



**Umzimvubu Local Municipality
Annual Financial Statements
for the year ended 30 June 2023**

**AUDITOR GENERAL
SOUTH AFRICA**

30 NOV 2023

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)

Nature of business and principal activities

Provision of services to the community as prescribed by the Local Government: Municipal Structures Act (Act No. 117 of 1998) and the Constitution of the Republic of South Africa (Act No. 108 of 1996) as amended.

Executive Mayor

Cllr Z. Ndevu

Speaker

Cllr M. H. Ngqasa

Cllr N. Nomnganga (Acting speaker)

Chief Whip

Cllr N.F Ngonyolo

MPAC Chairperson

Cllr M. Mataka

Councillors

W1 - Cllr M. Kiviet

W2 - Cllr N. Hlanekela

W3 - Cllr A. Mkhonto

W4 - Cllr L. Mapala-Bera

W5 - Cllr T. Ngxabi

W6 - Cllr V. P. Gogela

W7 - Cllr N. Xolo

W8 - Cllr D. Ndema

W9 - Cllr A. Jakuja

W10 - Cllr W. Z. Ngakwana

W11 - Cllr N. Gogela

W12 - Cllr P. P. Magujulwa

W13 - Cllr C. L. Noqhakala

W14 - Cllr S. Mathebe

W15 - Cllr M. G. Ngwaqa

W16 - Cllr B. R. Khehle-Salukazana

W17 - Cllr N. Jwara

W18 - Cllr T. E. Sincindi

W19 - Cllr V. B. Sobhayi

W20 - Cllr X. Lungu

W21 - Cllr N. Nomnganga

W22 - Cllr M. Kakaza

W23 - Cllr Z. G. Mampemvini

W24 - Cllr M. B. Jonase

W25 - Cllr N. V. Giwu

W26 - Cllr M. Tuku

W27 Cllr S. Faye

W28 Cllr L. Mveku

Pr Cllr C.N Mnyayiza

Pr Cllr N. Sonyabashi

Pr Cllr N. B. Mphekeqana-Mdingi

Pr Cllr N. Mantshongo

Pr Cllr F. F. Sontsi

Pr Cllr M. Hlanekela

Pr Cllr P. Thingathinga

Pr Cllr M. Sonyabashe

Pr Cllr T. Ntsalaze

Pr Cllr B. T. Ngqasa



Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

	Pr Cllr D. N Ntshobane Pr Cllr C. M. Madyibi Pr Cllr N. P Nogada Pr Cllr N. V. Nomnganga Pr Cllr M. Magobane Pr Cllr L. Gwentshu Pr Cllr F. Ntwakumba Pr Cllr A.N Garane Pr Cllr N. Nkula Pr Cllr X. Jona Pr Cllr T. Sokhanyile Pr Cllr I. Nodali Pr Cllr G.N Mdzinwa
Capacity and grading of local authority	Grade 3
Accounting Officer	Mr G.P.T Nota
Chief Financial Officer	Mr F.T Fundira
Registered office	Dabula Street Sophia Kwa-Bhaca 5090
Bankers	First National Bank
Auditors	Auditor-General of South Africa Registered Auditors
Attorneys	Conjwa & Associates Fikile Ntayiya & Associates Madlanga & Partners Inc. Mdledle Incorporation Norton Rose Fullbright
Legislation governing the municipality's operations	Local Government: Municipal Finance Management Act (Act No. 56 of 2003) Local Government: Municipal Systems Act (Act No. 32 of 2000) Local Government: Municipal Structures Act (Act No. 117 of 1998) Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Property Rates Act (Act No. 6 2004) Division of Revenue Act (Act No. 1 of 2007)



Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

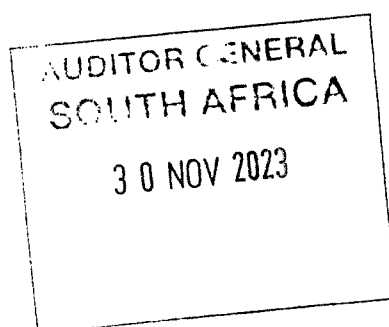
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The reports and statements set out below comprise the annual financial statements presented to the council:

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
IASB	International Accounting Standards Board



Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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.

I as the Accounting Officer acknowledge that I am 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, there are sets of 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.

I am 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.

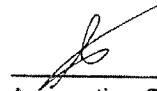
I have reviewed the municipality's cash flow forecast for the 12 months to 30 June 2024 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I am primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 40 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with the Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2023 and were signed on its behalf by:


Accounting Officer (G.P.T Ntse)
KwaBhaca

AUDITOR GENERAL
SOUTH AFRICA

30 NOV 2023

Thursday, 31 August 2023

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	2 949 317	3 123 510
Operating lease asset	4	18 473 694	13 884 681
Receivables from exchange transactions	5&7	579 642	564 039
Statutory receivables	6&7	20 395 551	15 445 112
VAT receivable	8	12 605 799	6 860 717
Prepayments	9	-	1 082 117
Other receivables	10	3 707 395	-
Cash and cash equivalents	11	79 105 291	102 908 112
		137 816 689	143 868 288
Non-Current Assets			
Investment property	12	25 298 064	21 816 441
Property, plant and equipment	13	980 505 106	925 086 445
Intangible assets	14	595 476	816 437
Heritage assets	15	17 719	17 719
		1 006 416 365	947 737 042
Total Assets		1 144 233 054	1 091 605 330
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	45 336 507	29 262 191
Payables from Non-Exchange Transactions	17	3 389 169	3 608 066
Consumer deposits	18	161 703	144 371
Unspent conditional grants and receipts	19	3 610 742	462
Employee benefits obligations	20	13 629 988	11 635 252
		66 128 109	44 650 342
Non-Current Liabilities			
Employee benefits obligations	20	2 193 000	2 107 000
Provisions	21	6 337 829	7 076 782
		8 530 829	9 183 782
Total Liabilities		74 658 938	53 834 124
Net Assets		1 069 574 116	1 037 771 206
Reserves			
Capital replacement reserve	22	34 013 373	31 842 322
Accumulated surplus	23	1 035 560 743	1 005 928 884
Total Net Assets		1 069 574 116	1 037 771 206

AUDITOR GENERAL
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* See Note 67

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

	Notes	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods and other services	25	1 037 069	640 484
Service charges	26	1 262 598	1 216 660
Construction contracts	27	2 352 947	33 668 118
Rental of facilities and equipment	28	6 356 833	3 779 118
Interest received	29	9 828 365	4 823 411
Income from Agency services	30	2 065 526	2 314 487
Licences and permits		1 759 925	1 712 956
Operational Revenue	31	127 967	168 238
Insurance proceeds	31	170 417	-
Fair value adjustments	32	3 481 623	3 745 041
Actuarial gains	49	-	146 000
Total revenue from exchange transactions		28 443 270	52 214 513
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	33	47 151 195	48 595 020
Licences and Permits	34	198 383	128 961
Interest received	35	2 041 631	1 490 559
Transfer revenue			
Government grants and subsidies	36	356 166 988	309 816 869
Award received	37	500 000	-
Fines, Penalties and Forfeits	38	3 337 402	4 793 426
Total revenue from non-exchange transactions		409 395 599	364 824 835
Total revenue	24	437 838 869	417 039 348
Expenditure			
Employee related costs	39	(92 022 601)	(84 546 466)
Remuneration of councillors	40	(22 742 842)	(20 745 018)
Construction contract expenditure	27	(1 747 642)	(29 511 792)
Depreciation and amortisation	41	(71 849 393)	(74 912 788)
Impairment losses	42	(11 030 132)	(11 648 718)
Finance costs	43	(1 037 984)	(724 214)
Lease rentals on operating lease	44	(307 582)	(101 903)
Inventory Consumed	45	(10 128 713)	(7 304 566)
Contracted services	46	(92 395 566)	(75 332 404)
Transfers and Subsidies	47	(25 007 154)	(6 181 022)
Loss on disposal of assets and liabilities	48	(850 738)	(2 047 392)
Actuarial losses	49	(19 000)	-
Operating costs	50	(76 896 550)	(78 927 821)
Total expenditure		(406 035 897)	(391 984 104)
Surplus for the year		31 802 972	25 055 244

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* See Note 67

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

	Capital Replacement Reserve	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	30 874 974	1 048 262 150	1 079 137 124
Adjustments			
Prior year adjustments 67	-	(66 421 162)	(66 421 162)
Balance at 01 July 2021 as restated*	30 874 974	981 840 988	1 012 715 962
Changes in net assets			
Surplus (Deficit) for the year	-	25 055 244	25 055 244
Transfers to/from reserves	967 348	(967 348)	-
Total changes	967 348	24 087 896	25 055 244
Opening balance as previously reported	31 842 322	1 024 856 794	1 056 699 116
Adjustments			
Prior year adjustments 67	-	(18 927 972)	(18 927 972)
Balance as at 01 July 2022	31 842 322	1 005 928 822	1 037 771 144
Changes in net assets			
Surplus (Deficit) for the year	-	31 802 972	31 802 972
Transfers to/from reserves	2 171 051	(2 171 051)	-
Total changes	2 171 051	29 631 921	31 802 972
Balance at 30 June 2023	34 013 373	1 035 560 743	1 069 574 116
Note(s)	22		

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* See Note 67

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Rates and service charges		45 470 800	43 455 762
Sale of goods and services		9 099 513	44 155 487
Grants		356 569 872	308 670 278
Interest income		9 241 276	4 322 517
		420 381 461	400 604 044
Payments			
Employee costs		(112 959 707)	(104 155 858)
Suppliers		(195 160 693)	(201 534 653)
Finance costs		(1 037 984)	(724 214)
Other cash item	54	(60)	(28 912)
		(309 158 444)	(306 443 637)
Net cash flows from operating activities	52	111 223 017	94 160 407
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(135 025 838)	(118 719 464)
Proceeds from sale of property, plant and equipment	13	-	644 028
Net cash flows from investing activities		(135 025 838)	(118 075 436)
Net increase/(decrease) in cash and cash equivalents		(23 802 821)	(23 915 029)
Cash and cash equivalents at the beginning of the year		102 908 112	126 823 141
Cash and cash equivalents at the end of the year	11	79 105 291	102 908 112

The accounting policies on pages 11 to 42 and the notes on pages 42 to 109 form an integral part of the annual financial statements.

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* See Note 67

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

AUDITOR GENERAL
SOUTH AFRICA
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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	610 368	-	610 368	1 037 069	426 701	N1
Service charges	1 200 000	-	1 200 000	1 262 598	62 598	N2
Construction contracts	-	-	-	2 352 947	2 352 947	N51
Rental of facilities and equipment	3 790 044	-	3 790 044	6 356 833	2 566 789	N3
Interest received (trading)	12 193 056	-	12 193 056	9 828 365	(2 364 691)	N4
Agency services	2 665 644	-	2 665 644	2 065 526	(600 118)	N5
Licences and permits	1 676 700	-	1 676 700	1 759 925	83 225	N6
Operational revenue	-	-	-	127 967	127 967	N7
Insurance proceeds	-	-	-	170 417	170 417	N50
Total revenue from exchange transactions	22 135 812	-	22 135 812	24 961 647	2 825 835	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	96 597 348	(48 000 344)	48 597 004	47 151 195	(1 445 809)	N8
Licences and Permits (Non-exchange)	297 552	-	297 552	198 383	(99 169)	N9
Interest, Dividends and Rent on Land	-	-	-	2 041 631	2 041 631	N4
Transfer revenue						
Government grants & subsidies	348 592 764	14 589 227	363 181 991	356 166 988	(7 015 003)	N11
Public contributions and donations	-	500 000	500 000	500 000	-	
Fines, Penalties and Forfeits	6 890 004	-	6 890 004	3 337 402	(3 552 602)	N12
Other transfer revenue 1	20 800 000	-	20 800 000	-	(20 800 000)	N13
Total revenue from non-exchange transactions	473 177 668	(32 911 117)	440 266 551	409 395 599	(30 870 952)	
Total revenue	495 313 480	(32 911 117)	462 402 363	434 357 246	(28 045 117)	
Expenditure						
Personnel	(87 075 648)	(5 115 127)	(92 190 775)	(92 022 601)	168 174	
Remuneration of councillors	(22 425 996)	(348 000)	(22 773 996)	(22 742 842)	31 154	
Construction contract expenditure	-	-	-	(1 747 642)	(1 747 642)	N51
Depreciation and amortisation	(80 057 904)	902 138	(79 155 766)	(71 849 393)	7 306 373	N52
Impairment loss/ Reversal of impairments	-	-	-	(11 030 132)	(11 030 132)	N14
Bad debts written off	(2 184 000)	-	(2 184 000)	(1 037 984)	1 146 016	N15
Operating leases	(1 673 604)	1 326 716	(346 888)	(307 582)	39 306	N16
Inventory consumed	(7 398 972)	(4 671 241)	(12 070 213)	(10 128 713)	1 941 500	N18
Contracted Services	(84 338 432)	(25 220 587)	(109 559 019)	(92 395 566)	17 163 453	N16
Transfers and Subsidies	(7 668 000)	(29 325 436)	(36 993 436)	(25 007 154)	11 986 282	N20
General Expenses	(91 883 140)	5 516 643	(86 366 497)	(76 896 550)	9 469 947	N21

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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
Total expenditure	(384 705 696)	(56 934 894)	(441 640 590)	(405 166 159)	36 474 431	
Operating surplus	110 607 784	(89 846 011)	20 761 773	29 191 087	8 429 314	
Loss on disposal of assets and liabilities	-	-	-	(850 738)	(850 738)	N22
Fair value adjustments	-	-	-	3 481 623	3 481 623	N23
Actuarial gains/losses	-	-	-	(19 000)	(19 000)	N24
	-	-	-	2 611 885	2 611 885	
Surplus before taxation	110 607 784	(89 846 011)	20 761 773	31 802 972	11 041 199	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	110 607 784	(89 846 011)	20 761 773	31 802 972	11 041 199	

Statement of Financial Position

Assets

Current Assets

Inventories	752 454	(3 103 514)	(2 351 060)	2 949 317	5 300 377	N25
Operating lease asset	13 884 641	-	13 884 641	18 473 694	4 589 053	N26
Receivables from exchange transactions	(2 123 993)	2 136 000	12 007	579 642	567 635	N27
Statutory receivables	30 494 043	-	30 494 043	20 395 551	(10 098 492)	N28
VAT receivable	(14 292 789)	-	(14 292 789)	12 605 643	26 898 432	N29
Other receivables	-	-	-	3 707 395	3 707 395	N30
Cash and cash equivalents	82 942 425	(42 140 639)	40 801 786	79 105 291	38 303 505	N31
	111 656 781	(43 108 153)	68 548 628	137 816 533	69 267 905	

