Port St Johns Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

General Information

Legal form of entity	Municipality
Nature of business and principal activities	The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, Refuse and Waste Management Services - The collection and disposal of refuse.
Executive committee	
Mayor	Cllr. N Mlombile-Cingo
Speaker	Cllr. A.A Gantsho
Chief Whip	Cllr. C.S Nduku/Mazuza
Councillors	Cllr. N.F Bokwe
	Cllr. Z.H Cube
	Cllr. M Dyosoba
	Cllr. K.M Fono (Resigned 14/12/2020)
	Cllr. F Jama
	Cllr. N.C Fono
	Cllr. D.V Madini
	Cllr. F Mafaka
	Cllr. N.P Majali
	Cllr. K Majeke
	Cllr. Z Maqina (Deceased 23/02/2021)
	Cllr. S.V Mavimbela
	Cllr. L Rolobile
	Cllr. Z Mhlabeni
	Cllr. N Mfiki (Deceased 22/12/2020)
	Cllr. D.Z Mnceba
	Cllr. B Mjakuja
	Cllr. X Moni
	Cllr. Z Mtiki
	Cllr. N.B Mtuku
	Cllr. A Mzungule
	Cllr. L Ndamase
	Cllr. T.M Msongelwa
	Cllr. S.L Ntlatywa
	Cllr. T Ntsham
	Cllr. S.E Sicoto
	Cllr. N.P Soga
	Cllr. N Tani
	Cllr. N Tshitshiliza
	Cllr. G Tshotho
	Cllr. N Vava
	Cllr. M Veni
	Cllr. G.X Vimba
	Cllr. R.M Zweni
	Cllr. M Hobo
	Cllr. Z Totwana (Deceased 07/07/2020)
	Cllr. S Ndabeni
	Cllr. S Madolo

General Information

	Cllr. N Mdidana Cllr. M.B Madotyeni
Chief Financial Officer (CFO)	Ms B.A Mbana
Accounting Officer	Mr H.T Hlazo
Registered office	257 Main street Port St Johns 5120
Business address	257 Main street Port St Johns 5120
Postal address	P O Box 2 Port St Johns 5120
District Municipality	OR Tambo District Municipality
Bankers	Standard Bank
Auditors	Auditor-General South Africa
Municipal demarcation code	EC154
Grading of Local Authority	Grade 3
Capacity of local authority	Low

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

GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
Cllr	Councillor
EPWP	The Expanded Public Works Programme

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 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 set out on pages 5 to 115, which have been prepared on the going concern basis, were approved by the accounting officer on 02 March 2022 and were signed on its behalf by:

Mr H.T Hlazo

Accounting Officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

Port St Johns Local Municipality is a local government institution established in terms of the Municipal Systems Act 32 of 2000 and The Constitution of the Republic of South Africa. The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, refuse, general services and includes the rental of units owned by the municipality.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in my opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 633 674 195 and that the municipality's total assets exceed its liabilities by R 633 674 195 .

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.

Since March 2020 the consequences of the COVID-19 pandemic have materially and adversely affected the ability of the municipality to continue normal operations in delivering services to the community with all the efforts being directed towards the fight against the pandemic. The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council.

Although there is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions, these uncertainties together with the plans explained above do not at this time cast significant doubt on the municipality's ability to continue as a going concern.

3. Subsequent events

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council from the beginning of hard lock down period from 26th of March 2020.

The municipality has determined that these events are non-adjusting subsequent events.

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr H.T Hlazo	South African

5. Interest in controlled entities

Name of controlled entity	Country of incorporation	Percentage
Port St Johns Development Agency	South Africa	100

6. Bankers

The municipality banks with Standard Bank.

Accounting Officer's Report

7. Auditors

Auditor-General South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2021

	Notes	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	68 141 109	39 048 056
Receivables from exchange transactions	4&6	103 011	19 631 337
Receivables from non-exchange transactions	5&6	5 277 077	5 549 881
VAT receivable	7	1 863 386	7 065 372
Consumer debtors	8	572 791	1 041 967
Cash and cash equivalents	9	146 974 002	108 918 432
		222 931 376	**181 255 045**
Non-Current Assets			
Investment property	10	4 629 586	530 000
Property, plant and equipment	11	482 345 102	473 435 101
Heritage assets	12	123 700	-
		487 098 388	**473 965 101**
Total Assets		**710 029 764**	**655 220 146**
Liabilities			
Current Liabilities			
Finance lease obligation	13	401 422	53 650
Payables from exchange transactions	14	37 192 889	37 123 755
Consumer deposits	15	61 000	61 000
Employee benefit obligation	16	526 000	1 057 000
Unspent conditional grants and receipts	17	16 464 745	18 516 220
		54 646 056	**56 811 625**
Non-Current Liabilities			
Finance lease obligation	13	283 610	18 279
Operating lease liability	18	2 565 214	2 442 273
Employee benefit obligation	16	3 807 000	3 350 000
Provisions	19	15 053 689	10 565 447
		21 709 513	**16 375 999**
Total Liabilities		**76 355 569**	**73 187 624**
Net Assets		**633 674 195**	**582 032 522**
Accumulated surplus		633 674 195	582 032 522
Total Net Assets		**633 674 195**	**582 032 522**

* See Note 56

Statement of Financial Performance

	Notes	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	1 006 013	956 782
Rental of facilities and equipment	21	62 234	9 844
Interest charged on overdue consumer accounts		5 163 193	4 233 799
Licences and permits	22	917 222	617 207
Other income	24	554 728	825 832
Investment revenue - investment	25	5 529 526	5 365 227
Actuarial gains		-	15 242
Total revenue from exchange transactions		**13 232 916**	**12 023 933**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	11 972 172	9 792 798
Transfer revenue			
Government grants & subsidies	27	280 433 205	231 070 457
Donations received	28	10 779 702	1 900 000
Fines, Penalties and Forfeits	29	253 100	253 300
Total revenue from non-exchange transactions		**303 438 179**	**243 016 555**
Total revenue		**316 671 095**	**255 040 488**
Expenditure			
Employee related costs	30	(87 414 646)	(75 753 626)
Remuneration of councillors	31	(13 089 325)	(13 596 950)
Depreciation and amortisation	32	(55 861 108)	(49 734 688)
Impairment loss	33	(15 370 364)	(42 612)
Finance costs	34	(1 097 990)	(1 348 067)
Lease rentals on operating lease	23	(701 127)	(1 533 055)
Debt Impairment	35	(9 952 447)	(4 755 883)
Contracted services	36	(7 344 188)	(6 192 843)
Transfers and Subsidies	37	(9 338 833)	(8 724 134)
Loss on disposal of assets and liabilities		(11 562 616)	(4 160 079)
Actuarial losses		(184 602)	-
Inventory losses/write-downs		(102 360)	(559 406)
General expenses	38	(53 009 818)	(46 603 709)
Total expenditure		**(265 029 424)**	**(213 005 052)**
Surplus for the year		**51 641 671**	**42 035 436**

* See Note 56

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Opening balance as previously reported	549 958 092	549 958 092
Adjustments		
Prior year adjustments	(9 961 006)	(9 961 006)
Balance at 01 July 2019 as restated*	**539 997 086**	**539 997 086**
Changes in net assets		
Surplus for the year	42 035 436	42 035 436
Total changes	42 035 436	42 035 436
Restated* Balance at 01 July 2020	**582 032 524**	**582 032 524**
Changes in net assets		
Surplus for the year	51 641 671	51 641 671
Total changes	51 641 671	51 641 671
Balance at 30 June 2021	**633 674 195**	**633 674 195**

* See Note 56

Cash Flow Statement

	Notes	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
License and Permits		1 054 805	635 707
Grants		278 381 729	247 436 507
Interest income		4 923 453	5 365 227
Traffic fines		20 000	32 100
VAT Refunds		22 134 628	28 067 291
Receipts from consumers(rates and refuse)		9 157 205	6 722 887
Other receipts		2 264 775	525 430
		317 936 595	288 785 149
Payments			
Employee costs		(85 244 418)	(73 987 883)
Remuneration of councillors		(13 089 325)	(13 596 950)
Finance costs		(29 555)	(26 740)
Suppliers		(63 015 543)	(74 040 297)
Grants and subsidies paid		(9 338 833)	(8 724 134)
		(170 717 674)	(170 376 004)
Net cash flows from operating activities	41	**147 218 921**	**118 409 145**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(104 783 497)	(66 199 655)
Proceeds from sale of property, plant and equipment	11	287 682	18 210
Purchase of investment property	10	(4 462 062)	-
Purchase of heritage assets	12	(123 700)	-
Net cash flows from investing activities		**(109 081 577)**	**(66 181 445)**
Cash flows from financing activities			
Finance lease payments		(81 774)	(364 356)
Net increase/(decrease) in cash and cash equivalents		**38 055 570**	**51 863 344**
Cash and cash equivalents at the beginning of the year		108 918 432	57 055 088
Cash and cash equivalents at the end of the year	9	**146 974 002**	**108 918 432**

* See Note 56

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 603 548	-	**1 603 548**	1 006 013	**(597 535)**	**[A1]**
Rental of facilities and equipment	55 177	(30 177)	**25 000**	62 234	**37 234**	
Interest charged on overdue consumer accounts	3 515 515	484 485	**4 000 000**	5 163 193	**1 163 193**	**[A2]**
Licences and permits	85 000	-	**85 000**	917 222	**832 222**	**[A3]**
Other income	16 954 030	1 676 568	**18 630 598**	554 728	**(18 075 870)**	**[A4]**
Interest received - investment	4 414 192	585 808	**5 000 000**	5 529 526	**529 526**	**[A5]**
Total revenue from exchange transactions	**26 627 462**	**2 716 684**	**29 344 146**	**13 232 916**	**(16 111 230)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	10 653 940	-	**10 653 940**	11 972 172	**1 318 232**	**[A6]**
Transfer revenue						
Government grants & subsidies	250 409 999	50 238 821	**300 648 820**	280 433 205	**(20 215 615)**	**[A7]**
Donations received	-	-	**-**	10 779 702	**10 779 702**	**[A8]**
Fines, Penalties and Forfeits	52 450	-	**52 450**	253 100	**200 650**	
Total revenue from non-exchange transactions	**261 116 389**	**50 238 821**	**311 355 210**	**303 438 179**	**(7 917 031)**	
Total revenue	**287 743 851**	**52 955 505**	**340 699 356**	**316 671 095**	**(24 028 261)**	
Expenditure						
Employee related costs	(63 842 476)	(6 117 506)	**(69 959 982)**	(87 414 646)	**(17 454 664)**	**[A9]**
Remuneration of councillors	(13 476 917)	-	**(13 476 917)**	(13 089 325)	**387 592**	
Depreciation and amortisation	(37 784 559)	(2 980 485)	**(40 765 044)**	(55 861 108)	**(15 096 064)**	**[A10]**
Impairment loss	-	-	**-**	(15 370 364)	**(15 370 364)**	**[A11]**
Finance costs	(450 588)	150 000	**(300 588)**	(1 097 990)	**(797 402)**	**[A12]**
Lease rentals on operating lease	(294 142)	(534 000)	**(828 142)**	(701 127)	**127 015**	**[A13]**
Debt Impairment	(5 000 000)	-	**(5 000 000)**	(9 952 447)	**(4 952 447)**	**[A14]**
Contracted Services	(14 904 609)	1 156 093	**(13 748 516)**	(7 344 188)	**6 404 328**	**[A13]**
Transfers and Subsidies	(14 739 658)	(2 300 000)	**(17 039 658)**	(9 338 833)	**7 700 825**	**[A13]**
General Expenses	(76 734 780)	(9 481 441)	**(86 216 221)**	(53 009 818)	**33 206 403**	**[A13]**
Total expenditure	**(227 227 729)**	**(20 107 339)**	**(247 335 068)**	**(253 179 846)**	**(5 844 778)**	
Operating surplus	**60 516 122**	**32 848 166**	**93 364 288**	**63 491 249**	**(29 873 039)**	
Loss on disposal of assets	-	-	**-**	(11 562 616)	**(11 562 616)**	
Actuarial losses	-	-	**-**	(184 602)	**(184 602)**	
Inventory variances (gains)	-	-	**-**	(102 360)	**(102 360)**	
	-	**-**	**-**	**(11 849 578)**	**(11 849 578)**	
Surplus for the year	**60 516 122**	**32 848 166**	**93 364 288**	**51 641 671**	**(41 722 617)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**60 516 122**	**32 848 166**	**93 364 288**	**51 641 671**	**(41 722 617)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	733 097	-	**733 097**	68 141 109	**67 408 012**	[B1]
Receivables from exchange transactions	16 497 672	-	**16 497 672**	103 011	**(16 394 661)**	[B2]
Receivables from non-exchange transactions	-	-	**-**	5 277 077	**5 277 077**	[B3]
VAT receivable	-	-	**-**	1 863 386	**1 863 386**	[B4]
Consumer debtors	11 593 651	1 077 535	**12 671 186**	572 791	**(12 098 395)**	[B3]
Cash and cash equivalents	57 308 528	(1 490 167)	**55 818 361**	146 974 002	**91 155 641**	[B5]
	86 132 948	**(412 632)**	**85 720 316**	**222 931 376**	**137 211 060**	
Non-Current Assets						
Investment property	11 461 003	-	**11 461 003**	4 629 586	**(6 831 417)**	[B6]
Property, plant and equipment	450 480 235	41 396 386	**491 876 621**	482 345 102	**(9 531 519)**	[B7]
Intangible assets	-	110 000	**110 000**	-	**(110 000)**	
Heritage assets	-	-	**-**	123 700	**123 700**	
	461 941 238	**41 506 386**	**503 447 624**	**487 098 388**	**(16 349 236)**	
Total Assets	**548 074 186**	**41 093 754**	**589 167 940**	**710 029 764**	**120 861 824**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	343 906	**343 906**	401 422	**57 516**	
Payables from exchange transactions	194 608 518	(159 682 047)	**34 926 471**	37 192 890	**2 266 419**	[B8]
Consumer deposits	61 000	-	**61 000**	61 000	**-**	
Employee benefit obligation	-	-	**-**	526 000	**526 000**	[B10]
Unspent conditional grants and receipts	-	-	**-**	16 464 745	**16 464 745**	[B9]
Provisions	11 357 092	(11 240 602)	**116 490**	-	**(116 490)**	
	206 026 610	**(170 578 743)**	**35 447 867**	**54 646 057**	**19 198 190**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	283 610	**283 610**	
Operating lease liability	-	2 381 462	**2 381 462**	2 565 214	**183 752**	
Employee benefit obligation	-	-	**-**	3 807 000	**3 807 000**	[B10]
Provisions	5 583 430	10 132 407	**15 715 837**	15 053 689	**(662 148)**	[B11]
	5 583 430	**12 513 869**	**18 097 299**	**21 709 513**	**3 612 214**	
Total Liabilities	**211 610 040**	**(158 064 874)**	**53 545 166**	**76 355 570**	**22 810 404**	
Net Assets	**336 464 146**	**199 158 628**	**535 622 774**	**633 674 194**	**98 051 420**	
Net Assets						
Reserves						
Accumulated surplus	336 464 146	199 158 628	**535 622 774**	633 674 194	**98 051 420**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Receipts from consumers(rates and refuse)	8 827 244	(3 423 106)	**5 404 138**	9 157 205	**3 753 067**	
Interest income	4 414 192	585 808	**5 000 000**	4 923 453	**(76 547)**	
Grants	205 184 181	93 846 110	**299 030 291**	278 381 729	**(20 648 562)**	
Other receipts	23 316 202	(4 843 154)	**18 473 048**	25 474 208	**7 001 160**	
	241 741 819	**86 165 658**	**327 907 477**	**317 936 595**	**(9 970 882)**	
Payments						
Suppliers and employees	(154 054 173)	(27 380 933)	**(181 435 106)**	(170 688 119)	**10 746 987**	
Finance costs	(450 588)	-	**(450 588)**	(29 555)	**421 033**	
	(154 504 761)	**(27 380 933)**	**(181 885 694)**	**(170 717 674)**	**11 168 020**	
Net cash flows from operating activities	**87 237 058**	**58 784 725**	**146 021 783**	**147 218 921**	**1 197 138**	**[C1]**
Cash flows from investing activities						
Purchase of property, plant and equipment	(100 984 349)	(24 151 685)	**(125 136 034)**	(104 783 497)	**20 352 537**	
Proceeds from sale of property, plant and equipment	-	-	**-**	287 682	**287 682**	
Purchase of investment property	-	-	**-**	(4 462 062)	**(4 462 062)**	
Purchases of heritage assets	-	-	**-**	(123 700)	**(123 700)**	
Net cash flows from investing activities	**(100 984 349)**	**(24 151 685)**	**(125 136 034)**	**(109 081 577)**	**16 054 457**	**[C2]**
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(81 774)	**(81 774)**	**[C3]**
Net increase/(decrease) in cash and cash equivalents	(13 747 291)	34 633 040	**20 885 749**	38 055 570	**17 169 821**	
Cash and cash equivalents at the beginning of the year	91 288 729	1 568 528	**92 857 257**	108 918 432	**16 061 175**	
Cash and cash equivalents at the end of the year	**77 541 438**	**36 201 568**	**113 743 006**	**146 974 002**	**33 230 996**	

