Ba-Phalaborwa Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

Published 30 November 2019

General Information

Nature of business and principal activities	Local government institution in the Mopani District, Limpopo
Executive Committee	
Mayor	Cllr.PJ Shayi up to 23 June 2019 Cllr.MM Malatji - from 23 June 2019
Speaker	Cllr.MM Malatji - Speaker - up to 23 June 2019 Cllr.E Hlungwane from 23 June 2019
Chief Whip	Cllr.E Hlungwane - Chief Whip to 23 June 2019 Cllr. D Rapatsa - Chief Whip - from 23 June 2019
Executive Committee members	Cllr. SL Mohlala - Member of Exco Cllr. T Nkuna - Member of Exco Cllr. MS Magomane - Member of Exco Cllr. SR De Beer - Member of Exco Cllr. MM Malesa - Member of Exco Cllr.SP Mashumu - Member of Exco
Councillors	Cllr. KO Pilusa - MPAC Chairperson Cllr. R Makasela Cllr. KA Peta Cllr. KP Mhlarhi KP Cllr. ST Mkanzi Cllr. B Ramothwala Cllr. NJ Mampuru Cllr. ME Mokgalaka Cllr. Z Ndlovu Cllr. EA Mokoena Cllr. PK Mashego Cllr. LM Matlala Cllr. TC Malatjie Cllr. PS Dikgale Cllr. TS Ndlovu Cllr. GH Lamola Cllr. A Ngobeni Cllr. Williamson MRS Cllr. SM Shayi Cllr. Bayana DR Cllr. Mathebula MMA Cllr. RJ Mphogo Cllr. NB Maake Cllr. MJ Valoyi Cllr. SK Shai Cllr. AN Mmola Cllr. VM Rapatsa
Grading of local authority	3
Accounting Officer	Moakamela MI
Chief Finance Officer (CFO)	Mogano TJ
Registered office	Civic Centre, Nelson Mandela Drive Phalaborwa 1390

General Information

Business address	Civic Centre Nelson Mandela Drive Phalaborwa 1390
Postal address	Ba-Phalaborwa Municipality Private Bag 01020 Phalaborwa 1390
District Municipality	Mopani District Municipality
Bankers	Standard Bank of South Africa ABSA Bank
Auditors	Auditor-General South Africa
Attorneys	Masengane Ke Attorneys Isaiah Nyathi Attorneys Thomas & Swanepoel Inc Mathonsi Attorneys Sikhitha Daniels & Associates Ngcingwana Inc Bernhard Van Der Hoven Gerhard Wagenaar Rapela Inc Attorneys Kgohlishi Abie Mamabolo Incorporated Kgatla Attorneys Maboka Mangena Attorney Mahowa Inc Attorneys Mahumani Inc Maponya Inc Matabane Inc Mohale Incorporated Verveen attorneys
Published	30 November 2019
Audit committee members	Chairperson: Ravhudzulo KP CA (SA) (Reappointed 31 July 2018) Member: Advocate Nevondwe LT (Appointed 31 July 2018) Member: Mangoma L (Reappointed 31 July 2018) Member: Ngobeni SAB (Appointed 31 July 2018)

Index

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 109, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2019 and were signed on its behalf by:

Phalaborwa

30 November 2019

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is a local government institution in the Mopani District, Limpopo in South Africa.

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

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 877 887 039 and that the municipality's total liabilities exceed its assets by R 915 959 481.

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 municipality is able to pay its creditors and employees as and when these falls due. The municipality has appointed all the senior managers responsible for the departments and has adequate funds to meet its obligations as they fall due.

3. Subsequent events

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

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

These accounting policies are consistent with the previous period.

5. Accounting Officer

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

Name	Nationality
Moakamela MI	South African

6. Auditors

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

Statement of Financial Position as at 30 June 2019

	Notes	2019 R	2018 Restated* R
Assets			
Current Assets			
Inventories	3	252 543 366	323 529 586
Receivables from non-exchange transactions	4&7	32 759 414	33 585 394
VAT receivable	5	1 625 545	5 500 891
Consumer debtors	6	37 388 455	37 624 746
Cash and cash equivalents	8	36 025 670	7 810 484
		360 342 450	**408 051 101**
Non-Current Assets			
Biological assets that form part of an agricultural activity	9	155 751	104 526
Investment property	10	338 226 571	175 990 307
Property, plant and equipment	11	812 906 017	860 006 747
Intangible assets	12	96 170	547 641
Heritage assets	13	317 000	317 000
		1 151 701 509	**1 036 966 221**
Total Assets		**1 512 043 959**	**1 445 017 322**
Liabilities			
Current Liabilities			
Other financial liabilities	14	12 330 042	11 712 815
Finance lease obligation	15	461 414	-
Payables from exchange transactions	16	329 259 277	287 033 212
Consumer deposits	17	4 240 625	4 124 450
Employee benefit obligation	18	1 107 000	573 000
Unspent conditional grants and receipts	19	4 244 051	1 341 486
Provisions	20	3 375 213	1 098 963
		355 017 622	**305 883 926**
Non-Current Liabilities			
Other financial liabilities	14	100 517 792	109 372 766
Finance lease obligation	15	634 859	-
Employee benefit obligation	18	38 752 000	43 185 000
Provisions	20	101 162 205	92 699 351
		241 066 856	**245 257 117**
Total Liabilities		**596 084 478**	**551 141 043**
Net Assets		**915 959 481**	**893 876 279**
Reserves			
Revaluation reserve	21	38 072 442	38 072 442
Accumulated surplus		877 887 039	855 803 837
Total Net Assets		**915 959 481**	**893 876 279**