Non-Current Assets

Investment property	18 071 400	-	18 071 400	25 298 064	7 226 664	N32
Property, plant and equipment	1 022 636 074	(4 803 347)	1 017 832 727	980 505 106	(37 327 621)	N33
Intangible assets	3 403 656	(936 594)	2 467 062	595 476	(1 871 586)	N34
Heritage assets	17 719	-	17 719	17 719	-	
	1 044 128 849	(5 739 941)	1 038 388 908	1 006 416 365	(31 972 543)	
Total Assets	1 155 785 630	(48 848 094)	1 106 937 536	1 144 232 898	37 295 362	

Liabilities

Current Liabilities

Payables from exchange transactions	6 768 014	10 561 363	17 329 377	45 336 496	28 007 119	N35
Taxes and transfers payable (non-exchange)	-	-	-	3 389 169	3 389 169	N36
Consumer deposits	132 471	-	132 471	161 703	29 232	N37
Unspent conditional grants and receipts	-	30 346 553	30 346 553	3 610 742	(26 735 811)	N38
Employee benefits obligations	10 558 625	-	10 558 625	13 629 988	3 071 363	N39
	17 459 110	40 907 916	58 367 026	66 128 098	7 761 072	

Non-Current Liabilities

Employee benefits obligations	-	-	-	2 193 000	2 193 000	N40
Provisions	6 884 339	-	6 884 339	6 337 829	(546 510)	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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
	6 884 339	-	6 884 339	8 530 829	1 646 490	
Total Liabilities	24 343 449	40 907 916	65 251 365	74 658 927	9 407 562	
Net Assets	1 131 442 181	(89 756 010)	1 041 686 171	1 069 573 971	27 887 800	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Capital replacement reserve	-	-	-	34 013 373	34 013 373	N41
Accumulated surplus	1 131 442 181	(89 756 010)	1 041 686 171	1 035 560 743	(6 125 428)	N42
Total Net Assets	1 131 442 181	(89 756 010)	1 041 686 171	1 069 574 116	27 887 945	

Cash Flow Statement

Cash flows from operating activities

Receipts

Rates and services	94 983 000	(50 136 000)	44 847 000	45 470 800	623 800	N43
Other revenue	36 730 000	1 000 000	37 730 000	18 340 789	(19 389 211)	N44
Interest income	10 117 000	-	10 117 000	-	(10 117 000)	
Grants	348 593 000	14 089 000	362 682 000	356 569 872	(6 112 128)	N29
	490 423 000	(35 047 000)	455 376 000	420 381 461	(34 994 539)	

Payments

Suppliers and employees	(294 866 000)	(28 472 000)	(323 338 000)	(309 158 444)	14 179 556	N45
Net cash flows from operating activities	195 557 000	(63 519 000)	132 038 000	111 223 017	(20 814 983)	

Cash flows from investing activities

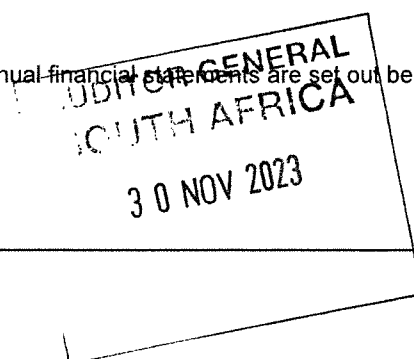
Purchase of property, plant and equipment	(250 249 000)	21 379 000	(228 870 000)	(135 025 838)	93 844 162	N46
Net increase/(decrease) in cash and cash equivalents	(54 692 000)	(42 140 000)	(96 832 000)	(23 802 821)	73 029 179	N48
Cash and cash equivalents at the beginning of the year	138 464 000	-	138 464 000	102 908 112	(35 555 888)	
Cash and cash equivalents at the end of the year	83 772 000	(42 140 000)	41 632 000	79 105 291	37 473 291	

Accounting Policies

	Note(s)	2023	2022
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1. Significant accounting policies

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



Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

1.1 Basis of preparations

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

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

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

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

These accounting policies are consistent with the previous period.

The municipality implemented the Municipal Standard Chart of Accounts(mSCOA) during the period ended 30 June 2023 as required in terms of the Municipal Regulations on Standard Chart of Accounts, announced by Government Gazette No 37577 of 22 April 2014, in section 168 of the Local Government: Municipal Finance Management, Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, and rounded off to the nearest Rand which is the functional currency of the municipality.

1.3 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.

1.4 Materiality

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.

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Accounting Policies

1.5 Investment property

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures Investment Property at cost including transaction costs once it meets the definition of Investment Property. However, where an Investment Property was acquired through a non transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- Land held for long term capital appreciation rather than for short-term sale in the ordinary course of operations;Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:
- Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner occupied property or for shortterm sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

Equipment or Inventory as appropriate:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner occupied property, including (among other things) property held for future use as owner occupied property, property held for future development and subsequent use as owner occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner occupied property;
- Property that is leased to another entity under a finance lease;
- Property held to provide goods and services and also generates cash inflows; and
- Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

Subsequent Measurement

Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date.

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

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

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Accounting Policies

1.5 Investment property (continued)

circumstances, that may warrant a revaluation. i.e erection of a new block of flats next to the rental flat.

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

Derecognition

The gain or loss arising from the derecognition of an item of Investment Property is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

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.

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	8 - 50
Mobile offices	Straight-line	5 - 10
Electrical infrastructure	Straight-line	3 - 80
Infrastructure assets (Roads, pavements, bridges and stormwater)	Straight-line	3 - 80
Landfill Sites	Straight-line	10 - 55
Community assets	Straight-line	5 - 80
Transport assets	Straight-line	4 - 20
Computer equipment	Straight-line	3 - 10
Furniture, Fittings & Office Equipment	Straight-line	3 - 15
Bins & Containers	Straight-line	10 - 15
Specialised Plant and Equipment	Straight-line	2 - 15
Library Books	Straight-line	5 - 20
Leased equipment	Straight-line	Lease period

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 13).

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

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Accounting Policies

1.7 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software and municipal website

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	1-4
Website		Indefinite

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Accounting Policies

1.7 Intangible assets (continued)

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

1.8 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.

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

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.

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

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Accounting Policies

1.8 Heritage assets (continued)

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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 (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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Accounting Policies

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.9 Financial instruments (continued)

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

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

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

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

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

Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised through the use of an allowance account.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable for the following reasons:

- It is management's judgement that the accounts are not "lost events" in terms of GRAP 104.58.
- State Departments and Entities have to pay their creditors within 30 days in terms of the MFMA.
- Interest is charged on all outstanding balances at a rate of 10% per annum.
- There is an urge from National Treasury that State Departments and Entities should start paying their outstanding debt.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in Surplus or Deficit.

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Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

1.10 Inventories

Inventories comprise stationery for distribution during the ordinary course of business and land held for sale. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition.

Where Inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

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

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.

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Accounting Policies

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

An impairment of assets measured per the revaluation method reduces the Revaluation Surplus for that asset. The decrease shall be debited directly to a Revaluation Surplus to the extent of any credit balance existing in the Revaluation Surplus in respect of that asset.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase and would be credited directly against the Revaluation Surplus to the extent of any previous impairments recognised against said reserve in respect of that asset.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.12 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.

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Accounting Policies

1.12 Provisions and contingencies (continued)

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 deficits.

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

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

Umzimvubu Local Municipality

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Accounting Policies

1.12 Provisions and contingencies (continued)

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.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money.

The impact of the periodic unwinding of the discount is recognised in Surplus or Deficit as a finance cost as it occurs.

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Accounting Policies

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to Surplus or Deficit.

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 deficit.

1.13 Revenue from exchange transactions

Umzimvubu Local Municipality

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Revenue is derived from a variety of sources which include revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Service Charges

Service Charges are levied in terms of approved tariffs.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Rentals Received

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

Finance Income

Interest earned on investments is recognised in Surplus or Deficit on the Time-proportionate Basis that takes into account the effective yield on the investment.

Tariff Charges

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

Revenue from Agency Services

Revenue for agency services is recognised on a daily basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

Construction Revenue

Construction contract revenue is recognised as revenue by reference to the stage of completion of the contract activity at the reporting date.

Sale of goods

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

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

Accounting Policies

1.14 Revenue from non-exchange transactions

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable. The municipality uses estimates to determine the amount of revenue that the municipality is entitled to collect that is subject to further legal proceedings.

Public Contributions

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

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.

Assets acquired from non-exchange transactions are measured at fair value in accordance with GRAP 23.

Government Grants and Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist. Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

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

Unspent conditional grants are financial liabilities that are separately reflected on the statement of financial position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the statement of financial performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the statement of financial performance.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

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.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in Surplus or Deficit.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

1.15 Significant judgements and sources of estimation uncertainty

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

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Accounting Policies

1.15 Significant judgements and sources of estimation uncertainty (continued)

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Impairment of Financial Assets

Accounting Policy 1.8 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Accounting Policy 1.8 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Impairment of Trade Receivables:

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies and the municipality depreciates its Property, Plant & Equipment and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management. Estimated impairments during the year to Plant and Equipment, and Intangible Assets are disclosed in Notes 8 and 9 to the Annual Financial Statements, if applicable.

Defined Benefit Plan Liabilities

As described in Accounting Policy 1.18 Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

Budget Information

Deviations between budget and actual amounts are regarded as material difference

Segment reporting

In applying GRAP 18 segment reporting, management makes judgements with regard to the identification of reportable segments, as well as regarding what constitutes segment results. This enables users to evaluate the nature and financial effects of the activities in which the segment engages, and the economic environments in which it operates.

Umzimvubu Local Municipality

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Accounting Policies

1.15 Significant judgements and sources of estimation uncertainty (continued)

Principal-agent arrangements

Management's judgement is required in determining whether it has entered into a principal-agent arrangement, as set out in note 36. A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf and for the benefit of another entity (the principal). The assessment of whether an entity is a principal, or an agent requires the entity to evaluate the rights and obligations of all parties to each binding arrangement so as to establish whether the transactions it undertakes with third parties are for the benefit of another entity or for its own.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price. The fair value of investment property reflects market conditions at the reporting date. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Non-payment percentage is determined for each debtor.

Provisions

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

Umzimvubu Local Municipality

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Accounting Policies

1.15 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 1.19.

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.

Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured 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, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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, 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 are 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.

1.16 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.17 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.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.18 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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Accounting Policies

1.18 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.

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.19 Employee benefits

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

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

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

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

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

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

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

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

Accounting Policies

1.19 Employee benefits (continued)

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity 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 entity 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 entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity 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 entity 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.

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Accounting Policies

1.19 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.

1.20 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.

1.21 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits 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, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.22 Accounting by principals and agents

Identification

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

Umzimvubu Local Municipality

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Accounting Policies

1.22 Accounting by principals and agents (continued)

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

1.23 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.24 Comparative figures

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

1.25 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.25 Unauthorised expenditure (continued)

- 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.

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.26 Fruitless and wasteful expenditure

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

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.27 Irregular expenditure

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

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 2023/07/01 to 2026/06/30.

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

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

1.29 Related parties

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

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 ventures).

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.

Umzimvubu Local Municipality

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Accounting Policies

1.29 Related parties (continued)

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

Close members of the family of a person are 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.

1.30 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.

1.31 Accumulated Surplus

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- The CRR may be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.

1.32 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.

1.33 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.

Umzimvubu Local Municipality

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Accounting Policies

1.33 Statutory receivables (continued)

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

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).

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Accounting Policies

1.33 Statutory receivables (continued)

- 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.

1.34 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

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Accounting Policies

1.35 Bad Debts written off

Consumer debtors

When the municipality identifies consumer debtors whose debts appear to be irrecoverable even after the whole credit control and debt collection process has been followed in terms of trying to obtain payment, then such accounts be regarded as irrecoverable.

Once the debt is regarded as irrecoverable during the year it must be grouped with others so that the report is presented to Council to solicit a resolution to write off irrecoverable debts.

Traffic fines

Traffic fines debtors are assessed for each reporting period to establish their collectability. Once traffic fines debtors are regarded as irrecoverable during the course of the year, a report of all traffic fines doubtful debtors is presented to Council to solicit a resolution to write off irrecoverable debts

Traffic fines infringements that have not been served within a period of 18 months of the date of the alleged offence be withdrawn and/or warrants to the arrest that have not been executed within 2 years after the date of authorisation thereof be returned with the control documents to the relevant Magistrate for cancellation as per the National Prosecuting Authority of South Africa. (Uniform national instruction in respect of Traffic Infringements matters issued by various law enforcement agencies)

1.36 Construction contracts

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

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

Contract revenue is measured at the fair value of the consideration received or receivable shall comprise the initial amount of revenue agreed in the contract, variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when: (a) separate proposals have been submitted for each asset; (b) each asset has been subject to separate negotiation, and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and (c) the costs and revenues of each asset can be identified.

Issue costs are apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

1.37 Accrued income

The municipality is a beneficiary of small-town revitalisation programs initiated by the Eastern Cape Office of the Premier. The municipality can only receive funds from the office of the premier after the work has been completed (conditions met) by the service provider and the invoice approved by the municipality. Where work has been completed satisfactory by the service provider and invoice approved by the municipality, but no funds have been received from the funder, the municipality recognises an accrued income receivable at the end of the reporting period.

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Accounting Policies

1.38 Transfer payments

The municipality transfers goods to organisations from time to time, through the Local Economic Development initiative. In making these transfers, the municipality does not:

- received any goods or services directly in return as would be expected in a purchase or sale transaction.
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period during which the events giving rise to the transfer occurred.

Notes to the Annual Financial Statements

2023

2022

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 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">Guideline: Guideline on Accounting for Landfill Sites	01 April 2023	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">GRAP 103 (as revised): Heritage Assets	Not yet determined	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">GRAP 25 (as revised): Employee Benefits	01 April 2023	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet determined	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">GRAP 104 (as revised): Financial Instruments	01 April 2025	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Not expected to impact results but may result in additional disclosure

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Notes to the Annual Financial Statements

	2023	2022
3. Inventories		
Finished goods	528 617	702 810
Land held for sale	2 420 700	2 420 700
	2 949 317	3 123 510

Inventories recognised as an expense during the year	10 128 713	7 304 566
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Inventory consumables are held for own use and measured at the lower of cost and current replacement cost. No write downs of inventory to net realisable value were required.

Inventory pledged as security

No inventories have been pledged as collateral for the liabilities of the municipality.

There was no inventory retained as personal protective equipment, by the municipality.

Land held for sale

Land held for sale consist of land parcels awaiting to be disposed. Council took a resolution to dispose off Land in June 2020, the municipality is in the process of disposing these assets.

4. Operating lease asset

Current assets	18 473 694	13 884 681
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Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. The lease receivable recognised is in respect of Non-cancelable Operating Leases.

Leasing Arrangements

The operating lease relate to Property owned by the municipality with lease terms of 2 to 50 years (2022 - 2 to 50 years) with an option to extend.

