided for in the annual budget.
Government Grants and Subsidies	819 517 012	861 210 367	(41 693 355)	(4,8)	Lower than budgeted revenue on Government grants was due to certain grants, including MIG (reprioritized for Covid- 19), Shared legal services and Disaster Management grants which were not fully spent at year end.
	-	-	-	-	
Interest received - External investment	9 785 103	2 535 182	7 249 921	286,0	More cash was available for investments due to the unspent conditional grants.
Interest received - Outstanding debtors	6 116 232	1 136 871	4 979 361	438,0	Higher than budgeted interest income was as a result of charges on outstanding debtors due to the changes in the policy as well as increased cash invested due to the unspent conditional grants.
Other revenue	4 466 795	880 788	3 586 007	407,1	Higher than expected connection fees and water clearance certificates income for the year.
Gains on disposal of Property, Plant and Equipment	1 217 000	-	1 217 000	-	This revenue type was not anticipated and not provided for in the annual budget.
	1 195 969 564	483 488 260	(287 518 696)	(19,4)	
Gross Profit	195 969 564	483 488 260	(287 518 696)	(19,4)	
Expenses					
Employee Related Costs	(411 966 617)	(391 542 534)	(20 424 083)	5,2	Higher than expected employee related costs due to overtime as a result of breakdowns and labour unrests.
Remuneration of councillors	(10 467 359)	(13 475 508)	3 008 149	(22,3)	Lower than budgeted Remuneration of councillors due to less travel claims were made during the Covid-19 lockdown.
Depreciation and Amortisation	(175 377 078)	(209 999 999)	34 622 921	(16,5)	Depreciation and amortisation was lower than budget to to the reassessment of useful lives.
	-	-	-	-	
Impairment of assets	(12 839 898)	(10 000 000)	(2 839 898)	28,4	Impairment of Property, Plant and Equipment was not budgeted for in the current year.
Finance costs	-	-	-	-	
Debt Impairment	(97 866 813)	-	(97 866 813)	-	
Finance costs	(18 907 838)	(4 106 732)	(14 801 106)	360,4	Finance costs were higher than budget due to higher than expected interest cost relating to Employee Post Retirement benefit obligation, Long Term Service Awards as well as external loans.
Repairs and maintenance	(12 979 835)	(11 608 436)	(1 371 399)	11,8	This variance is due to the missalignment of the MSCOA budget and the A-Schedules
Bulk purchases	(142 508 097)	(105 025 000)	(37 483 097)	35,7	Expenditure for Bulk purchases was higher than the budget due to more water purchased from Umngeni and Ethekwini Municipality during the Covid-19 pandemic era. This was not catered for in either the original budget or the adjustments budget since there was no additional funding provider for this disaster and even worse, the revenue collections had declined during the Covid-19 lockdown period
Contracted Services	(165 502 353)	(218 396 621)	52 894 268	(24,2)	Contracted services is lower than budgeted due to the implementation of certain cost containment measures..
Grants and subsidies paid	(41 102 028)	(18 723 364)	(22 378 664)	119,5	The municipality paid invoices from the previous financial year that had not been paid due to the cash flow challenges.

Appendix E(1)

June 2020

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2020

	Act. Bal.	Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
General Expenses	(153 712 247)	(305 469 014)	151 756 767	(49,7)	The lower spending on General expenses was due to the lower spending on Advertising; consumables; accommodation, seminars and travelling; subscription and membership fees, electricity costs; licencing; Sport and recreation costs and Workmen's compensation insurance.
	(1 243 230 163)	(1 288 347 208)	45 117 045	(3,5)	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	(75 676 407)	-	(75 676 407)	-	
Fair value adjustments	1 217 000	-	1 217 000	-	
Gains or losses on biological assets and agricultural produce	1 063 224	-	1 063 224	-	
Assets transferred to other municipalities	(1 022 129)	-	(1 022 129)	-	Land transferred to Ray Nkonyeni was not budgeted for.
	(74 418 312)	-	(74 418 312)	-	
Net surplus/ (deficit) for the year	(121 678 911)	195 141 052	(316 819 963)	(162,4)	

Supplementary Information

* See Note 49

Appendix E(2)
June 2020

ACTUAL VERSUS BUDGET (ACQUISITION OF CAPITAL ASSETS) FOR THE YEAR ENDED 30 JUNE 2020

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Executive & Council/Mayor and Council	281 330	295 701	14 371	**4,86**	The municipality implemented the cost containment measures and spent less on the internally funded capital projects due to the cash flow challenges.
Finance & Admin/Finance	42 868 810	45 058 534	2 189 724	**4,86**	The municipality implemented the cost containment measures and spent less on the internally funded capital projects due to the cash flow challenges.
Planning and Development/Economic Development/Plan	457 162	480 514	23 352	**4,86**	The municipality implemented the cost containment measures and spent less on the internally funded capital projects due to the cash flow challenges.
Health/Clinics	-	-	-	**-**	
Comm. & Social/Libraries and archives	-	-	-	**-**	
Housing	-	-	-	**-**	
Public Safety/Police	-	-	-	**-**	
Sport and Recreation	-	-	-	**-**	
Environmental Protection/Pollution Control	-	-	-	**-**	
Waste Water Management/Sewerage	36 533 367	38 399 479	1 866 112	**4,86**	The municipality implemented the cost containment measures and spent less on the internally funded capital projects due to the cash flow challenges
Road Transport/Roads	-	-	-	**-**	
Water/Water Distribution	169 947 415	178 628 271	8 680 856	**4,86**	The municipality implemented the cost containment measures and spent less on the internally funded capital projects due to the cash flow challenges
Electricity /Electricity Distribution	-	-	-	**-**	
Other/Air Transport	-	-	-	**-**	
	-	-	-	**-**	
	-	-	-	**-**	
	-	-	-	**-**	
	-	-	-	**-**	
	250 088 084	**262 862 499**	**12 774 415**	**4,86**	
Municipal Owned Entities	**275 569**	**-**	**(275 569)**	**-**	
Other charges	**-**	**-**	**-**	**-**	