* See Note 49

Statement of Financial Performance

	Notes	2019 R	2018 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	23	110 692 529	117 799 047
Rental of facilities and equipment	24	655 349	680 083
Agency services	25	5 743 618	4 944 176
Licences and permits	26	2 826 148	2 694 405
Other income	27	67 569 784	3 737 161
Interest received - investment	28	23 103 037	22 346 256
Gain on disposal of assets and liabilities		-	1 103 295
Fair value adjustments	42	58 795 122	1 301 996
Actuarial gains	20&18	9 763 098	-
Total revenue from exchange transactions		**279 148 685**	**154 606 419**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	29	110 617 437	106 413 632
Transfer revenue			
Government grants and subsidies	30	184 634 386	176 813 074
Public contributions and donations	31	2 282 308	-
Fines, Penalties and Forfeits	32	2 087 641	2 941 693
Other transfer revenue	22	2 599	180 425
Total revenue from non-exchange transactions		**299 624 371**	**286 348 824**
Total revenue	22	**578 773 056**	**440 955 243**
Expenditure			
Employee related costs	33	(142 284 245)	(131 646 579)
Remuneration of councillors	34	(15 016 612)	(14 364 900)
Depreciation and amortisation	35	(74 076 280)	(71 637 598)
Impairments	36	(120 867 995)	(58 695 239)
Finance costs	37	(15 034 628)	(16 221 723)
Bulk purchases	38	(77 376 382)	(75 016 186)
Contracted services	39	(26 474 610)	(23 564 135)
Loss on disposal of assets and liabilities		(36 554)	-
Actuarial losses		-	(3 736 909)
Loss on biological assets and agricultural produce		-	(212 591)
Inventories losses/write-downs	3	(424 134)	(796 889)
General Expenses	40	(85 098 428)	(78 530 450)
Total expenditure		**(556 689 868)**	**(474 423 199)**
Surplus (deficit) for the year		**22 083 188**	**(33 467 956)**

* See Note 49

Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	38 072 442	843 686 785	881 759 227
Adjustments			
Prior year adjustments (Note 49)	-	45 585 008	45 585 008
Balance at 01 July 2017 as restated*	**38 072 442**	**889 271 793**	**927 344 235**
Changes in net assets			
Surplus for the year	-	(33 467 956)	(33 467 956)
Total changes	-	(33 467 956)	(33 467 956)
Restated* Balance at 01 July 2018	**38 072 442**	**855 803 851**	**893 876 293**
Changes in net assets			
Surplus for the year	-	22 083 188	22 083 188
Total changes	-	22 083 188	22 083 188
Balance at 30 June 2019	**38 072 442**	**877 887 039**	**915 959 481**
Note	21		

* See Note 49

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

	Notes	2019 R	2018 Restated* R
Cash flows from operating activities			
Receipts			
Agency fees		6 605 161	5 685 802
Service revenue		115 753 891	96 262 859
Grants		187 536 951	177 368 693
Interest income		2 334 669	2 071 406
Rates		59 867 561	41 616 319
Water and sewerage		76 426 992	59 266 125
Traffic fines		429 671	41 493
Other income		6 423 632	7 778 653
		455 378 528	390 091 350
Payments			
Employee costs		(136 673 421)	(128 152 135)
Remuneration of councilors		(15 016 612)	(14 364 900)
Suppliers and other payments		(212 323 023)	(188 896 454)
Finance costs		(25 215)	(286 461)
		(364 038 271)	(331 699 950)
Net cash flows from operating activities	44	**91 340 257**	**58 391 400**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(45 736 689)	(54 104 717)
Proceeds from sale of property, plant and equipment	11	-	2 066 827
Purchase of other intangible assets	12	-	(130 756)
Purchase of biological assets that form part of an agricultural activity	9	-	(63 668)
Net cash flows from investing activities		**(45 736 689)**	**(52 232 314)**
Cash flows from financing activities			
Repayment of other financial liabilities		(17 000 000)	(15 300 000)
Finance lease payments		(388 382)	(86 384)
Net cash flows from financing activities		**(17 388 382)**	**(15 386 384)**
Net increase/(decrease) in cash and cash equivalents		**28 215 186**	**(9 227 298)**
Cash and cash equivalents at the beginning of the year		7 810 484	17 037 782
Cash and cash equivalents at the end of the year	8	**36 025 670**	**7 810 484**