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Amounts receivable under Operating Leases

At the Reporting Date the following minimum payments were receivable under Non-cancelable Operating Leases for Property, plant and equipment, which are receivable as follows:

Reconciliation		
Opening balances	13 884 681	11 694 610
Effects of straightlining for the year	4 589 014	2 190 071
	18 473 695	13 884 681
Operating Lease Arrangements		
Up to 1 Year	2 062 671	1 023 834
2 to 5 years	8 354 933	1 750 951
More than 5 years	137 102 909	119 788 289
	147 520 513	122 563 074

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

	2023	2022
5. Receivables from exchange transactions		
Consumer debtors - Refuse	561 367	539 328
Consumer debtors - Rentals	18 275	24 711
	579 642	564 039
Refuse		
Current (0 - 30 Days)	168 669	298 195
31 - 60 Days	158 789	149 009
61- 90 Days	154 157	135 227
More than 90 days	12 268 417	10 886 754
Impairment	(12 188 665)	(10 929 857)
	561 367	539 328
Rentals		
Current (0- 30 Days)	9 422	14 124
31 - 60 Days	8 918	43 399
61- 90 Days	6 284	2 662
More than 90 days	935 452	931 440
Impairment	(941 801)	(966 914)
	18 275	24 711
Financial asset receivables included in receivables from exchange transactions above	579 642	564 039
Total receivables from exchange transactions	579 642	564 039
Summary of refuse debtors by customer classification:		
Business / commercial		
Current (0- 30 Days)	33 178	57 912
31 - 60 Days	31 050	26 329
61- 90 Days	29 157	25 460
More than 90 days	3 397 751	3 170 151
Impairment	(3 465 943)	(3 245 320)
	25 193	34 532
Government		
Current (0- 30 Days)	15 060	27 664
31 - 60 Days	14 790	13 597
61- 90 Days	13 490	12 163
More than 90 days	402 432	368 416
	445 772	421 840
Residential		
Current (0- 30 Days)	120 431	212 620
31 - 60 Days	112 949	109 083
61- 90 Days	111 509	97 604
More than 90 days	8 468 235	7 348 187
Impairment	(8 722 722)	(7 684 537)
	90 402	82 957

Trade and other receivables pledged as security

There are no trade and other receivables pledged as security.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
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5. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables 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 credit control. No external credit ratings is performed.

Consumers receivables from refuse removal are billed monthly. Interest is charged on overdue receivables from exchange transactions at a rate of 10% per annum.

The municipality enforces its approved credit policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of trade and other receivables

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

Trade and other receivables past due but not impaired

Receivables from exchange transactions which are government debt and past due are not considered to be impaired.

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

1 month past due	14 790	13 597
2 months past due	13 490	12 163
3 months past due	380 432	368 416

Trade and other receivables impaired

As of 30 June 2023, trade and other receivables of 13 264 336 (2022: 12 460 810) were impaired and provided for.

The amount of the provision was 13 140 265 as of 30 June 2023 (2022: 11 896 771).

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 42). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Reconciliation of provision for impairment of trade and other receivables -

Refuse

Opening balance	10 929 857	6 978 529
Provision for impairment - Charge	-	3 951 328
Provision for impairment - Reversal	1 258 808	-
	12 188 665	10 929 857

Reconciliation of provision for impairment of trade and other receivables -

Rentals

Opening balance	966 914	979 580
Provision for impairment - Reversal	(15 314)	(12 666)
	951 600	966 914

6. Statutory receivables

Fines	6 600 771	3 804 694
Consumer debtors - Rates	13 794 780	11 640 418
	20 395 551	15 445 112

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Notes to the Annual Financial Statements

	2023	2022
6. Statutory receivables (continued)		
Assessment Rates		
Current (0- 30 Days)	749 022	1 236 302
31 - 60 Days	697 276	540 611
61 - 90 Days	598 535	528 888
91 - 120 Days	42 099 961	34 922 839
Impairment	(30 350 004)	(25 588 222)
	13 794 790	11 640 418
Traffic fines		
Current (0- 30 Days)	220 440	172 110
31 - 60 Days	247 291	95 672
61 - 90 Days	183 259	116 376
91 - 120 Days	7 532 326	5 575 455
Impairment	(1 582 545)	(2 154 960)
	6 600 771	3 804 653
Summary of assessment rates debtors by customer classification:		
Residential		
Current (0- 30 Days)	211 112	367 579
31 - 60 Days	200 052	169 348
61 - 90 Days	193 732	162 272
91 - 120 Days	7 587 293	5 360 362
Impairment	(8 014 460)	(5 845 168)
	177 729	214 393
Business		
Current (0- 30 Days)	537 910	862 394
31 - 60 Days	497 224	368 295
61 - 90 Days	404 803	363 649
91 - 120 Days	21 760 502	18 852 604
Impairment	(22 335 543)	(19 743 054)
	864 896	703 888
Government		
Current (0- 30 Days)	-	6 329
31 - 60 Days	-	2 968
61 - 90 Days	-	2 967
91 - 120 Days	12 752 165	10 709 874
	12 752 165	10 722 138
Total receivables from non-exchange transactions	20 395 551	15 445 112

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
6. Statutory receivables (continued)		
Statutory receivables general information		
Transaction(s) arising from statute		
Statutory receivables arise from the implementation of the Municipality Property Rates Act through levying of property rates to the properties in Umzimvubu and also through implementation of the Administrative Adjudication of Road Traffic Offences Act through issuing of traffic fines to offenders.		
Statutory receivables are as summarised in this note above.		
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 credit control. No external credit ratings is performed.		
Consumers receivables from rates are billed monthly for business and residential households. Government accounts are billed annually. Interest is charged on overdue consumers receivables at a rate of 10% per annum.		
No interest is charged on overdue traffic fines debtors.		
The municipality enforces its approved credit policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.		
Statutory receivables impaired		
As of 30 June 2023, Statutory receivables of R 39 575 945 (R: 32 466 115) were impaired and provided for.		
The amount of the provision was R 31 932 549 as of 30 June 2023 (R: 27 743 182).		
Statutory receivables past due but not impaired		
Receivables from non-exchange transactions which are government debt and past due are not considered to be impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	-	2 968
2 months past due	-	2 667
3 months past due	12 734 054	10 709 874
Reconciliation of provision for impairment of receivables from non-exchange transactions - Assessment rates		
Opening balance	25 588 222	24 640 955
Provision for impairment	4 761 782	947 267
	30 350 004	25 588 222
Reconciliation of provision for impairment of receivables from non-exchange transactions - Traffic fines		
Opening balance	2 154 960	2 709 216
Unused amounts reversed	(572 415)	(554 256)
	1 582 545	2 154 960

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
7. Receivables from exchange and non-exchange impairment		
Gross balances		
Consumer debtors - Rates	44 144 794	28 687 205
Consumer debtors - Refuse	12 750 032	11 469 184
Consumer debtors - Rent	960 076	1 129 154
	57 854 902	41 285 543
Less: Allowance for impairment		
Consumer debtors - Rates	(30 350 014)	(17 046 787)
Consumer debtors - Refuse	(12 188 665)	(10 929 856)
Consumer debtors - Rent	(941 801)	(1 104 443)
	(43 480 480)	(29 081 086)
Net balance		
Consumer debtors - Rates	13 794 780	11 640 418
Consumer debtors - Refuse	561 367	539 328
Consumer debtors - Rent	18 275	24 711
	14 374 422	12 204 457
Rates		
Current (0 -30 days)	749 022	1 236 302
31 - 60 days	697 276	540 611
61 - 90 days	598 535	528 888
90+ days	42 099 951	34 922 839
Impairment	(30 350 004)	(25 588 222)
	13 794 780	11 640 418
Refuse		
Current (0 -30 days)	168 669	298 195
31 - 60 days	158 789	149 009
61 - 90 days	154 157	135 227
90+ days	12 268 417	10 886 754
Impairment	(12 188 665)	(10 929 857)
	561 367	539 328
Rentals		
Current (0 -30 days)	9 422	14 124
31 - 60 days	8 918	43 399
61 - 90 days	6 284	2 662
91 - 120 days	935 452	931 440
Impairment	(941 801)	(966 914)
	18 275	24 711
8. VAT receivable		
VAT	12 605 799	6 860 717

VAT is payable/refundable on the receipts/payment basis. Only once payment is received from debtors, payment made to creditors, VAT is paid over/received from to SARS.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
9. Prepayments		
SALGA Fees Prepayment	-	1 082 117

10. Other receivables

Receivables from Small Town Revitalisation Grant	3 707 395	-
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During the year the municipality has incurred and met all the conditions on this project, asset and creditor was recognised but the OTP has not paid the amount to the municipality as at 30 June 2023. The municipality will subsequently receive this amount during the 2023/24 financial year.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	3 305 357	54 922 010
Current Investments	75 799 934	47 986 102
Net Bank, Cash and Cash Equivalents	79 105 291	102 908 112

Cash and cash equivalents pledged as collateral

Total cash and cash equivalents pledged as collateral for security deposit to ESKOM	161 400	161 400
This guarantee is neither negotiable nor transferable and is to be returned to the bank upon payment or cancellation.		

The municipality had the following bank accounts

Account number and description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
FNB-Primary Account - 620-2218-3727	1 765 059	3 516 063	449 680	1 592 180	3 516 063	449 680
FNB-Service Delivery Reserve - 620-3325-4723	31 531 147	63 217 351	66 746 777	31 531 147	54 552 329	66 746 777
FNB-Operational Investment - 620-2945-0715	2 878 627	2 967 181	17 509 188	2 878 627	2 967 181	17 509 088
FNB-Municipal Infrastructure Grant(MIG) - 620-8603-6714	6 594 484	17 396	2 851 686	6 594 484	17 396	2 851 686
FNB-Guarantee Investment- 620-6874-2157	334 465	317 973	310 891	334 465	3 217 973	310 891
FNB-Financial Management Grant (FMG) - 622-7618-7294	7 539	3 160	2 727	7 539	3 160	2 727
FNB-Electrification Programme - 622-8856-0925	351 550	2 352 948	1 131 113	351 550	2 352 948	1 131 113
FNB-Traffic Fine - 627-5889-3905	244 135	572 481	557 618	244 135	572 481	557 618
FNB-Housing Project Fund - 628-9151-9971	88 749	775 112	6 163 050	88 749	775 112	6 163 050
FNB Solidarity Fund 628-5499-2099	203 361	194 150	190 403	203 361	194 150	190 403
FNB Retention 628-6002-9000	825 571	165 848	18 046	825 571	165 848	18 046
FNB ENATIS Transactions 629-1034-4837	440 110	2 619 920	-	440 110	2 619 920	-
Nedbank - Capital Replacement	34 013 373	31 842 322	30 891 961	34 013 373	31 953 552	30 891 961
Total	79 278 170	108 561 905	126 823 140	79 105 291	102 908 113	126 823 040

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
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12. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25 298 064	-	25 298 064	21 816 441	-	21 816 441

Reconciliation of investment property - 2023

	Opening balance	Other changes, movements	Total
Investment property	21 816 441	3 481 623	25 298 064

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	18 071 400	3 745 041	21 816 441

Fair value of investment properties	25 298 064	21 816 441
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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. No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

Details of valuation

Investment properties fair value determination was performed by a Independent Registered Property Valuer. Afroteam Consultants instructed by Nyalambisa Financial Services. The last valuation was performed on 30th of June 2023.

The valuation methodologies used to determine the fair value was the income based approach as well as the comparable market values approach.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	6 165 024	3 594 628
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

2023

2022

12. Investment property (continued)

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, for administration purposes, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

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.

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Impairment of Investment property

No impairment losses have been recognised on Investment property of the municipality at the reporting date.

Work-in-progress

The municipality had no capital projects for Investment property which were not completed at year-end.

Delayed projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

13. Property, plant and equipment

	2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying amount
Land	34 005 270	-	34 005 270
Buildings	469 737 471	(143 744 298)	325 993 173
Infrastructure	1 860 898 624	(1 280 408 324)	580 490 300
Computer equipment	16 005 216	(6 589 224)	9 415 992
Office equipment	13 517 972	(6 946 415)	6 571 557
Machinery and Equipment	14 315 954	(8 326 345)	5 989 609
Transport Assets	26 279 009	(8 239 804)	18 039 205
Total	2 434 759 516	(1 454 254 410)	980 505 106

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Changes in landfill site provision
Land	34 005 270	-	-	-
Buildings	306 797 554	34 459 211	-	-
Infrastructure	552 358 846	86 518 771	(578 036)	(1 520 937)
Computer equipment	7 038 023	3 764 907	(14 875)	-
Office equipment	5 841 956	2 237 523	(179 199)	-
Machinery and Equipment	5 867 436	1 454 426	-	-
Transport Assets	13 177 360	6 591 000	(78 628)	-
	925 086 445	135 025 838	(850 738)	(1 520 937)

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Other changes, movements
Land	34 005 270	-	-	-
Buildings	278 160 371	38 511 329	-	-
Roads Infrastructure	555 764 896	62 926 641	(191 000)	40 788
Computer equipment	3 308 644	5 316 415	(165 737)	-
Office equipment	4 947 903	2 869 907	(832 230)	-
Machinery and Equipment	6 358 155	1 122 679	(36 685)	-
Transport Assets	7 013 642	7 976 445	(287 584)	-
	889 558 881	118 723 416	(1 513 236)	40 788

Assets pledged as security

The municipality did not pledge any of its assets as security.

Change in estimate

A change in the estimated remaining useful lives of various assets of the Municipality based on their assessment of remaining useful lives conducted as at 30 June 2023 will result in the following decreases in depreciation for property plant and equipment in the 2023 financial year and future periods:

The impact on the statement of financial performance (Depreciation) in the 2023 financial year:

The impact on the statement of financial performance (Depreciation) in the future periods

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
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13. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Buildings	Total
Opening balance	28 392 646	5 104 375	33 497 021
Additions/capital expenditure	86 518 772	34 459 210	120 977 982
Transferred to completed items	(79 111 350)	(7 279 229)	(86 390 579)
	35 800 068	32 284 356	68 084 424

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Buildings	Total
Opening balance	56 677 752	76 677 042	133 354 794
Additions/capital expenditure	61 265 561	38 511 329	99 776 890
Transferred to completed items	(89 550 667)	(110 083 996)	(199 634 663)
	28 392 646	5 104 375	33 497 021

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

Contracted services	18 895 810	9 109 303
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Total Expenditure related to Repairs and Maintenance Projects

Total Expenditure related to Repairs and Maintenance Projects

Maintenance of Buildings and Facilities	1 234 832	1 688 942
Maintenance of Infrastructure assets	12 528 905	2 904 321
Maintenance of Machinery and Transport assets	5 132 073	4 516 040

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
13. Property, plant and equipment (continued)		
Delayed projects		
Nophoyi Sport Field The project is in our three year capital plan with the intentions to advertise and complete the project. Service provider was terminated due to poor progress on site. The only outstanding item to complete the project was the grassing, however the recent heavy rainfalls caused major damages on the sport field. Procurement of new service provider has been undertaken and appointed. Work commenced but there is an interdict by the previous service provider.	4 387 456	3 390 430
Fencing of EmaXesibeni botanical garden phase 2 The project is affected by unresolved Dutyini Land Claim and the municipality is awaiting the resolution of the land claim before any further progress can be made on this project..	920 740	827 494
Nciniba Electrification construction Project is awaiting Eskom clerk of works to do inspections in preparation of request for outage.	5 823 081	5 823 081
Electrification of 247 Households in Dinana The project has been completed, documentation has been sent to Eskom awaiting capturing of documents and transfer of the project.	7 803 530	7 803 530
	18 934 807	17 844 535

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

14. Intangible assets

		2023	
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carryin
Computer software, internally generated	150 000	-	'
Computer software	3 207 707	(2 762 231)	4
Total	3 357 707	(2 762 231)	!

