UMSOBOMVU LOCAL MUNICIPALITY

Continuously Rising

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

Published 31 October 2020

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Umsobomvu municipal area.
Mayoral committee	
Mayor	MS Toto
Councillors	VP Harmse MR Kafi W Minnie MA Sestile NJ Batties SK Brown E Humphries CM Williams
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	TD Tshikundu
Accounting Officer	AC Mpela
Business address	21A Church Street Colesburg Northern Cape 9795
Postal address	Private Bag X6 Colesburg Northern Cape 9795
Bankers	ABSA Bank Limited Standard Bank of South Africa Limited First National Bank Limited
Auditors	Auditor General of South Africa (AGSA)
Telephone number	(051) 753 0777
Fax number	(051) 753 0574
Website	www.umsobomvumun.co.za

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

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

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umsobomvu Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

AC Mpela
Accounting officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the municipal area.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment. Net deficit of the municipality was R 10 597 384 (2019: surplus R 1 641 908).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 500 121 898 and that the municipality's total assets exceed its liabilities by R 500 121 898.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cash flow of the municipality and where necessary procure funding for the ongoing operations of the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting officer's interest in contracts

The accounting officer had no interest in any contracts.

5. Accounting policies

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

6. Non-current assets

There were no changes in the nature of the non-current assets of the municipality during the year.

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Internal audit

The municipality has outsourced its internal audit function to the Pixley-ka-Seme District Municiplaity (i.e. shared services).This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

8. Bankers

The municipality's bankers did not change during the year.

Accounting Officer's Report

9. Auditors

Auditor General of South Africa (AGSA) will continue in office for the next financial period.

10. Non-compliance with applicable legislation

Significant non-compliance with various legislation have been properly disclosed in the notes to the annual financial statements.

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note	2020	2019
Assets			
Current Assets			
Inventories	3	406 381	397 734
Other receivables from non-exchange transactions	4	6 684 115	9 559 953
Receivables from exchange transactions	5	55 519 516	38 684 983
Receivables from non-exchange transactions	5	1 373 330	8 003 334
Cash and cash equivalents	6	6 906 710	4 355 387
		70 890 052	**61 001 391**
Non-Current Assets			
Investment property	7	1 800 899	2 060 899
Property, plant and equipment	8	510 173 478	521 336 348
Intangible assets	9	97 175	122 044
Operating lease asset	10	372	430
		512 071 924	**523 519 721**
Total Assets		**582 961 976**	**584 521 112**
Liabilities			
Current Liabilities			
Finance lease obligation	11	975 950	724 531
Payables from exchange transactions	12	26 740 196	26 159 054
Payables from non-exchange transactions	13	823 025	391 917
VAT payable	14	12 968 971	10 244 460
Consumer deposits	15	767 081	819 539
Employee benefit obligation	16	631 000	652 471
Unspent conditional grants and receipts	17	20 926 705	15 346 707
		63 832 928	**54 338 679**
Non-Current Liabilities			
Finance lease obligation	11	1 823 930	1 793 718
Employee benefit obligation	16	11 337 460	12 447 827
Provisions	18	5 845 760	5 221 604
		19 007 150	**19 463 149**
Total Liabilities		**82 840 078**	**73 801 828**
Net Assets		**500 121 898**	**510 719 284**
Accumulated surplus		500 121 898	510 719 284

Statement of Financial Performance

Figures in Rand	Note	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	19	58 375 510	53 922 165
Rental of facilities and equipment	20	101 948	154 593
Agency services	21	525 798	1 334 998
Other income	22	840 419	948 102
Interest received	23	1 727 495	142 490
Gain on disposal of assets		-	40 734
Total revenue from exchange transactions		**61 571 170**	**56 543 082**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	10 966 986	10 119 357
Transfer revenue			
Government grants and subsidies	25	78 387 001	66 233 593
Fines, penalties and forfeits	26	29 149 670	28 860 478
Total revenue from non-exchange transactions		**118 503 657**	**105 213 428**
Total revenue		**180 074 827**	**161 756 510**
Expenditure			
Employee related costs	27	(48 509 523)	(42 388 419)
Remuneration of councillors	28	(4 128 432)	(4 046 900)
Repairs and maintenance	29	(2 956 040)	(5 592 624)
Depreciation and amortisation	30	(31 109 122)	(31 626 334)
Impairment loss	31	(697 727)	(1 870 804)
Finance costs	32	(2 212 863)	(2 350 164)
Debt impairment	33	(46 507 271)	(25 963 197)
Bulk purchases	34	(27 460 547)	(24 284 327)
Loss on disposal of assets and liabilities		(2 340 685)	-
General expenses	35	(16 062 275)	(10 646 282)
Auditors remuneration		(2 222 350)	(3 247 991)
Consulting and professional fees		(4 055 751)	(4 701 999)
Fines and penalties		(1 192 130)	(531 153)
Travel and subsistence		(1 217 495)	(2 864 408)
Total expenditure		**(190 672 211)**	**(160 114 602)**
(Deficit) surplus for the year		**(10 597 384)**	**1 641 908**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	475 823 878	475 823 878
Adjustments		
Correction of errors (note 42)	33 253 498	33 253 498
Balance at 01 July 2018 as restated*	**509 077 376**	**509 077 376**
Changes in net assets		
Surplus for the year	1 641 908	1 641 908
Total changes	1 641 908	1 641 908
Balance at 01 July 2019	**510 719 282**	**510 719 282**
Changes in net assets		
Deficit for the year	(10 597 384)	(10 597 384)
Total changes	(10 597 384)	(10 597 384)
Balance at 30 June 2020	**500 121 898**	**500 121 898**

Cash Flow Statement

Figures in Rand	Note	2020	2019
Cash flows from operating activities			
Receipts			
Sale of goods and services		47 497 884	45 375 353
Government grant and subsidies		83 966 999	72 846 419
Interest income		340 635	142 490
		131 805 518	118 364 262
Payments			
Employee costs		(53 368 950)	(47 602 852)
Finance costs		(1 183 584)	(2 350 164)
Suppliers paid		(51 878 371)	(53 886 036)
		(106 430 905)	(103 839 052)
Net cash flows from operating activities	37	**25 374 613**	**14 525 210**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(22 672 365)	(14 679 185)
Purchase of other intangible assets	9	(27 430)	(11 600)
Net cash flows from investing activities		**(22 699 795)**	**(14 690 785)**
Cash flows from financing activities			
Repayment of other financial liabilities		-	(13 570)
Finance lease payments		(528 615)	(581 875)
Finance lease proceeds		405 120	-
Net cash flows from financing activities		**(123 495)**	**(595 445)**
Net increase/(decrease) in cash and cash equivalents		**2 551 323**	**(761 020)**
Cash and cash equivalents at the beginning of the year		4 355 387	5 116 407
Cash and cash equivalents at the end of the year	6	**6 906 710**	**4 355 387**

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	67 661 650	(3 646 722)	**64 014 928**	58 375 510	**(5 639 418)**	Note 49
Rental of facilities and equipment	351 234	35 750	**386 984**	101 948	**(285 036)**	Note 49
Agency services	359 140	40 078	**399 218**	525 798	**126 580**	Note 49
Licences and permits	2 644 389	(2 175 003)	**469 386**	-	**(469 386)**	Note 49
Other income	6 701 025	22 948	**6 723 973**	840 419	**(5 883 554)**	Note 49
Interest received	3 914 847	(2 336 110)	**1 578 737**	1 727 495	**148 758**	
Gains on disposal of assets	20 000	(20 000)	**-**	-	**-**	
Total revenue from exchange transactions	**81 652 285**	**(8 079 059)**	**73 573 226**	**61 571 170**	**(12 002 056)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	11 726 167	(693 013)	**11 033 154**	10 966 986	**(66 168)**	
Transfer revenue						
Government grants and subsidies	53 500 500	2 401 000	**55 901 500**	78 387 001	**22 485 501**	Note 49
Fines, penalties and forfeits	7 743 481	23 000 663	**30 744 144**	29 149 670	**(1 594 474)**	
Total revenue from non-exchange transactions	**72 970 148**	**24 708 650**	**97 678 798**	**118 503 657**	**20 824 859**	
Total revenue	**154 622 433**	**16 629 591**	**171 252 024**	**180 074 827**	**8 822 803**	
Expenditure						
Employee related costs	(57 789 525)	5 288 721	**(52 500 804)**	(48 509 523)	**3 991 281**	
Remuneration of councillors	(4 397 986)	43 891	**(4 354 095)**	(4 128 432)	**225 663**	
Repairs and maintenance	-	-	**-**	(2 956 040)	**(2 956 040)**	Note 49
Depreciation and amortisation	(31 138 647)	-	**(31 138 647)**	(31 109 122)	**29 525**	
Impairment loss	-	-	**-**	(697 727)	**(697 727)**	Note 49
Finance costs	-	-	**-**	(2 212 863)	**(2 212 863)**	Note 49
Debt impairment	(11 387 766)	(8 854 167)	**(20 241 933)**	(46 507 271)	**(26 265 338)**	Note 49
Bulk purchases	(27 890 750)	6 421 701	**(21 469 049)**	(27 460 547)	**(5 991 498)**	
Loss on disposal of assets	-	-	**-**	(2 340 685)	**(2 340 685)**	Note 49
Contracted services	(1 274 387)	(9 611 850)	**(10 886 237)**	-	**10 886 237**	Note 49
General expenses	(40 749 900)	16 895 835	**(23 854 065)**	(16 062 275)	**7 791 790**	Note 49
Auditors remuneration	-	-	**-**	(2 222 350)	**(2 222 350)**	Note 49
Consulting and professional fees	-	-	**-**	(4 055 751)	**(4 055 751)**	Note 49
Fines and penaltie	-	-	**-**	(1 192 130)	**(1 192 130)**	Note 49
Travel and subsistence	-	-	**-**	(1 217 495)	**(1 217 495)**	Note 49
Total expenditure	**(174 628 961)**	**10 184 131**	**(164 444 830)**	**(190 672 211)**	**(26 227 381)**	
Deficit before taxation	**(20 006 528)**	**26 813 722**	**6 807 194**	**(10 597 384)**	**(17 404 578)**	