* See Note 49

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
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	149 777 883	-	149 777 883	110 692 529	(39 085 354)	59.1
Rental of facilities and equipment	526 512	-	526 512	655 349	128 837	59.2
Agency services	2 844 287	-	2 844 287	5 743 618	2 899 331	59.3
Licences and permits	12 475 341	-	12 475 341	2 826 148	(9 649 193)	59.4
Other income	1 899 083	-	1 899 083	67 569 784	65 670 701	59.5
Interest received - investment	76 427 225	1 000 000	77 427 225	23 103 037	(54 324 188)	59.6
Total revenue from exchange transactions	**243 950 331**	**1 000 000**	**244 950 331**	**210 590 465**	**(34 359 866)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	132 629 278	-	132 629 278	110 617 437	(22 011 841)	59.7
Transfer revenue						
Government grants and subsidies	167 137 000	21 341 486	188 478 486	184 634 386	(3 844 100)	59.8
Public contributions and donations	-	-	-	2 282 308	2 282 308	59.22
Fines, Penalties and Forfeits	474 392	-	474 392	2 087 641	1 613 249	59.9
Other transfer revenue	-	-	-	2 599	2 599	59.23
Total revenue from non-exchange transactions	**300 240 670**	**21 341 486**	**321 582 156**	**299 624 371**	**(21 957 785)**	
Total revenue	**544 191 001**	**22 341 486**	**566 532 487**	**510 214 836**	**(56 317 651)**	
Expenditure						
Personnel	(149 972 845)	1 693 113	(148 279 732)	(142 284 245)	5 995 487	59.10
Remuneration of councillors	(16 683 660)	(1 000 000)	(17 683 660)	(15 016 612)	2 667 048	59.11
Depreciation and amortisation	(71 633 184)	-	(71 633 184)	(74 076 280)	(2 443 096)	59.12
Impairment loss/ Reversal of impairments	(38 602 011)	-	(38 602 011)	(120 867 995)	(82 265 984)	59.14
Finance costs	(744 800)	200 000	(544 800)	(15 034 628)	(14 489 828)	59.13
Bulk purchases	(96 000 000)	-	(96 000 000)	(77 376 382)	18 623 618	59.15
Contracted Services	(48 510 965)	(275 278)	(48 786 243)	(26 474 610)	22 311 633	59.16
General Expenses	(92 174 089)	(765 465)	(92 939 554)	(85 098 428)	7 841 126	59.17
Total expenditure	**(514 321 554)**	**(147 630)**	**(514 469 184)**	**(556 229 180)**	**(41 759 996)**	
Operating deficit	**29 869 447**	**22 193 856**	**52 063 303**	**(46 014 344)**	**(98 077 647)**	
Loss on disposal of assets and liabilities	-	-	-	(36 554)	(36 554)	59.18
Fair value adjustments	-	-	-	58 795 122	58 795 122	59.19
Actuarial gains/losses	-	-	-	9 763 098	9 763 098	59.20
Inventories losses/write-downs	-	-	-	(424 134)	(424 134)	59.21
	-	-	-	**68 097 532**	**68 097 532**	
Surplus	**29 869 447**	**22 193 856**	**52 063 303**	**22 083 188**	**(29 980 115)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**29 869 447**	**22 193 856**	**52 063 303**	**22 083 188**	**(29 980 115)**	

1. Presentation of Annual Financial Statements

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

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables and/or loans and receivables

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

The impairment for trade receivables and loans and receivables is calculated on individual basis for major customers (others are grouped on a portfolio basis), based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the customer. These annual loss ratios are applied to loan balance of the customer or the portfolio and scaled to the estimated loss emergence period.

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.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

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.

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 [name a key assumption] 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. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, together with economic factors such as exchange rates, inflation rates and interest rates.

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.

Contingent provisions

Contingencies recognised in the current year required estimates and judgments, refer to note 47 on contingencies.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. During the current year, the municipality determined that the estimated residual value of certain items of property plant and equipment should be revised.

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 18.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.5 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.6 Investment property

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

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

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

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

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

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

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.

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

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

1.6 Investment property (continued)

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- The nature of the asset;
- The reason(s) why the assets was acquired; and
- The asset's current use.

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

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

1.7 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.7 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings	Straight line	30 years
Infrastructure	Straight line	2 - 100 years
Community	Straight line	5 - 100 years
Other property, plant and equipment	Straight line	3 - 20 years

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

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

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

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

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

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

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

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

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

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

1.8 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.

Accounting Policies

1.8 Site restoration and dismantling cost (continued)

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

1.9 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

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

1.9 Intangible assets (continued)

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

1.10 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.

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.

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.

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.

Subsequent measurement

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

1.11 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.

1.11 Financial instruments (continued)

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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.