Reconciliation of intangible assets - 2023

Municipal Website
Computer software

Reconciliation of intangible assets - 2022

	Opening balance
Municipal Website	1 181 843
Computer software	1 311 423
	2 493 266

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

2023

2022

14. Intangible assets (continued)

Other information

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance see Note 41.

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

No restrictions apply to any of the Intangible Assets of the municipality.

Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets, but not the Website as it is considered to be constantly maintained and therefore have an indefinite economic useful life and such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

Work-in-Progress

The municipality had no capital projects for Intangible Assets which were not completed at year-end.

Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

15. Heritage assets

	2023		
	Cost / Valuation	Accumulated impairment losses	Carrying amount
Mayoral chain	17 719	-	17 719

Reconciliation of heritage assets 2023

Mayoral chain

Reconciliation of heritage assets 2022

Mayoral chain

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

15. Heritage assets (continued)

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for ar

No restrictions apply to any of the Heritage Assets of the municipality.

Depreciation and Impairment

In accordance with GRAP 103, a Heritage Asset have an indefinite life and their value appreciates over time due to their cultural, envi technological, artistic or historical significance; and shall not be depreciated but an entity shall assess at each reporting date whether such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the municipality at the reporting date.

Heritage Assets measured after recognition using the Cost Model

The municipality's Heritage Assets are accounted for according to the cost model and therefore no fair value has been determined.

Work-in-Progress

The municipality had no capital projects for Heritage Assets which were not completed at year-end.

Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
16. Payables from exchange transactions		
Trade payables	25 183 009	8 996 666
Accruals	15 348 326	16 400 010
Retention	4 169 302	1 001 498
Department of Transport	635 870	511 069
INEP income received in advance	-	2 352 948
	45 336 507	29 262 191

17. Payables from Non-Exchange Transactions

Department of Housing amounts held in trust	88 260	387 631
Debtors with credit balances	3 254 526	3 220 435
Other Payables from Non-Exchange Transactions	46 383	-
	3 389 169	3 608 066

18. Consumer deposits

Rental Deposits	161 703	144 371
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19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	110 742	-
Financial Management Grant	-	462
Disaster Relief Management Grant	3 500 000	-
	3 610 742	462

Movement during the year

Balance at the beginning of the year	462	3 500 000
Additions during the year	77 708 000	68 102 331
Income recognition during the year	(74 097 720)	(71 601 869)
	3 610 742	462

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

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

See note 36 for reconciliation of grants from National/Provincial Government.

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

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

20. Employee benefits obligations

Reconciliation of employee benefits obligations - 2023

	Opening Balance	Additions	Utilised during the period
Bonus accrual	2 366 878	2 618 973	(2 366 878)
Provision for leave pay	8 257 101	2 159 618	(873 231)
Provision for performance bonus	689 273	754 528	(689 274)
Long Service Awards Liability	2 429 000	410 000	(208 000)
	13 742 252	5 943 119	(4 137 383)

Reconciliation of employee benefits obligations - 2022

	Opening Balance	Additions	Utilised during the year
Bonus accrual	2 217 780	2 366 877	(2 217 779)
Provision for leave pay	7 740 975	1 618 335	(1 102 209)
Provision for performance bonus	277 870	689 272	(277 869)
Long Service Awards Liability	2 320 000	381 000	(322 000)
	12 556 625	5 055 484	(3 919 857)

Non-current liabilities	2 193 000	2 107 000
Current liabilities	13 629 988	11 635 252
	15 822 988	13 742 252

Provision for leave pay

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The liability is an estimate of the amount due at the reporting date.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
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20. Employee benefits obligations (continued)

Provision for performance bonus

A performance bonus, is for senior managers and managers. It is not guaranteed and as it is based on the achievements of the individual against the targets set out in his/her performance agreement. The payment of bonuses is purely based on performance then there is no legal obligation on a municipality to make such payments.

However a constructive obligation is created through the assessment of employees' performance throughout the year and the fact that the municipality has a practice of paying performance bonuses.

Long service awards liability

Long Service Awards are provided to employees who achieve certain predetermined milestones of service within the municipality

The following members are eligible for long service bonuses:

In-service members	158	159
Eligible Employees		
Number of eligible employees	Female 93	Male 65
Average annual earnings	231 311	239 152
Average age	42,1	43,9
Average past service	9,3	10,4
	-	-

The earnings disclosed above and used in the valuation include an increase of 5.40% as at 1 July 2023, as per the SALGBC Circular No.: 01/2023.

Unfunded Accrued Liability

Total value of liabilities	2 906 000	2 429 000
Value of assets	-	-
	2 906 000	2 429 000
Expected current portion of liability (due within 12 months)	713 000	208 000
Expected non-current portion of liability (due thereafter)	2 193 000	2 221 000
	2 906 000	2 429 000

Key Actuarial Assumptions used are as follows:

Discount rate	11.08%	10.98%
General Salary Inflation (long-term)	6.47%	7.33%
Net Effective Discount Rate applied to salary-related Long Service	4.33%	3.4%
Average retirement age	62	62

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
20. Employee benefits obligations (continued)		
The next general earnings increase was assumed to take place on 1 July 2024.		
Last Valuation		
The last valuation was performed in July 2023.		
Actuarial Valuation Method		
The Projected Unit Credit Method has been used to value the liabilities. The valuation meets the requirements of GRAP 25 as well as those of Advisory Practice Note 301 issued by the Actuarial Society of South Africa. The valuation was prepared by ARCH Actuarial Consulting.		
The amounts recognised in the Statement of Financial Performance are:		
Employee related costs - Current Service Cost	410 000	381 000
Finance Charges - Interest Cost	256 000	196 000
Actuarial Losses / (Gain)	19 000	(146 000)
Expected benefits vesting / paid during the year (N1)	(208 000)	(322 000)
	477 000	109 000

N1 - This is the total value of the long-service awards that were expected to be awarded to eligible employees over the year, based on the data at the previous valuation date. Employees are usually entitled to take this award in whole or in part as cash, with the remainder taken as leave. Therefore, this figure should not be confused as being only the amount of cash paid out in respect of the award. It represents the amount actually paid out in cash and the portion that was either taken or "stored" as leave.

If the actual amount of benefits vested is to be included instead in the above table, then the Actuarial Loss / (Gain) must change to exactly offset the impact, such that the Closing Accrued Liability remains unchanged. For example, if the actual amount of benefits vested was R100,000 lower than the estimate (based on last year's data), then the Actuarial Loss / (Gain) would have to reduce by R100,000 to leave the Closing Accrued Liability as is.

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	% Change	Liability	% Change
Central assumptions		2 906 000	
General earnings inflation rate	+1%	3 040 000	5%
	-1%	2 782 000	-4%
Discount rate	+1%	2 776 000	-4%
	-1%	3 049 000	5%
Average retirement age	+2 years	2 987 000	3%
	-2 years	2 748 000	-5%
Withdrawal rates	x2	2 382 000	-18%
	x0,5	3 249 000	12%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2023

Assumption	Change	CurrentSvc. Cost	Interest Cost	Total	% Change
Central assumptions		410 000	256 000	666 000	
General earnings inflation rate	+1%	436 000	269 000	705 000	6%

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

				2023	2022
20. Employee benefits obligations (continued)					
	-1%	386 000	243 000	629 000	-6%
Discount rate	1%	389 000	264 000	653 000	-2%
	-1%	434 000	245 000	679 000	2%
Average retirement age	+2 years	422 000	267 000	689 000	3%
	-2 years	394 000	240 000	634 000	-5%
Withdrawal rates	x2	302 000	201 000	503 000	-26%
	x0,5	487 000	291 000	778 000	18%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30/06/2024

	Change	CurrentSvc. Cost	Interest Cost	Total	% Change
Central assumptions		414 000	283 000	697 000	
General earnings inflation rate	+1%	439 000	298 000	737 000	6%
	-1%	391 000	270 000	661 000	-5%
Discount rate	+1%	394 000	293 000	687 000	-1%
	-1%	436 000	272 000	708 000	2%
Average retirement age	+2 years	424 000	292 000	716 000	3%
	-2 years	397 000	268 000	665 000	-5%
Withdrawal rates	x2	312 000	225 000	537 000	-24%
	x0.5	484 000	321 000	805 000	15%

21. Provisions

The municipality operates two landfill sites situated at emaXesibeni (Mount Ayliff) and kwaBhaca (Mount Frere). In accordance with legislation and to comply with the Department of Water Affairs (DWA) and Department of Economic Development and Environmental Affairs (DEDEAT) on the landfill waste sites, the municipality raises a provision every year for the estimated cost of rehabilitating the land over which the sites are situated.

Due to uncertainties about the amount or timing of these costs, the provision has been made for this cost based on the construction budget to rehabilitate the landfill site at 30th of June 2023 at a rate of 12.62% taking into account price escalation of 7.39% relating to inflation. The estimated years for the rehabilitating these sites are 10.1 years for at emaXesibeni (Mount Ayliff) and 37.4 years for kwaBhaca (Mount Frere).

A valuation of the rehabilitation was conducted by an independent valuer (One Pangaea Expertise & Solutions) and a liability has been raised. Movements in the provision are recognised in the Statement of Financial Performance. The Provision has been determined on the basis of a recent independent financial requirement and viability.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022		
21. Provisions (continued)				
Reconciliation of provision for environmental rehabilitation				
Current liabilities	-	-		
Non-current liabilities	6 337 829	7 076 782		
	6 337 829	7 076 782		
Reconciliation of provision for environmental rehabilitation				
Opening balance	7 076 782	4 886 339		
Change in discount factor	(1 520 937)	1 609 705		
Interest cost	781 984	528 214		
New cell restoration	-	52 524		
	6 337 829	7 076 782		
The amounts recognised in the Statement of Financial Performance are:				
Balance of change in provision of obligations	(1 520 937)	1 662 229		
Interest cost	781 984	528 214		
	(738 953)	2 190 443		
Unfunded Accrued Liability				
Value of obligation	6 337 829	7 076 872		
Value of assets	-	-		
	6 337 829	7 076 872		
Total raw costs for 30 June 2023 for closure and rehabilitation	eMaxesibeni	KwaBhaca	Total	
Planning for closure	962 248	983 400	1 945 648	
Rehabilitation and closure	3 622 189	3 798 455	7 420 644	
Post-Closure monitoring	3 165 698	4 051 263	7 216 961	
	7 750 135	8 833 118	16 583 253	
Key Actuarial Assumptions used are as follows:	2023	2023	2022	2021
Discount rate (D)	12.62%	11,05%	11.05%	10.81%
Consumer price inflation	7.39%	7,23%	7.23%	7.07%
Net Discount rate ((1+D)/(1+H)-1)	4.87%	3,56%	3.56%	3.5%
Remaining life of site: Mt Frere	37	34	35	36
Remaining life of site : Mt Ayliff	10	10	11	12
Excavatable cover depth	2,5m			
Cover to waste ration	1 to 4			
22. Capital replacement reserve				
Capital replacement reserve opening balance		31 842 322	30 874 974	
Transfer into capital replacement reserve		2 171 051	967 348	
		34 013 373	31 842 322	
23. Accumulated surplus				
Accumulated Surplus/(Deficit) due to the results of operations				
Accumulated Surplus/(Deficit)		1 035 563 443	1 005 928 822	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
24. Revenue		
Sale of goods	1 037 069	640 484
Service charges	1 262 598	1 216 660
Construction contracts	2 352 947	33 668 118
Rental of facilities and equipment	6 356 833	3 779 118
Interest received - Exchange	9 828 365	4 823 411
Agency services	2 065 526	2 314 487
Licences and permits - Exchange transactions	1 759 925	1 712 956
Insurance proceeds	170 417	-
Actuarial gains	-	146 000
Fair value adjustments	3 481 623	3 745 041
Operational Revenue	127 967	168 238
Licences and Permits - non-exchange transactions	198 383	128 961
Property rates	47 151 195	48 595 020
Interest received - Non-exchange	2 041 631	1 490 559
Government grants & subsidies	356 166 988	309 816 869
Public contributions and donations	500 000	-
Fines, Penalties and Forfeits	3 337 402	4 793 426
	437 838 869	417 039 348

The amount included in revenue arising from exchanges of goods or services are as follows:

Sale of goods	1 037 069	640 484
Service charges	1 262 598	1 216 660
Construction contracts	2 352 947	33 668 118
Rental of facilities and equipment	6 356 833	3 779 118
Interest received - Exchange	9 828 365	4 823 411
Agency services	2 065 526	2 314 487
Licences and permits	1 759 925	1 712 956
Insurance proceeds	170 417	-
Actuarial gains	-	146 000
Operational Revenue	127 967	168 238
Fair value adjustments	3 481 623	3 745 041
	28 443 270	52 214 513

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	47 151 195	48 595 020
Licences or permits	198 383	128 961
Interest received - Non-exchange	2 041 631	1 490 559

Transfer revenue

Government grants & subsidies	356 166 988	309 816 869
Public contributions and donations	500 000	-
Fines, Penalties and Forfeits	3 337 402	4 793 426

409 395 599 364 824 835

25. Sale of goods and other services

Advertisement	118 892	161 206
Building plans	615 217	117 673
Cemetery and burials	23 488	29 259
Clearance certificate	15 300	25 281
Sale of goods	264 172	307 065
	1 037 069	640 484

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
26. Service charges		
Refuse removal	1 262 598	1 216 660

The amounts disclosed above for revenue from Service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

27. Construction contracts

Contract between UML and Department of Energy

An amount of R2 352 948 (2022: R33 668 118) was recognised by the municipality as revenue during the current financial year. As the outcome of a construction contract can be estimated reliably, contract revenue and contract cost associated with the construction contract are recognised by reference to the stage of completion of the contract at reporting date.

The municipality determines the stage of completion of contract in progress by the accumulative actual work performed i.e contract cost divide by contract price.

During the year a total contract cost to the amount of R1 747 642 (2022: R29 511 792) was recognised. During the year, the municipality received an advance amount of R0 (2022: R33 000 000) from the Department of Energy. Refer to note 16

No retentions were held for this construction contract during the year, (2022: R0).

28. Rental of facilities and equipment

Facilities and equipment

Adhoc rental income from other assets	191 809	184 490
Investment property	6 165 024	3 594 628
	6 356 833	3 779 118

Rental income generated are at market related premiums. All rental income recognised is therefore market related.