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 Position						
Assets						
Current Assets						
Inventories	464 926	-	**464 926**	406 381	**(58 545)**	Note 49
Other receivables from non-exchange transactions	2 957 939	-	**2 957 939**	6 684 115	**3 726 176**	Note 49
Receivables from exchange transactions	38 767 597	12 558 671	**51 326 268**	55 519 516	**4 193 248**	Note 49
Receivables from non-exchange transactions	-	-	**-**	1 373 330	**1 373 330**	Note 49
Cash and cash equivalents	25 717 304	(17 500 681)	**8 216 623**	6 906 710	**(1 309 913)**	Note 49
	67 907 766	**(4 942 010)**	**62 965 756**	**70 890 052**	**7 924 296**	
Non-Current Assets						
Investment property	2 060 899	(2 060 899)	**-**	1 800 899	**1 800 899**	
Property, plant and equipment	584 189 872	(89 571 479)	**494 618 393**	510 173 478	**15 555 085**	
Intangible assets	6 591 300	(6 591 300)	**-**	97 175	**97 175**	Note 49
Operating lease asset	-	-	**-**	372	**372**	Note 49
	592 842 071	**(98 223 678)**	**494 618 393**	**512 071 924**	**17 453 531**	
Total Assets	**660 749 837**	**(103 165 688)**	**557 584 149**	**582 961 976**	**25 377 827**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	975 950	**975 950**	Note 49
Payables from exchange transactions	16 080 524	38 694 641	**54 775 165**	26 740 201	**(28 034 964)**	Note 49
Payables from non-exchange transactions	-	-	**-**	823 025	**823 025**	Note 49
VAT payable	-	-	**-**	12 968 971	**12 968 971**	Note 49
Consumer deposits	1 186 000	-	**1 186 000**	767 081	**(418 919)**	Note 49
Employee benefit obligation	-	-	**-**	631 000	**631 000**	Note 49
Unspent conditional grants and receipts	-	-	**-**	20 926 705	**20 926 705**	Note 49
Provisions	1 356 898	-	**1 356 898**	-	**(1 356 898)**	Note 49
	18 623 422	**38 694 641**	**57 318 063**	**63 832 933**	**6 514 870**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	1 823 930	**1 823 930**	Note 49
Employee benefit obligation	-	-	**-**	11 337 460	**11 337 460**	Note 49
Provisions	17 982 288	31 311 615	**49 293 903**	5 845 760	**(43 448 143)**	Note 49
	17 982 288	**31 311 615**	**49 293 903**	**19 007 150**	**(30 286 753)**	
Total Liabilities	**36 605 710**	**70 006 256**	**106 611 966**	**82 840 083**	**(23 771 883)**	
Net Assets	**624 144 127**	**(173 171 944)**	**450 972 183**	**500 121 893**	**49 149 710**	
Net Assets						
Reserves						
Accumulated surplus	624 144 127	(173 171 944)	**450 972 183**	500 121 893	**49 149 710**	

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	61 741 844	(20 058 724)	**41 683 120**	47 497 883	**5 814 763**	Note 50
Government grants and subsidies	91 853 000	(7 885 067)	**83 967 933**	83 966 999	**(934)**	
Interest income	2 978 290	(2 253 290)	**725 000**	340 635	**(384 365)**	Note 50
Other receipts	15 922 982	(2 716 902)	**13 206 080**	-	**(13 206 080)**	Note 50
	172 496 116	**(32 913 983)**	**139 582 133**	**131 805 517**	**(7 776 616)**	
Payments						
Employee costs	(62 187 511)	5 332 612	**(56 854 899)**	(53 368 950)	**3 485 949**	
Suppliers	(60 061 095)	12 072 059	**(47 989 036)**	(51 878 371)	**(3 889 335)**	
Finance costs	-	-	**-**	(1 183 583)	**(1 183 583)**	Note 50
	(122 248 606)	**17 404 671**	**(104 843 935)**	**(106 430 904)**	**(1 586 969)**	
Net cash flows from operating activities	**50 247 510**	**(15 509 312)**	**34 738 198**	**25 374 613**	**(9 363 585)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(41 235 950)	10 308 988	**(30 926 962)**	(22 672 365)	**8 254 597**	Note 50
Purchase of other intangible assets	-	-	**-**	(27 430)	**(27 430)**	Note 50
Net cash flows from investing activities	**(41 235 950)**	**10 308 988**	**(30 926 962)**	**(22 699 795)**	**8 227 167**	
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(528 615)	**(528 615)**	Note 50
Finance lease receipts	-	-	**-**	405 120	**405 120**	Note 50
Increase (decrease) in consumer deposits	135 000	(85 000)	**50 000**	-	**(50 000)**	
Net cash flows from financing activities	**135 000**	**(85 000)**	**50 000**	**(123 495)**	**(123 495)**	
Net increase/(decrease) in cash and cash equivalents	9 146 560	(5 285 324)	**3 861 236**	2 551 323	**(1 259 913)**	
Cash and cash equivalents at the beginning of the year	4 355 387	-	**4 355 387**	4 355 387	**-**	
Cash and cash equivalents at the end of the year	**13 501 947**	**(5 285 324)**	**8 216 623**	**6 906 710**	**(1 259 913)**	

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, 2003 (Act No. 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.

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 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 and loans and receivables

The municipality assesses its trade receivables 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 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.

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 assumption 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

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 16 - Employee benefit obligation.

Effective interest rate

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

Allowance for doubtful debts

On consumer debtors and trade receivabes 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.

1.4 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.

1.4 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 municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 29 - Repairs and maintenance).

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

1.5 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 value.

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	20 - 25 years
Roads and paving	Straight line	10 - 15 years
Electricity	Straight line	5 - 50 years
Water	Straight line	15 - 100 years
Sewerage	Straight line	15 - 60 years
Landfill sites	Straight line	23 - 25 years
Recreational facilities	Straight line	20 - 25 years
Security measures	Straight line	20 - 25 years
Specialist vehicles	Straight line	1 -5 years
Other vehicles	Straight line	1 - 5 years
Office equipment	Straight line	3 - 7 years
Furniture and fittings	Straight line	7 - 10 years
Plant and equipment	Straight line	2 - 10 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.

1.5 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 29 - Repairs and maintenance).

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

1.6 Intangible assets

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

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.

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	3 - Indefinite
Website	Straight line	5 years

1.7 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.

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

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

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

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

1.7 Financial instruments (continued)

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

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

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.

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.7 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Operating lease receivable	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Bank Overdraft	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

1.7 Financial instruments (continued)

Fair value measurement considerations

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

1.7 Financial instruments (continued)

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

1.7 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.

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

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

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

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

1.8 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

1.8 Leases (continued)

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.

1.9 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 first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.10 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.

1.10 Impairment of cash-generating assets (continued)

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.

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.

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.

1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

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.

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

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.

1.12 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.

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 measures 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.

1.12 Employee benefits (continued)

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

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which 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.

Multi-employer plans

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

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

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

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

Post-employment benefits: Defined contribution plans

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

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

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

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

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.

1.12 Employee benefits (continued)

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;
- 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 measures 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 determines 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.

1.12 Employee benefits (continued)

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-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] 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.

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.

1.12 Employee benefits (continued)

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.

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 [as a minimum]:
- 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.

Accounting Policies

1.13 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.

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.

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

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 40.

1.13 Provisions and contingencies (continued)

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.

1.14 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.

1.14 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

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

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

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

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

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

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

1.15 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.

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.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

1.15 Revenue from non-exchange transactions (continued)

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

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

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

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.

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

Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

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.

1.16 Investment income

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

1.17 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.

1.18 Comparative figures

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

1.19 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.

1.20 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.

1.21 Irregular expenditure

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

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

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

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

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

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

1.21 Irregular expenditure (continued)

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

1.22 Budget information

Municipality 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 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 economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

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.

1.23 Related parties

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

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

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

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

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

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

Close members of the family of a person are 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 occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

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

Accounting Policies

1.24 Events after reporting date

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

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

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

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

1.25 Capital commitments

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

Capital commitments are not recognised in the Statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific Standard of GRAP;
- Approved but not yet contracted commitments, where expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date;
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources; or
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

Figures in Rand	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact

3. Inventories

	2020	2019
Water	36 081	27 434
Property stock	370 300	370 300
	406 381	**397 734**

Inventories are held for own use and measured at the lower of cost or current replacement value.

The cost of water production for the year amounted to R5.47 (2019: R5.44) per kilolitre.