Accounting Policies

1.11 Financial instruments (continued)

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

Accounting Policies

1.11 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Cash and cash equivalents	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
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Other financial liability	Financial liability measured at fair value

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

1.11 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Accounting Policies

1.11 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.11 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.11 Financial instruments (continued)

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

Presentation

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

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

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

1.12 Leases

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

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

Finance leases - lessee

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

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

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

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.

1.13 Inventories

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

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

Accounting Policies

1.13 Inventories (continued)

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

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

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

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

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

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

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

1.14 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Designation

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

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

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

Identification

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

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

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.15 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.

Accounting Policies

1.15 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.

Designation

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

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

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

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

Identification

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

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

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

Value in use

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

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

Restoration cost approach

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

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.16 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.

Accounting Policies

1.16 Employee benefits (continued)

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.16 Employee benefits (continued)

Insured benefits

Where the entity pays insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Post-employment benefits: Defined contribution plans

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

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

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

1.16 Employee benefits (continued)

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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.

Accounting Policies

1.16 Employee benefits (continued)

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

1.17 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

1.17 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- 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;
- 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 reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.18 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.

1.18 Commitments (continued)

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

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

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

1.20 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Recognition

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

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

Measurement

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

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

Taxes

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

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

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

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

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

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

Fines

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

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

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

1.21 Investment income

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

Accounting Policies

1.22 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.

1.23 Comparative figures

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

1.24 Unauthorised expenditure

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

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

1.25 Fruitless and wasteful expenditure

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

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

1.26 Irregular expenditure

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

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

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

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

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

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

Accounting Policies

1.26 Irregular expenditure (continued)

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

1.27 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.28 Budget information

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

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

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

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

The 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 venturers).

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

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

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

1.29 Related parties (continued)

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 Land inventory

Initial recognition and measurement

Land inventory is a tangible asset that is held for sale or distribution in the ordinary course of operations.

Land inventory shall be recognised as an asset if, and only if:

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

Inventories that qualify for recognition as assets is initially measured at cost. Inventories are measured at the lower of cost and current replacement cost. Where inventories are acquired at no cost, or for nominal consideration, their costs is its fair value as at the date of acquisition.

Subsequent measurement

Inventories are measured at the lower of cost or current replacement cost where they are held for distribution at no charge or for a nominal charge.

Land registered in the name of the municipality earmarked for human settlements at a fee and where there is no uncertainty regarding date of release is classified as land inventory held for sale.

1.32 Value Added Taxation

The municipality accounts for value added taxation on the payments basis.

1.33 Offsetting

Assets, liabilities, revenue and expenses are not offset except when offsetting is required or permitted by a standard of GRAP.

	2019 R	2018 R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:
- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

2.2 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 2019 or later periods:

GRAP 104 (amended): Financial Instruments

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The most significant changes to the Standard affect:
- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

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

Guideline: Guideline on Accounting for Landfill Sites

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

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

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

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

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

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

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

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The municipality has adopted the interpretation for the first time in the 2017/2020 annual financial statements.

The impact of the amendment is not material.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality expects to adopt the standard for the first time in the 2019/2020 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019.

The municipality expects to adopt the directive for the first time in the 2018/2019 annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:
- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2019

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

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

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after 01 April 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

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

GRAP 108: Statutory Receivables

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

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

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

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

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

GRAP 109: Accounting by Principals and Agents

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2019 annual financial statements.

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

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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

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

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

Notes to the Annual Financial Statements

	2019 R	2018 R

3. Inventories

Consumable stores	16 658 383	12 645 873
Land inventory	235 884 983	310 883 713
	252 543 366	**323 529 586**

Consumable stores

Consumable stores inventory has been maintained throughout the financial year comprising of electrical cables, cleaning materials and stationery.

Land inventory

This relates to land parcels that the municipality intends to develop for future distribution to the community.

Included in the disclosure note for land inventory is land that belongs to the municipality which is illigally occupied.

Inventory pledged as security

No inventory was pledged as security.

Inventory write-downs

It is the municipality's policy to make inventory write-downs for obsolete and expired stock. During the current year, the assessment of inventory for impairment resulted in write downs reported below.

Stock count variances	715 985	-
Inventory write down	(1 140 119)	(796 889)
	(424 134)	**(796 889)**

Inventory expensed		
Inventory issued current year	9 436 361	7 109 462

4. Receivables from non-exchange transactions

Consumer debtors - Rates	32 759 414	33 585 394

Receivables from non-exchange transactions pledged as security

There are no receivables from non-exchange transactions that were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