29. Interest received - Exchange Transactions

Interest received - Exchange transactions

Interest received - debtors	587 089	500 894
Interest received - bank	329 879	113 923
Interest received - investments	8 911 397	4 208 594
	9 828 365	4 823 411

30. Agency services

Vehicle Registration	2 065 526	2 314 487
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The municipality is an agent for the Provincial Department of Transport as well as the Eastern Cape Department of Human Settlements. Refer to Note 64 for further details.

31. Operational revenue and Insurance proceeds

Operational revenue	127 967	168 238
Insurance proceeds	170 417	-
	298 384	168 238

Insurance settlement was reached in the current year following a vehicle accident that led to the motor vehicle being written off and disposed in the 2021 financial year.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
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32. Fair value adjustments

Fair value adjustment for investment properties	3 481 623	3 745 041
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33. Property rates

Rates received

Property rates	47 151 195	48 595 020
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Property rates billing per customer classification

Residential	2 288 073	2 269 437
Commercial	4 912 578	4 932 318
State	39 950 544	41 393 265
	47 151 195	48 595 020

Annual valuation are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates tariffs applicable are as shown in the table below.

Rates are levied monthly on property owners and are payable on the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate of 10% per annum as determined by council on outstanding rates amounts.

Welfare organisations are exempted from the payment of rates, while the first R15 000 of the valuation on improved residential and vacant properties exempted from payment of rates.

An additional rebate of 25% of the current year rates are allowed for senior citizens, disabled persons and medically boarded property owners. There is a 15% rebate of rates allowed for the three years of a newly developed property from the date of issuance of certificate of occupancy

Tariff structure

Agricultural	0,0015	0,0015
Residential	0,0058	0,0058
Business	0,0140	0,0140
Vacant stands	0,0140	0,0140
Government properties	0,0186	0,0186
Public service Infrastructure	0,0015	0,0015
	-	-

Valuations

Residential	427 179 900	427 179 900
Commercial	351 511 500	351 511 500
State	2 247 328 773	2 247 328 773
	3 026 020 173	3 026 020 173

34. Licences and permits (non-exchange)

Trading	198 383	128 961
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35. Interest received - Non-Exchange Transactions

Interest - Receivables	2 041 631	1 490 559
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
36. Government grants & subsidies		
Operating grants		
Equitable share	260 936 000	238 026 000
Departmental agencies and accounts (SETA)	699 450	188 999
Expanded Public Works Programme (EPWP)	3 352 000	3 413 000
Provincial Arts and Culture grants - Library	2 150 000	749 999
Finance Management Grant (FMG)	1 720 462	1 719 538
Disaster Relief Management Grant	10 500 000	-
Extended Public Works Programme - Cleansing Project Peri-Urban	3 700 000	3 500 000
	283 057 912	247 597 536
Capital grants		
Municipal Infrastructure Grant	52 675 257	48 951 000
Small Town Revitalisation	20 433 819	13 268 333
	73 109 076	62 219 333
	356 166 988	309 816 869
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	77 708 000	58 334 000
Unconditional grants received	278 361 874	251 483 330
	356 069 874	309 817 330
National Governments		
Balance unspent at beginning of year	462	-
Current-year receipts	333 493 911	292 110 000
Recognised as revenue	(329 883 630)	(292 109 538)
	3 610 743	462
Conditions still to be met - remain liabilities (see note 19).		
Provincial governments		
Balance unspent at beginning of year	-	3 500 000
Current-year receipts	22 576 424	14 018 331
Recognised as revenue	(26 283 819)	(17 518 331)
Other	3 707 395	-
	-	-
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Current-year receipts	260 936 000	238 026 000
Recognised as revenue	(260 936 000)	(238 026 000)
	-	-
Municipal Infrastructure Grant		
Current-year receipts	52 786 000	48 951 000
Recognised as revenue	(52 675 258)	(48 951 000)

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
36. Government grants & subsidies (continued)		
	110 742	-

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

These grants are allocated for the construction of roads. Provide for new, rehabilitation and upgrading of municipal infrastructure as part of upgrading of poor households, micro enterprises and social institutions.

Financial Management Grant

Balance unspent at beginning of year	462	-
Current-year receipts	1 720 000	1 720 000
Recognised as revenue	(1 720 462)	(1 719 538)
	-	462

This grant is allocated for the implementation of financial management reforms required by the MFMA.

Expanded Public Works Programme Grant

Current-year receipts	3 352 000	3 413 000
Recognised as revenue	(3 352 000)	(3 413 000)
	-	-

This grants is implementation of labour intensive programmes and help in creating employment in the community.

Small Town Revatilization

Current-year receipts	16 726 424	13 268 333
Recognised as revenue	(20 433 819)	(13 268 333)
Recognised as a receivable	3 707 395	-
	-	-

This is a town revitalization project initiated by the Office of the Premier to revitalize Emaxisebeni town and KwaBhaca. Invoices are paid by the office of the premier on presentation by the service provider.

Disaster Relief Management Grant

Current-year receipts	14 000 000	-
Recognised as revenue	(10 500 000)	-
	3 500 000	-

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

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

Provincial Arts and Culture grants - Library

Current-year receipts	2 150 000	750 000
Recognised as revenue	(2 150 000)	(750 000)
	-	-

This grants is used for to pay for Kwa-Bhaca and Emaxesibeni Library expenses.

SETA Grant

Current-year receipts	699 450	188 999
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
36. Government grants & subsidies (continued)		
Recognised as revenue	(699 450)	(188 999)
	-	-
Grant received from SETA and used for employee trainings and development.		
Solid Waste Management Grant (EPWP - Cleansing Project Peri-Urban)		
Balance unspent at beginning of year	-	3 500 000
Current-year receipts	3 700 000	-
Recognised as revenue	(3 700 000)	(3 500 000)
	-	-
This grant is used to creat job opportunities through the cleaning of rivers and water reticulation sites.		
Changes in level of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 9 of 2021), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
37. Award received		
Greenest municipality award	500 000	-
38. Fines, Penalties and Forfeits		
Law Enforcement Fines	2 825 770	3 510 193
Pound Fees Fines	511 632	1 283 233
	3 337 402	4 793 426
39. Employee related costs		
Basic	58 161 574	54 578 604
Bonus	5 303 836	4 841 583
Medical aid - company contributions	4 722 289	4 389 624
UIF	425 627	437 501
WCA	1 115 104	469 398
SDL	930 479	901 442
Leave pay provision charge	2 247 617	1 541 154
Defined contribution plans	9 656 624	8 706 661
Travel, motor car, accommodation, subsistence and other allowances	4 614 997	4 524 989
Overtime payments	655 979	569 052
Long-service awards	383 660	59 001
Housing benefits and allowances	2 505 214	2 463 188
Bargaining Council Levy	26 224	24 268
Standby Allowance	1 273 377	1 040 001
	92 022 601	84 546 466
40. Remuneration of councillors		
Executive Mayor	964 345	909 747
Speaker	776 785	719 298
Chief Whip	733 908	656 178
Executive Committee	5 329 305	4 833 251
Councillors	14 938 499	13 626 544
	22 742 842	20 745 018

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
40. Remuneration of councillors (continued)		
In-kind benefits		
The Executive Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor and Speaker have use of a Council owned vehicle for official duties.		
Additional information		
The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa and within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998.		
41. Depreciation and amortisation		
Property, plant and equipment	71 628 432	74 415 436
Intangible assets	220 961	497 352
Total Depreciation and Amortisation	71 849 393	74 912 788
42. Impairment loss		
Impairments		
Property, plant and equipment	5 607 071	7 317 045
Receivables from Exchange Transactions - Refuse	1 258 808	3 951 328
Receivables from Non-exchange Transactions - Rates	4 761 782	947 267
	11 627 661	12 215 640
Reversal of impairments		
Receivables from Non-exchange Transactions - Traffic fines	(572 415)	(554 256)
Receivables from Exchange Transactions - Refuse	(25 113)	(12 666)
	(597 528)	(566 922)
Total impairment losses (recognised) reversed	11 030 133	11 648 718
43. Finance costs		
Interest on employee benefits	256 000	196 000
Interest on provision for landfill sites	781 984	528 214
	1 037 984	724 214
44. Lease rentals on operating lease		
Equipment		
Contractual amounts	284 898	101 903
Plant and equipment		
Contractual amounts	22 684	-
	307 582	101 903
45. Inventory consumed		
Inventory consumed	10 128 713	7 304 566

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
46. Contracted services		
Outsourced services		
Business and Advisory	1 177 546	349 950
Catering Services	855 048	227 333
Cleaning Services	375 000	-
Internal Auditors	708 375	901 154
Personnel and Labour	13 617 412	12 221 944
Security Services	19 028 947	16 306 215
Traffic Fines Management	-	511 654
Consultants and professional services		
Business and Advisory	17 475 129	13 036 799
Infrastructure and Planning	940 000	2 532 511
Legal Cost	4 209 939	4 036 005
Contractors		
Artists and Performers	196 000	-
Building	891 958	1 011 505
Catering Services	3 766 222	4 007 225
Employee Wellness	174 500	844 140
Event Promoters	771 717	1 008 001
Maintenance of Buildings and Facilities	2 451 310	1 688 942
Maintenance of Equipment	5 132 073	4 516 040
Maintenance of Unspecified Assets	12 528 905	2 904 321
Tracing Agents and Debt Collectors	8 095 485	8 595 750
Safeguard and Security	-	267 915
Stage and Sound Crew	-	365 000
	92 395 566	75 332 404
47. Transfer and subsidies		
Operational Grants		
Bursaries for scarce skills	661 047	430 959
Monatory allocations	2 747 073	1 995 887
Expenditure incurred to electrify houses and handed over to eskom	9 041 796	-
SMME Development	12 557 238	3 754 176
	25 007 154	6 181 022
48. Loss on disposal of assets		
Management has taken a decision to dispose of some assets that are deemed excess of requirements or assets broken and no longer useful in provision of services to the community.		
Carrying value of assets disposed off - Property, plant and equipment	850 738	1 504 158
Carrying value of assets disposed off - Intangible assets	-	1 187 262
Cash receipts from insurance proceeds	-	(644 028)
	850 738	2 047 392
Facts and circumstances of the disposal		
Municipal assets were either damaged, lost or they were found to offer limited service potential and were thus disposed. An auction of municipal assets took place on the 13th of July 2023 and a total of R598 435 was realised.		
49. Acturial gains / (loss)		
Acturial gains / (loss)	(19 000)	146 000

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
50. Operating costs		
Achievements and awards	1 060 950	1 251 196
Advertising	3 051 267	3 444 904
Auditors remuneration	4 120 787	4 428 400
Bank charges	420 216	333 091
Bursaries (Employees)	624 144	826 374
Communication	5 440 242	6 098 939
Drivers licences and permits	189 679	194 656
External computer services	1 735 984	1 160 118
Fines and penalties	-	895
Hire charges	7 574 116	16 922 766
Indigent relief	6 011 867	7 028 154
Insurance	5 771 879	5 035 649
Learnerships and internships	519 891	424 045
Municipal services	6 213 166	6 053 851
Printing publications and books	725 685	689 669
Professional bodies membership and subscriptions	1 878 948	1 658 236
Registration fees	5 705 634	6 202 671
Remuneration to ward committees	4 694 818	2 901 800
Resettlement cost	6 500	58 403
Seating allowance for traditional leaders	46 147	44 000
Signage	429 170	191 250
Transport provided as part of departmental activities	1 499 023	2 173 376
Travel agency and visa's	787 573	389 325
Travel and subsistence	8 111 358	6 784 796
Uniform and protective clothing	3 212 261	1 642 521
Vehicle Tracking	550 394	-
Vehicle licensing	84 501	79 987
Wet fuel	6 430 350	2 908 749
	76 896 550	78 927 821
51. Auditors' remuneration		
Fees	4 120 787	4 428 400

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
52. Cash generated from operations		
Surplus for the year	31 802 972	25 055 244
Adjustments for:		
Depreciation and amortisation	71 849 393	74 912 788
Losses on Disposal of Property, Plant and Equipment	850 738	2 047 392
Fair value adjustments	(3 481 623)	(3 745 041)
Impairment loss	11 030 132	11 648 718
Movements in operating lease assets and accruals	(4 589 013)	(2 190 073)
Contribution to Provisions - Current	(20)	(28 914)
Contributions to employee benefit for the year	665 461	815 501
Actuarial gain - Employee benefit	19 000	(146 000)
Provision for leave	1 140 275	516 126
Finance costs - Landfill site provision	1 037 984	528 214
Changes in working capital:		
Inventories	174 193	49 641
Receivables from exchange transactions	(1 249 298)	(3 456 542)
Consumer debtors	(9 139 840)	(7 437 266)
Prepayments	1 082 117	12 077
Payables from exchange transactions	16 074 308	3 499 538
VAT	(5 745 082)	(1 292 001)
Taxes and transfers payable (non-exchange)	(218 897)	(4 803 587)
Unspent conditional grants and receipts	3 610 280	(3 499 538)
Increase in Operating lease liability	17 332	11 901
Movement in provisions for landfill site	-	1 662 229
Other receivables	(3 707 395)	-
	111 223 017	94 160 407

53. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets 2023

	At amortised cost	Total
Refuse	561 367	561 367
Rentals	18 275	18 275
Call deposits	75 799 634	75 799 634
Bank balances	3 305 358	3 305 358
	79 684 634	79 684 634

Financial liabilities 2023

	At amortised cost	Total
Trade payables	25 183 009	25 183 009
Retentions	4 169 302	4 169 302
Accruals	15 348 326	15 348 326
Payables from Non-Exchange Transactions	3 389 169	3 389 169
	48 089 806	48 089 806

2022

Financial assets 2022

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
53. Financial instruments disclosure (continued)		
	At amortised cost	Total
Refuse	539 332	539 332
Rentals	24 711	24 711
Call deposits	47 986 102	47 986 102
Bank deposits	54 922 011	54 922 011
	103 472 156	103 472 156

Financial liabilities 2022

	At amortised cost	Total
Trade payables	8 996 666	8 996 666
Retentions	1 001 498	1 001 498
Accruals	16 400 010	16 400 010
Taxes and transfers payable (non-exchange)	3 608 066	3 608 066
	30 006 240	30 006 240

54. Segment reporting

A segment is an activity of an entity.

ULM Identification of segments

The municipality is organised and reports to management on the basis of three major functional areas: primary, secondary and tertiary educational services. The segments were organised around the type of service delivered and the target market.

Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management 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.