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Property rates	10 653 940	-	10 653 940	-		10 653 940	11 972 172		1 318 232	112 %	112 %
Service charges	1 603 548	-	1 603 548	-		1 603 548	1 006 013		(597 535)	63 %	63 %
Investment revenue	4 414 192	585 808	5 000 000	-		5 000 000	5 529 526		529 526	111 %	125 %
Transfers recognised - operational	167 369 999	30 335 142	197 705 141	-		197 705 141	197 658 710		(46 431)	100 %	118 %
Other own revenue	20 662 172	2 130 876	22 793 048	-		22 793 048	6 950 477		(15 842 571)	30 %	34 %
Total revenue (excluding capital transfers and contributions)	**204 703 851**	**33 051 826**	**237 755 677**	**-**		**237 755 677**	**223 116 898**		**(14 638 779)**	**94 %**	**109 %**
Employee costs	(63 842 476)	(6 117 506)	(69 959 982)	-	-	(69 959 982)	(87 414 646)	-	(17 454 664)	125 %	137 %
Remuneration of councillors	(13 476 917)	-	(13 476 917)	-	-	(13 476 917)	(13 089 325)	-	387 592	97 %	97 %
Debt impairment	(5 000 000)	-	(5 000 000)			(5 000 000)	(9 952 447)	-	(4 952 447)	199 %	199 %
Depreciation and asset impairment	(37 784 559)	(2 980 485)	(40 765 044)			(40 765 044)	(71 231 472)	-	(30 466 428)	175 %	189 %
Finance charges	(450 589)	150 000	(300 589)	-	-	(300 589)	(1 097 990)	-	(797 401)	365 %	244 %
Transfers and grants	(14 739 658)	(2 300 000)	(17 039 658)	-	-	(17 039 658)	(9 338 833)	-	7 700 825	55 %	63 %
Other expenditure	(91 933 531)	(8 859 348)	(100 792 879)	-	-	(100 792 879)	(72 904 711)	-	27 888 168	72 %	79 %
Total expenditure	**(227 227 730)**	**(20 107 339)**	**(247 335 069)**	**-**	**-**	**(247 335 069)**	**(265 029 424)**	**-**	**(17 694 355)**	**107 %**	**117 %**
Surplus/(Deficit)	**(22 523 879)**	**12 944 487**	**(9 579 392)**	**-**		**(9 579 392)**	**(41 912 526)**		**(32 333 134)**	**438 %**	**186 %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	83 040 000	19 903 679	102 943 679	-		102 943 679	82 774 495		(20 169 184)	80 %	100 %
Donations received	-	-	-	-		-	10 779 702		10 779 702	- %	- %
Surplus (Deficit) after capital transfers and contributions	**60 516 121**	**32 848 166**	**93 364 287**	**-**		**93 364 287**	**51 641 671**		**(41 722 616)**	**55 %**	**85 %**
Surplus/(Deficit) for the year	**60 516 121**	**32 848 166**	**93 364 287**	**-**		**93 364 287**	**51 641 671**		**(41 722 616)**	**55 %**	**85 %**

Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

Budget differences

Material differences between budget and actual amounts

The variances between budget and actual of amounts numerically above R500 000 are explained below:

[A] Statement of financial performance

[A1] The Municipality billed all the consumers for Service charges as expected. The monthly billings are largely in line with budgeted. However, the Municipality also added arrears to current year budgeted figures which resulted in the budget being higher than actual amount.

[A2] Interest received from debtors was more than budget. Budget was based on expected amounts owed by debtors. Actual interest was more than budgeted lower than expected payments recovered from customers and more interest charged on outstanding debt.

[A3] Licences and permits revenue was higher than budgeted due to more licences issued than anticipated. This includes trade licenses (at the beach and hawkers) and testing of drivers licences. The budget was affected by Covid 19 since there were restrictions of accessing the beaches also the municipality was hoping that Drivers licences issuing will be fully functional.

[A4] On the budget for other income, municipality also budgeted an amount for VAT refunds for the 2020/2021 financial years. Such recoveries are however not other income and they are credited to the VAT receivable in the Statement of Financial Position.

[A5] Interest received from investment was more than budgeted due to increase in the amounts invested in interest earning call accounts coupled with decreased interest rates. Also, deposits placed with attorneys at the end of the 2019/2020 financial year earned a total interest of R723 553 in the current year.

[A6] Property rates revenue was more than budget due to the fact municipality billed all the ratepayers on the valuation roll using the latest valuation roll which had higher market values than the ones used when the budget was determined.

[A7] The government grants recognised as revenue was less than budget due to decreased grant for Integrated National Electrification Programme, Energy efficient and Demand side Management and Municipal Infrastructure Grants was not fully recognised since projects could not be completed due to funds not received in full.

[A8] The municipality received a bridge, free cell phones and tablets as well as a community hall as donations. All these were not budgeted for.

[A9] Employee related costs budget was less than actual due to the fact that the municipality paid back pay for prior years to employees for Acting allowance, Overtime and Medical aid. Also in the current year, the municipality approved and paid COVID 19 danger allowances and public holiday allowances to its employees.

[A10] Depreciation and amortisation budget is less than actual due to more projects that were completed during the current year. These were depreciated from capitalisation dates. The municipality also received some assets as donations. These were not budgeted for but had a effect of increasing depreciation in current year.

[A11] Asset impairment losses were not budgeted for.

[A12] Finance costs are more than budgeted due to the discounting of the environmental rehabilitation provision as well as the interest incurred on the long service employee benefit obligation which were not budgeted for.

[A13] The operating expenditure was less than budget due to COVID 19 pandemic which prevented the Municipality from operating fully and application of cost containment measures.

[A14] Debt impairment was more than budgeted due to deterioration in recovery patterns from debtors which influence the impairment allowance.

Appropriation Statement

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

[B] Statement of financial position

[B1] Inventory was more than budgeted due to huge purchases in the year amounting to R4million which had not yet been fully consumed by the end of the year as well as completion of INEP projects which were transferred to inventory whilst waiting for handover to Eskom.

[B2] The deposits made by the municipality in the previous year for the purchase of three properties namely erf 904, erf 398 and erf 183 amounting to R15million were all transferred to buildings and investment property during the year following the transfer of these properties to the municipality at the Deeds Office. This caused the huge decrease in the balance and explains the variance between actual and budget.

[B3] The receivables from non-exchange and the consumer debtors at year end are less than budgeted for due to higher non-payment rates than expected. This resulted in a higher impairment allowance than budgeted. Higher impairment resulted in lower carrying amount than budgeted at year end.

[B4] The municipality did not budget for any VAT receivable as they anticipated that the outstanding returns would have been settled by year end. There outstanding VAT at year end was due to VAT not yet received from SARS and also the accrual.

[B5] Cash and cash equivalents were higher than budgeted at year end due to reduced operations and hence less payments made in the last quarter of the year caused by the COVID 19 induced lockdown.

[B6] Investment property is less than budgeted due to purchase of two new properties (erf 398 and erf 183) during the year. Also, the municipality had to derecognise one of the properties which it had on the register after realising that it was sold long time ago. This was however, included in the budget hence the huge decrease.

[B7] Property, plant and equipment was less than budget due to errors realised during the audit where the municipality had to derecognise some land parcels which it continued to carry on its asset register despite them having been sold in previous years. Also, the municipality had to transfer all completed INEP projects from its work in progress to inventory. These two are the major drivers of the variance. Without these, the actual amount would have been more due to assets that were completed from work in progress, new projects added to work in progress, new building purchased and donations received

[B8] Payables from exchange increased due to increased purchasing towards year end whose invoices were settled after year end.

[B9] Unspent conditional grants were not budgeted for. The municipality expected to complete all projects by year end and recognised the grant revenue. It was however prevented from doing so by the COVID 19 pandemic and had to roll over the project into the 2021/2022 financial year.

[B10] Employee benefit obligation is the defined benefit obligation of the municipality emanating from the long service awards of employees. This was also not budgeted for.

[B11] The increase in the Landfill site provision was less anticipated during budgeting due to less than expected increase in expected landfill closure costs as well and changes in the discount rate.

[C] Cash Flow statement

[C1] Cash flow from operating activities is more than budgeted due to cost savings on general expenditure.

[C2] Cash spent of procurement of property, plant and equipment was less than budgeted due to delays in Municipal Infrastructure Grant and Integrated National Electrification Programme projects.

[C3] Finance lease payments were not budgeted for.

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 consumer receivables and other 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.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance is estimated to write stock down to the lower of cost or net replacement cost. Management have made estimates of the replacement costs on certain inventory items. The write down is included in the operation surplus.

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 key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of 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 largelyindependent 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. They are significantly affected by a number of factors including economic factors such as rates inflation and interest.

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 19 - Provisions.

Useful lives and residual values of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

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. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for employee benefit obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20-30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

Property interests held under operating leases are classified and accounted for as investment property.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property are as follows:
- The nature of the asset;
- The reason(s) why the assets was acquired; and
- The asset's current use.

Accounting Policies

1.5 Investment property (continued)

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 11).

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

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	Non depreciable	Non depreciable
Buildings	Straight-line	30 years
Plant and machinery	Straight-line	2 - 20 years
Furniture and office equipment	Straight-line	7 - 12 years
IT equipment	Straight-line	3 years
Cellular equipment	Straight-line	2 years
Infrastructure	Straight-line	15 - 50 years
Community assets	Straight-line	30 years
Transport assets	Straight-line	5 - 10 years
Bins and containers	Straight-line	5 years

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

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

1.7 Site restoration and dismantling cost

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

1.7 Site restoration and dismantling cost (continued)

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

1.8 Heritage assets

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

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

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

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

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.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

1.8 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.9 Financial instruments

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

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.

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

1.9 Financial instruments (continued)

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

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

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
Cash and cash equivalents	Financial asset measured at amortised cost

The 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
Finance lease obligation	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

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

Fair value measurement considerations

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

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

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.

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.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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.

Financial liabilities

The municipality 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 municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

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

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

Accounting Policies

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

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

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

Accounting Policies

1.10 Statutory receivables (continued)

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable 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 receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

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

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

1.11 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the unaudited 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 unaudited statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

Operating leases - lessor

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

1.12 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the 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.

1.13 Impairment of cash-generating assets

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

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

1.13 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets.

Designation

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

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

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

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.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

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

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

Discount rate

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

1.13 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

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

Carrying amount is the amount at which an asset is recognised in the unaudited 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.

Accounting Policies

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

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

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

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

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

Designation

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

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

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

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

Identification

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

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

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

Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.15 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

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

- a municipality’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 a municipality’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.15 Employee benefits (continued)

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 recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

The entity recognises the expected cost of bonus, incentive and performance related payments when the municipality 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 municipality 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.

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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 municipality during a reporting period, the municipality recognises 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 municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality 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 recognises 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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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 municipality 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.

1.15 Employee benefits (continued)

The municipality 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.

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

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

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

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

The municipality 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.

Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

The municipality 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 municipality 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.

1.16 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of 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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

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.

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

1.18 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed. .

Interest

Revenue arising from the use by others of entity assets yielding interest 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.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

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

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

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.

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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

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

Recognition

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

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a nonexchange 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.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Taxes (property rates)

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

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.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are recognised as revenue when the infringement is committed and the fine is issued.

Impairment is recognised using the collection statistics for the period. If the municipality has managed to collect say 20% of traffic fines issued historically, then an impairment is recognised at 80% of all outstanding traffic fine debtors at year end.

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.

1.19 Revenue from non-exchange transactions (continued)

Services in-kind

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

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

Grants

Revenue received from conditional grants is recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. A liability is recognised, to the extent that the criteria, conditions or obligations have not been met.

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

Revenue is measured at the fair value of the consideration received or receivable.

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 present 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 will be recognised as revenue.

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the unadited 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.

Accounting Policies

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- this Act; or
- the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- 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 MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year 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 condonedt

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

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

1.26 Statutory receivables

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

Initial Recognition

Statutory receivables are recognised when the related revenue (exchange or non-exchange revenue) is recognised or when the receivable meets the definition of an asset. The Municipality initially measures statutory receivables at their transaction amount.

Subsequent Measurement

The Municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is subsequently changed to reflect any interest or other charges that may have accrued on the receivable, less any impairment losses and amounts derecognised.

Impairment and uncollectability of statutory receivables

The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired.

If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

Derecognition

The Municipality derecognises a statutory receivable when the rights to the cash flows from the receivable are settled, expire or are waived or the Municipality transfers the receivable and substantially all the risks and rewards of ownership of the receivable to another entity.

When the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of receivable to another entity, the Municipality derecognises the receivable and recognises separately any rights and obligations created or retained in the transfer.

1.27 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and income expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.28 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Measurement

The amount of each segment item reported is the measure reported to council for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the municipality's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by council. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by council are reported for that segment.

1.29 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 an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2020 to 30/06/2021.

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.

Variances numerically greater than R250 000 and 10% of approved budgets are considered material and explanations for those variances are provided in the note to the financial statements.

1.30 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.

1.30 Related parties (continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person 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.

1.31 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.

1.32 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15 (2) of the VAT Act (Act No. 89 of 1991.

1.33 Unpaid Conditional Grants and Receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

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 2021 or later periods:

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2021/2022 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2021/2022 unaudited annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality expects to adopt the standard for the first time in the 2021/2022 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Notes to the Annual Financial Statements

	2021	2020

3. Inventories

Consumable stores	1 771 396	761 059
INEP completed projects [5]	66 369 713	38 286 997
	68 141 109	**39 048 056**

3.1 Inventory is categorised as follows:

Construction material [1]	572 675	217 824
Protective and cleaning material	157 602	167 439
Gardening	49 667	81 189
Mechanical tools and Spare parts [2]	893 978	74 560
Fuel and Oil	84 498	144 630
COVID 19 equipment [3]	12 976	44 681
Donations [4]	-	30 736
	1 771 396	**761 059**

Inventories recognised as an expense during the year	2 765 292	282 811

[1] Construction materials comprise of items required to repair and maintain road infrastructure such as cement, concrete pipes, paint and gabions. The increase is due to purchases towards year end in anticipation of repair works to be done after year end.

[2] In the previous year, Mechanical tools and Spare parts were reported separately. This has now been changed in current year. The increase was due to purchases for spare parts where the municipality intended to use its own personnel is servicing and repairing municipal vehicles. Sadly, the municipal mechanic passed on and now the vehicles servicing is now being done by a hired third party and the spare parts are no longer moving as intended.

[3] COVID 19 equipment relates to materials required in the protection of employees against the transmission of COVID 19. There were purchases amounting to R612 630 in the current and issues of R590 776 resulting in the closing balance as reported.

[4] Donations relate to stock items (education materials, toys, building materials and garden tools) which the Municipality procured with the purposes of giving away as donations. Purchases for the year amounted to R125 409 with issues of R154 362.

[5] These relate to rural electrification projects that have been completed by the municipality but not yet handed over to Eskom.

Inventory pledged as security

No inventory was pledged as security.

Inventories losses/write-downs or (gains)

The amount written off in the Statement of Financial Performance in respect of inventories is detailed as follows:

Stock count variances -[(gains)/losses]	(78 345)	499 341
Stock paid for but not delivered	-	1 609
Obsolete inventory	6 605	58 457
Inventory write-down to net replacement cost	174 100	-
Closing balance	**102 360**	**559 407**

The assessment of carrying inventory at the lower of its cost or current replacement cost was carried out and resulted in a write-down amounting to R174 100 (2020: Rnil).