5. VAT receivable

VAT	1 625 545	5 500 891

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

Notes to the Annual Financial Statements

	2019 R	2018 R

6. Consumer debtors

	2019 R	2018 R
Gross balances		
Electricity	41 633 343	39 072 140
Refuse	87 849 312	65 231 894
Sundry services	120 378 854	108 301 493
	249 861 509	**212 605 527**
Less: Allowance for impairment		
Electricity	(18 305 947)	(17 067 675)
Refuse	(81 191 516)	(58 044 729)
Sundry services	(112 975 591)	(99 868 377)
	(212 473 054)	**(174 980 781)**
Net balance		
Electricity	23 327 396	22 004 465
Refuse	6 657 796	7 187 165
Sundry services	7 403 263	8 433 116
	37 388 455	**37 624 746**
Electricity		
Current (0 -30 days)	5 997 276	6 732 390
31 - 60 days	2 488 752	6 584 720
61 - 90 days	1 606 311	2 326 046
91 - 120 days	1 263 800	1 773 001
121 - 365 days	1 267 196	2 222 470
> 365 days	29 010 008	19 433 513
	41 633 343	**39 072 140**
Refuse		
Current (0 -30 days)	1 668 587	1 557 306
31 - 60 days	1 387 174	1 382 567
61 - 90 days	1 255 381	1 197 064
91 - 120 days	1 185 709	1 124 192
121 - 365 days	1 204 168	1 097 231
> 365 days	81 148 293	58 873 534
	87 849 312	**65 231 894**
Sundry services		
Current (0 -30 days)	773 244	746 542
31 - 60 days	733 159	773 620
61 - 90 days	704 199	712 653
91 - 120 days	718 100	704 260
121 - 365 days	682 375	684 838
> 365 days	116 767 777	104 679 580
	120 378 854	**108 301 493**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(174 980 781)	(160 492 888)
Contributions to allowance	(37 492 273)	(14 487 893)
	(212 473 054)	**(174 980 781)**

Notes to the Annual Financial Statements

	2019 R	2018 R

6. Consumer debtors (continued)

Consumer debtors pledged as security

There are no receivables from exchange transactions that were pledged as security.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates.

Fair value of consumer debtors

The carrying amounts of receivables from exchange transactions approximate their fair values.

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance note 36. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

7. Receivables from non exchange transactions

	2019 R	2018 R
Gross balances		
Consumer debtors - Rates	327 041 577	246 149 804
Traffic fines	29 912 475	28 254 505
	356 954 052	**274 404 309**

	2019 R	2018 R
Less: Allowance for impairment		
Consumer debtors - Rates	(294 282 163)	(212 564 410)
Traffic fines	(29 912 475)	(28 254 505)
	(324 194 638)	**(240 818 915)**

	2019 R	2018 R
Net balance		
Consumer debtors - Rates	32 759 414	33 585 394

	2019 R	2018 R
Rates		
Current (0 -30 days)	10 148 776	8 374 308
31 - 60 days	7 932 439	6 995 400
61 - 90 days	7 157 664	5 696 280
91 - 120 days	6 780 441	5 283 987
121 - 365 days	6 543 661	24 984 972
> 365 days	288 478 596	194 814 857
	327 041 577	**246 149 804**

	2019 R	2018 R
Reconciliation of allowance for impairment		
Balance at beginning of the year	(240 818 914)	(196 611 569)
Contributions to allowance	(83 375 724)	(44 207 345)
	(324 194 638)	**(240 818 914)**

Notes to the Annual Financial Statements

	2019 R	2018 R

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019 R	2018 R
Cash on hand	1 758	1 758
Bank balances	18 629 231	(1 226 286)
Short-term deposits	17 394 681	9 035 012
	36 025 670	**7 810 484**

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

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

Credit rating	2019 R	2018 R
Standard bank - Baa3	19 787 635	9 824 732
Absa bank - Baa3	115 739	103 351
	19 903 374	**9 928 083**

Cash and cash equivalents pledged as collateral

No cash and cash equivalents were pledged as security.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
Standard Bank - Cheque Account - 330-451-3670001	1 555 402	534 717	4 092 418	21 779 406	(1 584 576)	10 208 784
Standard Bank -Investment Account -238-711-102-001	5 241 598	4 224 526	2 451 810	5 241 598	4 224 526	2 451 810
Standard Bank -Investment Account -238-711-102-002	5 459 534	3 262 220	125 681	5 459 534	3 262 220	125 681
Standard Bank -Investment Account - 238711102004	6 259 979	1 134 086	37 198	6 259 979	1 134 086	37 198
Standard Bank -Investment Account -238-711-102-005	330 220	310 829	292 478	330 220	310 829	292 478
Standard Bank -Investment Account - 243-098-804-000	940 902	358 354	3 821 668	940 902	358 290	3 821 605
ABSA Bank - Call Account - 406-162-3641	2 631	3 030	3 327	-	3 030	3 327
ABSA Bank - Fixed Deposit - 206-427-0257	113 108	100 321	96 769	-	100 321	96 769
Total	**19 903 374**	**9 928 083**	**10 921 349**	**40 011 639**	**7 808 726**	**17 037 652**

The difference between the cash book balance and bank statements for the Standard Bank - Cheque Account - 330-451-3670001 was caused by unpresented cheques, outstanding deposits and outstanding transfers at year end.