Inventory pledged as security

No inventory was pledged as security for overdraft facilities of the municipality.

4. Other receivables from non-exchange transactions

	2020	2019
Salary control accounts	3 560 903	2 246 549
Sundry debtors	701 695	510 038
Payments made in advance	3 790	3 790
Fines: Gross balance	46 859 703	52 244 437
Fines: Provision for impairment	(44 441 976)	(45 444 861)
	6 684 115	**9 559 953**

Other receivables from non-exchange transactions pledged as security

None of the other receivables from non-exchange transactions have been pledged as security for the municipality's financial liabilities.

Included in the other receivables from non-exchange transactions, is the salary control account which is the result of an ongoing investigaton. The issue was reported to the South African Police Service and the Auditor-General of South Africa, as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). The exact amount is still being determined.

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Fair value of other receivables from non-exchange transactions

Management is of the opinion that the carrying value of the other receivables from non-exchange transactions recorded at amortised cost in the financial statements approximate their fair values.

Figures in Rand	2020	2019

4. Other receivables from non-exchange transactions (continued)

Other receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 6 921 739 (2019: R 9 559 953) were past due but not impaired.

Other receivables from non-exchange transactions impaired

As of 30 June 2020, other receivables from non-exchange transactions of R 41 484 097 (2019: R 45 444 861) were impaired and provided for.

The amount of the provision was R 41 484 097 as of 30 June 2020 (2019: R 45 444 861).

The ageing of these loans is as follows:

Over 6 months	41 484 097	45 444 861

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

Opening balance	45 444 861	25 882 336
Provision for impairment	-	19 562 525
Unused amounts reversed	(1 002 885)	-
	44 441 976	**45 444 861**

5. Consumer debtors

Gross balances		
Rates	22 510 068	19 099 861
Electricity	14 687 414	13 746 854
Water	81 439 093	72 281 688
Sewerage	40 843 170	34 690 280
Refuse	44 173 366	38 270 501
Other (exchange)	4 180 946	3 548 965
Other (non-exchange)	1 127 010	658 251
	208 961 067	**182 296 400**
Less: Allowance for impairment		
Rates	(13 175 047)	(11 223 212)
Electricity	(8 049 501)	(8 362 886)
Water	(58 465 074)	(57 040 725)
Sewerage	(28 710 095)	(26 248 317)
Refuse	(32 113 149)	(29 528 891)
Other (exchange)	(2 466 653)	(2 672 521)
Other (non-exchange)	(9 088 701)	(531 532)
	(152 068 220)	**(135 608 084)**
Net balance		
Rates	9 335 021	7 876 649
Electricity	6 637 913	5 383 968
Water	22 974 019	15 240 963
Sewerage	12 133 075	8 441 963
Refuse	12 060 217	8 741 610
Other (exchange)	1 714 293	876 444
Other (non-exchange)	(7 961 691)	126 719
	56 892 847	**46 688 316**

Figures in Rand	2020	2019

5. Consumer debtors (continued)

Included in above is receivables from exchange transactions		
Electricity	6 637 913	5 383 968
Water	22 974 019	15 240 963
Sewerage	12 133 075	8 441 963
Refuse	12 060 216	8 741 610
Other (exchange)	1 714 293	876 479
	55 519 516	**38 684 983**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	9 335 021	7 876 649
Other (non-exchange)	(7 961 691)	126 685
	1 373 330	**8 003 334**

Net balance	**56 892 846**	**46 688 317**

Rates		
Current (0 -30 days)	-	371 858
31 - 60 days	475 032	193 111
61 - 90 days	220 931	7 041 695
91 - 120 days	190 440	269 985
> 121 days	8 448 618	-
	9 335 021	**7 876 649**

Electricity		
Current (0 -30 days)	-	988 175
31 - 60 days	894 020	556 791
61 - 90 days	466 979	3 760 091
91 - 120 days	258 792	78 911
> 121 days	5 018 122	-
	6 637 913	**5 383 968**

Water		
Current (0 -30 days)	-	331 125
31 - 60 days	499 040	334 049
61 - 90 days	296 604	13 319 048
91 - 120 days	271 568	1 256 741
> 121 days	21 906 807	-
	22 974 019	**15 240 963**

Sewerage		
Current (0 -30 days)	-	312 178
31 - 60 days	384 390	211 501
61 - 90 days	253 540	7 491 514
91 - 120 days	224 370	426 770
>121 days	11 270 775	-
	12 133 075	**8 441 963**

Figures in Rand	2020	2019

5. Consumer debtors (continued)

Refuse

Current (0 -30 days)	-	175 272
31 - 60 days	184 459	134 158
61 - 90 days	150 292	7 868 356
91 - 120 days	141 531	563 824
>121 days	11 583 935	-
	12 060 217	**8 741 610**

Other (exchange)

Current (0 -30 days)	-	12 609
31 - 60 days	6 358	179
61 - 90 days	61 499	771 927
91 - 120 days	752	91 729
>121 days	1 645 684	-
	1 714 293	**876 444**

Other (non-exchange)

Current (0 -30 days)	-	73
31 - 60 days	(1 523)	69
61 - 90 days	(42 587)	146 198
91 - 120 days	(72)	(19 621)
>121 days	(7 917 509)	-
	(7 961 691)	**126 719**

Summary of debtors by customer classification

Households

Current (0 -30 days)	-	4 089 380
31 - 60 days	1 869 841	3 259 027
61 - 90 days	1 112 679	33 747 440
91 - 120 days	929 143	-
>121 days	57 921 544	-
	61 833 207	**41 095 847**

Industrial/ commercial

Current (0 -30 days)	-	620 548
31 - 60 days	118 515	555 173
61 - 90 days	45 519	1 744 581
91 - 120 days	8 581	-
>121 days	90 458	-
	263 073	**2 920 302**

National and provincial government

Current (0 -30 days)	-	12 075
31 - 60 days	453 420	12 265
61 - 90 days	249 061	2 647 602
91 - 120 days	149 658	-
>121 days	5 518 344	-
	6 370 483	**2 671 942**

Figures in Rand	2020	2019

5. Consumer debtors (continued)

Total		
Current (0 -30 days)	-	4 722 004
31 - 60 days	2 441 776	3 826 466
61 - 90 days	1 407 258	173 747 931
91 - 120 days	1 087 381	-
>121 days	204 024 652	-
	208 961 067	182 296 401
Less: Allowance for impairment	(152 068 220)	(135 608 085)
	56 892 847	**46 688 316**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(135 608 084)	(129 415 609)
Contributions to allowance	(16 460 136)	(6 192 475)
	(152 068 220)	**(135 608 084)**

Consumer debtors pledged as security

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

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

In determining the recoverability of Consumer debtors, the municipality has pledged strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the consumer debtors have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

Fair value of consumer debtors

Management is of the opinion that the carrying value of the other receivables from non-exchange transactions recorded at amortised cost in the financial statements approximate their fair values.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R 56 892 846 (2019: R 46 688 316) were past due but not impaired.

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

1 month past due	2 443 299	1 429 892
2 months past due	1 399 845	40 398 830
3 months past due	53 049 702	4 859 594

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R 152 068 220 (2019: R 135 608 196) were impaired and provided for.

The amount of the provision expense was R 16 460 136 as of 30 June 2020 (2019: R 6 192 475).

Figures in Rand	2020	2019

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 750	3 700
Bank balances	6 573 313	3 440 428
Short-term deposits	329 647	911 259
	6 906 710	**4 355 387**

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

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

Credit rating		
AAA	6 906 710	4 355 387

Cash and cash equivalents pledged as collateral

A bank gaurentee has baan issued to Eskom	6 000	8 000

In addition to the above, the municipality has issued a bank gaurantee in favour of Eskom for an increased electricity demand to 40 MVA required to meet the consumers' increasing electricity demand.

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 - Current Account - 2440000005	7 040 362	1 249 542	1 707 092	(10 251 130)	1 227 929	1 674 143
ABSA BANK - Current Account - 4052875289	63 675	1 862 169	2 048 851	15 962 905	1 862 169	2 049 851
Standard Bank - Current Account - 280412835	176 907	229 864	61 979	(284 076)	229 563	59 988
ABSA Bank - Current Account - 4061642031	328 728	120 768	455 475	1 145 615	120 768	455 475
Standard Bank - Notice Deposit - 288901606001	83 637	83 637	83 637	83 637	83 637	83 637
Standard Bank - Notice Deposit -288901541001	151 485	151 485	151 485	151 485	151 485	151 485
First National Bank - Notice Deposit - 74107295062	24 220	24 356	24 356	24 220	24 356	24 845
ABSA Bank - Notice Deposit - 2063506922	-	152 830	143 344	-	152 830	143 344
ABSA Bank - Notice Deposit - 2069495799	-	13 453	12 795	-	13 453	12 795
ABSA Bank - Notice Deposit - 2073468449	-	485 497	457 143	-	485 497	457 143
ABSA Bank - Deposit Plus	70 169	-	-	70 169	-	-
Total	**7 939 183**	**4 373 601**	**5 146 157**	**6 902 825**	**4 351 687**	**5 112 706**

7. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	1 800 899	-	1 800 899	2 060 899	-	2 060 899

Reconciliation of investment property - 2020

	Opening balance	**Disposals**	**Total**
Investment property	2 060 899	(260 000)	1 800 899

Reconciliation of investment property - 2019

	Opening balance	**Total**
Investment property	2 060 899	2 060 899

Pledged as security

All of the municipality's investment property is held under freehold interests and investment property had been pledged as security for any liabilities for the municipality.