Notes to the Annual Financial Statements

	2021	2020

4. Receivables from exchange transactions

	2021	2020
Expenditure paid in advance [1]	36 891	-
Deposits [2]	-	19 565 217
Sundry debtors [4]	32 319	32 319
Suspense account (ABSA) [3]	33 801	33 801
	103 011	**19 631 337**

[1] These relate to software licenses which are paid in annually in advance. At the end of the year, the municipality had not yet utilised all the expenditure.

[2] The deposits represent the amounts that had been paid by the municipality at the end of 30 June 2020 for purchase of three (3) properties (Erf 904, Erf 398 and Erf 183) which had not been transferred to the Municipality. Such transfers happened in the current year and all the deposits have now been capitalised to buildings and investment property.

[3] ABSA relates to the amounts fraudulently deducted from the municipal bank account in prior years. The Municipality has initiated the process of consequent management with the aim of recovering the debt.

[4] Sundry debtors are composed of overpayments of councilors emanating from prior years.

Statutory receivables

There are no statutory receivables included in receivables from exchange transactions.

Trade and other receivables pledged as security

There were no receivables from exchange transactions pledged as security.

5. Receivables from non-exchange transactions

	2021	2020
Fines	152 792	215 497
Consumer debtors - Rates	5 124 285	5 334 384
	5 277 077	**5 549 881**

	2021	2020
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Property rates	5 124 285	5 334 384
Fines	152 792	215 497
	5 277 077	**5 549 881**
Total receivables from non-exchange transactions	5 277 077	5 549 881

5. Receivables from non-exchange transactions (continued)

Statutory receivables general information

Transactions arising from statute

The Municipality charges property rates for all qualfying rate payers within the durisdiction of Port St Johns in terms of the Municipal Property Rates Act 06 of 2004.

Determination of transaction amount

The amount levied as property rates are determined by applying the tariff (approved annually by council) on the market value of the property in the valuation roll. Rebates are deducted for qualifying pensioneers and individuals. Billing is done annually in July.

Interest or other charges levied/charged

Interest is charged on property rates receivables at a rate of 15% (2020: 15%) per annum.

Basis used to assess and test whether a statutory receivable is impaired

The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

Discount rate applied to the estimated future cash flows

Discounting of receivables to determine the present value of future cash flows is done using the prime rate currently 7% (2020: 8%).

Statutory receivables impaired

Details of property rates impairment are disclosed in note 6.

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange have been pledged as security for any liabilities of the municipality.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that are fully performing have been renegotiated in the last year.

Other disclosures

Consumer receivables from rates are billed annually. Interest is charged on overdue consumer receivables at a rate of 15% (2020: 15%) per annum.

No interest is charged on overdue traffic fines debtors.

The municipality enforces its approved credit control policy to ensure the recovery of receivables.

Notes to the Annual Financial Statements

6. Consumer debtors disclosure

	2021	2020
Gross balances		
Consumer debtors - Rates	43 244 226	35 620 263
Less: Allowance for impairment		
Consumer debtors - Rates	(38 119 941)	(30 285 879)
Net balance		
Consumer debtors - Rates	5 124 285	5 334 384
Rates - ageing		
Current (0 -30 days)	541 280	434 709
31 - 60 days	528 670	417 270
61 - 90 days	521 386	399 744
91 - 120 days	1 102 223	395 928
121 - 365 days	40 550 667	33 972 612
	43 244 226	**35 620 263**

Notes to the Annual Financial Statements

6. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

	2021	2020
Residential		
Current (0 -30 days)	152 708	177 502
31 - 60 days	149 753	173 911
61 - 90 days	149 291	159 347
91 - 120 days	147 687	157 959
121 - 365 days	10 438 660	12 711 241
	11 038 099	**13 379 960**
Business		
Current (0 -30 days)	189 186	122 856
31 - 60 days	179 126	119 567
61 - 90 days	172 283	117 574
91 - 120 days	179 346	115 154
121 - 365 days	17 408 672	11 940 912
	18 128 613	**12 416 063**
National and provincial government		
Current (0 -30 days)	199 386	134 351
31 - 60 days	199 790	123 792
61 - 90 days	199 812	122 823
91 - 120 days	775 190	122 815
121 - 365 days	12 703 336	9 320 459
	14 077 514	**9 824 240**
Total		
Current (0 -30 days)	541 280	434 709
31 - 60 days	528 670	417 270
61 - 90 days	521 386	399 744
91 - 120 days	1 102 223	395 928
121 - 365 days	40 550 667	33 972 612
	43 244 226	35 620 263
Less: Allowance for impairment	(38 119 941)	(30 285 879)
	5 124 285	**5 334 384**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(30 285 879)	(27 127 513)
Contributions to allowance	(7 834 062)	(3 158 366)
	(38 119 941)	**(30 285 879)**

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 35). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The impairment allowance recognised in these financial statements is determined using past collection trends with the expected future cash flows being discounted to reflect the time value of money. The historical collection trends could well change in future due to the impact of the COVID 19 pandemic and the national lockdown which may have affected the consumers ability to pay their accounts. However, the impact of this on the currently used historical payments trends is unknown and could not be estimated with reasonable certainty.

The maximum exposure to credit risk at the reporting date is the fair value of each receivable mentioned above. The municipality does not hold any collateral as security.

Notes to the Annual Financial Statements

	2021	2020

7. VAT receivable

VAT	1 863 386	7 065 372

VAT is payable to SARS on the receipt basis. No interest is payable to SARS if the VAT is paid over timeously. However, interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are made before the due date.

The receivable amount is made up of two bases as follows:

Cash Basis		
VAT Input	1 989 038	1 565 042
VAT Output	(6 181)	(82 206)
	1 982 857	**1 482 836**

Heading		
Creditors VAT Provisional	759 603	6 383 318
Debtors VAT Provisional	(879 074)	(800 781)
Cash basis balance	1 982 857	1 482 836
	1 863 386	**7 065 373**

8. Consumer debtors

Gross balances		
Refuse	10 467 681	9 114 278
Property lease rental	161 616	161 616
	10 629 297	**9 275 894**

Less: Allowance for impairment		
Refuse	(9 894 890)	(8 072 311)
Property lease rental	(161 616)	(161 616)
	(10 056 506)	**(8 233 927)**

Net balance		
Refuse	572 791	1 041 967

Refuse		
Current (0 -30 days)	172 389	160 988
31 - 60 days	166 501	158 798
61 - 90 days	165 187	156 990
91 - 120 days	163 601	155 647
121 - 365 days	9 800 003	8 481 855
	10 467 681	**9 114 278**

Notes to the Annual Financial Statements

	2021	2020

8. Consumer debtors (continued)

Summary of debtors by customer classification

	2021	2020
Residential		
Current (0 -30 days)	36 379	34 376
31 - 60 days	34 957	33 830
61 - 90 days	34 737	33 545
91 - 120 days	34 379	33 371
121 - 365 days	2 302 622	2 058 873
	2 443 074	**2 193 995**
Business		
Current (0 -30 days)	80 018	74 661
31 - 60 days	75 839	73 308
61 - 90 days	75 685	72 088
91 - 120 days	74 760	71 185
121 - 365 days	3 472 399	2 967 469
> 365 days	161 616	161 616
	3 940 317	**3 420 327**
National and provincial government		
Current (0 -30 days)	55 993	51 951
31 - 60 days	55 705	51 661
61 - 90 days	54 765	51 357
91 - 120 days	54 462	51 090
121 - 365 days	4 024 982	3 455 512
	4 245 907	**3 661 571**
Total		
Current (0 -30 days)	172 389	160 988
31 - 60 days	166 501	158 799
61 - 90 days	165 187	156 990
91 - 120 days	163 601	155 647
121 - 365 days	9 800 003	8 481 854
> 365 days	161 616	161 616
	10 629 297	9 275 894
Less: Allowance for impairment	(10 056 507)	(8 233 927)
	572 790	**1 041 967**

Reconciliation of allowance for impairment

	2021	2020
Balance at beginning of the year	(8 233 927)	(6 925 268)
Contributions to allowance	(1 822 579)	(1 308 659)
	(10 056 506)	**(8 233 927)**

Consumer debtors pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

Notes to the Annual Financial Statements

	2021	2020

8. Consumer debtors (continued)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that are fully performing have been renegotiated in the last year.

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 35). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The impairment allowance recognised in these financial statements is determined using past collection trends with the expected future cash flows being discounted to reflect the time value of money. The historical collection trends could well change in future due to the impact of the COVID 19 pandemic and the national lockdown which may have affected the consumers ability to pay their accounts. However, the impact of this on the currently used historical payments trends is unknown and could not be estimated with reasonable certainty.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

Notes to the Annual Financial Statements

	2021	2020

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Cash on hand	6 000	6 000
Bank balances	4 340 113	13 379 832
Short-term deposits	142 627 889	95 532 600
	146 974 002	**108 918 432**

Fleet card amount is attached to the main account with the limit of R400 000.

No item of cash and cash equivalents has been pledged as security.

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:

	2021	2020
Credit rating		
Standard Bank Limited-zaA-1+ [1]	146 968 002	111 691 246

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Absa BANK - Current Account - Operational 9269	-	-	-	-	-	146 034
STD Bank - Current Account [1]	4 340 113	16 158 644	6 700 516	4 340 113	13 379 832	3 501 501
STD Bank- Salaries Call Account - 9569 -001	33 081 364	2 942 969	4 713 902	33 081 364	2 942 969	4 713 902
STD Bank - Repairs Call Account - 9569 -003	780 539	755 915	713 401	780 539	755 915	713 401
STD Bank Call Account- FMG - 9569 - 006	3 585 980	1 142 376	54 222	3 585 980	1 142 376	54 222
STD Bank - MIG Call Account - 9569 - 008	5 470 928	5 387 255	155 623	5 470 928	5 387 255	8 155 623
STD Bank- LED Call Account - 9569 - 007	13 736	13 736	13 736	13 736	13 736	13 736
STD Bank - Traffic Call Account- 9569 - 004	97 927 462	82 859 111	41 533 192	97 927 462	82 859 111	33 533 193
STD Bank - Plant Call Account - 9569 - 002	32 284	31 391	29 754	32 284	31 391	29 754
STD Bank - EPWP Call Account - 9569 - 011	382 161	163 112	5 149	382 161	163 112	5 149
STD- Bank - INEP Call Account - 9569 - 010	1 007 163	1 835 410	5 512 158	1 007 163	1 835 410	5 512 158
STD Bank - DESRAC Call Account - 9569 - 009	346 272	401 327	670 415	346 272	401 327	670 415
Total	**146 968 002**	**111 691 246**	**60 102 068**	**146 968 002**	**108 912 434**	**57 049 088**

[1] The differences between cash book balance and bank statement for the current account in the prior year (2020) was due to uncleared payments that went through the bank after year end.

10. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	4 992 062	(362 476)	4 629 586	530 000	-	530 000

Reconciliation of investment property - 2021

	Opening balance	Additions	Impairments	Depreciation	Total
Investment property	530 000	4 462 062	(310 319)	(52 157)	4 629 586

Reconciliation of investment property - 2020

	Opening balance	Additions	Impairments	Depreciation	Total
Investment property	530 000	-	-	-	530 000

Pledged as security

None of the above investment property has been pledged as security.

Investment property held for sale

Included in the investment property, is certain property held pending finalisation of sale to the OR Tambo District Municipality.

The land portion of the investment property does not depreciate even though the policy of the Municipality is to carry investment property at cost less accumulated depreciation and accumulated impairment.

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

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	19 710 877	(10 167 134)	9 543 743	9 288 997	(3 164 143)	6 124 854
Cellular equipment	706 724	(144 820)	561 904	1 178 809	(1 107 993)	70 816
Community assets	28 257 742	(14 894 341)	13 363 401	26 928 194	(9 371 208)	17 556 986
Furniture and office equipment	2 496 432	(1 840 864)	655 568	2 478 411	(1 407 056)	1 071 355
IT equipment	3 480 014	(1 767 858)	1 712 156	2 396 531	(1 435 554)	960 977
Infrastructure	587 344 340	(305 714 984)	281 629 356	509 457 836	(271 610 777)	237 847 059
Infrastructure - WIP	86 053 459	-	86 053 459	123 121 410	-	123 121 410
Land	62 522 927	(4 064 727)	58 458 200	55 706 000	-	55 706 000
Plant and machinery	46 771 072	(20 094 560)	26 676 512	41 969 154	(16 564 879)	25 404 275
Transport assets	9 466 349	(5 775 546)	3 690 803	10 262 711	(4 691 342)	5 571 369
Total	**846 809 936**	**(364 464 834)**	**482 345 102**	**782 788 053**	**(309 352 952)**	**473 435 101**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Decommissioned	Transfer to inventory	Depreciation	Impairment loss	Total
Buildings	6 124 854	10 373 136	-	48 744	-	-	(706 019)	(6 296 972)	9 543 743
Cellular equipment	70 816	706 724	(33 239)	-	-	-	(182 397)	-	561 904
Community assets	17 556 986	72 471	-	1 257 077	-	-	(1 469 493)	(4 053 640)	13 363 401
Furniture and office equipment	1 071 355	50 711	(11 741)	-	-	-	(427 183)	(27 574)	655 568
IT equipment	960 977	1 320 963	(50 572)	-	-	-	(470 130)	(49 082)	1 712 156
Infrastructure	237 847 059	14 188 331	-	89 093 481	(11 505 067)	-	(47 569 568)	(424 880)	281 629 356
Infrastructure - WIP	123 121 410	81 414 067	-	(90 399 302)	-	(28 082 716)	-	-	86 053 459
Land	55 706 000	6 816 927	-	-	-	-	-	(4 064 727)	58 458 200
Plant and machinery	25 404 275	4 801 918	-	-	-	-	(3 386 511)	(143 170)	26 676 512
Transport assets	5 571 369	-	(282 917)	-	-	-	(1 597 649)	-	3 690 803
	473 435 101	**119 745 248**	**(378 469)**	**-**	**(11 505 067)**	**(28 082 716)**	**(55 808 950)**	**(15 060 045)**	**482 345 102**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Other movements	Transfer to inventory	Depreciation	Impairment loss	Total
Buildings	6 510 089	-	-	-	-	-	(385 235)	-	6 124 854
Cellular equipment	366 761	38 867	-	-	-	-	(334 812)	-	70 816
Community assets	18 590 472	328 851	-	-	-	-	(1 362 337)	-	17 556 986
Furniture and office equipment	1 556 343	175 383	(178 459)	-	-	-	(477 224)	(4 688)	1 071 355
IT equipment	1 449 682	283 329	(212 345)	-	-	-	(548 877)	(10 812)	960 977
Infrastructure	271 634 678	-	(3 587 081)	13 898 773	(2 206 545)	-	(41 892 766)	-	237 847 059
Infrastructure - WIP	111 654 803	63 652 377	-	(13 898 773)	-	(38 286 997)	-	-	123 121 410
Land	53 806 000	1 900 000	-	-	-	-	-	-	55 706 000
Plant and machinery	28 840 008	99 114	(200 404)	-	-	-	(3 307 332)	(27 111)	25 404 275
Transport assets	5 309 004	1 688 470	-	-	-	-	(1 426 105)	-	5 571 369
	499 717 840	**68 166 391**	**(4 178 289)**	**-**	**(2 206 545)**	**(38 286 997)**	**(49 734 688)**	**(42 611)**	**473 435 101**

Notes to the Annual Financial Statements

	2021	2020

11. Property, plant and equipment (continued)

Pledged as security

There were no assets held as security for any of the municipal liabilities.

Assets subject to finance lease (Net carrying amount)

	2021	2020
Cellular equipment	561 904	70 816

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Electrification Structures	Other	Total
Opening balance	105 620 006	17 452 672	48 744	123 121 422
Additions/capital expenditure	69 339 304	10 630 045	1 444 717	81 414 066
Transferred to inventory	-	(28 082 717)	-	(28 082 717)
Transferred to completed items	(90 399 302)	-	-	(90 399 302)
	84 560 008	**-**	**1 493 461**	**86 053 469**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Electrification Structures	Other	Total
Opening balance	60 645 935	49 713 085	-	110 359 020
Additions/capital expenditure	58 872 832	6 026 584	48 744	64 948 160
Transferred to inventory	-	(38 286 997)	-	(38 286 997)
Transferred to completed items	(13 898 761)	-	-	(13 898 761)
	105 620 006	**17 452 672**	**48 744**	**123 121 422**

Below is the list of access roads construction projects that are taking longer to complete compared to initial targets. The reasons for the delays are also included.