Notes to the Annual Financial Statements

Figures in Rand

9. Biological assets that form part of an agricultural activity

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Trees and flowers	155 751	-	155 751	104 526	-	104 526

Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	Additions	Disposals	Gains or losses arising from changes in fair value	Total
Trees and flowers	104 526	-	(36 554)	87 779	155 751

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Additions	Disposals	Gains or losses arising from changes in fair value	Total
Trees and flowers	263 710	63 668	(212 592)	(10 260)	104 526

Reasons for disposal

The dispossals is due to missing plants.

Pledged as security

There are no biological assets pledged as security.

	2019 R	2018 R

9. Biological assets that form part of an agricultural activity (continued)

Methods and assumptions used in determining fair value

The effective date of valuation was 30 June 2019. The municipality engaged the services of an expert valuer for the biological assets who used the open market value of the flowers and trees at year end. The details of the valuer are Seema Seabela, Smart inputs agriculture solutions.

The assumptions are based on the current market values.

The excess or deficit is recognised in the surplus or deficit for the year.

Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	338 226 571	-	338 226 571	175 990 307	-	175 990 307

Reconciliation of investment property - 2019

	Opening balance	Transfers received (Inventory)	Transfers received (PPE)	Fair value adjustments	Total
Investment property	175 990 307	72 254 922	31 274 000	58 707 342	338 226 571

Reconciliation of investment property - 2018

	Opening balance	Transfers received (Inventory)	Transfers received (PPE)	Fair value adjustments	Total
Investment property	174 741 720	-	-	1 248 587	175 990 307

Fair value of investment properties	44 303 307	43 054 720

Pledged as security

There are no investment properties pledged as security.

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

Notes to the Annual Financial Statements

	2019 R	2018 R

10. Investment property (continued)

Details of valuation

The effective date of the revaluations was 30 June 2019. Revaluations were performed by an independent valuer, Nare Makgakga appointed by Sempro Consultants Pty Ltd. Nare Makgakga and Sempro Pty Ltd are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

Amounts recognised in surplus and deficit for the year.

	2019 R	2018 R
Rental revenue from investment property	352 251	360 246

Other information

The municipality has temporarily excluded the ERF no. 313 in Gravelotte Extension 2 from the Investment Property disclosed since the property are occupied through RDP houses with notitle deeds and some of the properties are illegally occupied until the council decide to transfer the ownership or remove illegal occupants.

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	80 016 293	-	80 016 293	108 546 485	-	108 546 485
Buildings	327 029 276	(227 409 753)	99 619 523	327 029 276	(215 406 861)	111 622 415
Infrastructure	898 588 608	(492 966 828)	405 621 780	841 295 324	(457 708 397)	383 586 927
Community	404 311 208	(277 206 287)	127 104 921	401 138 697	(254 239 659)	146 899 038
Library books	69 538	(69 538)	-	69 538	(62 797)	6 741
Capital work in progress	84 265 969	-	84 265 969	97 915 407	-	97 915 407
Other property, plant and equipment (Movables)	52 062 962	(35 785 431)	16 277 531	43 825 048	(32 395 314)	11 429 734
Total	**1 846 343 854**	**(1 033 437 837)**	**812 906 017**	**1 819 819 775**	**(959 813 028)**	**860 006 747**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfer out	Other movements	Transfers	Depreciation	Total
Land	108 546 485	-	(31 274 000)	-	2 743 808	-	80 016 293
Buildings	111 622 415	-	-	-	-	(12 002 892)	99 619 523
Infrastructure	383 586 927	1 277 734	-	-	56 015 550	(35 258 431)	405 621 780
Community	146 899 038	393 583	-	2 778 928	-	(22 966 628)	127 104 921
Library books	6 741	-	-	-	-	(6 741)	-
Capital work in progress	97 915 407	42 366 112	-	-	(56 015 550)	-	84 265 969
Other property, plant and equipment (Movables)	11 429 734	8 237 914	-	-	-	(3 390 117)	16 277 531
	860 006 747	**52 275 343**	**(31 274 000)**	**2 778 928**	**2 743 808**	**(73 624 809)**	**812 906 017**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through transfer of functions / mergers	Other movements	Transfers	Correction of an error	Depreciation	Total
Land	108 546 485	-	-	-	-	-	-	108 546 485
Buildings	123 251 738	391 444	-	-	-	-	(12 020 767)	111 622 415
Infrastructure	384 415 076	95 760	-	-	30 744 223	-	(31 668 132)	383 586 927
Community	164 336 872	578 556	-	6 749 390	-	-	(24 765 780)	146 899 038
Library books	25 122	-	-	-	-	-	(18 381)	6 741
Capital work in progress	78 161 092	50 498 538	-	-	(30 744 223)	-	-	97 915 407
Other property, plant and equipment (Movables)	12 347 646	2 773 706	(963 532)	-	-	(2 045)	(2 726 041)	11 429 734
	871 084 031	**54 338 004**	**(963 532)**	**6 749 390**	**-**	**(2 045)**	**(71 199 101)**	**860 006 747**

Pledged as security

There are no assets pledged as security.