There are no restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

Details of property

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

The following criteria was used to determine whether a property should be classified as an investment property:

- A building owned by the municipality and leased out to third parties under one or more operating leases.
- Land held for a current undeterminable future use.
- Property being constructed or developed for future use as investment property.

Amounts recognised in surplus or deficit

No repairs and maintenance was incurred in the running of these property for the financial year.

Maintenance by condition, nature and type of expenditure - corrective maintenance is in place. Maintaince is done as reported on.

Under construction and capital commitments

No investment property was under construction or incurred towards contractual commitments during the financial year.

8. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	39 170 097	-	39 170 097	39 990 905	-	39 990 905
Buildings	38 929 472	(15 943 760)	22 985 712	39 008 659	(14 915 703)	24 092 956
Infrastructure	955 713 777	(516 160 605)	439 553 172	937 883 139	(489 666 527)	448 216 612
Other property, plant and equipment	26 397 159	(17 932 662)	8 464 497	25 678 004	(16 642 129)	9 035 875
Total	**1 060 210 505**	**(550 037 027)**	**510 173 478**	**1 042 560 707**	**(521 224 359)**	**521 336 348**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Impairment reversal	Total
Land	39 990 905	-	(820 808)	-	-	-	39 170 097
Buildings	24 092 956	10 300	(29 875)	(1 087 669)	-	-	22 985 712
Infrastructure	448 216 612	21 555 592	(991 875)	(28 436 896)	(790 261)	-	439 553 172
Other property, plant and equipment	9 035 875	1 062 239	(240 887)	(1 485 258)	(4 885)	97 413	8 464 497
	521 336 348	**22 628 131**	**(2 083 445)**	**(31 009 823)**	**(795 146)**	**97 413**	**510 173 478**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Impairment loss	Impairment reversal	Total
Land	39 990 905	-	-	-	-	39 990 905
Buildings	25 188 451	10 360	(1 081 070)	(24 785)	-	24 092 956
Infrastructure	461 832 567	17 000 041	(28 775 971)	(1 840 337)	312	448 216 612
Other property, plant and equipment	10 132 410	572 461	(1 663 474)	(5 522)	-	9 035 875
	537 144 333	**17 582 862**	**(31 520 515)**	**(1 870 644)**	**312**	**521 336 348**

8. Property, plant and equipment (continued)

Pledged as security

None of the tangible assets were pledged as security during the current and previous financial years.

Compensation received for losses on property, plant and equipment – included in operating profit.

Motor vehicles	-	25 300
Other property, plant and equipment	27 343	-
	27 343	**25 300**

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

Road Signs	7 887	7 887
Project developement costs were incurred, but due to funding problems, the project was stopped.		
Noupoort Cemetries	20 660	10 360
Project developement costs were incurred, but due to funding problems, the project was stopped. Project commenced in the current year and project no longer slow moving.		
Noupoort Electrification Project	9 203 252	3 335 856
Project development costs were incurred, but due to funding problems, the project was stopped. Project commenced in the current year and project no longer slow moving.		
Upgrading of VIP's and bucket system to sewer network	10 934 067	3 605 900
Project development costs were incurred, but due to funding problems, the projects was stopped. Project commenced in the current year and project no longer slow moving.		
Van der Waltfontein pipeline	14 355 541	5 030 971
Project completion was delayed by Covid-19 pandemic.		
Upgrading of Murray Street traffic Circle in Noupoort	644 975	-
Project completion was delayed by Covid-19 pandemic.		
Sewerage pump station renewal	180 435	-
Project completion was delayed by Covid-19 pandemic.		
	35 346 817	**11 990 974**

8. Property, plant and equipment (continued)

Reconciliation of work-in-progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	11 980 614	10 360	11 990 974
Additions/capital expenditure	23 345 543	10 300	23 355 843
	35 326 157	**20 660**	**35 346 817**

Reconciliation of work-in-progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	13 269 887	-	13 269 887
Additions/capital expenditure	17 000 041	10 360	17 010 401
Transferred to completed items	(18 289 314)	-	(18 289 314)
	11 980 614	**10 360**	**11 990 974**

9. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	2 042 345	(1 945 170)	97 175	2 014 915	(1 892 871)	122 044

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	122 044	27 430	(52 299)	97 175

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	216 262	11 600	(105 818)	122 044

Pledged as security

All of the municipality's intangible assets are held under freehold interests and no intangible assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the intangible assets of the municipality.

Other information

The municipality amortises all its intangible assets and no intangible assets are regarded as having indefinite useful lives. The amortisation expense has been included in the line item depreciation and amortisation in the Statement of Financial Performance. Amortisation is charged on a straight-line basis over the intangible assets' useful lives.

No impairment losses have been recognised on intangible assets at the reporting date.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

10. Operating lease asset (accrual)

Non-current assets	372	430

11. Finance lease obligation

Minimum lease payments due		
- within one year	975 950	1 049 668
- in second to fifth year inclusive	3 444 359	2 070 389
	4 420 309	3 120 057
less: future finance charges	(1 833 060)	(601 808)
Present value of minimum lease payments	**2 587 249**	**2 518 249**
Present value of minimum lease payments due		
- within one year	975 950	724 531
- in second to fifth year inclusive	1 611 299	1 793 718
	2 587 249	**2 518 249**
Non-current liabilities	1 823 930	1 793 718
Current liabilities	975 950	724 531
	2 799 880	**2 518 249**

The average lease term was 5 years (2019: 5 years) and the average effective borrowing rate was between 13% and 48% (2019: 13% and 48%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

12. Payables from exchange transactions

Trade payables	17 163 647	15 695 362
Accrued leave pay	3 514 279	3 164 641
Accrued bonus	978 376	888 462
Retentions	501 308	757 004
Other creditors	200 952	797 377
Performance bonus provision	602 238	644 019
Consumer debtors with credit balances (exchange)	3 644 294	4 080 159
Wellness programme	86 880	81 011
Sports programme	48 222	51 019
	26 740 196	**26 159 054**

13. Payables from non-exchange transactions

Sundry deposits	145 514	145 514
Consumer debtors with credit balances (non-exchange)	677 511	246 403
	823 025	**391 917**

14. VAT payable

VAT	12 968 971	10 244 460

Figures in Rand	2020	2019

15. Consumer deposits

Electricity	367 381	367 381
Water	399 700	452 158
	767 081	**819 539**

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on consumer deposits held.

The management of the municipality is of the opinion that the carrying value of consumer deposits approximates their amortised cost. The fair value of consumer deposits was determined after considering the standard terms of conditions of agreemens entered into between the municipality and its consumers.

16. Employee benefit obligations

Defined benefit plan

Post retirement benefit plan

Post retirement medical aid plan

The municipality provides for 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 (who is on the current conditions of service) is entitled to remain a continued 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 benefit plan for these qualifying employees. No other post-retirement benefits are provided to those employees.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out on 30 June 2020 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service and past service costs, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for medical aid to the following medical aid schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The members of the post-employment medical aid benefit obligation are made up as follows:		
In-service members (employees)	24	27
In-service non-members (employees)	157	133
Continuation members (retirees, widowers and orphans)	5	5
	186	**165**

The liability in respect to past service has been estimated as follows:		
In-service members (employees)	3 405 000	4 132 793
In-service non-members (employers)	1 509 000	1 601 124
Continuation members (retirees, widowers and orphans)	4 876 000	5 142 152
	9 790 000	**10 876 069**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

16. Employee benefit obligations (continued)

Movements in the present value of the defined benefit obligation were as follows:		
Balance at the beginning of the year	10 876 069	12 944 556
Current service cost	432 149	745 350
Interest cost	1 015 353	1 246 835
Benefits paid	(361 953)	(266 616)
Actuarial gains / (losses)	(2 261 618)	(3 794 056)
	9 700 000	**10 876 069**

The amounts resognised in the statement of financial performance are as follows:		
Current service cost	432 149	745 350
Interest cost	1 015 353	1 246 835
Benefits paid	(361 953)	(266 616)
Actuarial gains / (losses)	(2 261 618)	(3 794 056)
	(1 176 069)	**(2 068 487)**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service and interest cost	1 723 100	2 372 000
Effect on the defined obligation	11 114 000	12 646 000
Decrease:		
Effrect on the aggregate of the current service and interest cost	1 168 000	1 687 400
Effect on the defined obligation	8 533 000	9 440 000

The current service cost of the year ending 30 June 2020 is estimated to be R (432 149), whereas the cost for the ensuing year is estimated to be R (359 000).

Long service award

The municipality operates an unfunded defined benefit plan for all of its employees. Under the plan, a long service award is payable after 10 years of continuos service, and every 5 years of continuous service therefater. The provision is an estimate of the log service award based on the historical staff turnover. No other long service benefits are provided to employees.