Project	Amount
Lutshaya [1]	10 518 159
Sports Field [2]	194 225
Gabelana to Noqekwana Acces Road [3]	3 699 083
Upgrading Of Port St Johns Residential Street -Marine Drive & Marine Drive Link Roads [4]	32 496 352
	46 907 819

[1] The project was done in-house and awaiting the completion certificate.

[2] Project was deprioritised as per Council prerogative. It is expected that it will resume and be completed in the 2021/2022 financial year.

[3] The project was placed on hold, due to budget constraints. It is expected that it will resume and be completed in the 2021/2022 financial year.

[4] The project delays encountered were due to the disturbances brought out by the COVID 19 pandemic. This project has been completed subsequent to year end in August 2021.

* These roads have been verified and their conditions assessed. No impairment was considered necessary after considering their conditions.

	2021	2020

11. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Furniture and office equipment	2 545	40 393
Infrastructure	3 045 171	952 534
IT equipment	392 689	123 750
Transport assets	1 248 258	433 240
Plant and machinery	1 105 059	2 609 465
Community assets	7 579	-
	5 801 301	**4 159 382**

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

12. Heritage assets

	2021			2020		
	Cost	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Municipal Jewellery	123 700	-	123 700	-	-	-

Reconciliation of heritage assets 2021

	Opening balance	Additions	Total
Municipal Jewellery	-	123 700	123 700

Notes to the Annual Financial Statements

	2021	2020

13. Finance lease obligation

	2021	2020
Minimum lease payments due		
- within one year	436 657	57 117
- in second to fifth year inclusive	291 105	18 936
	727 762	76 053
less: future finance charges	(42 730)	(4 124)
Present value of minimum lease payments	**685 032**	**71 929**

	2021	2020
Present value of minimum lease payments due		
- within one year	401 422	53 650
- in second to fifth year inclusive	283 610	18 279
	685 032	**71 929**

	2021	2020
Non-current liabilities	283 610	18 279
Current liabilities	401 422	53 650
	685 032	**71 929**

It is municipality policy to lease certain cellular equipment under finance leases.

The average lease term was 2 years and the average effective borrowing rate was 7% (2020: 9%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent. There are no renewal options and no restrictions on use under agreements.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

14. Payables from exchange transactions

	2021	2020
Trade payables [3]	5 822 093	10 399 523
Payments received in advanced [1]	1 510 222	1 391 237
Retentions	9 130 411	8 534 465
OR Tambo advance [2]	6 132 284	6 132 284
Accrued leave pay [4]	10 523 644	8 621 918
Accrued bonus	1 924 025	1 845 283
Payroll accruals	172 558	(310 862)
Unallocated deposits [5]	1 977 652	509 907
	37 192 889	**37 123 755**

[1] This refers to consumer debtors with credit balances.

[2] An amount of R6 132 284 was advanced to the municipality by the OR District Municipality in exchange for land. The land is yet to be transferred to the District. There is no interest to the advanced payment.

[3] The huge decrease in trade payables is due to reduction in project accruals from prior year amount of R10 million to the current year R5 million. The municipality managed to pay most of its invoices unlike the previous year where most were settled in July and August after year end.

[4] Accrued leave pay increased hugely due to the high amount of long service vested leave in current year compared to previous year. In the 2020/2021 financial year alone, 75 (2020: 32) employees' leave vested as they reached the milestones and contribution to leave accrual of R587 197 (2020: R205 626).

[5] Unallocated deposits increased significantly in current year due to a deposit made of R1.5 million and the municipality has been falling up with the bank to identify their origin.

Notes to the Annual Financial Statements

	2021	2020

15. Consumer deposits

Refuse	61 000	61 000

16. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(4 333 000)	(4 407 000)
Non-current liabilities	(3 807 000)	(3 350 000)
Current liabilities	(526 000)	(1 057 000)
	(4 333 000)	**(4 407 000)**

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

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

Opening balance	4 407 000	4 028 212
Benefits paid	(1 024 602)	(471 292)
Net expense recognised in the statement of financial performance	950 602	850 080
	4 333 000	**4 407 000**

Net expense recognised in the statement of financial performance

Current service cost	501 000	556 604
Interest cost	265 000	308 718
Actuarial (gains) losses	184 602	(15 242)
	950 602	**850 080**

Calculation of actuarial gains and losses

Basis changes:Increases in net discount rates	8 000	(141 000)
Salary increases higher than assumed	153 000	102 000
Changes to employee profile different from assumed	56 000	(43 775)
Actual benefits vesting,lower than expected	(32 398)	67 533
	184 602	**(15 242)**

Notes to the Annual Financial Statements

	2021	2020

16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2021	2020
Discount rates used	8.98 %	6.81 %
Expected increase in salaries	5.74 %	3.61 %
Average Retirement Age: Males (years)	62	62
Average Retirement Age: Females (years)	62	62

Discount rate

The discount rate reflects the estimated timing of benefit payments which is oftenly achieved by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid. The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. The cash flow weighted duration of the liabilities is approximately 8.50 years (2020: 5,60 years). The valuation, therefore, used the nominal yield curve for SA Government bonds with duration of 6 years as at 30 June 2021. The resultant discount rate was 8.98% (2020: 6,81%). These rates were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2021.

Future Salary inflation

The general inflation assumption was used to estimate the base rate for determining the rate at which the future salaries will increase. The assumption was that salary inflation will exceed general inflation by about 1.0% and 1.5% per annum. The Salary inflation rate was therefore set at 5.74% (2019: 3.61 %) per annum.

Pre-retirement mortality

The valuation assumed that the pre-retirement mortality will be in line with the SA85-90 ultimate table, adjusted down for female lives. This assumption is in line with the previous assumption used.

Assumed Retirement Age

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement.

Notes to the Annual Financial Statements

	2021	2020

16. Employee benefit obligations (continued)

Other assumptions

Assumed general earnings inflation rate, discount rate, average retirement age of employees and Assumed rates of withdrawal of employees from service have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in general earnings inflation rate would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	536 000	(470 000)
Effect on the aggregate of the interest cost	281 000	(250 000)
Effects on defined benefits obligation	258 000	(234 000)

Amounts for the current and previous four years are as follows:

	2021 R	2020 R	2019 R	2018 R	2017 R
Defined benefit obligation	4 333 000	4 407 000	4 028 212	2 876 183	2 455 626

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

	2021	2020
The total economic entity contribution to such schemes recognised as an expense	8 380 915	7 687 443

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Local Government Sector Education and Training Authority	71 626	71 401
Expanded Public Works Programme [3]	532 844	36
Finance Management Grant	532 437	148 142
Integrated National Electrification Programme Grant	-	4 125 711
Department of Sports, Recreation, Arts and Culture	978 372	887 656
Municipal Infrastructure Grant	-	10 609 440
Small Town Revitalization	4 983 663	2 490 031
Eradication of Alien Plants [4]	5 765 803	183 803
Energy efficiency and demand side management	3 600 000	-
	16 464 745	**18 516 220**

Movement during the year

Balance at the beginning of the year	18 516 220	1 951 670
Unspent grant repaid	(148 142)	(1 285 750)
Receipts during the year	86 558 730	95 887 006
Income recognition during the year	(88 462 063)	(78 036 706)
	16 464 745	**18 516 220**

[1] See note 27 for reconciliation of grants from National/Provincial Government.

	2021	2020

17. Unspent conditional grants and receipts (continued)

[2] These amounts are invested in a ring-fenced investment until utilised. Refer note 27.

[3] The EPWP project was funded by two grantors in the current year namely The National Treasury and the Provincial Department of Transport. The funding from the former was fully utilised during the year while that of the latter had no expenditure in the current year as detailed below.

Description - 2021	**National Treasury**	**Department of Transport**	**Total**
Opening balance	36	-	36
Receipts	1 664 000	1 568 529	3 232 529
Conditions met (transferred to revenue)	(1 651 057)	(1 048 664)	(2 699 721)
	12 979	**519 865**	**532 844**

Description - 2020	**National Treasury**	**Department of Transport**	**Total**
Opening balance	-	1 285 750	1 285 750
Receipts	1 462 000	-	1 462 000
Amounts refunded to National Treasury	-	(1 285 750)	(1 285 750)
Conditions met (transferred to revenue)	(1 461 964)	-	(1 461 964)
	36	**-**	**36**

[5] The municipality had received R5 582 000 in June 2021 which relates to the 2021/2022 financial year.

18. Operating lease liability

	2021	2020
Non-current liabilities	(2 565 214)	(2 442 273)

The Municipality leases land from Transnet for a period of 30 years Effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No Contingent rent is payable. The lease is not renewable at the end of the lease term.

	2021	2020

19. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	10 565 447	3 705 268	-	782 974	15 053 689

Reconciliation of provisions - 2020

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	12 091 384	-	(2 516 790)	990 853	10 565 447

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful in 2039 and has been discounted to reflect its present value.

The evaluation, audit and computation of the provision for rehabilitation of the sites have been carried out by Environmental & Sustainability Solution CC.

The landfill site is expected to be used for the next eighteen (18) years and it is estimated that R31 626 152 (2020: R28 388 723) will be spent to rehabilitate the site.

20. Service charges

	2021	2020
Refuse removal	1 006 013	956 782

21. Rental of facilities and equipment

	2021	2020
Lease Rental Income	57 958	5 480
Rental - Halls	4 277	4 364
	62 235	**9 844**

The increase in lease rentals was due to rentals received from renting out investment properties erf 398 and erf 183 which were purchased in the current year.

22. Licences and permits

	2021	2020
Trade licences	60 122	49 194
Other licences [1]	857 100	568 013
	917 222	**617 207**

[1] Other licences is made up of Learners' drivers licences and community licenses.

23. Lease rentals on operating lease

	2021	2020
Equipment		
Contractual amounts	701 127	1 533 055

Notes to the Annual Financial Statements

	2021	2020

24. Other income

Insurance claims received [1]	-	17 861
Plan and tender documents fees	378 575	181 172
Sundry Income [2]	-	477 469
Grave sites	46 122	23 940
Commission received	130 031	125 390
	554 728	**825 832**

[1] The insurance claims received in the previous year related to the claims received from insurers following loss of IT equipment. No claims were received in current year.

[2] The sundry income in prior year increased due to the decrease in landfill site provision amounting to R2 516 790 (2019: R465 627) that is accounted as a gain in line with IGRAP2 requirements. No such income was recognised in current year since this provision increased and the increase is accounted for as an increase in the landfill site asset. Also there were no other sundry receipts.

Breakdown of Sundry income	**2021**	**2020**
Decrease in landfill site provision	-	2 516 790
Other receipts	-	167 223
	-	**2 684 013**

25. Investment revenue - investment

Bank	5 529 526	5 365 227

26. Property rates

Rates received

Property rates	11 972 172	9 792 798

Valuations

Residential	197 132 500	157 565 459
Commercial	158 581 000	121 816 140
State	487 247 998	427 332 300
Municipal	40 075 500	42 397 710
Small holdings and farms	64 190 297	32 444 550
Vacant plots	66 219 000	48 445 569
Place Of Worship	7 232 000	3 492 300
	1 020 678 295	**833 494 028**

Valuations on land and buildings are performed every five (5) years. The last general valuation was done in the 2019/2020 fina year for implementation in 1 July 2020. Every year a supplementary valuation is done. A supplementary valuation was done in the 2020-2021 financial year.

Rates are levied on an annual basis. Interest at 15% per annum (2019: 15%).

	2021	2020

27. Government grants & subsidies

Operating grants		
Equitable share	191 971 142	153 033 750
Expanded Public Works Programme	2 699 721	1 461 964
Finance Management Grant	2 267 563	2 286 858
Local Government Sector Education and Training Authority	261 000	198 501
Department of Sports, Recreation, Arts and Culture	459 284	215 000
Eradication of alien plants project	-	2 816 197
Municipal Disaster Relief Grant	-	685 000
	197 658 710	**160 697 270**
Capital grants		
Integrated National Electrification Programme	6 031 711	5 076 290
Municipal Infrastructure Grant	41 429 441	23 735 559
Small Town Revitalisation	35 313 343	41 561 338
	82 774 495	**70 373 187**
	280 433 205	**231 070 457**

Conditional and Unconditional

Included in the above are the following grants and subsidies received:

Conditional grants received	88 462 063	78 036 707
Unconditional grants received	191 971 142	153 033 750
	280 433 205	**231 070 457**

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 50kWH of electricity (2020: 50kWH) which is funded from the equitable share grant. Refuse removal services for a tariff of 100% of amount billed (2020: R102.47) per month are offered for free to the indigent communities of Port St Johns. The indigents also receive gas and gas stoves to all 20 wards per financial year.

Local Government Sector Education and Training Authority

Balance unspent at beginning of year	71 401	113 264
Current-year receipts	261 225	156 638
Conditions met - transferred to revenue	(261 000)	(198 501)
	71 626	**71 401**

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

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan(SSP) and the priorities set out in the national skills development strategy (NSDS 111) . In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector.

Expanded Public Works Programme

Balance unspent at beginning of year	36	1 285 750
Amounts refunded to National Treasury	-	(1 285 750)
Current-year receipts	3 232 529	1 462 000
Conditions met - transferred to revenue	(2 699 721)	(1 461 964)
	532 844	**36**

Notes to the Annual Financial Statements

	2021	2020

27. Government grants & subsidies (continued)

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

The purpose of the grant is to incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas.

Finance Management Grant

Balance unspent at beginning of year	148 142	-
Amounts refunded to National Treasury	(148 142)	-
Current-year receipts	2 800 000	2 435 000
Conditions met - transferred to revenue	(2 267 563)	(2 286 858)
	532 437	**148 142**

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

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Integrated National Electrification Programme Grant

Balance unspent at beginning of year	4 125 711	-
Current-year receipts	1 906 000	9 202 000
Conditions met - transferred to revenue	(6 031 711)	(5 076 289)
	-	**4 125 711**

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

The grant is received from National government for electrification projects within the previously disadvantage communities of the municipality.

The amount received is less than the allocation letter amount by R1.5million at year end. The municipality had received an amount of R1.5million during the year and this amount could not be allocated to this grant since the bank had failed to positively identify the origin of this amount by year end.

Department of Sports, Recreation, Arts and Culture

Balance unspent at beginning of year	887 656	552 656
Current-year receipts	550 000	550 000
Conditions met - transferred to revenue	(459 284)	(215 000)
	978 372	**887 656**

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

The purpose of the grant is to maintain existing library facilities, assist in supervising and administration of staff in public libraries, establish library structures, support library awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts.

Municipal Infrastructure Grant

Balance unspent at beginning of year	10 609 440	-
Current-year receipts	30 820 000	34 345 000
Conditions met - transferred to revenue	(41 429 440)	(23 735 560)
	-	**10 609 440**

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

	2021	2020

27. Government grants & subsidies (continued)

The purpose of this grant is to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.

Small Town Revitalisation

	2021	2020
Balance unspent at beginning of year	2 490 031	-
Current-year receipts	37 806 975	44 051 369
Conditions met - transferred to revenue	(35 313 343)	(41 561 338)
	4 983 663	**2 490 031**

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

The project provides finance for upgrading of road infrastructure in rural townships.

Municipality Disaster Grant

	2021	2020
Current-year receipts	-	685 000
Conditions met - transferred to revenue	-	(685 000)
	-	**-**

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

The purpose of the grant is for the provision of goods and services for disaster responds relating to COVID 19 announced in terms of Disaster Management Act.

Eradication of alien plants project

	2021	2020
Balance unspent at beginning of year	183 803	-
Current-year receipts	5 582 000	3 000 000
Conditions met - transferred to revenue	-	(2 816 197)
	5 765 803	**183 803**

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

The purpose of the grant is to supply finance to enable communities to bring invasive species such as blue gums, poplar and wattle under control in such way that it contributes to the conservation of the natural resources.

Energy efficiency and demand side management

	2021	2020
Current-year receipts	3 600 000	-

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

The Energy Efficiency Demand Site Management Program is managed by the Department of Energy. The grant is for the planning and implementation of energy efficient technologies such as traffic signals, street and building lighting. There was no expenditure incurred for this in the 2020/2021 financial year.