Aggregated segments

The municipality operates in the Eastern Cape, Alfred Nzo District, and services the following areas:

1. Kwa Bhaca
2. EmaXesibeni

Segments were aggregated on the basis of services, the type or class of customer to which goods and services are delivered and the method used to distribute the goods or provide the service as management considered that the economic characteristics of the segments throughout the Umzimvubu Local Municipal area were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

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

Reportable segment Goods and/or services

Economic and Environmental Services	Hawker permits, rental of municipal properties.
Public safety	Licences, traffic fines, permits, pounds and DoT agency services.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
54. Segment reporting (continued)		
Roads & Infrastructure		Building plan approvals
Community services		Rental of halls and facilities, waste removal.
Non-segments Goods and/or services		
Administration and corporate Administration services.		
Office of the Municipal Manager Strategic services		
Budget and treasury Financial Services.		
Council support political administration.		
Segment surplus or deficit		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

2023

	Economic & Environmental Services	Roads & Infrastructure	C
Revenue			
Service charges	-	-	
Rental of facilities and equipment	-	8 810	
Construction contract revenue	-	2 352 947	
Income from agency services	-	-	
Licences and permits	-	-	
Other income	654	1 023 776	
Revenue from non exchange transactions			
Government grants and subsidies	-	73 109 077	
Fines	-	-	
Licences and permits	198 383	-	
Total segment revenue	199 037	76 494 610	
Interest earned on outstanding debtors- Exchange			
Operational Revenue			
Rental of facilities and equipment			
Other income			
Interest earned on outstanding debtors- Non-Exchange			
Property Rates			
Fair value adjustment			
Government grants and subsidies			
Total revenue reconciling items			
Municipality's revenue			

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	Economic & Environmental Services	Roads & Infrastructure	C
Expenditure			
Employee costs	4 141 887	12 134 292	
Depreciation and amortisation	-	-	
Impairment losses	-	-	
Finance costs	-	-	
Operating lease rentals	-	-	
Inventory consumed	243 242	-	
Contracted services	376 450	14 248 302	
Transfers and subsidies	13 522 238	9 041 796	
Operational costs	3 615 429	6 103 233	
Construction contract expenditure	-	1 747 642	
Total segment expenditure	21 899 246	43 275 265	1
Total segmental surplus/(deficit)	22 098 283	119 769 875	1
Total revenue reconciling items			
Employee costs			
Remuneration of councillors			
Depreciation and amortisation			
Impairment losses			
Actuarial loss			
Operating lease rentals			
Inventory consumed			
Transfers and subsidies			
Loss on disposal of assets			
Operational costs			
Contracted services			
Entity's surplus (deficit) for the period			

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	Economic & Environmental Services	Roads & Infrastructure	C
Assets			
Segment assets	(69 977 249)	13 962 262	(2
Segment liabilities	(3 593 842)	159 507 319	(
Segment net assets	(73 571 091)	173 469 581	(2
Unallocated assets			
Unallocated liabilities			
Total net assets as per Statement of financial Position			

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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2022

	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue					
Service charges	-	-	1 216 660	-	1 216 660
Rental of facilities and equipment	2 965 138	2 999	181 491	-	3 149 628
Agency services	-	-	-	2 314 487	2 314 487
Other income	-	585 944	-	-	585 944
Licences and permits	-	-	-	1 712 956	1 712 956
Construction contract	-	33 668 118	-	-	33 668 118
Revenue from non exchange transactions					
Government grants and subsidies	-	62 219 333	7 662 999	-	69 882 332
Fines	-	-	-	128 961	128 961
	-	-	-	3 510 193	3 510 193
Total segment revenue	2 965 138	96 476 394	9 061 150	7 666 597	116 169 279
Interest earned on outstanding debtors					6 313 969
Rental of facilities					629 490
Other income					54 540
Operating revenue					168 238
Licences and permits					146 000
Fair value adjustments					3 745 041
Government grants and subsidies					239 934 537
Property rates					48 595 020
Fines					1 283 233
Total revenue reconciling items					300 870 068
Municipality's revenue					417 039 347
Expenditure					
Employee costs	6 622 850	111 095	8 712 093	4 049 794	19 495 832
Depreciation and amortisation	-	-	71 249 388	-	71 249 388
Impairment losses	-	1 960 122	-	-	1 960 122
Construction contract expenditure	-	29 511 792	-	-	29 511 792
Finance costs	-	-	724 214	-	724 214
Inventory consumed	-	-	7 304 566	-	7 304 566
Contracted services	35 213 650	15 245 896	14 236 891	7 023 477	71 719 914
Transfers and subsidies	3 754 176	-	1 437 941	-	5 192 117
Operational costs	3 828 040	8 414 926	2 908 749	15 061 563	30 213 278
Loss on disposal of assets	-	2 047 392	-	-	2 047 392
Total segment expenditure	49 418 716	57 291 223	106 573 842	26 134 834	239 418 615
Total segmental surplus/(deficit)	52 383 854	153 767 617	115 634 992	33 801 431	(123 249 336)
Total revenue reconciling items					300 870 068
Employee costs					(65 050 636)
Remuneration of councillors					(20 745 017)
Depreciation and amortisation					(3 663 400)
Impairment losses					(9 688 596)
Lease rentals on operating lease					(101 903)
Contracted services					(3 612 400)
Transfers and subsidies					(988 905)
Operational costs					(48 714 633)
Entity's surplus (deficit) for the period					25 055 242

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Segment Assets and Liabilities					
Segment assets	(11 593 172)	1 780 950 494	1 174 091 038	25 734 907	2 969 183 267
Segment Liabilities	(84 905 109)	105 995 282	(3 033 767)	(323 934 905)	(305 878 499)
Net assets /(liabilities) of the segments	(96 498 281)	1 886 945 776	1 171 057 271	(298 199 998)	2 663 304 768
Non segment assets					(1 877 577 938)
Non segment liabilities					252 044 376
Total assets as per Statement of financial Position					1 037 771 206

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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55. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the . Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and nonderivative financial instruments, and investment of excess liquidity.

Additional text

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

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 changes.

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

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

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

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

Umzimvubu Local Municipality

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56. Commitments

Authorised capital expenditure

Already contracted and provided for

• Buildings	29 661 848	23 239 437
• Infrastructure	9 221 280	24 306 975
• Other financial assets	-	281 000
	38 883 128	47 827 412

Total capital commitments

Already contracted and provided for	38 883 128	47 827 412
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This Expenditure will be financed as follows:

Total commitments

Grant funding	2 304 780	23 997 225
Internal funding	36 578 348	23 830 187
	38 883 128	47 827 412

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Umzimvubu Local Municipality

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57. Contingencies

Contingent Assets

Umzimvubu Local Municipality vs Mbali Rural Developers CC (Arbitration)	-	220 601
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A claim in favour of the municipality was awarded of R220 601. To enforce the arbitration award, the municipality seeks to attach movables to satisfy the claim. The Writ of execution is with the office's Sheriff of Kokstad for service.

The matter was finalised during the year and the municipality got an order to collect money from Mbali Rural Developers CC. The execution of this order has been without success and the case has been closed in order to minimise on additional costs of collection.

Umzimvubu Local Municipality vs Vuyo Chitha	102 000	350 000
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An Application to release Mr Vuyo Chitha's pension fund to ULM where Mr Chitha is liable to pay the Municipality an amount of R 102 000 to ULM. As it stands counsel has been briefed to make an application in court ordering the Pension fund to release the funds to ULM for settlement. The pension fund number and pension fund that Mr Chitha was registered to has been requested from ULM so as to complete application.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

102 000	570 601
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Contingent Liabilities

Lindelwa Nyokana vs Umzimvubu Local Municipality (Case No. 40/18):	200 000	200 000
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The plaintiff is claiming a sum of R37 484,55 resulting from the damage to her motor vehicle as a result of a pothole in one of municipal roads. On 12 February 2021 the matter was postponed sine die. Matter was before Magistrate Mbotho on 10 December 2021 and was postponed to 11 February 2022 for further evidence. STATUS – ONGOING. The matter is on for trial stage..

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Hearing of evidence has since concluded. Awaiting judgement.

Umzimvubu Local Municipality vs Thandeka Mgeyi and 4 others Case No.2914/2019	400 000	400 000
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The municipality is seeking eviction order from court. The respondents invaded its RDP houses. The matter was referred for oral evidence. The matter was before Court on 7 March 2022 and was removed from the roll to allow the Municipality to bring its first witness. The matter was postponed to January 2023 for hearing of further evidence. Matter waiting for trial date.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality vs Rawutini Yicokise Gawulana & Others	200 000	200 000
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Land Invasion on ERF 188 in MaXesibeni. The matter appeared in court on the 9th of February 2021. Application dismissed with costs. ULM shall file documents to appeal. Application for leave to appeal has since been filed and awaiting judgement on same. Application for leave to appeal is to be heard by the Supreme Court of Appeal on a date set for 2023.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

57. Contingencies (continued)

Andiswa Gxobole -Nomthwa's Projects v Umzimvubu Local Municipality Demand for full payment of monies paid by the Director of Nomthwa Projects to effect repairs and installation of electricity at the Fresh Produce Market building belonging to ULM. The municipality is to prepare and file a plea as per the amended particulars of claim. The matter is still pending before the High Court.	200 000	200 000
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There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality vs M Zibuke Clothing & Multipurpose & Another: Case No. 2570/2017	400 000	300 000
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The municipality seeks an eviction order against the respondents at TRANSIDO KwaBhaca. The matter is opposed, it was set down on 28 May 2020 and it was postponed to 4th of June 2020 due to lockdown. The matter did not proceed on 4th of June 2020 because the Judge indicated that evictions were not possible during lockdown, consequently it was removed from the roll with no order as to costs. The matter was before court on the opposed roll on 10 February 2022. Mr Ntanyiya was made aware that there was a court order which was not complied with by the Municipality's previous attorney. The matter was then removed from the roll with the Municipality to pay the wasted costs of the day. Attorneys instructed to continue with eviction proceedings. Matter will appear before court on 17 March 2023.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Jane Ntombesithathu Nkondlwana vs Umzimvubu Local Municipality ULM is 3rd respondent to the matter and the court has instructed as follows: "that the third respondent if need be, be and is hereby ordered to conduct an investigation into the welfare of respondent no 1 and 2 and provide them with accommodation where necessary as being part of its Constitutional mandate. The matter was finalised on 20 January 2022 and judgement in favour of the applicant. The matter has been appealed and is awaiting SCA.	200 000	-
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There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Prince Mbusi Mdlalose vs Umzimvubu Local Municipality Case No. 3359/2019 The plaintiff alleges that he was unlawfully arrested by the Municipal Traffic Officer on 10 September 2017, then handed him over to Mt Frere Police Station allegedly for exceeding the speed limit, detained for 7 hours and released on bail of R500.00. Pleadings closed and the matter ready for trial. Matter set down for a date in 2023.	1 500 000	850 000
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There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Concerned Group of Sigidini Administrative Area - Mt Ayliff vs Umzimvubu Local Municipality Case No. 1986/2021	200 000	200 000
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This is an application brought by the Applicants in respect of land which they claim belongs to them. The municipality is opposing the matter. On 26 May 2021, the matter was before Court and was postponed to 06 July 2021 and the Court directed that the Municipality file its replying affidavit. Municipality has since filed its heads of arguments and awaiting date of hearing. Matter is on appeal and pending.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality

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57. Contingencies (continued)

Momelezi Methusi vs Umzimvubu Local Municipality Case No. 206/2020	-	80 000
Claim in respect of collision allegedly as a result of recklessness and negligent driving of the defendant's driver/employee. Matter still to be heard in Court to completion. Inspection in loco to be conducted on 10 February 2023.		

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. The matter has been finalised and judgement was in favour of the plaintiff. The municipality is liable to pay 50% of the damages.

PriceWaterHouseCoopers vs Umzimvubu Local Municipality Case No. 1351/2020	910 209	910 209
Claim in respect of services allegedly rendered in 2015, 2016 and 2019. The matter has been defended and consultation with the client is due. Application for rescission of default judgement granted in favour of the Municipality and a plea shall follow. The Municipality is preparing to file its plea.		

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Economic Freedom Fighters vs Umzimvubu Local Municipality Case No. 983/2021	1 500 000	700 000
High Court Application wherein the EFF seeks to declare ULM's dress code policies unlawful and unconstitutional and in the alternative to review and set aside ULM's dress code policies. A notice of intention to oppose was served and filed. Also, answering Affidavit has also been prepared, served and filed. Awaiting Applicant's reply, if any. Applicants have since filed a supplementary founding affidavit.		

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Simphele Mhlomo vs Umzimvubu Local Municipality Case No. 91/2014	400 000	400 000
This matter dates back to 2014 where the Municipality was sued by the Plaintiff for his unlawful arrest by the second defendant who at the time was employed by the Municipality. The trial commenced, evidence was led and argued to completion. However, the presiding magistrate passed away before delivering judgement. This necessitated a trial <i>de novo</i> . Trial shall begin on the 17th February 2023.		

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Dumisile Yozi vs Umzimvubu Local Municipality	300 000	500 000
The plaintiff intends to sue the Municipality for damages amounting to R300 000 as a result of unlawful conduct he was subjected to by the Municipality's law enforcement officers. Notice of intention to institute legal proceedings received. Awaiting receipt of summons.		

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality

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57. Contingencies (continued)

Umzimvubu Local Municipality vs Nolubabalo Khuzani & 62 Others	500 000	400 000
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The municipality is seeking a court order to evict the respondents illegally occupying RDP houses at Chithwa Village, Ext5 in MaXesibeni. ULM lawyers have served a notice in terms of the Pie Act, to request a date of hearing of the matters (Main application and incidental application).

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Fikile Bhekizulu vs Umzimvubu Local Municipality and others	500 000	-
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Application to declare immovable property belonging to the respondent that of the applicant as well as compelling the deed register to effect a rectification transfer.

This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Zolile Makaula vs Umzimvubu Local Municipality and others	-	-
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Application for eviction of the respondent. Matter is still pending before the Mount Frere Magistrates Court.

This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality vs Jabulani Hardware	-	-
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Application by the Municipality for declaratory relief as well as interdictory relief arising from land zoning.

This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Ayalneh Mandefra Fantaye vs Umzimvubu Local Municipality	650 000	440 000
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The plaintiff demands an amount of R150 000.00 as a result of vehicle collision that includes the municipal truck in January 2021. Notice of intention to institute legal proceedings received. Letter by the Municipal legal representatives denying liability on the part of the Municipality and further requesting proof that the persons mentioned in the Letter of Demand are indeed the employees of the Municipality was dispatched to the Plaintiff. Awaiting the service of Summons by the Plaintiff.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Siti Cargo vs Umzimvubu Local Municipality	2 500 000	950 000
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Damages of R5 861 678 allegedly suffered by the plaintiff in respect of the termination of contract, contract number: UMZ/2018/19/INFRA/MIG/005 for construction of Silindini bridge. The Municipality is in the process of drafting its plea and is considering taking the matter on alternative dispute resolution in terms of Rule 41A(2)(a) of the Uniform Rules of Court. Municipal attorneys are to conduct an inspection of the Silindini bridge on 13-14 February 2023.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

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57. Contingencies (continued)

Geolocate vs Umzimvubu Local Municipality	500 000	623 748
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The plaintiff is claiming an amount of R152 720 allegedly due by ULM in respect of services rendered. Letter of demand. The municipality is still to determine work done by the service provider then advise lawyers. Summons have since been received and the Municipality has filed its Plea in response and the matter is trial ready.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Zilindile Mrhamba and Chief Baphathe Makaula vs Umzimvubu Local Municipality: case number 28/2020	-	200 000
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Unlawful demarcation of sites on land reserved for development of a Sportsfield in Semen / Dungu. The Municipal legal representatives have since filed the Municipality's Replying Affidavit per the Court order. Awaiting allocation of date on the opposed roll.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

The defendant has passed on and the remaining party does not want to involve themselves on the matter. Matter likely to be struck off the roll.