Movement in the long service award provision was as follows:		
Balance at the beginning of the year	2 224 769	1 700 777
Current service cost	233 956	183 752
Interest cost	168 231	131 451
Actuarial gains / (losses)	(66 898)	486 723
Expected employer benefit payaments	(291 058)	(277 934)
	2 269 000	**2 224 769**

The amounts recognised in the statement of financial performance are as follows:		
Current service cost	233 956	183 752
Interest cost	168 231	131 451
Benefits paid	(291 058)	(277 934)
Actuarial gains / (losses)	(66 898)	486 723
	44 231	**523 992**

Figures in Rand	2020	2019

16. Employee benefit obligations (continued)

The effect of a 1% movement in the assumed rate of long award cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service and interest cost	430 200	334 400
Effect on the defined obligation	2 399 000	2 357 000
Decrease:		
Effect on the aggregate of the current service and interest cost	378 000	297 700
Effect on the defined obligation	2 150 000	2 104 000

The current service cost of the year ending 30 June 2020 is estimated to be R (233 956), whereas the cost for the ensuing year is estimated to be R (250 000).

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

Carrying value		
Post-employment medical aid benefit liability	(9 700 000)	(10 876 069)
Long service award	(2 268 460)	(2 224 229)
	(11 968 460)	**(13 100 298)**
Non-current liabilities	(11 337 460)	(12 447 827)
Current liabilities	(631 000)	(652 471)
	(11 968 460)	**(13 100 298)**

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

Opening balance	(11 555 263)	(13 100 298)
Net expense recognised in the statement of financial performance	1 131 838	1 545 035
	(10 423 425)	**(11 555 263)**

Net expense recognised in the statement of financial performance

Current service cost	(666 105)	(929 102)
Interest cost	(1 183 584)	(1 378 286)
Actuarial (gains) losses	2 328 516	3 307 333
Benefits paid	653 011	545 090
	1 131 838	**1 545 035**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used: Post employment medical aid benefit liability	10,47 %	9,49 %
Discount rate used: Long service award	7,14 %	8,08 %
Healthcare cost inflation rate	6,51 %	6,92 %
General salary inflation	3,84 %	5,51 %
Net discount rate: Post employment medical aid benefit liability	3,72 %	2,40 %
Net discount rate: Long service award	3,18 %	2,44 %
Maximum subsidy inflation rate	2,84 %	4,51 %
Net discount rate: Maximum subsidy inflation rate	3,18 %	2,44 %
Expected retiremet age (in years)	60	60

Figures in Rand	2020	2019

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department Housing	130 852	130 852
Department Safety	124 919	124 919
Department Water Affairs and Forestry	1 519 388	1 519 388
Department Water Affairs and Forestry (2)	942 072	942 072
Development Bank of South Africa	6 337	6 337
Electricity Efficiency Demand Side Management Grant (EEDSM)	1 258 581	1 258 581
Expanded Public Works Programme (EPWP)	494 547	200 131
Institutional Re-organisation Grant	226 712	226 712
Integrated National Electrification Progarmme (INEP)	6 555 230	2 771 112
Municipal Infrastructure Grant (MIG)	1 486 892	1 322 480
National Lottery Development Trust Fund (NLDTF)	280 258	280 258
Finance Management Grant (FMG)	8 310	-
Water Services Infrastructure Grant (WSIG)	7 892 607	6 563 865
	20 926 705	**15 346 707**

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.

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

See note 25 for reconciliation of grants from National/Provincial Government.

18. Provisions

Reconciliation of provisions - 2020

	Opening Balance	**Additions**	**Total**
Environmental rehabilitation	5 221 604	624 156	5 845 760

Reconciliation of provisions - 2019

	Opening Balance	**Additions**	**Total**
Environmental rehabilitation	4 664 090	557 514	5 221 604

Environmental rehabilitation provision

In terms of the licensing of the landfill sites, the municipality has estimated that it will incurr costs of R 624 156 (2019: R 557 514) for the licensing and rehabilitation of the sites at the end of their useful lives.

The provision represents the net present value of the expected future cash flows and have been discounted at the South African Bond Rates.

The provision is based on 100% of the landfill site areas as the total area is used for dumping of waste and is not limited to a certain portion of the landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on the the entire area.

Landfill operations is expected to continue until the available permitted airspace has been utilized, which has been estimated to be at the end of 2031. At the end of its useful life, each landfill site will be closed and capped with a layer of impermeable clay and a layer of top soil. Grass and other suitable vegetation types will be planted to stabilize the soil and approve its appearance. Environmental monitoring is expected to continue for a period of up to 30 years after the closure of the site.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

19. Service charges

Sale of electricity	28 007 736	26 386 341
Sale of water	13 435 936	13 246 265
Sewerage and sanitation charges	11 596 177	10 754 784
Refuse removal	4 977 572	3 181 562
Other service charges	358 089	353 213
	58 375 510	**53 922 165**

20. Rental of facilities and equipment

Facilities and equipment		
Halls	99 236	147 436
Machinery	2 364	7 157
	101 600	**154 593**

Included in the above rentals are operating lease rentals at straight-lined amounts of R 58 (2019: R 18).

21. Agency services

Department of Transport, Safety and Liason	525 798	1 334 998

22. Other income

Building plan fees	10 027	14 164
Cemetery fees	21 724	27 331
Commission earned	167 142	200 400
Connection and re-connection fees	58 673	39 831
Insurance claims	27 343	141 371
Other income	520 818	481 265
Photocopies	3 687	3 216
Sand, gravel and soil sales	23 614	19 872
Tender documents	7 391	20 652
	840 419	**948 102**

23. Investment revenue

Interest revenue		
Bank	340 635	142 490
Consumer debtors	1 386 860	-
	1 727 495	**142 490**

24. Property rates

Rates received

Rates	11 530 228	10 812 097
Less: Income forgone	(563 242)	(692 740)
	10 966 986	**10 119 357**

Figures in Rand	2020	2019

24. Property rates (continued)

Valuations

Residential	624 745 550	588 346 150
Commercial	285 086 900	222 958 140
State	177 245 330	78 323 400
Agricultural	1 323 845 700	1 336 668 090
	2 410 923 480	**2 226 295 780**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 1 July 2020.

25. Government grants and subsidies

Operating grants		
Equitable share	49 477 345	44 259 000
Finance Management Grant (FMG)	1 961 690	1 970 000
Library Development Grant	1 479 000	1 292 926
	52 918 035	**47 521 926**
Capital grants		
Expanded Public Works Programme (EPWP)	822 584	1 000 000
Municipal Infrastructure Grant (MIG)	10 003 108	8 025 520
Integrated National Electrification Programme (INEP)	6 215 882	3 000 236
Library Development Grant	-	186 077
Water Services Infrastructure Grant (WSIG)	8 427 392	4 414 418
Regional Bulk Infrastructure Grant (RBIG)	-	2 085 416
	25 468 966	**18 711 667**
	78 387 001	**66 233 593**

Equitable Share

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

All registered indigents receive a monthly subsidy of R 430 (2019: R 166), which is funded from the grant. All registered indigent households receive 6kl water and 50kWh electricity free every month. Unspent MIG and WSIG grants from the prior year was withheld from equitable share.

National: Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	200 131	200 131
Current-year receipts	1 117 000	1 000 000
Conditions met - transferred to revenue	(822 584)	(1 000 000)
	494 547	**200 131**

Conditions still to be met - remain liabilities (see note 17).

The Expanded Public Works Programme (EPWP) Grant is allocated to incentivise municipalities to expand work creation efforts through the use of labour incentive delivery methods in the identified focus areas on compliance with the EPWP guidelines.

No funds were withheld.

Figures in Rand	2020	2019

25. Government grants and subsidies (continued)

National: Finance Management Grant (FMG)

Current-year receipts	1 970 000	1 970 000
Conditions met - transferred to revenue	(1 961 690)	(1 970 000)
	8 310	**-**

The Finance Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). The FMG also pays for the cost of the Financial Management Internship Programme (e.g. salary costs).

All conditions attached to the grant were met.

No funds were withheld.

National: Integrated National Electrification Programme (INEP)

Balance unspent at beginning of year	2 771 112	2 771 348
Current-year receipts	10 000 000	3 000 000
Conditions met - transferred to revenue	(6 215 882)	(3 000 236)
	6 555 230	**2 771 112**

Conditions still to be met - remain liabilities (see note 17).

The grant is paid by National Treasury in order to implement the Integrated National Electrification Programme by addressing the electrification backlog of all existing and planned residential dwellings and the installation of relevant bulk infrastructure.

No funds were withheld.

National: Department of Water Affairs and Forestry

Balance unspent at beginning of year	1 519 388	1 519 388

Conditions still to be met - remain liabilities (see note 17).

The grant was used for the operation and maintenance of sewerage and water schemes transferred from the Department of Water Affairs and Forestry to the municipality, the refurbishment of water infrastructure, the Olifants River Water Resource Project and the payment of salaries of the staff transferred from the department.

No funds have been withheld.

National: Energy Efficiency and Demand Side Management Grant (EEDSM)

Balance unspent at beginning of year	1 258 581	1 553 581
Other	-	(295 000)
	1 258 581	**1 258 581**

Conditions still to be met - remain liabilities (see note 17).

The Energy Efficiency and Demand Side Management Grant (EEDSM) is allocated to the municipality for the implementation of energy effeciency and demand side management iniatives within the municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

No funds were withheld.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Government grants and subsidies (continued)

Provincial: Library Development Grant

Current-year receipts	1 479 000	1 479 003
Conditions met - transferred to revenue	(1 479 000)	(1 292 926)
Other	-	(186 077)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

The grant is paid to the municipality by the Provincial Department of Sports, Arts and Culture for the maintenance and operations of the libraries within its municipal aera.