Notes to the Annual Financial Statements

	2021	2020

28. Donations received

Donations	10 779 702	1 900 000

Reconciliation of conditional contributions

Dumasi bridge from SANRAL	10 477 288	-
Value of free cell phones and tablets from Vodacom	229 943	-
Mkanzini community hall donated by the Chief	72 471	-
Tombo animal pound land donated by the local Chief	1 900 000	-
	12 679 702	**-**

29. Fines, Penalties and Forfeits

Municipal Traffic Fines	253 100	253 300

Notes to the Annual Financial Statements

	2021	2020

30. Employee related costs

Basic	58 524 687	54 049 252
Medical aid - company contributions	4 594 035	3 901 692
UIF	402 622	393 492
Leave accrual charge	1 496 313	924 619
Defined contribution plans	8 380 915	7 687 443
Overtime payments	1 846 250	2 420 647
Long-service awards	501 000	556 604
Allowances [1]	11 668 824	5 819 877
	87 414 646	**75 753 626**

[1] Allowances amount is composed of all allowances such as acting, car/travel, night shift, standby, clothing, COVID 19 danger allowances and shift allowances.

Remuneration of municipal manager - HT Hlazo

Annual Remuneration	923 868	766 150
Car Allowance	180 000	180 000
Bonuses	76 989	58 214
Contributions to UIF, Medical and Pension Funds	13 740	12 247
Back pay	-	36 844
Other allowances (house, remote and travel)	67 060	41 000
	1 261 657	**1 094 455**

Remuneration of chief finance officer - BA Mbana (Appointed March 2020)

Annual Remuneration	919 558	297 042
Bonuses	25 543	-
Contributions to UIF, Medical and Pension Funds	11 196	3 645
Other allowances	59 974	12 872
Back Pay	-	10 678
	1 016 271	**324 237**

Remuneration of Corporate Services Manager - LT Somtseu

Annual Remuneration	807 908	700 869
Car Allowance	150 000	110 000
Contributions to UIF, Medical and Pension Funds	11 505	10 505
Other allowances (housing, remote and travel)	91 363	95 023
Back Pay	-	33 976
	1 060 776	**950 373**

Remuneration of Community Services Manager - F Guleni

Annual Remuneration	972 188	834 769
Car Allowance	24 000	8 000
Contributions to UIF, Medical and Pension Funds	11 165	10 553
Other allowances (housing,remote and travel)	60 089	33 711
Back Pay	-	33 976
	1 067 442	**921 009**

Notes to the Annual Financial Statements

	2021	2020

30. Employee related costs (continued)

Remuneration of Engineering Services Manager - CCA O'Bose

	2021	2020
Annual Remuneration	996 188	842 769
Contributions to UIF, Medical and Pension Funds	12 173	11 170
Other allowances (housing, remote and travel)	59 302	33 711
Long service awards	-	15 629
Back pay	-	33 976
	1 067 663	**937 255**

Remuneration of LED Manager - S Xuku

	2021	2020
Annual Remuneration	996 188	842 769
Contributions to UIF, Medical and Pension Funds	12 173	11 170
Other allowances (housing, remote and travel)	60 553	33 711
Long service awards	-	15 629
Back pay	-	33 976
Acting Allowance	17 408	-
	1 086 322	**937 255**

Remuneration of the Acting Chief Financial Officer - N Hlangu (Appointed August 2018 to 29 February 2020)

	2021	2020
Annual Remuneration	-	505 928
Acting Allowance	-	120 000
Bonuses	-	63 241
Contributions to UIF, Medical and Pension Funds	-	122 565
	-	**811 734**

31. Remuneration of councillors

	2021	2020
Councillors	13 089 325	13 596 950

2021	Annual Remuneration	Backpay	Car Allowance	Cellphone Allowance and other	Acting Allowance	Total
Mlombile/Cingo N - Mayor	645 644	2 382	215 216	6 238	-	869 480
A.A Gantsho - Speaker	516 516	356	172 172	22 823	-	711 867
Nduku/Mazuza C - Chief Whip	484 234	-	161 412	4 140	-	649 786
Subtotal	1 646 394	2 738	548 800	33 201	-	2 231 133
Other Councillors	7 894 080	9 812	2 628 915	302 260	23 125	10 858 192
	9 540 474	**12 550**	**3 177 715**	**335 461**	**23 125**	**13 089 325**

2020	Annual Remuneration	Backpay	Car Allowance	Cellphone Allowance and other	Acting Allowance	Total
Mlombile/Cingo N - Mayor	619 976	34 224	206 659	4 140	-	864 999
A.A Gantsho - Speaker	485 244	27 379	161 748	44 400	-	718 771
Nduku/Mazuza C - Chief Whip	464 983	25 668	154 994	4 140	-	649 785
Subtotal	1 570 203	87 271	523 401	52 680	-	2 233 555
Other Councillors	7 841 895	433 162	2 613 965	258 430	42 696	11 190 148
Back pay for Ex-councillors	-	173 247	-	-	-	173 247
	9 412 098	**693 680**	**3 137 366**	**311 110**	**42 696**	**13 596 950**

	2021	2020

31. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Speaker and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

Detailed remuneration details per councilor are disclosed in note 31.

32. Depreciation and amortisation

Property, plant and equipment	55 808 951	49 734 688
Investment property	52 157	-
	55 861 108	**49 734 688**

33. Impairment of assets

Impairments		
Property, plant and equipment	15 370 364	42 612

34. Finance costs

Late payment of trade and other payables	12 738	12 300
Other finance costs [1]	1 085 252	1 335 767
	1 097 990	**1 348 067**

[1] Other finance costs relate to interest on finance leases, landfill site rehabilitation provision and on employee benefits obligations. The table below details the breakdown:

Description	2021	2020
Finance leases	20 461	21 755
Landfill site rehabilitation provision discounting	782 974	990 853
Long service awards	265 000	308 718
Bank	16 817	14 441
	1 085 252	**1 335 767**

35. Debt impairment

Debt impairment	9 952 447	4 755 883

Breakdown of debt impairment		
Property rates	7 834 062	3 158 366
Refuse	1 822 579	1 292 497
Traffic fines	295 806	288 858
Lease debtors	-	16 162
	9 952 447	**4 755 883**

Notes to the Annual Financial Statements

	2021	2020

36. Contracted services

Consultants and Professional Services		
Consultants and professional fees	5 533 510	5 882 499
Legal fees	1 810 678	310 344
	7 344 188	**6 192 843**

37. Grants and subsidies paid

Other subsidies		
LED Programmes - (PSJDA)	9 338 833	8 724 134

Notes to the Annual Financial Statements

38. General expenses

	2021	2020
Advertising and communications	1 029 388	539 893
Audit committee fees	355 577	144 729
Auditors remuneration	4 335 840	4 223 235
Bank charges	246 579	166 248
Books and publications	15 144	2 632
Casual wages	3 344 962	1 792 571
Cleaning	111 028	21 450
Community development and training	97 525	82 640
Computer expenses	41 384	16 733
Consumables	983 927	390 424
Contract cancelation	931	-
Debt collection	812 180	164 180
Disciplinary board fees	18 000	-
Discount allowed [4]	276 694	-
Electricity	297 759	1 389 084
Eradication of alien plants	-	2 801 710
Free basic electricity	3 629 403	2 859 123
Fuel and oil	5 156 494	3 162 015
Gas cylinders and stoves [3]	1 905 389	-
Hire	338 021	565 210
Insurance	1 386 591	970 714
Integrated development plan	375 648	128 172
Internships	261 000	472 475
Library services	239 404	127 662
Licence Fees	422 509	220 761
Meals and entertainment	265 445	1 117 153
Municipal planning tribunal members allowance	8 108	20 969
Other expenses	10 766	92 722
Postage and courier	-	535
Printing and stationery	929 388	379 113
Repairs and maintenance	5 801 300	4 159 382
Section 79 committees	54 118	-
Skills Development Levy	620 868	632 008
Social Responsibility program	1 250 029	866 279
Staff welfare [1]	450 748	633 529
Subscriptions and membership fees	875 355	803 832
Support to traditional authorities and councillors	176 181	29 000
Telephone and fax	4 669 349	4 627 954
Training	375 359	132 540
Travel and accommodation - local	4 853 853	6 519 101
Uniforms and protective clothing [2]	1 003 824	361 277
Valuation roll	30 214	199 808
Ward assistance	3 836	-
Ward committees stipend	5 635 000	5 232 000
Workman's compensation	314 700	554 846
	53 009 818	**46 603 709**

[1] This relates to expenditure incurred by the Municipality relating to procurement of personal protective equipment and sanitizers for employee protection against COVID - 19 as well as general employee wellness expenses.

[2] The huge increase is due to issue out of inventory of protective clothing material amounting to R583 898.

[3] This was a programme undertaken in the current year by the municipality to supply indigent household with gas cylinders and gas stoves for use as alternatives for electricity.

[4] The municipality introduced an incentive policy for the consumers and rate payers who are willing to settle their accounts in full to receive some settlement discounts.

Notes to the Annual Financial Statements

	2021	2020

38. General expenses (continued)

[5] General expenses has been affected by reclassifications. In the previous year, some expenditure items like grant expenses and the social responsibility programme costs were classified by their function rather than their nature. This has been corrected retrospectively in current year.

39. Auditors' remuneration

	2021	2020
Fees	4 335 840	4 223 235

40. Operating surplus

Operating surplus for the year is stated after accounting for the following:

	2021	2020
Operating lease charges		
Equipment		
• Contractual amounts	701 127	1 533 055
Loss on disposal of property, plant and equipment	11 562 616	4 160 079
Impairment on property, plant and equipment	15 370 364	42 612
Depreciation on property, plant and equipment	55 861 108	49 734 688
Employee costs	100 503 971	89 350 576

41. Cash generated from operating activities

	2021	2020
Surplus	51 641 671	42 035 436
Adjustments for:		
Depreciation and amortisation	55 861 108	49 734 688
Gain on sale of assets and liabilities	11 562 616	4 160 079
Finance costs	33 198	34 055
Impairment loss	15 370 364	42 612
Debt impairment	9 952 447	4 755 883
Movements in operating lease assets and accruals	122 941	92 568
Movements in retirement benefit assets and liabilities	(74 000)	378 788
Movements in provisions	4 488 242	(1 525 937)
Non - cash movements	(11 808)	(40 168)
Donations received	(10 779 702)	(1 900 000)
Non-cash employee costs	229 943	-
Landfill site asset addition	(3 705 268)	2 206 545
Changes in working capital:		
Inventories	(1 010 337)	(27 964)
Receivables from exchange transactions	19 528 326	(12 304 449)
Consumer debtors	(1 353 403)	(1 261 287)
Other receivables from non-exchange transactions	(7 857 063)	(2 473 040)
Payables from exchange transactions	69 135	4 724 912
VAT	5 201 986	13 211 874
Unspent conditional grants and receipts	(2 051 475)	16 564 550
	147 218 921	**118 409 145**

42. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	103 011	103 011
Receivables from non-exchange transactions	5 277 077	5 277 077
Consumer debtors	572 791	572 791
Cash and cash equivalents	146 974 002	146 974 002
	152 926 881	**152 926 881**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	37 192 889	37 192 889
Finance lease liability	685 032	685 032
Consumer deposits	61 000	61 000
	37 938 921	**37 938 921**

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	19 631 337	19 631 337
Receivables from non-exchange transactions	5 549 881	5 549 881
Consumer debtors	1 041 967	1 041 967
Cash and cash equivalents	108 918 432	108 918 432
	135 141 617	**135 141 617**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	37 123 755	37 123 755
Finance lease liability	71 929	71 929
Consumer deposits	61 000	61 000
	37 256 684	**37 256 684**

42. Financial instruments disclosure (continued)

Financial instruments in Statement of financial performance

2021

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	10 692 719	10 692 719
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(50 016)	(50 016)
	10 642 703	**10 642 703**

2020

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	9 599 026	9 599 026
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(48 496)	(48 496)
	9 550 530	**9 550 530**

Notes to the Annual Financial Statements

	2021	2020

43. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	63 684 800	95 853 905
Total capital commitments		
Already contracted for but not provided for	63 684 800	95 853 905

Authorised operational expenditure

Already contracted for but not provided for		
• General expenditure	10 059 632	14 458 614
Total operational commitments		
Already contracted for but not provided for	10 059 632	14 458 614

Total commitments

Total commitments		
Authorised capital expenditure	63 684 800	95 853 905
Authorised operational expenditure	10 059 632	14 458 614
	73 744 432	**110 312 519**

This committed expenditure relates to access roads, land acquisition and operational expenditure. It will be financed by the Municipal Infrastructure Grant and municipal own internal resources.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	434 629	563 090
- in second to fifth year inclusive	1 138 427	1 250 674
- later than five years	4 940 714	5 263 096
	6 513 770	**7 076 860**

[1] Port St Johns Local Municipality leases land from Transnet for a period of 30 years Effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No Contingent rent is payable. The lease is not renewable at the end of the lease term.

[2] Port St Johns Local Municipality leases 10 photocopier machines for a period of 36 months from Aloe Office and Business Equipment effective from 31 January 2019. The lease payment varies according to the machine leased which is payable monthly and has no escalation. No contingent rent is payable.

Notes to the Annual Financial Statements

	2021	2020

44. Contingencies

Contingent liability		
Port St Johns Municipality Vs Luxolo Fono (Case number 4056/2018) [1]	-	-
Tal'imi Board KZN vs Port St John's municipality (Case number 2846/2018) [2]	-	-
Port St Johns Local Municipality vs Nelson Nontlevu and others (Case number 1194/2021) [3]	-	-
Port St Johns Local Municipality vs PSJ contractors association (Case number 1392/2020) [4]	-	-
Port St Johns Local Municipality & Caguba vs Binase Puzi and others (Case number 2907/2020) [5]	-	-
Port St Johns Local Municipality vs Jolwana Mgidlana (Case number 1771/2021) [6]	-	-
Port St Johns Local Municipality vs Vuyelwa Caciso (Case number 2920/2021) [7]	200 000	-
Port St Johns Local Municipality vs Sapho Ndabeni (Case number 522/2021) [8]	26 602	-
Port St Johns Local Municipality vs Fumanekile Silwane (Case number 5698/2018) [9]	-	-
PSJL Vs unlawful land occupier [10]	-	-
Legal opinion [11]	-	-
OR Tambo Municipality V Independent Electoral Commission and others, Port St Johns Municipality [12]	-	-
Mr. Mfecane Vs Port St Municipality (Case No: 4058/2019) [13]	6 876 238	6 876 238
Bambilanga and Tshibilika Vs Port St Johns Municipality (case No. 4435/2016) and (case No. 92/2017) [14]	-	-
Fundile Nogumla & Another Vs Port St Johns (Case Number 591/2016) [15]	12 100 000	12 100 000
Z Ndabeni & Others Vs Port St Johns (Case number :2209/16) [16]	-	-
Port St Johns Municipality Vs F. Abdullah & T. Hassain [17] (Case no. 5698/2018)	-	-
Mnoneleli T. Mfecane Vs Port St Johns (Case number 5513/2018) [18]	-	-
Nokwenzeka M . Magidigidi Vs Port St Johns Local Municipality (Case Number 5212/2018) [19]	83 000	83 000
Nandipha Sibobi Vs Port St Johns Local Municipality (Case Number Ecel 397-19) [20]	-	-
Nomthika Elizabeth Gxekwa vs Port St Johns Local Municipality [21]	-	-
Ntombekhaya Pamella Magabuko vs Port St Johns Local Municipality [22]	-	-
Sizwe Aylief Mlamla vs Port St Johns Local Municipality [23]	-	-
Nomlindo Mbulungwana Vs Port St Johna Municipality (Case number 53/2017) [24]	-	150 000
	19 285 840	**19 209 238**

Notes

[1]. Port St Johns Municipality Vs Luxolo Fono (Case number 4056/2018)

This matter is about the illegal structure built at ERF 1 & 736 at Second beach. The defendant applied for rescission that was granted and matter is again before court. The municipality is not able to state the amount claimed since the plaintiff did not claim any amount as per the court documents.

[2] Tal'imi Board KZN vs Port St John's municipality (Case number 284/2018)

This matter relates to criminal claim in respect of a fraudulent transaction of work man's compensation fund. The matter was reported to SAPS in February 2020 is under investigation and no arrests has been made. The amount claimed is still to be determined.

[3] Port St Johns Local Municipality vs Nelson Nontlevu and others (Case number 1194/2021)

This matter relates civil claim for the closing down of municipal offices. The matter was postponed to 20 April 2021 and no update yet. There was no amount claimed on this case.

[4] Port St Johns Local Municipality vs PSJ contractors association (Case number 1392/2020)

This matter relates civil claim. Dispute on the awarding of Honeysucker services contract PSJLM 2019/20-06.There was no amount claimed on this case.