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Other PPE	Total
Opening balance	97 915 407	97 915 407
Additions/capital expenditure	42 366 112	42 366 112
Transferred to completed items	(56 015 550)	(56 015 550)
	84 265 969	**84 265 969**

Reconciliation of Work-in-Progress 2018

	Included within Other PPE	Total
Opening balance	78 161 092	78 161 092
Additions/capital expenditure	50 498 538	50 498 538
Transferred to completed items	(30 744 223)	(30 744 223)
	97 915 407	**97 915 407**

Expenditure incurred to repair and maintain property, plant and equipment

	2019 R	2018 R
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance - General expenses		
Motor vehicles	4 969 354	2 660 867
Infrastructure assets	13 656 941	7 699 956
Community Assets	1 534 542	1 273 258
Plant and equipment	631 923	1 578 104
	20 792 760	**13 212 185**

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

Notes to the Annual Financial Statements

Figures in Rand

12. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 279 945	(2 183 775)	96 170	2 279 945	(1 732 304)	547 641

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	547 641	-	(451 471)	96 170

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	855 371	130 756	(438 486)	547 641

Pledged as security

There are no intangible assets pledged as security.

Figures in Rand

13. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	317 000	-	317 000	317 000	-	317 000

Reconciliation of heritage assets 2019

	Opening balance	Total
Historical monuments	317 000	317 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	317 000	317 000

Notes to the Annual Financial Statements

	2019 R	2018 R

14. Other financial liabilities

	2019 R	2018 R
At amortised cost		
Lepelle Northern Water	112 847 834	121 085 581
Non-current liabilities		
At amortised cost	100 517 792	109 372 766
Current liabilities		
At amortised cost	12 330 042	11 712 815
Description		
Nominal Value	124 800 000	141 800 000
Total amount of missed payments	32 300 000	28 900 000

- The Municipality has a concessionary loan with Lepelle Northern Water (LNW). The debt of R174 100 000 arose when the Municipality was still a Water Supply Authority. In terms of the settlement agreement signed between Lepelle Northern Water and Ba-Phalaborwa Municipality, the debt is repayable in monthly installments of R 1 700 000 and bears no interest. This has been discounted at 7.50% to reflect the time value of money. The loan is unsecured.

- The nominal value of the loan balance as at 30 June 2019 was R124 800 000 (2018: 141 800 000). R32 300 000 translating to nineteen (19) month's installments in respect of the loan was in default as at the end of the year (2018: R28 900 000). The payments were still outstanding as at the date of authorization of the financial statements for issue. There were no renegotiations that took place between Ba-Phalaborwa and Lepelle Northern Water. The Municipality is putting concerted efforts to settle the installments in arrears.

15. Finance lease obligation

	2019 R	2018 R
Minimum lease payments due		
- within one year	550 580	-
- in second to fifth year inclusive	682 841	-
	1 233 421	-
less: future finance charges	(137 148)	-
Present value of minimum lease payments	**1 096 273**	**-**
Present value of minimum lease payments due		
- Due Longer than 12 months	1 233 421	-
-Less Future Finance charges	(137 148)	-
	1 096 273	**-**
Non-current liabilities	634 859	-
Current liabilities	461 414	-
	1 096 273	**-**

Ba-Phalaborwa Local Municipality has finance leases for laptops with Vodacom as well as ipads with Mobile Telephone Networks (Pty) Ltd which were entered into in the current year.

The monthly repayments were 67 354. The interest rate is 7.5%

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

Notes to the Annual Financial Statements

	2019 R	2018 R

16. Payables from exchange transactions

Trade payables	35 773 295	28 229 521
Sundry payables	11 005 280	18 227 878
Accrued leave pay	14 690 907	13 618 324
Accrued bonus	2 442 906	2 308 966
Retentions	9 782 513	6 738 048
Other Creditors	(52 435)	5 836
Payroll accruals	(1 056 680)	22 559
Mopani District Municipality (Water and Sanitation)	256 673 491	217 882 080
	329 259 277	**287 033 212**

17. Consumer deposits

Electricity	4 240 625	4 124 450

18. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality has a policy to subsidise the post-employment health care costs of employees that are covered by the municipality sponsored health care arrangements at retirement.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Peter Theunissen from Independent Actuaries & Consultants (Pty) Ltd, a Fellow of the Actuarial Society of South Africa.

The Projected Unit Credit Method was used value the post-retirement medical aid plan liabilities.