No funds were withheld.

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	1 322 480	-
Current-year receipts	11 490 000	9 348 000
Conditions met - transferred to revenue	(10 003 108)	(8 025 520)
Repayments	(1 322 480)	-
	1 486 892	**1 322 480**

Conditions still to be met - remain liabilities (see note 17).

The Municipal Infrastructure Grant (MIG) was allocated by National Treasury for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

No funds were withheld.

National: Department of Water Affairs and Forestry (2)

Balance unspent at beginning of year	942 072	942 072

Conditions still to be met - remain liabilities (see note 17).

The grant was allocated to the municipality for the development of new, refurbish, upgrade and replace ageing water and sanitation infrastructure.

National: Regional Bulk Infrastructure Grant (RBIG)

Current-year receipts	-	2 085 416
Conditions met - transferred to revenue	-	(2 085 416)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

To develop new, refurbish, upgrade and replace ageing water and sanitation infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across the municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within the municipality.

No fund were withheld.

Figures in Rand	2020	2019

25. Government grants and subsidies (continued)

National: Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	6 563 865	978 283
Current-year receipts	16 320 000	10 000 000
Conditions met - transferred to revenue	(8 427 393)	(4 414 418)
Repayments	(6 563 865)	-
	7 892 607	**6 563 865**

Conditions still to be met - remain liabilities (see note 17).

To facilitate the planning and implementation of various water projects water and on-site sanitation projects to accelerate backlog reduction and enhance the sustainability of services, especially in rural areas.

No funds were withheld.

Other: National Lottery Development Trust Fund

Balance unspent at beginning of year	280 258	280 258

Conditions still to be met - remain liabilities (see note 17).

This grant was allocated to the municipality for the upgrading of the sport stadiums within the municipal area.

No funds were withheld.

Provincial: Department of Housing

Balance unspent at beginning of year	130 852	130 852

Conditions still to be met - remain liabilities (see note 17).

This grant was allocated to the municipality for the construction and maintenance of low cost housing in the district.

No funds were withheld.

Provincial: Department of Safety

Balance unspent at beginning of year	124 919	124 919

Conditions still to be met - remain liabilities (see note 17).

This grant was allocated to the municipality for the construction of a taxi rank.

No funds were withheld.

Other: Development Bank of South Africa

Balance unspent at beginning of year	6 337	6 337

Conditions still to be met - remain liabilities (see note 17).

This grant was allocated to the municipality for the purchase of water meters.

No funds were withheld.

Figures in Rand	2020	2019

25. Government grants and subsidies (continued)

Other: Institutional Re-organisational Grant

Balance unspent at beginning of year	226 712	226 712

Conditions still to be met - remain liabilities (see note 17).

This grant was allocated to the municipality to assist financially with the re-organisation of the municipality after 1994, for which the funds were used.

No funds were withheld.

26. Fines, penalties and forfeits

Law enforcement (traffic) fines	29 132 290	28 813 785
Other	17 380	46 693
	29 149 670	**28 860 478**

The full amount of traffic fines issued during the year is recognised at the initital transaction date as revenue in accordance with iGRAP 1.

27. Employee related costs

Basic	37 101 096	32 355 027
Performance bonus	602 238	644 019
Bonus	2 186 107	2 483 287
Medical aid fund: Council contributions	919 000	930 182
Leave pay provision charge	364 793	50 772
Group scheme: Council contributions	-	19 543
Pension fund: Council contributions	5 248 370	4 572 837
Long-service awards	130 839	128 666
Allowances	1 142 997	1 101 448
Housing benefits and allowances	365 193	285 308
Skills development levy (SDL)	-	433 746
Unemployment insurance fund (UIF): Council contributions	310 160	285 445
Overtime payments	2 426 115	1 943 533
Other short term costs	5 759	77 927
Defined benefit plan expenses	(2 315 422)	(2 923 321)
Industrial Council	22 278	-
	48 509 523	**42 388 419**

Remuneration of the Municipal Manager

Annual Remuneration	1 135 567	1 100 715
Performance Bonus	174 260	154 516
Car Allowance	144 000	144 000
Contributions to UIF, Medical and Pension Funds	1 896	1 888
	1 455 723	**1 401 119**

Remuneration of the Chief Finance Officer

Annual Remuneration	833 021	981 881
Performance Bonus	156 586	148 142
Car Allowance	188 993	136 594
Contributions to UIF, Medical and Pension Funds	1 896	1 888
	1 180 496	**1 268 505**

Figures in Rand	2020	2019

27. Employee related costs (continued)

Remuneration of the Manager: Corporate Services

Annual Remuneration	1 033 154	970 632
Performance Bonus	156 586	148 142
Car Allowance	147 843	147 843
Contributions to UIF, Medical and Pension Funds	1 896	1 785
	1 339 479	**1 268 402**

The Manager: Community Services resigned at the end of September 2012, whereafter the post was replaced with the Manager: Corporate Services. Mr. Kapp is acting as the manager in this post without any additional compensation.

Remuneration of the Manager: Technical Services

Annual Remuneration	864 863	1 046 475
Performance Bonus	156 586	148 142
Car Allowance	34 880	72 000
Contributions to UIF, Medical and Pension Funds	2 203	1 888
	1 058 532	**1 268 505**

28. Remuneration of councillors

Major	854 736	826 395
Councillors	3 273 696	3 220 505
	4 128 432	**4 046 900**

29. Repairs and maintenance

Infrastructure	1 632 378	4 178 196
Other	1 169 770	1 151 277
Buildings	153 892	263 151
	2 956 040	**5 592 624**

30. Depreciation and amortisation

Property, plant and equipment	31 056 823	31 520 515
Intangible assets	52 299	105 819
	31 109 122	**31 626 334**

31. Impairment of assets

Impairments		
Property, plant and equipment	697 727	1 870 804

Property, plant and equipment (buildings, infrastructure - and movable assets) have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment.

Figures in Rand	2020	2019

32. Finance costs

Non-current borrowings	1 183 584	1 378 286
Finance leases	405 123	414 238
Current borrowings	-	126
Rehabilitation of landfill sites	624 156	557 514
	2 212 863	**2 350 164**

33. Debt impairment

Debt impairment	17 871 057	6 400 672
Bad debts written off	28 636 214	19 562 525
	46 507 271	**25 963 197**

34. Bulk purchases

Electricity	26 796 313	23 674 693
Water	664 234	609 634
	27 460 547	**24 284 327**

35. General expenses

Advertising	132 430	107 571
Bank charges	405 369	443 789
Cleaning	52 113	44 108
Computer expenses	815 407	1 510 127
Entertainment	178 683	114 782
Fuel and oil	1 029 937	831 447
Insurance	1 127 667	818 991
Internal audit fees (shared services)	524 385	518 990
Legal fees	-	6 820
Other expenses	9 405 171	4 094 232
Postage and courier	264 233	228 918
Printing and stationery	164 629	149 815
Subscriptions and membership fees	991 320	934 733
Telephone and fax	832 757	760 689
Title deed search fees	649	26 710
Training	5 870	20 190
Uniforms	131 655	34 370
	16 062 275	**10 646 282**

36. Auditors' remuneration

Fees	2 222 350	3 247 991

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

37. Cash generated from operations

(Deficit) surplus	(10 597 384)	1 641 908
Adjustments for:		
Depreciation and amortisation	31 109 122	31 626 334
Loss on sale of assets and liabilities	-	(40 734)
Finance costs	1 029 279	-
Impairment deficit	697 727	1 870 804
Movements in provisions	-	557 515
Gain with disposal of assets and liabilities	2 340 685	-
Changes in working capital:		
Inventories	(8 647)	44 929
Receivables from exchange transactions	(16 834 533)	(17 847 423)
Other receivables from non-exchange transactions	2 875 838	(3 863 195)
Receivables from non-exchange transactions	6 630 003	(4 235 151)
Payables from exchange transactions	581 144	2 146 229
VAT	2 724 511	(2 042 614)
Payables from non-exchange transactions	431 108	(380 220)
Unspent conditional grants and receipts	5 579 998	6 612 826
Consumer deposits	(52 458)	(20 981)
Employee benefit obligation	(1 131 838)	(1 545 035)
Operating lease asset	58	18
	25 374 613	**14 525 210**

38. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	**Total**
Other receivables from non-exchange transactions	6 684 115	6 684 115
Receivables from exchange transactions	55 519 516	55 519 516
Receivables from non-exchange transactions	1 373 330	1 373 330
Cash and cash equivalents	6 906 710	6 906 710
	70 483 671	**70 483 671**

Financial liabilities

	At amortised cost	**Total**
Payables from exchange transactions	26 740 197	26 740 197
Payables from non-exchange transactions	823 025	823 025
Finance lease obligation	2 799 880	2 799 880
VAT payable	12 968 971	12 968 971
Consumer deposits	767 081	767 081
Unspent conditional grants and receipts	20 926 705	20 926 705
	65 025 859	**65 025 859**

Figures in Rand	2020	2019

38. Financial instruments disclosure (continued)

2019

Financial assets

	At amortised cost	Total
Other receivables from exchange transactions	9 559 953	9 559 953
Receivables from exchange transactions	38 684 983	38 684 983
Receivables from non-exchange transactions	8 003 334	8 003 334
Cash and cash equivalents	4 355 387	4 355 387
	60 603 657	**60 603 657**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	26 159 055	26 159 055
Payables from non-exchange transactions	391 917	391 917
Finance lease obligation	2 518 249	2 518 249
VAT payable	10 244 460	10 244 460
Consumer deposits	819 539	819 539
Unspent conditional grants and receipts	15 346 707	15 346 707
	55 479 927	**55 479 927**

39. Commitments

Authorised capital expenditure

	2020	2019
Already contracted for but not provided for		
• Property, plant and equipment	25 372 082	17 523 772
Total capital commitments		
Already contracted for but not provided for	25 372 082	17 523 772

This committed expenditure relates to plant and equipment and will be financed by government grants.