	2021	2020

44. **Contingencies (continued)**

[5] Port St Johns Local Municipality & Caguba vs Binase Puzi and others (Case number 2907/2020)

This matter relates civil claim for illegal occupation of municipal land. An interim order was granted by the court and hearing by the court is in August 2021. No amount was claimed on this case.

[6] Port St Johns Local Municipality vs Jolwana Mgidlana (Case number 2907/2020)

This matter relates civil claim in respect of bid adjudication dispute. The matter is at high court being contested. We are not able to state the amount claimed since the plaintiff did not claim any amount as per the court documents.

[7] Port St Johns Local Municipality vs Vuyelwa Caciso (Case number 2920/2021)

This matter relates to a civil claim amounting to R2 000 000 for an injury claim suffered by the plaintiff when she broke her leg when she stepped on a water drain which was not covered. The attorneys are of the view that in the event that the Municipality loses the case, the claim will not exceed R200 000.

[8] Port St Johns Local Municipality vs Sapho Ndabeni (Case number 522/2021)

This is a PAIA dispute and the Municipality was served with a default judgement of R26 602 for failure to have PAIA manual.

[9] Port St Johns Local Municipality vs Fumanekile Silwane (Case number 5698/2018)

This matter relates to Illegal operation of a block manufacturing on Erf 612. The matter was handed over to the SAPS to effect eviction. No amount was claimed on this case.

[10] PSJLM Vs unlawful land occupier

The municipality is seeking eviction of unlawful land occupiers. There is no claim against the Municipality.

[11] Legal opinion

The municipality is seeking a legal opinion on non-payment of an employee’s June 2021 salary. The claim is the employee’s June 2021 salary.

[12] OR Tambo Municipality V Independent Electoral Commission and others, Port St Johns Municipality

There is a pending high court application involving OR Tambo Municipality, Independent Electoral Commission and others as well as Port St Johns Municipality. The Municipality is not able to state the amount claimed since the plaintiff did not claim any amount as per the court documents

[13] Mr. Mfecane Vs Port St Municipality (Case No: 4058/2019)

Mr. Mfecane is suing the Municipality for R 6 876 268 for the loss suffered when a property he unlawfully occupied was demolished in terms of the court order.

[14] Bambilanga and Tshibilika Vs Port St Johns Municipality (case No. 4435/2016) and (case No. 92/2017)

These two matters concern Municipal employee who were assaulted by casual workers. They are suing the Municipality for injuries he suffered as they said that the Municipality did not put in place protective measures to protect them. The Municipality is not able to state the amount claimed since the plaintiff did not claim any amount as per the court documents.

[15] Fundile Nogumla & Another Vs Port St Johns (Case Number 591/2016)

This is a civil claim for damages amounting to R12 100 000 against the municipality suffered because of alleged negligence by the municipality (shark attack). The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

44. Contingencies (continued)
[16] Z Ndabeni & Others Vs Port St Johns (Case number :2209/16)

The Municipality is being sued for unlawful arrest. Pleadings had been closed. Matter is awaiting trial date from the registrar of the high court. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful. No amount was claimed on this case.

[17] Port St Johns Municipality Vs F. Abdullah & T. Hassain (Case no. 5698/2018)

This matter relates to illegal land use at Mpantu. The municipality applied to interdict the block making at ERF 1602.

[18] Mnoneleli T. Mfecane Vs Port St Johns (Case number 5513/2018)

Mfenace applied for interdict to stop the Municipality from using ERF 283 and 266 at first beach. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

[19] Nokwenzeka M . Magidigidi Vs Port St Johns Local Municipality (Case Number 5212/2018)

Claim for the wrongfully impounded vehicle. The plaintiff sought to be reimbursed of the 3 motor vehicles that were impounded to be compensated with the monetary value of R83 000. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful. The total capital claimed amounted is R83 000.

[20] Nandipha Sibobi Vs Port St Johns Local Municipality (Case Number Ecel 397-19)

This is an interview claim. The plaintiff is disputing her non-appointment as Chief Financial Officer and challenged the outcome of the interview. She has demanded the results of the interview. The case is still active.

[21] Nomthika Elizabeth Gxekwa vs Port St Johns Local Municipality

The plaintiff is disputing her non-appointment as a cleaner and challenged the outcome of the interview. She has demanded the results of the interview.

[22] Ntombekhaya Pamella Magabuko vs Port St Johns Local Municipality

The plaintiff is disputing her non-appointment as a cleaner and challenged the outcome of the interview. She has demanded the results of the interview.

[23] Sizwe Aylief Mlamla vs Port St Johns Local Municipality

The plaintiff is disputing her non-appointment as a cleaner and challenged the outcome of the interview. She has demanded the results of the interview.

[24] Nomlindo Mbulungwana Vs Port St Johna Municipality (Case number 53/2017)

The Plaintiff issued Summons against the municipality in which she claimed an amount of R150 000 for damages suffered because of a road which was constructed, purportedly through her property, on Greens Farm, Port St. Johns. This case was removed in this year due to the Prescription Act. However, last year it was applicable since the prescription on came into effect in this year.

Prior Period Errors relating to contingencies:

The following cases were incorrectly disclosed in the previous year as outstanding at year end in error when they were either closed or legally prescribed. Such errors have been corrected retrospectively in this current's years financial statements:

[1] Almo Projects CC t/a Zamani Civils Vs Port St John Municipality - Case No: 965/2011

Almo Projects CC t/a Zamani Civils Instituted action against the Municipality for alleged breach of contract in the sum of R9 944 339. The claim had been ceded to Nurcha Finance Development Finance (Pty) Ltd. The matter was set down for hearing on 14 February 2018 but could not proceed as the plaintiff's counsel was unavailable. This case was removed in this year due to the Prescription Act. Last year it was included in our contingent liabilities in error when it was supposed to removed.

44. Contingencies (continued)

[2] Mr. Bodlani Vs Port St Johns Municipality - Case No: 98/2012

Mr. Bodlani instituted action against the Municipality for damages allegedly suffered in the sum of R495 000 as a result of being assaulted by municipal employees. LRI was still awaiting a trial date at 30 June 2020. This case was removed in this year due to the Prescription Act. Last year, it was included in our contingent liabilities in error when it was supposed to removed.

[3]Sikwele Nqileni & Others Vs Port St Johns Local Municipality (Case Number Ecel 397-19)

Full time employment claim. The employees were seeking to be employed on a permanent basis claiming that they were promised to be employed permanently. This case was incorrectly included as a contingent liability in the previous year's financial statements even though it had already been settled.

In the previous year, the municipality incorrectly included estimated legal fees in the amount of the following contingent liabilities which have been corrected retrospectively in current year:

Case	
Bambilanga and Tshibilika Vs Port St Johns Municipality (case No. 4435/2016) and (case No. 92/2017)	50 000
Fundile Nogumla & Another Vs Port St Johns (Case Number 591/2016)	500 000
Z Ndabeni & Others Vs Port St Johns (Case number 220/2019)	200 000
Nomlindo Mbulungwana Vs Port St Johna Municipality (Case number 53/2017)	80 000
Port St Johns Municipality Vs Luxolo Fono (Case number 4056/2018)	300 000
Port St Johns Local Municipality & Caguba vs Binase Puzi and others (Case number 2907/2020)	300 000
Port St Johns Local Municipality vs Fumanekile Silwane (Case number 5698/2018)	280 000
Port St Johns Local Municipality vs PSJ contractors association (Case number 1392/2020)	350 000
	2 060 000

Notes to the Annual Financial Statements

	2021	2020

45. Related parties

Relationships	
Accounting Officer	Mr H.T Hlazo
Other members of key management	Ms B.A Mbana - Chief Financial Officer
	Mr L.T Somtseu - Corporate Service Senior Manager
	Mr S Xuku - LED Senior Manager
	Mr CCA O'Bose - Engineering Senior Manager
	Mr F Guleni - Community Services Senior Manager
Controlled entity	Port St Johns Development Agency
Mayor	Cllr. N Mlombile-Cingo
Speaker	Cllr. A.A Gantsho
Chief Whip	Cllr. C.S Nduku/Mazuza
Councillors	Cllr. G Tshotsho
	Cllr. G.X Vimba
	Cllr. M Veni
	Cllr. M.B Madotyeni
	Cllr. N Mdidana
	Cllr. N Tani
	Cllr. N Tshitshiliza
	Cllr. N Vava
	Cllr. R. M Zweni
	Cllr. S Madolo
	Cllr. S Ndabeni
	Cllr. N. F Bokwe
	Cllr. Z.H Cube
	Cllr. M Dyosoba
	Cllr. K.M Fono (Resigned 14/12/2020)
	Cllr. F Jama
	Cllr. N.C Fono
	Cllr. M Hobo
	Cllr. D.V Madini
	Cllr. F Mafaka
	Cllr. N.P Majali
	Cllr. K Majeke
	Cllr. Z Maqina (Deceased 23/02/2021)
	Cllr. S.V Mavimbela
	Cllr. L Rolobile
	Cllr. Z Mhlabeni
	Cllr. N Mfiki (Deceased 22/12/20200
	Cllr. D.Z Mnceba
	Cllr. B Mjakuja
	Cllr. X Moni
	Cllr. Z Mtiki
	Cllr. N.B Mtuku
	Cllr. A Mzungule
	Cllr. L Ndamase
	Cllr. T.M Msongelwa
	Cllr. S.L Ntlatywa
	Cllr. T Ntsham
	Cllr. S.E Sicoto
	Cllr. N.P Soga
	Cllr. Z Totwana (Deceased 07/07/2020)

[1]. The municipality has an Agency relationship with its Agency, Port St Johns Development Agency. Under this agreement the agency carries out certain economic development functions as agreed with the municipality. The Municipality pays the Agency for these services in terms of the agency arrangement.

	2021	2020

45. Related parties (continued)

Grant paid to related parties

	2021	2020
Port St Johns Development Agency	9 338 833	8 724 134

Remuneration of management

Management class: Councillors

2021

Name	Acting Allowance	Annual Remuneration	Back Pay	Car Allowances	Cellphone Allowance and other	Total
A MZUNGULE	-	204 322	-	68 108	8 940	281 370
AA GANTSHO	-	516 516	356	172 172	22 823	711 867
B MJAKUJA	-	204 322	-	68 108	8 940	281 370
C NDUKU/MAZUZA	-	484 234	-	161 412	4 140	649 786
D MADINI	-	204 322	-	68 108	4 140	276 570
DZ MNCEBA	-	204 322	-	68 108	4 140	276 570
F JAMA	-	204 322	-	68 108	5 940	278 370
F MAFAKA	-	270 145	-	90 048	4 140	364 333
G TSHOTHO	-	204 322	-	68 108	10 740	283 170
GX VIMBA	-	204 322	-	68 108	8 940	281 370
K MAJEKE	-	204 322	-	68 108	4 140	276 570
KM FONO	-	135 072	-	45 024	2 970	183 066
L NDAMASE	-	270 145	-	90 048	8 940	369 133
L ROLOBILE	-	204 322	-	68 108	4 140	276 570
M DYASOBA	-	204 322	-	68 108	5 940	278 370
M HOBO	-	262 213	-	87 405	5 940	355 558
M VENI	-	262 213	-	87 405	8 940	358 558
MB MADOTYENI	-	22 703	-	7 568	4 933	35 204
MB MTUKU	-	270 145	-	90 048	8 940	369 133
N MDIDANA	-	127 134	101	42 378	25 900	195 513
N MFIKI	-	135 072	-	45 024	4 470	184 566
N MLOMBILE-CINGO	-	645 644	2 382	215 216	6 238	869 480
N TANI	-	270 145	-	90 048	4 140	364 333
N TSHITSHILIZA	-	262 213	-	87 405	10 740	360 358
N VAVA	-	204 322	-	68 108	8 940	281 370
NC FONO	-	204 322	-	68 108	4 140	276 570
NF BOKWE	-	204 322	-	68 108	10 740	283 170
NP MAJALI	-	270 145	-	90 048	10 740	370 933
PN SOGA	-	204 322	-	68 108	8 940	281 370
RM ZWENI	-	262 213	7 157	87 405	17 894	374 669
S Madolo	-	85 134	2 555	28 378	18 500	134 567
S NDABENI	-	22 703	-	7 568	4 933	35 204
S SICOTO	-	204 322	-	68 108	5 940	278 370
SL NTLATYW	-	204 322	-	68 108	10 740	283 170
SV MAVIMBELA	-	262 213	-	87 405	4 140	353 758
T NTSHAM	-	204 322	-	68 108	4 140	276 570
TM MSONGELWA	-	204 322	-	68 108	8 940	281 370
X MONI	23 123	270 145	-	90 048	5 940	389 256
Z MAQINA	-	136 215	-	45 405	7 160	188 780
Z MHLABENI	-	204 322	-	68 108	4 140	276 570
Z MTIKI	-	204 322	-	68 108	5 940	278 370
Z TOTWANA	-	7 340	-	-	160	7 500
ZH CUBE	-	204 322	-	68 108	4 140	276 570
	23 123	**9 540 464**	**12 551**	**3 177 726**	**335 461**	**13 089 325**

Notes to the Annual Financial Statements

	2021	2020

45. Related parties (continued)

2020

Name	Annual Remuneration	Back Pay	Car Allowances	Cellphone Allowance and other	Cellphone insurance backpay	Total
Cllr. N Mlombile-Cingo	619 976	34 224	206 659	4 140	-	864 999
Cllr. A.A Gantsho	485 244	27 379	161 748	44 400	-	718 771
Cllr. C.S Nduku/Mazuza	464 983	25 668	154 994	4 140	5 372	655 157
Cllr. N.F Bokwe	195 387	10 831	65 129	10 740	5 372	287 459
Cllr. Z.H Cube	196 199	10 831	65 399	4 140	5 767	282 336
Cllr. M Dyosoba	196 199	10 831	65 400	5 940	-	278 370
Cllr. K.M Fono	259 404	14 320	86 468	5 940	5 372	371 504
Cllr. F Jama	196 199	10 831	65 400	5 940	-	278 370
Cllr. N.C Fono	195 387	10 831	65 129	4 140	5 372	280 859
Cllr. M Hobo	251 789	13 899	83 930	5 940	-	355 558
Cllr. D.V Madini	196 199	10 831	65 400	4 140	5 372	281 942
Cllr. F Mafaka	259 404	14 320	86 468	4 140	-	364 332
Cllr. N.P Majali	259 404	14 320	86 468	10 740	-	370 932
Cllr. K Majeke	196 199	10 831	65 400	4 140	-	276 570
Cllr. Z Maqina	196 199	10 831	65 400	10 740	5 372	288 542
Cllr. S.V Mavimbela	251 789	13 899	83 930	4 140	-	353 758
Cllr. L Rolobile	196 199	10 831	65 400	4 140	5 372	281 942
Cllr. Z Mhlabeni	196 199	10 831	65 400	4 140	5 372	281 942
Cllr. N Mfiki	259 404	14 320	86 468	9 730	79	370 001
Cllr. D.Z Mnceba	196 199	10 831	65 400	4 140	-	276 570
Cllr. B Mjakuja	196 199	10 831	65 400	8 940	-	281 370
Cllr. X Moni	259 404	14 320	86 468	48 638	5 372	414 202
Cllr. Z Mtiki	196 199	10 831	65 400	5 940	5 372	283 742
Cllr. N.B Mtuku	259 404	14 320	86 468	8 940	5 372	374 504
Cllr. A Mzungule	195 387	10 831	65 129	8 940	-	280 287
Cllr. L Ndamase	259 404	14 320	86 468	8 940	5 372	374 504
Cllr. T.M Msongelwa	195 387	10 831	65 129	8 940	-	280 287
Cllr. S.L Ntlatywa	195 387	10 831	65 129	10 740	-	282 087
Cllr. T Ntsham	196 199	10 831	65 400	4 140	-	276 570
Cllr. S.E Sicoto	195 387	10 831	65 129	5 940	-	277 287
Cllr. N.P Soga	196 199	10 831	65 400	8 940	-	281 370
Cllr. N Tani	259 404	14 320	86 468	4 140	5 372	369 704
Cllr. N Tshitshiliza	251 789	13 899	83 931	10 740	5 372	365 731
Cllr. G Tshotho	196 199	10 831	65 400	10 740	5 372	288 542
Cllr. Z Totwana	196 199	10 831	65 400	5 940	-	278 370
Cllr. N Vava	196 199	10 831	65 400	8 940	-	281 370
Cllr. M Veni	251 789	13 899	83 931	8 940	5 372	363 931
Cllr. G.X Vimba	196 199	10 831	65 400	8 940	-	281 370
Cllr. R.M Zweni	251 789	13 899	83 931	10 740	5 767	366 126
Cllr. P Langa *	-	-	-	-	4 582	4 582
Cllr. T Khukula*	-	-	-	-	4 582	4 582
Cllr. B Nokhanda*	-	-	-	-	5 767	5 767
Cllr. H.S Tsili*	-	-	-	-	4 582	4 582
Cllr. D Nompaka*	-	-	-	-	4 582	4 582
Cllr. N Ndakayi*	-	-	-	-	4 582	4 582
Cllr. V.N Mcekisa*	-	-	-	-	4 582	4 582
Cllr. M.N Sophotela*	-	-	-	-	4 582	4 582
Cllr. S.J Sotshongaye*	-	-	-	-	4 582	4 582
Cllr. N.F Diko*	-	-	-	-	4 582	4 582
Cllr. J.S Lobi*	-	-	-	-	5 767	5 767
Cllr. S Madolo*	-	-	-	-	4 582	4 582
Cllr. S Mzaza*	-	-	-	-	4 582	4 582

Notes to the Annual Financial Statements

45. Related parties (continued)

					2021	2020
Cllr. N Mbotshwa*	-	-	-	-	4 582	4 582
Cllr. M.S Mabovana*	-	-	-	-	4 582	4 582
Cllr. N.P Kotana*	-	-	-	-	4 582	4 582
	9 412 085	**520 439**	**3 137 371**	**353 808**	**173 247**	**13 596 950**

* These are former councilors who were paid back the cellphone insurances previously deducted from them in the period 2011 to 2016 when they were still in office. This was done in line with a council resolution of the 30th of October 2019 that all councilors who served from 2011 to 2016 should be paid back cellphone insurance deductions previously deducted from their salaries.