Nodelile H Conjwa & 8 others :case number- 1531/2012	-	5 000 000
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The plaintiff's attorneys issued letters of demand on behalf of the plaintiffs. They are claiming that the municipal officials unlawfully demolished their structures at Papanana location, KwaBhaca. Application for the consolidation of the matters was granted successfully. The matter is now set down for the commencement of the trial under one case number.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing. This matter has been consolidated with case number 5213/2021 (Silindile Mhlwana case)

Norman Ndongeni vs ULM : Case no. 4779/2021	200 000	-
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This matter is primarily between the applicant and the first respondent Miss Thembisa Ndongeni. The applicant seeks to evict the first respondent together with various other persons allegedly in unlawful occupation of the property in question. The ULM is cited in the application as the 4th respondent for compliance purposes only and no order is sought against it. However, legal representation is necessary as the Court may mero motu require the Municipality to intervene. The Municipality has since filed its affidavit/report as directed by the Court. The matter was set down for hearing in the opposed roll of 28 April 2022. Application dismissed with costs. On 19 October 2022, applicant has filed an application for leave to appeal. Application to be heard of 02 February 2023. Application for leave to appeal was heard and judgement reserved.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality

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57. Contingencies (continued)

AM Engineering (Pty) Ltd v ULM : Case no. 6030/2022

1 800 000

-

The matter relates to a contractual dispute between the Plaintiff and the Municipality. The Plaintiff alleges that the Municipality unlawfully repudiated the contract between the parties without any just cause. The plaintiff now sues the Municipality for outstanding invoices and loss of profits. An notice of intention to defend the matter has since been filed by the Municipal attorneys together with a notice calling upon plaintiff's attorneys to produce proof of authority to act on behalf of the plaintiff. Further to these, a notice in terms of Rule 41A(2)(a) has since been filed requesting the plaintiff to indicate whether it agrees or opposes the referral of the matter to an ADR mechanism. Consultation with the Municipality shall be held in due course.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Nokuzola Christella Canca v ULM : Case no. 5981/2022

500 000

-

The Applicant Mrs. NC Canca seeks an order declaring the decision of the Municipality to approve the building plans of Erf 242 (KwaBhaca Mall) as unlawful, illegal and irregular and stands to be reviewed and set aside as such decision is in contravention of the Municipality's SPLUMA By-laws. The Municipality has filed its intention to oppose and is due to file a Rule 53 record whilst consulting to prepare answering affidavit.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality vs Vuyo Chitha

350 000

-

An Application to release Mr Vuyo Chitha's pension fund to ULM where Mr Chitha is liable to pay the Municipality an amount of R 102 000 to ULM. As it stands counsel has been briefed to make an application in court ordering the Pension fund to release the funds to ULM for settlement. The pension fund number and pension fund that Mr Citha was registered to have been requested from ULM so as to complete application.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Makalala Mbulawa vs Umzimvubu Local Municipality

200 000

-

The applicant claims damages which amount to R900 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 eMaXesibeni. The matter is still pending before the High Court

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Bhekinkosi Makhasana vs Umzimvubu Local Municipality

200 000

-

The applicant claims damages which amount to R 1000 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 eMaXesibeni. The matter is still pending before the high court.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Umzimvubu Local Municipality

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57. Contingencies (continued)

Ngubela Malibaba vs Umzimvubu Local Municipality	200 000	-
The applicant claims damages which amount to R1 200 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 eMaXesibeni. The matter is still pending before the high court.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Nelisiwe Nkalitshana vs Umzimvubu Local Municipality	200 000	-
The applicant claims damages which amount to R1 100 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 eMaXesibeni. The matter is still pending before the high court.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Sibusiso Bonakele & Others vs Umzimvubu Local Municipality	200 000	-
The applicant claims damages which amount to R450 000 per individual and a total of R22 950 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 eMaXesibeni. The matter is still pending before the High Court.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Nonyamezela Khwebulana & Others vs Umzimvubu Local Municipality	500 000	-
The applicants seek temporary accommodation as a result of houses that were demolished on the 04th of April 2023 on the municipal land, ERF 188 eMaXesibeni. The matter was before Judge Zilwa on an urgent basis on 02 May 2023, and the matter postponed to 30 May 2023. The matter has become opposed by the Municipality and we have filed an Answering affidavit.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Silindile Mhlwana and others vs Umzimvubu Local Municipality	600 000	-
The plaintiffs launched a claim for damages to the amount of R350 000 resulting from the Municipality having allegedly demolished their homes which were unlawfully built on a portion of land belonging to the Municipality. The matter shall go on trial still waiting for pre-trial minutes from plaintiffs attorney.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		
Nomagalati Dyantyi vs Umzimvubu Local Municipality	200 000	-
The Applicant is seeking an order for the eviction of the second respondent from the residential homestead no 41 at Badibanise administrative area Mount Frere. The municipality is cited herein only for comply purposes in terms of the PIE Act. The matter was before court on 29 July 2022, it was removed from the roll. There is no progress from the applicants attorney since then.		
There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

57. Contingencies (continued)

Umzimvubu Local Municipality vs Phumeza Mbasane Nompumza

250 000

-

The municipality in this matter has instituted civil proceedings against the deceased estate in terms of which it seeks to recoup municipal funds. The municipality has since filed an application for default judgment and is awaiting the courts ruling in this regard. The municipal attorneys have filed a request for default judgment.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

Nontuthuzelo Shazi vs Umzimvubu Local Municipality

500 000

-

The above matter concerns an employee who alleges that she has been unlawfully dismissed by the municipality and the matter has now been referred to the South Africa Local Government Bargaining council for a ruling. The matter has been referred for Arbitration and will be heard shortly.

There are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.

16 960 209

12 553 957

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

58. Related parties

Related party balances

Receivables from related parties

Staff and councilors debt

Cllr Mdzinwa	2 170	420
Cllr Garane	-	265
GPT Nota (Municipal Manager)	1 470	827
KP Dlamini-Tshazi (Senior Manager - Manager Community Services)	2 291	2 291

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from Councillors, the Municipal Manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Purchases from Related Parties - GRAP 20 disclosure

The municipality bought goods from the following companies, which are considered to be Related Parties:

Glenhope Trading	-	2 536 051
Related person: Qaba Zembe		
Company Capacity: Owner (wife)		
Municipal Capacity: Snr Manager		
2nd World Guest House	22 825	7 000
Related person: Mr Mdzinwa		
Company Capacity: Owner (husband)		
Municipal Capacity: Pr Councillor.		
Moepangauta T/A Madlanga Partner	2 083 233	950 285
Related person: L. Mandlanga		
Company Capacity: Owner (Brother)		
Municipal Capacity: Official		

The related parties to the above companies were not involved in procurement processes undertaken in appointing them.

2 106 058	3 493 336
-----------	-----------

Leave accrual owed to Executive Management

Manager - GPT Nota	117 701	189 166
Chief Financial Officer - FT Fundira	105 424	103 866
Manager Local Economic Development - SC Ntinzi	105 424	64 960
Manager Infrastructure and Planning - LJ Moleko	70 327	25 967
Manager Chief Operations Officer - N Zembe	105 424	114 527
Manager Corporate Services - TT Madotyeni-Ngcongca	101 032	103 866
Manager Community Services - KP Dlamini-Tshazi	96 683	95 254

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

58. Related parties (continued)

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The liability is an estimate of the amount due at the reporting date.

The cost of leave accrual is recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The entity measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date. The leave accrual is expected to be paid out through the compensated absence of employees in the next 12 months.

No leave encashment is made unless an employee has left the municipality.

There are no assets that have been set aside for the leave accrual, these are provided for through the three year MTREF budgeting of employee costs.

13th cheque

Manager - GPT Nota	39 011	43 104
Chief Financial Officer - FT Fundira	32 030	31 557
Manager Local Economic Development - SC Ntinzi	32 030	31 557
Manager Infrastructure and Planning - LJ Moleko	32 030	31 557
Manager Chief Operations Officer - N Zembe	32 030	34 795
Manager Corporate Services - TT Madotyeni-Ngcongca	32 030	31 557
Manager Community Services - KP Dlamini-Tshazi	32 030	31 557

Key management information

Class	Description	Number
Mayor	Mayor	1
Councillors	Councillors	55
Municipal Managers	Municipal Managers	1
Senior management	Senior management	5

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

58. Related parties (continued)

Remuneration of management

Management class: Councillors

	Basic salary	A
2023		
Executive Mayor - Cnl Z Ndevu	461 136	
Former Executive Mayor - Cnl SK Mnukwa (2022 backpay)	9 229	
Speaker - Cnl HM Ngqasa	375 831	
Chief whip -Cnl FN Ngonyolo	353 236	
Executive committee	2 538 293	
Councillors	6 596 243	
	10 333 968	
	Basic salary	A
2022		
Executive Mayor - Cnl Z Ndevu (Appointed on 9 November 2021	255 385	
Executive Mayor - Cnl SK Mnukwa (Term ended on 30 October 2021)	171 028	
Speaker - Cnl HM Ngqasa (Appointed on 9 November 2021)	206 490	
Speaker Cnl FN Ngonyolo (Term ended on 30 October 2021)	136 823	
Chief whip -Cnl FN Ngonyolo (Appointed on 9 November 2021)	194 266	
Chief whip - Cnl NG Mdzinwa (Term ended on 30 October 2021)	128 272	
Executive committee	2 280 237	
Councillors	5 977 442	
	9 349 943	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

58. Related parties (continued)

Councillors were compensated within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998.

In-kind Benefits

Councillors may utilise official Council transportation when engaged in official duties.

The Executive Mayor and Speaker have use of Council owned vehicles for official duties.

Management class: Executive management

	Basic salary	Termination benefits	Car and other allowances	Annual Bonus
2023				
Remuneration of Municipal Manager - GPT Nota (N1)	850 041	189 166	464 095	
Remuneration of the Chief Financial Officer - FT Fundira	698 784	-	381 045	
Remuneration of the Manager Local Economic Development - SC Ntinzi	698 784	-	381 045	
Remuneration of the Manager Infrastructure and Planning - LJ Moleko	698 784	-	381 045	
Remuneration of the Manager Chief Operations Officer - N Zembe (N2)	701 261	114 527	381 046	
Remuneration of the Manager Corporate Services - TT Madotyeni-Ngcongca	698 784	-	381 046	
Remuneration of the Manager Community Services - KP Dlamini-Tshazi	698 784	-	381 046	
	5 045 222	303 693	2 750 368	

	Basic salary	Car and other allowances	Annual Bonus	Pe
2022				
Remuneration of Municipal Manager - GPT Nota	886 716	517 251	73 893	
Remuneration of the Chief Financial Officer - FT Fundira	649 164	378 679	54 097	
Remuneration of the Manager Local Economic Development - SC Ntinzi	649 164	378 679	54 097	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

58. Related parties (continued)

Remuneration of the Manager Infrastructure and Planning - LJ Moleko	649 164	378 679	54 097
Remuneration of the Manager Chief Operations Officer - N Zembe	715 793	417 546	59 650
Remuneration of the Manager Corporate Services - TT Madotyeni-Ngcongca	649 164	378 679	54 097
Remuneration of the Manager Community Services - KP Dlamini-Tshazi	649 164	378 679	54 097
	4 848 329	2 828 192	404 028

59. Fruitless and wasteful expenditure

Opening balance as previously reported

Less: Amounts recovered - current

Closing balance

Fruitless and wasteful expenditure is presented inclusive of VAT.

The case relates to 3 officials that were formally placed at the E-Natis officials and the result of Disciplinary proceedings led to the recovery that is in progress at reporting date.

60. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Current year subscription / fee	1 082 117	1 094 194
Amount paid - current year	(1 082 117)	(1 094 194)
	-	-

Audit fees

Opening balance	-	2 944
Current year subscription / fee	4 738 905	5 092 660
Amount paid - current year	(4 738 905)	(5 095 604)
	-	-

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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

PAYE and UIF

Current year subscription / fee	20 208 926	18 541 438
Amount paid - current year	(20 208 926)	(18 541 438)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	20 610 137	18 186 309
Amount paid - current year	(20 610 137)	(18 186 309)
	-	-

Councillors' arrear consumer accounts

Refer to the related party disclosure note 58

30 June 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Mdzinwa	1 292	-	1 292
30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor A. N. Garane	177	-	177
Councillor N. G. Mdzinwa	2 866	-	2 866
	3 043	-	3 043

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Interest charged on outstanding debtors - [MFMA 64 (2)(g)]

In terms of section 64 (2)(g) of the MFMA the municipality must charge interest on arrears, except where the council has granted exemptions in accordance with its budget related policies and within a prescribed framework. The municipality charges interest on outstanding debtors account at a rate of 10% per annum as approved by the council.

61. SCM regulation 45 disclosures

The municipality bought goods from the following companies, where the directors are (related to) government officials.

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length:

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

61. SCM regulation 45 disclosures (continued)

Sips and Zozo Trading	-	24 200
Related person: Dikwayo Siphokazi		
Company Capacity: Owner (brother)		
Municipal Capacity: Official		
Misestozz Trading	-	120 770
Related person: Mygirl Ntshengulana		
Company Capacity: Owner (husband)		
Municipal Capacity: Official		
Njola Mhle Construction	75 000	96 000
Related person: N. Xashimba		
Company Capacity: Owner (brother)		
Municipal Capacity: Official		
Myoza-Myoza Trading	10 351 536	4 354 502
Related person: B. Jokazi		
Company Capacity: Owner (wife)		
Municipal Capacity: Official		
MNP Daughters	27 200	257 018
Related person: A .Mdledle		
Company Capacity: Owner (mother)		
Municipal Capacity: Official		
Siya and Aya Engineering	-	4 683 196
Related person: A .Tandwa		
Company Capacity: Owner (Wife)		
Government official: Department of Health Official		
Zimomo Trading	78 490	13 665
Related person: A .Fikeni		
Company Capacity: Owner (Child)		
Municipal Capacity: Official		
Tolta Development Projects	-	5 390
Related person: N. Ndongeni		
Company Capacity: Owner (Sister)		
Municipal Capacity: Official		
Kwik Way Solutions	144 104	939 366
Related person: A .Tandwa		
Company Capacity: Owner (Wife)		
Government official: Department of Social Development Official		
Funkymilla Trading	2 402 671	427 889
Related person: A. Mandlana		
Company Capacity: Owner (Brother)		
Municipal Capacity: Official		
Smondez Dyetype Trading	25 419	24 196
Related person: A. Fikeni		
Company Capacity: Owner (Son)		
Municipal Capacity: Official		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

61. SCM regulation 45 disclosures (continued)

Mfalo Farming and Projects	330 809	-
Related person: S. Tshekela		
Company Capacity: Owner (Spouse)		
Municipal Capacity: Official		
Nomako Trading and Construction	29 265	-
Related person: P. Conjwa		
Company Capacity: Owner (Daughter)		
Municipal Capacity: Official		
Aphola Trading	29 500	-
Related person:		
Company Capacity: Owner (Spouse)		
Government official: Department of Sports and Culturel		
Lihlume Ilizwe Trading	282 445	-
Related person: > Ntlamba		
Company Capacity: Owner (Spouse)		
Municipal Capacity: Official		
Lito Trading Enterprises	1 668 414	-
Related person: Canca		
Company Capacity: Owner (Spouse)		
Municipal Capacity: Official		
Yakhalungisa Engineering	8 306 581	-
Related person: N. Ndongeni		
Company Capacity: Owner (Sister)		
Municipal Capacity: Official		
	23 751 434	10 946 192

62. Unauthorised expenditure

Add: Unauthorised expenditure - current	11 030 132	77 440 532
Less: Amount authorised - current	-	(77 440 532)
Closing balance	11 030 132	-

2023 financial year

This is impairment of infrastructure assets of R5 607 071 that were damaged due to heavy rains and was not budgeted for. Furthermore due to the slow rate of payments of debtors, there was impairment of receivables from exchange and non exchange transactions of R6 046 572 recognised at year end inline with GRAP 104 requirements. This unauthorised expenditure is a non-cash expenditure.