40. Contingencies

Litigation is in the process against the municipality relating to a dispute with a supplier who alleges that it suffered financial loss and stock on a housing project, and is seeking damages of R 7 070 000 (2019: R 7 070 000). The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

The following insurance claims is still pending at year end:

- Three children swam in the municipal query and drowned. Damages of R256 000 (2019: R256 000) is claimed by the family and is still in progress.

Figures in Rand	2020	2019

41. Related parties

Relationships

NJ Batties (Councillor)	Bongata Trading 533 CC
	Mighty Warrior Transport Services
	Living World Spritual Faith Ministries
JP Matthee (Councillor)	CBG Consultants (Pty) Ltd
MB Kafi (Councillor)	Sakhisizwe Colesberg Tours
	Sakhisizwe Tours and events manager (Pty) Ltd
	Meals on Wheels
BJ Kapp (Corporate manager)	Birtus Kapp Beleggings CC
	Kapp Family Trust
	Umsobomvu Industrial Development (Pty) Ltd
S Nkoithiso	Masilakhe Consulting CC
	Iviwe Engineering Solutions CC
	Uhamboluhle Construction CC
	Sida Engineering Solutions (Pty) Ltd
S Buka (Bid specification committee)	S.E.A.T Solutions
TD Tshikundu (Chief Financial Officer)	Mako Accounting Academy (Pty) Ltd
	Bokone Stylish Clothing (Pty) Ltd
	Joylou Boutique (Pty) Ltd

Related party transactions

	2020	2019
Property rates levied against related parties		
Councillors	13 395	17 864
Municipal manager and section 57 managers	-	10 737
Service charges rendered to related parties		
Councillors	40 667	37 578
Municipal managers and section 57 managers	-	40 753
Other charges levied against related parties		
Councillors	(277)	(5 196)

Remuneration of management

Councillors

2020

Name	Basic salary	Allowances	Other benefits	Total
MS Toto	604 549	40 800	209 387	854 736
SE Humphries	255 091	40 800	4 136	300 027
MA Sestile	327 367	40 800	4 270	372 437
MR Kafi	327 367	40 800	4 404	372 571
VP Harmse	315 825	40 800	4 538	361 163
W Minnie	327 367	40 800	4 270	372 437
ND Staffie	255 091	40 800	4 404	300 295
NJ Batties	255 091	40 800	3 600	299 491
JP Matthee	255 091	40 800	3 600	299 491
SK Brown	255 091	40 800	3 600	299 491
CM Williams	255 091	40 800	402	296 293
	3 433 021	**448 800**	**246 611**	**4 128 432**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Related parties (continued)

2019

Name	Basic salary	Allowances	Other benefits	Total
MS Toto	581 297	44 400	200 698	826 395
SE Humphries	245 280	44 400	13 305	302 985
MA Sestile	314 776	44 400	14 626	373 802
MR Kafi	314 776	44 400	3 798	362 974
VP Harmse	314 776	44 400	46 830	406 006
W Minnie	314 776	44 400	12 940	372 116
ND Staffie	245 280	44 400	25 892	315 572
NJ Batties	245 280	44 400	256	289 936
JP Matthee	245 280	44 400	512	290 192
SK Brown	245 280	44 400	1 134	290 814
MJ Williams	39 308	7 400	-	46 708
CM Williams	145 018	23 870	512	169 400
	3 251 127	**475 270**	**320 503**	**4 046 900**

Executive management

2020

Name	Basic salary	Performance bonus	Allowances	Other benefits	Total
AC Mpela	1 135 567	174 260	144 000	1 896	1 455 723
TD Tshikundu	571 920	-	154 845	1 422	728 187
S Nkcithiso	635 670	-	20 000	1 422	657 092
BJ Kapp	1 033 154	156 586	147 843	1 896	1 339 479
DT Visagie	261 101	156 586	34 148	474	452 309
P Mosompha	229 192	156 586	14 880	781	401 439
	3 866 604	**644 018**	**515 716**	**7 891**	**5 034 229**

2019

Name	Basic salary	Performance bonus	Allowances	Other benefits	Total
AC Mpela	1 100 715	154 516	144 000	1 888	1 401 119
DT Visagie	981 881	148 142	136 594	1 888	1 268 505
P Mosompha	1 046 475	148 142	72 000	1 888	1 268 505
BJ Kapp	970 632	148 142	147 843	1 785	1 268 402
	4 099 703	**598 942**	**500 437**	**7 449**	**5 206 531**

42. Prior period adjustments

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

Statement of financial position

2019

	Note	As previously reported	Correction of error	Restated
Other receivables from non-exchange transactions		2 546 357	7 013 596	9 559 953
Property, plant and equipment		518 517 416	2 818 933	521 336 349
VAT payable		(10 680 943)	436 483	(10 244 460)
Provisions		(35 052 358)	29 830 755	(5 221 603)
Accuumulated surplus		(470 619 516)	(4 099 766)	(510 719 282)
		4 710 956	**36 000 001**	**4 710 957**

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Fines, penalties and forteits		(6 138 526)	(22 721 952)	-	(28 860 478)
Service charges		(53 477 994)	(444 170)	-	(53 922 164)
Depreciation and amortisation		31 617 394	8 940	-	31 626 334
Debt impairment		6 400 672	19 562 525	-	25 963 197
Impairment loss		1 871 116	(312)	-	1 870 804
Finance costs		4 660 147	(2 309 983)	-	2 350 164
Repairs and maintenance		5 611 238	-	(18 614)	5 592 624
General expenses		11 563 967	(936 299)	18 614	10 646 282
Surplus for the year		**2 108 014**	**(6 841 251)**	**-**	**(4 733 237)**

Errors

The following prior period errors adjustments occurred:

Conlog Trade Receivable

In the prior financial year, a debtor for Conlog prepaid electricity sales for June was not accounted for. This error was subsequently corrected.

The effect of the correction is as follows:

	2020	2019
Increase (decrease) in the Other receivables from non-exchange transactions	444 170	444 170
(Increase) decrease in Accumulated surplus (opening balance)	(444 170)	-
Increase (decrease) in Service charges	-	(444 170)
	-	-

Figures in Rand	2020	2019

42. Prior period adjustments (continued)

VAT payable

During the reconciliation of the VAT payable/receivable transactions where identified that the VAT was not correctly claimed on certain transactions. These discreptencies where corrected in the 2020-08 VAT return.

The effect of the correction is as follows:

(Increase) decrease in the VAT payable transactions	436 483	436 483
(Increase) decrease in the Accumulated surplus (opening balance)	(436 483)	-
Increase (decrease) in General expenses	-	(917 685)
Increase (decrease) in Finance costs	-	(18 614)
Increase (decrease) in Repairs and maintenance	-	499 816
	-	-

Fines issued

Fines income reflected on the financial statements only reflected the actual fines paid and did not include the fines issued during the financial period. As per the audit communication this has been corrected.

The effect of the correction is as follows:

Increase (decrease) in the Other receivables from non-exchange transactions	6 569 425	6 569 425
(Increase) decrease in the Accumulated surplus (opening balance)	(6 569 425)	(3 409 998)
Increase (decrease) in Fines and penalties	-	(22 721 952)
Increase (decrease) in Impairment losses	-	19 562 525
	-	-

Provision for landfill site

During the prior period the unwinding for the provision of the landfill site was not calculated. When this calculation was done for the current period it was noted that the prior period unwinding was incorrect. The interest has been adjusted accordingly.

The effect of the correction is as follows:

(Increase) decrease in the Provision for landfill site	29 830 755	29 830 755
(Increase) decrease in the Accumulated surplus (opening balance)	(29 830 755)	(27 020 956)
Increase (decrease) in the Finance cost	-	(2 809 799)
	-	-

Property, plant and equipment

During the asset verification of the current period there where additional assets identified that was not reflected on the asset register as well as that assets that was disposed in prior periods that was still reflected on the register. The values as been adjusted accordingly.

The effect of the correction is as follows:

Increase (decrease) in the Propertry plant and equipment	2 818 621	2 818 933
(Increase) decrease in the Accumulated surplus (opening balance)	(2 818 621)	(2 827 562)
Increase (decrease) in the Depreciation	-	8 940
Increase (decrease) in the Impairment losses	-	(311)
	-	-

Notes to the Annual Financial Statements

42. Prior period adjustments (continued)

Change in accounting policy

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

Reclassification

For purposes of the presentation and disclosure of the annual financial statements, the traffic fines debtor was reclssified from Other receivables from non-exchange transactions to Receivables from non-exchange transactions.

43. Comparative figures

Certain comparative figures have been reclassified.

44. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these annual financial statements.