Executive management

*Details of remuneration paid to key management personnel have been disclosed on note 30 "Employee related costs".

Councilors' outstanding consumer accounts

Details of outstanding consumer accounts have been disclosed in note 53 "Additional disclosure in terms of Municipal Finance Management Act".

46. Accounting by principals and agents

The Municipality is not a party to any principal-agent arrangement(s).

Notes to the Annual Financial Statements

	2021	2020

47. Risk management

Liquidity risk

Liquidity risk is the risk that the Municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the Municipality are backed by appropriate assets and it has adequate liquid resources. Council has an approved financial plan which brought policies and procedures in place to monitor the cash projections and by ensuring that financial resources are available to meet its cash requirements.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents and receivables from consumers for property rates and refuse collection.

Consumer debtors comprise of many consumers, dispersed across different industries and geographical areas within Port St Johns. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly.

The Municipality has a significant concentration of credit risk in respect of receivables from consumers for rate and refuse collection. The municipality is obliged to continue to offer refuse collection service as well as levy rates to these consumers.

The Municipality’s credit risk exposure is represented primarily by the net aggregate balance of amounts receivable in respect of unpaid rates, refuse charges and other receivables. Debt collection procedures are applied as diligently as circumstances permit in such a way as to minimise risk and related collection costs. As a general principle, no collateral is required for these receivables.

The provides for impairment losses in respect of these receivables to the extent that they can be reliably and objectively determined, having regard to the credit risk experience and payment history of the particular categories of debtors.

The Municipality limits its counterparty exposures from its money market investment operations by only dealing with well established financial institutions of high-quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits. These limits are reviewed annually by the CFO and authorised by the executive mayoral committee.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2021**	**2020**
Receivables from exchange transactions	103 011	19 631 337
Receivables from non-exchange transactions	5 277 077	5 549 881
Consumer debtors	572 791	1 041 967
Cash and cash equivalents	146 974 002	108 918 432

47. Risk management (continued)

Market risk

Interest rate risk

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 rate changes.

As the municipality has no significant interest-bearing financial liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates except for the effect of interest received on cash placed on call accounts.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Receivables from exchange transactions	- %	103 011	-	-	-	-
Receivables from non-exchange transactions	15.00 %	5 277 077	-	-	-	-
Consumer debtors	15.00 %	572 791	-	-	-	-
Cash in current banking institutions	4.28 %	146 974 002	-	-	-	-
Finance lease liabilities	7.00 %	(685 032)	-	-	-	-
Payables from exchange transactions	- %	(37 192 889)	-	-	-	-

47. Risk management (continued)

Price risk

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 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.

The Municipality does not have any financial instruments that are affected by price risk.

Implications of COVID-19 on Financial risk management

The World Health Organisation declared the COVID-19 coronavirus outbreak to be a pandemic. Since March 2020, the South African government has taken stringent steps to contain the spread of the virus. Actions taken in response to the spread of COVID-19 have resulted in significant disruption to business operations of the municipality and a significant increase in economic uncertainty. This includes, but is not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities more volatile asset prices and currency exchange rates, and a marked decline in borrowing and investment interest rates. These events and conditions create a level of uncertainty and risk that the municipality has not encountered before.

As the pandemic increases in both magnitude and duration, entities are experiencing conditions often associated with a general economic downturn. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on an entity’s financial results.

Market risk

The municipality’s exposure to market risk has increased because of the pandemic due to increased market volatility. The crash in market prices in the last quarter of the financial year due to the COVID-19 global pandemic has significantly increased the municipality’s exposure to market risk.

The South African Reserve Bank has effectively reduced the repo rate from the 2019/2020 financial year. This has had the impact of financial institutions reducing the prime lending rate as well reducing the investment interest rates earned on call accounts.

Credit risk

The COVID-19 pandemic has increased the credit risk exposure of the municipality as many ratepayers are without income and the risk of default on their consumer accounts is increased. However, the municipality applies a very stringent and conservative approach in measuring impairment on its receivables outstanding at year end. The amount provided for impairment losses on receivables is considered adequate. The environment is subject to rapid change and updated facts and circumstances will continue to be monitored as new information becomes available.

Liquidity risk

Liquidity risk is increased as the municipality’s collections from collections from consumers form a significant part of its budget. The measures taken by government to curb the spread of the virus has negatively impacted municipality’s cash flows. The municipalitydid not received funds from national government under the National Disaster grant in current year but has adeqaute funds to be utilised to implement programs required to alleviate the impact of the COVID – 19 pandemic on the society.

The following are the contractual maturities of the financial liabilities, including interest payments and excluding the impact of netting agreements:

2021	Carrying amount	Contractual cash flows	1 year or less	>1 year
Finance lease obligation	685 032	685 032	401 422	283 610
Payables from exchange transactions	37 192 889	37 192 889	37 192 889	-
Consumer deposits	61 000	61 000	61 000	-
	37 938 921	**37 938 921**	**37 655 311**	**283 610**

	2021	2020

47. Risk management (continued)

2020	Carrying amount	Contractual cash flows	1 year or less	>1 year
Finance lease obligation	71 929	71 929	53 650	18 279
Payables from exchange transactions	37 123 755	37 123 755	37 123 755	-
Consumer deposits	61 000	61 000	61 000	-
	37 256 684	**37 256 684**	**37 238 405**	**18 279**

In the previous year, the municipality incorrectly disclosed unspent conditional grant receipts as financial liabilities under this disclosure. This error has now been rectified.

48. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of 633 674 195 and that the municipality's total assets exceed its liabilities by 633 674 195.

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.

Since March 2020 the consequences of the COVID-19 pandemic have materially and adversely affected the ability of the municipality to continue normal operations in delivering services to the community with all the efforts being directed towards the fight against the pandemic. The municipality has continued to operate with critical staff and implement the COVID 19 projects as well as perform the critical activities of council.

Although there is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions, these uncertainties together with the plans explained above do not at this time cast significant doubt on the municipality's ability to continue as a going concern

49. Events after the reporting date

Since 31 December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The current national lock down restrictions which are currently at adjusted “Level 3” from midnight on 25th of July 2021 as announced by the President on the 25th of July 2021. There is still uncertainty as to when the restrictions will be fully lifted and other changes to restrictions.Disclose for each material category of non-adjusting events after the reporting date.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2021 have not been adjusted to reflect their impact.

50. Unauthorised expenditure

	2021	2020
Opening balance as previously reported	130 310 835	130 310 835
Opening balance as restated	**130 310 835**	**130 310 835**
Add: Unauthorised expenditure - current year	65 520 518	-
Closing balance	**195 831 353**	**130 310 835**

Notes to the Annual Financial Statements

	2021	2020

50. Unauthorised expenditure (continued)

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	48 065 854	-
Cash	17 454 664	-
	65 520 518	**-**

Analysed as follows: non-cash

Actuarial losses	184 602	-
Debt Impairment	4 952 448	-
Depreciation and amortisation	15 096 064	-
Finance costs	797 401	-
Impairment loss	15 370 364	-
Inventories losses/write-downs	102 360	-
Loss on disposal of property, plant and equipment	11 562 615	-
	48 065 854	**-**

Analysed as follows: cash

Employee related costs	17 454 664	-

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes: overspending of the total amount appropriated in the municipality's approved budget; overspending of the total amount appropriated for a vote in the approved budget expenditure from a vote unrelated to the department or functional area covered by the vote; expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation otherwise than in accordance with any conditions of the allocation; or a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

Unauthorised expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

51. Fruitless and wasteful expenditure

Opening balance as previously reported	19 459 457	19 447 157
Opening balance as restated	**19 459 457**	**19 447 157**
Add: fruitless and wasteful expenditure	12 738	12 300
Add: Expenditure identified - prior period	750 000	-
Closing balance	**20 222 195**	**19 459 457**

		2021	2020

51. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Interest incurred on late payment of suppliers	None	12 738	12 300
duplicated invoices	None	750 000	-
		762 738	**12 300**

[1] Fruitless and wasteful expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit.

52. Irregular expenditure

Opening balance as previously reported	203 656 299	138 422 908
Opening balance as restated	**203 656 299**	**138 422 908**
Add: Irregular Expenditure - current	13 060 605	10 711 458
Add: Irregular Expenditure incured in prior period but identified in current year	28 574 339	54 521 933
Closing balance	**245 291 243**	**203 656 299**

		2021	2020

52. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings		
Regulation 32 incorrectly applied	None	8 763 329	4 470 887
Three written quotations not invited	None	-	335 114
Overspending on contracts	None	78 000	2 076 171
Award above CIDB grading	None	-	3 829 286
Non-compliance with SCM policy	None	4 219 276	-
		13 060 605	**10 711 458**

In current year, restatements have been made to amounts previously disclosed in prior years. This was due to the fact that the municipal irregular expenditure was incomplete and inaccurate from the 2010/2011 financial year.

53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	-	(758 000)
Current year subscription / fee	862 500	758 000
Amount paid - current year	(862 500)	-
	-	**-**

Audit fees

Opening balance	462 693	-
Current year subscription / fee	4 335 840	4 223 235
Amount paid - current year	(4 502 029)	(3 760 542)
	296 504	**462 693**

Notes to the Annual Financial Statements

	2021	2020

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

PAYE, UIF and SDL

	2021	2020
Opening balance	(337 817)	154
Current year subscription / fee	16 868 698	14 029 685
Amount paid - current year	(16 304 891)	(14 367 656)
	225 990	**(337 817)**

Pension and Medical Aid Deductions

	2021	2020
Opening balance	910 126	466 417
Current year subscription / fee	12 974 950	11 086 229
Amount paid - current year	(13 885 076)	(10 642 520)
	-	**910 126**

VAT

	2021	2020
VAT receivable	1 863 386	7 065 372

VAT output payables and VAT input receivables are shown in note 7.

The municipality has financial risk policies in place to ensure that payments are made before the due date.

Councillors' arrear consumer accounts

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr. S.L Ntlatywa	2 745	2 305	5 050

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr. S.L Ntlatywa	8	-	8

All the other councillors reside in the rural areas of Port St John's Municipality, therefore, they are not billed for any services.

54. Deviation from supply chain management regulations

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

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

Deviations for the period up to 30 June 2021.

The amount for deviations as at 30 June 2021 is R 2 319 927 (2020: R2 995 204).

The following deviations and ratifications of minor breaches of procurement processes are reported to council in terms of Paragraph 36(2) of the SCM Policy.

Category	2021	2020
Impossible to get 3 quotes	963 695	-
Emergency	-	190 750
Exceptional cases	1 265 593	632 639
Sole supplier	90 639	2 171 815
	2 319 927	**2 995 204**

55. Change in estimate

Property, plant and equipment

The Municipality reassesses the useful lives and residual values of items of property, plant and equipment of the municipality at the end of each reporting period, in line with the accounting policy and GRAP 17 - Property, plant and equipment. These assessments are based on historic analysis, benchmarking, and the latest available and reliable information.

The depreciation methods and average useful lives and residual values of property, plant and equipment have been assessed and based on this analysis, the useful lives and residual values have been revised. The impact of the change is a reduction in the annual depreciation charge for the current year of R424 448 (2020: R59 391). It is not practical to provide an estimate for future years.

The average useful lives changed as tabulated below:

Category	Current period average useful lives	Prior period average useful lives
Plant and machinery	2-20 years	2-15 years
Furniture and office equipment	7-12 years	7-10 years
Infrastructure	15-50 years	15-30 years

56. Prior period errors

The municipality's annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP). The basis is consistent with the prior year except for restatements reflected below.

Accruals, accounts payable, expenditure and VAT misstatements

During the current financial year, the following errors were identified:

- The municipality had incorrectly recorded certain suppliers invoices inclusive of VAT, omitted recording of supplier invoices, misallocated expense items amongst expense general ledgers and or posted invoices in incorrect accounting periods;
- A payment for the procurement of inventory items was incorrectly expensed in the previous financial year;
- Some accruals were incorrectly raised for invoices which were already paid at year end;
- Some suppliers’ payments were incorrectly reversed in the general ledge;

Notes to the Annual Financial Statements

	2021	2020

56. Prior period errors (continued)

- Some expenses were classified based on their function rather than their nature; and
- General expenditure items for previous years included in suspense accounts and not rolled up to accumulated surplus on year end close even though they were reported as expenses in the respective financial years

Corrections have been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The accounts payable and the related expenditure were updated accordingly.

The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

56. Prior period errors (continued)

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
General expenditure items for previous years included in suspense accounts and not rolled up to accumulated surplus on year end close even though they were reported as expenses in the respective financial years	878	-	878
Some accruals were incorrectly raised for invoices which were already paid at year end	(1 859 759)	-	(1 859 759)
Expense invoices omitted from the general ledger	665 477	281 613	947 090
Some accruals were incorrectly raised for invoices which were already paid at year end.	72 470	-	72 470
Some suppliers' invoices were overstated in the creditors account	(531 423)	(46 411)	(577 834)
Some accruals for 2018/2019 financial year which were not completely reversed in the 2019/2020 financial year when they were paid	(110 380)	(514 747)	(625 127)
Incorrect accrual journals processed to reverse accruals	-	57 086	57 086
Some accruals for 2017/2018 financial year which were not completely reversed in the 2018/2019 financial year when they were paid	-	(164 895)	(164 895)
Some suppliers' invoices were duplicated in the general ledger	(548 961)	-	(548 961)
Some suppliers' payments were incorrectly reversed in the general ledger	(16 000)	(33 700)	(49 700)
Some expense items were incorrectly recorded inclusive of VAT	22 934	-	22 934
Some invoices were misallocated in the general ledger	144 187	42 760	186 947
Expense transactions recorded in incorrect accounting period	(339 117)	(523 383)	(862 500)
	(2 499 694)	**(901 677)**	**(3 401 371)**

Capital Work in progress

During the current financial year, the municipality identified two (2) infrastructure projects for the Mthumbane road concrete slabs and the construction Beach house storeroom which commenced in prior years but were omitted from the work in progress. These were internal projects. Further, there was one accrual invoice for a recorded project which was omitted from the previous financial year.

Also, some INEP completed rural electrification projects were not transferred from work in progress to inventory upon completion of the projects pending handing over to Eskom. Correction of this error did not have any impact on the previously reported surplus or accumulated surplus.

These have been made corrected in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors.