2022 financial year

During the 2022 financial year, assets worth R77 440 532 which relate to the electrification network of rural areas that are funded by INEP Grant were transferred to ESKOM. These asset are budgeted for under Capital Expenditure during the time they are constructed. There is no additional budget raised for the accounting entry of the transfer when the assets are completed as this would result in budgeting for the same expenditure twice. The effect of the transfer of functions and subsequent recognition of the transfer in the statement of financial performance leads to Unauthorised Expenditure.

This was presented to Council on the 24 June 2022 for authorisation.

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

Non-cash	11 030 132	77 440 532
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

62. Unauthorised expenditure (continued)

Analysed as follows: non-cash

Provision of impairment	11 030 132	-
Transfer of functions to Eskom	-	77 440 532
	11 030 132	77 440 532

63. Irregular expenditure

Add: Irregular expenditure - current	26 840 657	-
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

63. Irregular expenditure (continued)

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

Regulated quotations requirement not invited	3
Contract deviations not properly approved	4
Proper procurement procedures not followed	18
	<hr/>
	26

Disciplinary steps taken/criminal proceedings

No disciplinary steps / criminal proceedings have been taken as matter is yet to be investigated.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

64. Accounting by principals and agents

The entity is a party to a principal-agent arrangement.

Entity as Agent

Department of Transport

The Municipality is an agent for the Department of Transport wherein it is delegated to register and licence motor vehicles on its behalf.

There are no assets or liabilities that are held or incurred on behalf of the principal and recognised in our financial statements. The risks associated with the principal-agent relationship that exist on any monies collected by the municipality on behalf of the principal lies solely with the municipality.

During the year, all collections made are banked and paid over to the Department of Transport two times a month. The income due to the municipality according to the agreement is 19% of the amount collected subject to certain conditions as per the Service Level Agreement and National Road Traffic Act, Act 93 of 1996. During the year, a total of R12 746 633 (2022: R12 181 511) was collected gross of commission. During the year the municipality has recognised a revenue of R2 065 526 (2022: R2 314 487).

Monies due to the principal were at year end was R635 870 (2022: R511 069).

Minimal risk was transferred from the Department of Transport, as the principal, to Umzimvubu Municipality, as the agent, beyond the cash collected on behalf of the principal.

Eastern Cape Department of Human Settlements.

The Municipality is acting as an agent to the EC Department of Human Settlement into a principal agent arrangement entered between the municipality and the department. In this agreement between Human Settlements and the municipality, transactions are done with a third party in building the houses on behalf of the Department.

The amount of R3 184 990 (2022: R0) was received from the Department and an amount of R88 259 (2022: R387 631) remained unspent at 30 June 2023, and the municipality is expected to use this money during the next 12 months and there are no liabilities incurred by ULM on behalf of the Department. The department did not transfer any risks to the municipality in this arrangement. A total of R3 484 362 (2022: R5 772 854) was spent on behalf of the principal during the current financial period.

The municipality does not receive any compensation for acting as an agent from this agreement.

Independent Development Trust

The Umzimvubu Local Municipality (ULM) has entered into a Memorandum of Agreement (MoA) with the Independent Development Trust (IDT). In this agreement, the IDT will manage the implementation of the development / construction of new ULM offices to an extent of 4ha in Sophia Town Kwa Bhaca and a the alterations to existing offices in Kwa Bhaca. ULM is a principal to this arrangement.

The purpose of this relationship is to change the face of the Municipality towards service delivery, value additions and to build offices that are accessible to the community of Umzimvubu Local Municipality.

IDT will be responsible for providing and managing all necessary facilities, equipment, internal finances and personnel for the performance of its functions. During the year there has been no changes in the terms and conditions of this agreement.

Amongst others, this arrangement is exposed to the poor delivery by suppliers resulting to slow turnaround time, abandoned variation orders and non compliance with laws and regulations resulting to litigations. The arrangement has a risk management plan in place to address and minimise all the risk identified.

During the current year, the municipality has paid a gross amount of R7 255 712 (2022: R641 244) which is capitalised as part of the project cost.

The total gross amount paid include a 5.5% commission paid to the agent for the current year of R399 064 (2022: R35 268),

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

64. Accounting by principals and agents (continued)

which is included in the amount paid to the project.

IDT does not hold any assets or liabilities on behalf of the municipality in its custody.

Eskom Holding

FREE BASIC ELECTRICITY

Eskom, on behalf of Umzimvubu Local Municipality (ULM), provides free basic electricity to eligible customers within the municipal boundaries of the ULM. Electricity provision occurs through prepaid. Eligible customers are identified according to the municipal's Indigent Policy. Eskom provides this service in advance and is reimbursed by the municipality in an amount equal to the free service provided. Eskom receives no further compensation in terms of the agreement. ULM is a principal to this arrangement.

ULM has paid an amount of R974 062 (2022: R690 418) to Eskom as a reimbursement for the free services provided by Eskom to indigent beneficiaries and no compensation has been paid to Eskom during the current and prior years.

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

There will be no cost implications for ULM if the arrangement is terminated

65. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are listed below:

(i) The Council adopted the 2023 to 2026 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.

(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.

(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements 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.

66. Budget differences

Material differences between budget and actual amounts

Below are explanations of variances that are more than 10% between budgeted amounts and actual amounts for the year.

N1 The variance is as a result of over collection

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

66. Budget differences (continued)

N2	Collection on old debt was a result of the variance
N3	There was an increased rental amount during the year
N4	The anticipated amount was not collected due to non-payment by consumers
N5	Closure of Kwabhaca RA caused under collection
N6	Variance is caused by an additional RA office opened in EmaXesibeni
N7	The identified variance is as a result of additional operational revenue that was not anticipated
N8	Variance is caused by non payment of outstanding rates billed during the year
N9	The identified variance is as a result of licences not paid for
N10	The variance is caused by the interest charged which was not budgeted for
N11	There were grants that were discontinued during the year which were used as a baseline when budgeting.
N12	Fines that relate to prior year are still uncollectable
N13	The identified difference is as a result of VAT being budgeted as a revenue line item
N14	The actual amount of impairment was not budgeted for
N15	The identified difference is as a result of non-achievement of the anticipated write-off
N16	There was a reduction in the operating lease contract which relates to the rental of a machine
N18	There were projects that were cancelled within the LED department
N19	The implementation of cost containment measures is the cause of the variance
N20	Municipal hand anticipated to complete and donate electrification projects
N21	The implementation of cost containment measures is the cause of the variance
N22	The identified variance is as a result of budget not being allocated to this line item
N23	The identified variance is as a result of budget not being allocated to this line item
N24	The identified variance is as a result of budget not being allocated to this line item
N25	The variance is as a result of downwards adjustment during midterm
N26	There was an additional operating lease asset
N27	The downwards adjustment at midterm is the cause of the variance
N28	The anticipated amount could not be achieved at year end
N29	The identified variance is as a result of VAT being budgeted under non exchange transactions
N30	The identified variance is caused by the amount due by OTP for the completed project funded at value creation
N31	The variance is as a result of a reduction in cash at midterm
N32	There was an acquisition of additional investment property

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

66. Budget differences (continued)

- N33 There were delayed projects which would have been capitalised.
- N34 There were assets that were classified as PPE hence the reduction
- N35 Accruals were the cause of the variance
- N36 The actual amount incurred was not budgeted for as a separate line item
- N37 There was an increase in advance payments by consumers
- N38 There was an amount received in the year under review that was meant to be spent in the following financial year
- N39 There is an increase in the staff turnover due to filling of new positions
- N40 The budgeted amount was included in the employee related costs
- N41 The capital replacement reserve was not budgeted for
- N42 There was an increase in accumulated surplus
- N43 The variance is caused by the outstanding amount for consumer debtors and under collection
- N44 The anticipated other revenue amount could not be achieved.
- N45 The variance is caused by implementation of cost containment measures.
- N46 The variance is as a result of acquisition of PPE which became less than anticipated
- N47 There was no budget allocated for the acquisition of investment property
- N48 Net cash was anticipated to decrease but there was a substantial increase due to cost cutting mechanisms.
- N49 There was a reduction in cash and cash equivalent at midterm
- N50 The amount relates to insurance proceeds that were not budgeted for that the municipality received during the year.
- N51 This amount was previously budgeted for under capital assets and through restatements had to be reported as revenue from operating activities.
- N52 This variance is due to some capital projects not being completed during the year and other infrastructure assets being impaired during the year.

67. Prior-year adjustments

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

Statement of financial position

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

67. Prior-year adjustments (continued)

2021

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Property, plant and equipment N1		958 424 684	(519 058)	(68 346 745)	889 558 881
Inventories N1		752 450	2 420 700	-	3 173 150
Payables from exchange transactions (N4)		(22 741 586)	-	(3 021 066)	(25 762 652)
Unspent conditional grants and receipts (N4)		(6 521 066)	-	3 021 066	(3 500 000)
Accumulated surplus		(1 048 262 150)	(1 901 642)	68 346 745	(981 817 047)
		(118 347 668)	-	-	(118 347 668)

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Property, plant and equipment (N1)		946 435 032	(954 523)	(20 394 064)	925 086 445
Inventories (N1)		702 809	2 420 700	-	3 123 509
Payables from exchange transactions (N4)		(26 909 242)	-	(2 352 948)	(29 262 190)
Unspent conditional grants and receipts (N4)		(2 353 409)	-	2 352 948	(461)
Accumulated surplus		(1 024 856 769)	(1 466 177)	20 394 064	(1 005 928 882)
		(106 981 579)	-	-	(106 981 579)

Statement of financial performance

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Construction contracts revenue (N2)		-	-	33 668 118	33 668 118
Government grants and subsidies (N2)		343 484 987	-	(33 668 118)	309 816 869
Depreciation (N1)		(74 477 323)	(435 465)	-	(74 912 788)
Transfers and subsidies paid (N3)		(83 621 554)	-	77 440 532	(6 181 022)
Construction contract expenditure (N2)		-	-	(29 511 792)	(29 511 792)
(Deficit) surplus for the year		22 438 033	435 465	(47 928 740)	(25 055 242)
Surplus for the year		207 824 143	-	-	207 824 143

N1: The error relates to Land that was previously authorised for disposal by council and was not transferred from Land owned for use to Land owned for disposal. Furthermore, an analysis of moveables useful lives resulted in the municipality changing these and recognising an error as the assets had no carrying amounts and yet they were still in use. This has led to an increase in depreciation and an increase in the carrying amounts of assets.

N1 and N2: The change in accounting policy was due to the implementation of the Accounting for Integrated National Electrification Programme (INEP) Grant allocations that was issued by National Treasury which meant the accounting for the INEP grant revenue and asset had to be accounted for through GRAP 11 and. The previously related asset was reversed.

N2: Being reclassification of Grants revenue recognised to Construction contract revenue and the related expenditure.

N3: Being reversal of previously recognised asset transfers to ESKOM.

N4: Being reclassification of the income received in advance relating to the INEP grant funding used for construction contracts. This was previously recognised as a conditional grant.

N5: Being reclassification of interest expenditure previously classified as payments of suppliers in line with GRAP 2 requirements

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

67. Prior-year adjustments (continued)

Cash flow statement

2022

	Note	As previously reported	Change in accounting policy	Re-classification	Restated
Cash flow from operating activities					
Sale of goods and services (N2)		14 757 362	29 398 125	-	44 155 487
Grants (N2)		339 317 330	(30 647 052)	-	308 670 278
Interest income (N5)		-	-	4 322 517	4 322 517
Suppliers (N2)		(169 011 796)	(32 522 857)	-	(201 534 653)
Finance costs		1 886	-	(30 798)	(28 912)
		185 064 782	(33 771 784)	4 291 719	155 584 717
Cash flow from investing activities					
Purchase of property, plant and equipment (N2)		(148 199 529)	29 480 065	-	(118 719 464)

Restatement on disclosure notes

Restatement of disclosures - Segment reporting (N1)

	As previously reported	Correction of error	Restated
Segment reporting - Revenue (N1)	118 917 268	(15 445 112)	103 472 156
Segment reporting - Expenditure	417 039 348	(300 870 069)	116 169 279
Segment reporting - Assets	(439 477 381)	152 129 936	(287 347 445)
Segment reporting - Liabilities	1 110 533 214	1 858 650 053	2 969 183 267
	(53 834 123)	(252 077 376)	(305 911 499)
	1 153 178 326	1 442 387 432	2 595 565 758

Restatement of disclosures - Financial Instruments (N2)

	As previously reported	Correction of error	Restated
Financial assets	118 917 268	(15 445 112)	103 472 156

N1: The following previously reported segments have been excluded as they are non reportable segments. They have been reported as such in the current year with a restatement made for 2022

(i) Municipal Governance and Administration

(ii) Finance and Administration

N2: The restatement is due to GRAP 104 which excludes statutory receivables in line with GRAP 108.

The following prior period errors adjustments occurred:

Principal Agent Disclosure

During the year, the municipality has applied GRAP 109 requirements and identified two agreements between the municipality and 3rd parties. These arrangements are between the municipality and (1) Eskom Holdings, (2) Independent Development Trust. The municipality is acting as a principal to both these arrangements. Refer to Note 63

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

67. Prior-year adjustments (continued)

Change in accounting policy

During the year, the municipality changed the policy used to account for the Department of Energy Schedule B Grant (INEP) from being a conditional grant with to revenue from construction contract. Furthermore, the expenditure on this grant is expensed during the year as opposed to having it recognised as Work In Progress under PPE. The effect of these changes are shown in the tables above.