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

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

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

Liabilities that are settled by delivering cash or another financial asset. The municipality’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality’s reputation.

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

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

44. Risk management (continued)

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.

The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.

The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.

Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large
number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

44. Risk management (continued)

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting.

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

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

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer deposits are increased accordingly.

Long-term receivables and other debtors are individually evaluated annually at the reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality’s exposures to interest rates on Financial assets and Financial liabilities are detailed in the Credit Risk Management section of this note.

Price risk

The municipality does not hold any shares.

45. Unauthorised expenditure

	2020	2019
Opening balance	6 979 433	-
Add: Unauthorised expenditure - current year	19 785 309	6 979 433
	26 764 742	**6 979 433**

Figures in Rand	2020	2019

46. Fruitless and wasteful expenditure

No fruitless and wasteful expenditure has been identified for the current or previous financial years.

47. Irregular expenditure

	2020	2019
Opening balance	16 437 796	7 310 817
Add: Irregular expenditure - current year	2 216 544	5 100 109
Add: Irregular expenditure - current year (unspent conditional grants)	14 019 995	10 991 320
Add: Irregular expenditure - current year (additionally identified)	-	2 864 199
Less: Amounts approved by council and written off	(2 190 852)	(9 828 649)
	30 483 483	**16 437 796**

Details of irregular expenditure not recoverable

-

During the special council meeting held on 16 October 2020, the following resolutions were taken:

- Irregular expenditure amounting to R2 190 852 be approved and written off;
- No disciplinary charges be laid against officials or any political office bearers; and
- No criminal charges be laid against officials or any political office bearers.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2020	2019
Current year membership fee	582 228	527 880
Amount paid - current year	(582 228)	(527 880)
	-	-

Audit fees

	2020	2019
Current year audit fee	2 306 259	3 735 190
Amount paid - current year	(2 306 259)	(3 735 190)
	-	-

PAYE, UIF and SDL

	2020	2019
Current year employee tax	8 062 552	7 191 137
Amount paid - current year	(8 062 552)	(7 191 137)
	-	-

Pension and medical aid deductions

	2020	2019
Current year deductions	9 277 255	8 302 862
Amount paid - current year	(9 277 255)	(8 302 862)
	-	-

Figures in Rand	2020	2019

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

VAT

VAT payable	12 968 971	10 244 460

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

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

Distribution losses

Electricity	6 447 531	7 237 122
Water	9 137 943	2 242 055
	15 585 474	**9 479 177**

Electricity losses

The municipality purchased 23 394 780 (2019: 23 676 130) units during the financial year. It sold / billed 17 765 702 (2019: 16 459 283) units during the year and has calculated its distribution losses to be an estimated 24.06% (2019: 30.48%) at an average cost of R1.1454 (2019: R1.0028) per unit.

The main reasons for incurring electricity losses relates to the dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering. The problem with tampered 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.

Water losses

The municipality pumped 2 583 426 (2019: 2 305 218) units during the financial year. It sold / billed 911 866 (2019: 1 079 124) units during the year and has calculated its distribution losses to be an estimated 64.70% (2019: 53.19%) at an average cost of R2.1009 (2019: R1.8286) per unit.

These losses occur due to inter alia, leakages, the tampering of meters, incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered 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.

Councillors' arrear consumer accounts

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

30 June 2020	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
MS Toto	1 780	1 004	2 784
E Humphries	1 423	989	2 412
MA Sestile	1 320	277	1 597
MR Kafi	2 421	1 093	3 514
VP Harmse	1 321	2 004	3 325
NJ Batties	2 036	24 913	26 949
MJ Williams	2 043	602	2 645
W Minnie	1 455	4 183	5 638
J Mathee	6 762	46	6 808
	20 561	**35 111**	**55 672**

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

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MS Toto	1 969	77	2 046
E Humphries	1 236	463	1 699
MR Kafi	1 226	3 636	4 862
VP Harmse	1 313	796	2 109
NJ Batties	2 118	22 080	24 198
	7 862	**27 052**	**34 914**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
MS Toto	646	90
MR Kafi	1 486	30
E Humphries	530	30
MA Sestile	467	30
W Minnie	4 208	360
VP Harmse	571	30
MJ Williams	945	270
J Mathee	4 724	360
N Batties	1 116	180
	14 693	**1 380**

30 June 2019	Highest outstanding amount	Aging (in days)
MS Toto	643	90
E Humphries	869	90
MA Sestile	371	90
MR KAFI	11 278	90
VP Harmse	1 082	90
NJ Batties	22 080	90
JP Matthee	1 875	90
MJ Williams	4 348	90
	42 546	**720**

Supply chain management regulations

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

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

The expenses incurred as listed hereunder have been condoned.

Incident	2020	2019
Exceptional cases	958 909	615 849
Sole provider	629 814	802 279
Emergency cases	557 745	720 629
	2 146 468	**2 138 757**

49. Budget differences

Material differences between budget and actual amounts

Material differences are deemed material were the differences differ with 10% or more of the final budget.

Statement of financial performance

Service charges: The municipality billed less services than budgeted for.The decrease is also as a result of customers who are tempering with their electricity meters as it can be witnessed in the increase of distribution losses.

Rental in facilities and equipment: The municipality expected an increase in the income from rental facilities, unfortunately the anticipated increase was not achieved in the financial year due to the COVID -19 pandemic.

Agency services: This is attributable to the increase in collection of license fees.

Other income: Management expected an increase in other income, unfortunately the anticipated increase was not achieved. Licence and permits have been included as other income, as it is immaterial.

Government grants and subsidies: This is mainly as a result of an increase in Equitable share because of unspent MIG and WSIG grants in 2018-19 financial year.

Fines, penalties and interest: The increase is due to the inclusion of traffic fines in the financial year.

Impairment loss: Impairment loss was not budgeted for and only came to light during the fixed asset verifications.

Contracted services: Is seperately budgeted for but is included in general expenses. The decrease is as a result of underspending of grants , this can be seen in unspent conditional grants in the financial year.

General expenses: Management did not account for certain expenditure in the budget. For presentation purposes, audit fees, consulting and professional fees, fines and penalties and travel and subsistence costs were presented seperately on the statement of financial performance. Their respective budgets were however included under general expenses.

Finance cost: Management did not budget for finance cost to be incurred in the financial year.

Debt impairment: Increase in impairment of debtors is due to the increase in aging of customer debt that is not being settled by customers. Management also ensured that all fines issued have been accounted for in terms of iGRAP 1 and have provided for the portion deemed irrecoverable, which was not budgeted for.

Bulk purchases: Due to increase in water and electricity rates.

Loss in disposal: Management did not budget to dispose if assets at a loss.

Statement of financial position

Inventory: Due to a decrease in the water stock at yearend (volume and price).

Other receivables from non-exchange transactions: Due to the reclassification of certain debtors previously disclosed as such. All fines issued have been accounted for/recognised in terms of iGRAP 1. This resulted in the material difference.

Consumer debtors: Management expected an increase in debtor recoverability rate, this recovery rate was not achieved.

Cash and cash equivalents: Management expected an increase debtor recoverability rate, the lower payment rates for debtors lead to decrease in cash balance.

Operating lease asset: Immaterial balance and therefore not budgeted for.

Finance lease liabilities: Management did not budget for the finance lease liability.

Payables from exchange transactions: Due to the fact that the desired debtor recovery rate was not achieved, it could not settle the creditors as planned and budgeted for.

Figures in Rand	2020	2019

49. Budget differences (continued)

Payables from non-exchange transactions: Not budgeted for separately, increase due to cashflow restricting to settle creditors.

Unspent conditional grants: Management planned to exhaust all grant funding due to the COVID-19 pandemic, there were delays in spending of projects. Therefore , the municipality did not realise the revenue from qualifying exepnditure.

VAT payable: Not budgeted for separately.

Consumer deposits: The expected number of new accounts did not realise.

Provisions: Due to the fact that this provision is a non-cash flow entry, management budgeted more for the provision at yearend.

Employee benefit liabilities: Not budgeted for separately.

50. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2020.

51. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 500 121 898 and that the municipality's total assets exceed its liabilities by R 500 121 898.

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

Management considered the following matters relating to the going concern assumption:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- The municipality’s budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors’ collection rates and creditors’ payment terms are closely monitored and the necessary corrective actions instituted.
- The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- Deficit of R10 597 384 (2019: surplus of R1 641 908) was realised, Government grants and subsidies contributed R78 387 001 (2019: R66 233 593).
- The municipality's unspent conditional grants for the current year amounted to R20 926 705 (2019: R15 346 707). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has not improved during the current financial year.

51. Going concern (continued)

- The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A provision for doubtful debt amounting to R196 510 196 (2019: R181 052 945) has been disclosed in the financial statements.

- As at 30 June 2020 the municipality's current liabilities amounted to R63 832 929 (2019: R54 338 680), whilst the current assets amounted to R70 890 052 (2019: R61 001 391).

- The current and acid test ratios are below the required ratio of 1.11:1 and 1.00:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

- The Umsobomvu Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2020 financial year, the allocated Equitable Share allocation amounts to R53 603 000 and the Financial Management Improvement Grant to R1 970 000.

- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2018 furthermore disclosed government's proposed allocation of the 2020 and 2021 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.

- The municipality has not been placed under administration for the 12 months ending 30 June 2020.