The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Beach house storeroom project omitted from work in progress	(19 114)	(10 520)	(29 634)
Mthumbane Concrete Slab project omitted from work in progress	(971 544)	(1 285 264)	(2 256 808)
	(990 658)	**(1 295 784)**	**(2 286 442)**

	2021	2020

56. Prior period errors (continued)

Inventory

The municipality identified and corrected an error involving some inventory items which were expensed in error. The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Inventory purchases omitted from the inventory at year end (expensed)	(44 680)	-	(44 680)

Leave liability

The municipality noted an error involving long service leave accrual. This leave vests on reaching of milestones by employees and the employees are entitled to these days. The municipality however, had not been recording this leave liability in the accounting records. This error was corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The effect is shown below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Long service vested leave liability not recognised in the municipal books	237 774	1 598 128	1 835 902

Property, plant and equipment

In the current year, the municipality corrected an error involving an understatement to the useful life of the solid-state waste landfill site asset. The municipality had incorrectly applied 20-year useful life instead of the management estimate of 30 years. Further, negative changes in landfill provision incorrectly posted to income statement in previous years, instead of the landfill site asset as required by IGRAP 2. This resulted in overstatement of asset cost as well as depreciation.

Some items of land which belonged to the municipality were not removed from the municipality’s asset register when sold.

The Agency Building owned by the municipality was not recorded on the asset register.

The finance main building incorrectly classified as land. This resulted in understatement of buildings and overstatement of land. Further, depreciation expenditure and the related accumulated depreciation was understated.

Land donated by the local Chief for establishing an animal pound was not recorded in the books.

These errors were corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The effect is shown below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Useful life of the solid waste landfill site was understated	(137 281)	(1 369 813)	(1 507 094)
Changes in landfill provision incorrectly posted to income statement in previous years, instead of the landfill site asset	2 206 545	947 625	3 154 170
Depreciation differences on solid waste asset following correction of its cost	(156 872)	(22 936)	(179 808)
Items of land not removed from the municipality’s asset register when sold	-	1 055 000	1 055 000
Agency Building owned by the municipality not recorded on the asset register	36 977	(1 074 758)	(1 037 781)
Finance main building incorrectly classified as land	13 525	94 216	107 741
Land donated by the local Chief was not recorded in the books	(1 900 000)	-	(1 900 000)

56. Prior period errors (continued)

	62 894	(370 666)	(307 772)

Skills Development Levy (SDL) overpaid

The municipality overpaid skills development levy in the prior year. This resulted in overstating the expense. This error was corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The effect is shown below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
SDL overpayments in 2019/2020 financial year	(337 817)	-	(337 817)

Licences and permits

The municipality collected parking fees amounting to R37 000 in the 2019/2020 financial year which was supposed to be shared equally among itself and a third party. It mistakenly recorded the full amount as its own revenue. In the current financial year, it had to repay the third party their portion of R18 500. This error was corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Parking fees collected for sharing with a third party were incorrectly accounted as municipal income in full	18 500	-	18 500

Grants and subsidies

The Municipality did not account for the EPWP unspent grant at the end of 2018/2019 financial year which was repaid to National Treasury by way of reduction in Equitable share of the 2019/2020 financial year. It incorrectly carried this forward and recognised the portion of this amount in the 2019/2020 financial year. This error was corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
The EPWP grant repaid to Treasury through reduction of Equitable share was not accounted for	(237 087)	-	(237 087)

Investment property

In the current year, the municipality identified some land which belonged to the municipality was not removed from the municipality’s asset register when sold. This overstated the investment property reported in the fixed assets register.

This error was corrected retrospectively in accordance with GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The impact of the corrections on the surplus and opening accumulated surplus for the previous year is tabulated below:

Error description	2020 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)

Notes to the Annual Financial Statements

		2021	2020

56. Prior period errors (continued)

Items of land not removed from the municipality’s asset register when sold	-	10 931 003	10 931 003

Other misstatements and reclassifications

The municipality also decided to change certain general ledger account classifications in the annual financial statements to achieve a more accurate presentation in the college annual financial statements. As a result of these reclassifications, the prior years were restated retrospectively in terms of GRAP 3 – Changes in Accounting Policies, Accounting Estimates and Errors. The annual financial statement line items affected by these reclassifications are employee related costs and general expenditure. There were also reclassifications within the general expenditure itself where items which were recorded based on their function have now been reclassified using function. The items of general expenditure affected are grant project expenses, other expenses, social responsibility program and ward committees’ stipend. These reclassifications did not have an effect on the surplus previously reported in the prior years.

VAT Receivable

In current year, the municipality identified and corrected some errors involving VAT refunds from SARS which were not allocated to corresponding VAT Input and VAT output accounts but rather posted to VAT control account. Also, some VAT transactions relating to VAT provisional accrual were posted to the VAT input account instead of VAT input provisional account. These were corrected in current year. Such corrections did not have any effect on the municipality’s previously reported surplus for 2019/2020 financial year nor the accumulated surplus at the beginning of that year.

Effect of correction of errors

The aggregate effect of the restatements on the municipality's annual financial statements for the year ended 30 June 2020:

Error and the effect on surplus/(deficit)	2020R(Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total (R)
Mthumbane Concrete Slab project omitted from work in progress	(971 544)	(1 285 264)	(2 256 808)
Beach house storeroom project omitted from work in progress	(19 114)	(10 520)	(29 634)
Clearing of accruals were incorrectly posted to wrong accounts	878	-	878
Expense invoices omitted from the general ledger	665 477	281 613	947 090
Expense transactions recorded in incorrect accounting period	(339 117)	(523 383)	(862 500)
Incorrect accrual journals processed to reverse accruals	-	57 086	57 086
Inventory purchases omitted from the inventory at year end (expensed)	(44 680)	-	(44 680)
Long service vested leave liability not recognised in the municipal books	237 774	1 598 128	1 835 902
SDL overpayments in 2019/2020 financial year	(337 817)	-	(337 817)
Some accruals for 2017/2018 financial year which were not completely reversed in the 2018/2019 financial year when they were paid	-	(164 895)	(164 895)
Some accruals for 2018/2019 financial year which were not completely reversed in the 2019/2020 financial year when they were paid	(110 380)	(514 747)	(625 127)
Some accruals were incorrectly raised for invoices which were already paid at year end	(1 859 759)	-	(1 859 759)
Some accruals were incorrectly raised for invoices which were already paid at year end.	72 470	-	72 470
Some expense items were incorrectly recorded inclusive of VAT	22 934	-	22 934
Some invoices were misallocated in the general ledger	144 187	42 760	186 947
Some suppliers’ invoices were duplicated in the general ledger	(548 961)	-	(548 961)
Some suppliers’ invoices were overstated in the creditors account	(531 423)	(46 411)	(577 834)
Some suppliers’ payments were incorrectly reversed in the general ledger	(16 000)	(33 700)	(49 700)
Useful life of the solid waste landfill site was understated	(137 281)	(1 369 813)	(1 507 094)
Parking fees collected for sharing with a third party were incorrectly accounted as municipal income in full	18 500	-	18 500
The EPWP grant repaid to Treasury through reduction of Equitable share was not accounted for	(237 087)	-	(237 087)
Changes in landfill provision incorrectly posted to income statement in previous years, instead of the landfill site asset	2 206 545	947 625	3 154 170

		2021	2020

56. Prior period errors (continued)

Depreciation differences on solid waste asset following correction of its cost	(156 872)	(22 936)	(179 808)
Agency Building owned by the municipality not recorded on the asset register	36 977	(1 074 758)	(1 037 781)
Finance main building incorrectly classified as land	13 525	94 216	107 741
Items of land not removed from the municipality's asset register when sold	-	11 986 003	11 986 003
Land donated by the local Chief was not recorded in the books	(1 900 000)	-	(1 900 000)
	(3 790 768)	**9 961 004**	**6 170 236**

The impact of corrections of these errors as well as reclassifications on the Statement of Financial Performance and Statement of financial Position are as follows:

Statement of financial position	**As previously disclosed**	**Correction of errors**	**Reclassifications**	**Restated**
Inventories	632 644	38 415 412	-	39 048 056
Receivables from exchange transactions	19 631 338	-	-	19 631 338
Receivables from non-exchange transactions	5 549 882	-	-	5 549 882
VAT receivable	7 326 210	(260 837)	-	7 065 373
Consumer debtors	1 041 966	-	-	1 041 966
Cash and cash equivalents	108 918 431	-	-	108 918 431
Investment property	11 461 003	(10 931 003)	-	530 000
Property, plant and equipment	508 895 230	(35 460 129)	-	473 435 101
Finance lease obligation	(71 929)	-	-	(71 929)
Payables from exchange transactions	(38 952 988)	1 829 234	-	(37 123 754)
Consumer deposits	(61 000)	-	-	(61 000)
Employee benefit obligation	(4 407 000)	-	-	(4 407 000)
Unspent conditional grants and receipts	(18 753 306)	237 087	-	(18 516 219)
Operating lease liability	(2 442 273)	-	-	(2 442 273)
Provisions	(10 565 447)	-	-	(10 565 447)
Accumulated surplus	(588 202 761)	6 170 236	-	(582 032 525)
	-	-	-	-

Statement of financial performance	**As previously disclosed**	**Correction of errors**	**Reclassifications**	**Restated**
Service charges	(956 782)	-	-	(956 782)
Rental of facilities and equipment	(9 844)	-	-	(9 844)
Interest charged on overdue consumer accounts	(4 233 799)	-	-	(4 233 799)
Licences and permits	(635 707)	18 500	-	(617 207)
Other income	(3 032 376)	2 206 545	-	(825 831)
Investment revenue - investment	(5 365 227)	-	-	(5 365 227)
Property rates	(9 792 798)	-	-	(9 792 798)
Government grants & subsidies	(230 833 371)	(237 087)	-	(231 070 458)
Donations received	-	(1 900 000)	-	(1 900 000)
Fines, Penalties and Forfeits	(253 300)	-	-	(253 300)
Employee related costs	76 070 699	237 774	(554 847)	75 753 626
Remuneration of councillors	13 596 950	-	-	13 596 950
Depreciation and amortisation	49 978 340	(243 652)	-	49 734 688
Impairment loss	42 612	-	-	42 612
Finance costs	1 332 327	15 739	-	1 348 066
Lease rentals on operating lease	1 603 941	(70 887)	-	1 533 054
Debt Impairment	4 755 883	-	-	4 755 883
Contracted services	6 706 841	(513 997)	-	6 192 844
Transfers and Subsidies	8 724 134	-	-	8 724 134
Loss on disposal of assets and liabilities	4 160 079	-	-	4 160 079
Actuarial gains	(15 242)	-	-	(15 242)
Inventory losses/write-downs	559 406	-	-	559 406
General Expenses	49 352 567	(3 303 706)	554 847	46 603 708

			2021	2020

56. Prior period errors (continued)

	(38 244 667)	**(3 790 771)**	**-**	**(42 035 438)**

	2021	2020

56. Prior period errors (continued)

Corrections to prior period disclosures

During the year, the Municipality discovered and corrected prior period errors relating to disclosures previously made on commitments and Fruitless and wasteful expenditure. These errors resulted in misstatement of the disclosed amounts. Corrections were made to the disclosures of the previous financial year. The impact of the retrospective corrections is tabulated below.

Description	As previously disclosed	Correction of error(s)	Restated
Irregular expenditure	203 656 299	28 574 339	232 230 638

Cash Flow Statement

Description	As previously disclosed	Correction of error(s)	Restated
Net cash flows from operating activities	117 185 833	1 223 312	118 409 145
Net cash flows from investing activities	(64 958 133)	(1 223 312)	(66 181 445)
Cash flows from financing activities	(364 356)	-	(364 356)
	51 863 344	**-**	**51 863 344**

57. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are shown above.

58. Statutory receivables

In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:

	2021	2020
Receivables from Non-Exchange Transactions		
Property rates	43 244 226	35 620 263
Traffic fines	1 933 583	1 700 483
Other receivables		
VAT receivabes	1 863 386	7 065 372
	47 041 195	**44 386 118**

Refer to notes 8, 7 and 5 for more detail relating to the fines and rates receivables, including any provision for impairment raised against the gross amounts disclosed above.

59. Segment information

General information

Identification of segments

The municipality is organised and reports to council on the basis of seven (7) major functional areas: community services, corporate services, executive council, financial services, infrastructural engineering, local economic department and Municipal manager. The segments are organised around the departments which assist the municipality in service delivery. Council uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by council as a basis for evaluating the segments’ performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

59. Segment information (continued)

Aggregated segments

The municipality operates in the Port St Johns area of the Eastern Cape province. Since all the segments are located in one geographical area, segment results were aggregated on the basis of services departments.

Types of services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment	Services
Community services	Removal and disposal of waste, traffic safety, municipal by-laws and security. Provision of libraries, pounds, public parks and cemeteries.
Corporate services	Provision of human resource management and administrative and information technology support services. The provision of secretarial support to council.
Executive council	The council is responsible for governing the local area, provision of service delivery of municipal services to local residents and provision of political oversight to administration.
Financial services	Ensures proper management of municipal finances to improve financial viability, revenue, budget control, expenditure, and Free basic Services. It also administers supply chain, fleet, and asset management services.
Infrastructural engineering	Provision of project management services. Roads construction, maintenance. Mechanical workshop services and building plans and inspection services.
Local economic development	Tourism development, marketing and promotion. Agricultural development, enterprise development and poverty alleviation.
Municipal manager	Responsible for monitoring and functioning of overall administration, drafting of IDP of performance management system and implementation as well as ensuring internal audit function, risk management systems and provision of legal advice to the council.

59. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Community services	Corporate services	Executive council	Financial services	Infrastructural engineering	Local economic development	Municipal manager	Total
Revenue								
Revenue from non-exchange transactions	14 505 197	7 472 491	26 380 704	69 268 430	163 607 286	10 567 230	11 636 841	303 438 179
Revenue from exchange transactions	1 052 135	-	-	1 488 061	-	-	-	2 540 196
Interest revenue	-	-	-	10 692 719	-	-	-	10 692 719
Total segment revenue	**15 557 332**	**7 472 491**	**26 380 704**	**81 449 210**	**163 607 286**	**10 567 230**	**11 636 841**	**316 671 094**
Total municipality's revenue								**316 671 094**
Expenditure								
Employee related costs	31 214 694	14 137 911	4 239 079	9 089 647	17 562 788	3 844 149	7 326 378	87 414 646
Remuneration of councillors	-	-	13 089 325	-	-	-	-	13 089 325
Depreciation and amortisation	1 629 437	774 616	1 008 150	1 168 611	51 100 439	77 761	102 094	55 861 108
Impairment loss	-	-	-	15 370 364	-	-	-	15 370 364
Finance costs	-	-	-	1 097 989	-	-	-	1 097 989
Lease rentals on operating lease	127 339	380 172	113 603	-	19 896	19 896	40 221	701 127
Debt Impairment	-	-	-	9 952 447	-	-	-	9 952 447
Contracted services	85 816	507 092	-	4 507 188	419 560	-	1 824 533	7 344 189
Transfers and Subsidies	-	-	-	-	-	9 338 833	-	9 338 833
Loss on disposal of assets and liabilities	-	-	-	11 562 616	-	-	-	11 562 616
Actuarial losses	-	-	-	184 602	-	-	-	184 602
Inventories losses/write-downs	-	-	-	102 360	-	-	-	102 360
General Expenses	4 335 690	6 501 964	9 497 240	12 351 110	10 296 247	599 647	9 427 919	53 009 817
Total segment expenditure	**37 392 976**	**22 301 755**	**27 947 397**	**65 386 934**	**79 398 930**	**13 880 286**	**18 721 145**	**265 029 423**
Total segmental surplus								**51 641 671**

Notes to the Annual Financial Statements

Figures in Rand

59. Segment information (continued)

	Community services	Corporate services	Executive council	Financial services	Infrastructural engineering	Local economic development	Municipal manager	Total
Assets								
Segment assets	18 589 627	19 830 459	57 655 675	2 271 387	296 003 471	856 383	646 437	395 853 439
Inventories								68 141 109
Receivables from exchange transactions								103 011
Receivables from non-exchange transactions								5 277 077
VAT receivable								1 863 386
Consumer debtors								572 791
Cash and cash equivalents								146 974 002
Investment property								4 629 586
Cellular equipment								561 904
Infrastructure - WIP								86 053 459
Total assets as per Statement of financial Position								**710 029 764**
Finance lease obligation								685 032
Payables from exchange transactions								37 192 889
Consumer deposits								61 000
Employee benefit obligation								4 333 000
Unspent conditional grants and receipts								16 464 745
Operating lease liability								2 565 214
Provisions								15 053 689
Total liabilities as per Statement of financial Position								**76 355 569**

Measurement of segment surplus or deficit, assets and liabilities

Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Information about geographical areas

The municipality’s operations are in the Port St Johns area of the Eastern Cape Province.