The liability in respect of active members has been proportioned between past service and future service. The liability in respect of current pensioners is fully accounted for.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(39 859 000)	(43 758 000)

Non-current liabilities	(38 752 000)	(43 185 000)
Current liabilities	(1 107 000)	(573 000)
	(39 859 000)	**(43 758 000)**

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

Opening balance	43 758 000	36 946 000
Benefits paid	(946 000)	(412 000)
Net expense recognised in the statement of financial performance	(2 953 000)	7 224 000
	39 859 000	**43 758 000**

Notes to the Annual Financial Statements

	2019 R	2018 R

18. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	2 045 000	880 000
Interest cost	4 527 000	3 590 000
Actuarial (gains) losses	(9 525 000)	2 754 000
	(2 953 000)	**7 224 000**

Calculation of actuarial gains and losses

Actuarial (gains) losses arising from changes in financial assumptions	(3 238 000)	(462 000)
Actuarial (gains) losses arising from experience adjustments	(6 287 000)	3 216 000
	(9 525 000)	**2 754 000**

	2019 R	2018 R

18. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.68 %	10.22 %
Long term price inflation	6.99 %	7.02 %
Medical inflation increase rate	8.49 %	8.52 %
Net discount rate	2.01 %	1.56 %

Discount rate

The discount rate reflects the estimated timing of benefit payments which is oftenly achieved this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid. The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. The municipality used the average nominal yield curve produced by the Johannesburg Stock Exchange (accessed through Inet BFA data service) for SA Government bonds with duration of between 15 and 20 years as at 30 June 2019. The resultant discount rate was 10.68% (2018.10,22%).

Future Medical Inflation

The general inflation assumption was used to estimate the base rate for determining the rate at which the future medical subsidies will increase. South Africa has experienced high medical cost inflation in recent years and the assumption used was that medical cost will outstrip general inflation by about 1,5% per annum. The medical cost inflation rate was therefore set at 8.49% (2018: 8.52%) per annum.

Net Discount Rate

Even though the actual values used for the discount rate and the expected increase in salary are important, the "gap" between the two assumptions is more important. This "gap" is referred to as the net discount rate. The net discount rate used in the valuation is 2.01% (2018: 1.56%) per annum (derived from a discount rate of 10,22% and the expected medical inflation rate of 8,52%).

Pre-retirement mortality

The SA85/90 light mortality table, rated down by 1 year, was used in the valuation for the mortality of in-service members. This is the most recent South African Life table and is also the table most often used by Life Insurers.

Post-retirement mortality

The PA90 ultimate mortality table rated down by 2 years was used in the valuation for the mortality of Continuation Members. An allowance for future mortality improvement at a rate of 1% p.a. has been allowed for.

Assumed Retirement Age

The Normal Retirement Age is 65 years. We have assumed that employees will retire at age 63, which implicitly allows for the expected rates of early retirement.

Notes to the Annual Financial Statements

	2019 R	2018 R

18. Employee benefit obligations (continued)

Other assumptions

Assumed discount rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed discount rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	(5 558 000)	7 062 000
Effect on defined benefit obligation	(5 558 000)	7 062 000

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

	2019 R	2018 R	2017 R	2016 R	2015 R
Defined benefit obligation	39 859 000	43 758 000	36 946 000	38 285 000	43 304 000

Defined contribution plan

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

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

The total economic entity contribution to such schemes ecognised as an expense	14 448 556	13 982 650

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	4 064 075	-
Integrated National Electrification (INE) grant	32 346	1 193 856
The Energy Efficiency Demand Site Management Program (EEDSM) grant	147 630	147 630
	4 244 051	**1 341 486**

Movement during the year

Balance at the beginning of the year	1 341 486	785 867
Additions during the year	187 536 950	56 760 133
Income recognition during the year	(184 634 385)	(56 204 514)
	4 244 051	**1 341 486**

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

See note 30 for reconciliation of grants from National/Provincial Government.

	2019 R	2018 R

20. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Interest charge	Actuarial (gain)/loss	Total
Environmental rehabilitation	88 190 992	4 836 207	-	6 156 171	-	99 183 370
Employee benefit cost	5 607 322	509 940	(994 981)	469 865	(238 098)	5 354 048
	93 798 314	**5 346 147**	**(994 981)**	**6 626 036**	**(238 098)**	**104 537 418**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Interest charge	Actuarial (gain)/loss	Total
Environmental rehabilitation	76 068 637	5 552 154	-	6 570 201	-	88 190 992
Employee benefit cost	5 187 969	474 296	(1 441 036)	403 184	982 909	5 607 322
	81 256 606	**6 026 450**	**(1 441 036)**	**6 973 385**	**982 909**	**93 798 314**

	2019	2018
Non-current liabilities	101 162 205	92 699 351
Current liabilities	3 375 213	1 098 963
	104 537 418	**93 798 314**

Environmental rehabilitation provision

The provision for land fill sites rehabilitation relates to estimated cost for the rehabilitation of three (3) land fill sites operated by the municipality.

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

Ba-Phalaborwa landfill site is expected to be used for the next two (2) years and it is estimated that R66 650 284 (2018: R52 219 329) will be spent to rehabilitate the site.

Namakgale landfill site is has reached its useful life and the estimated cost of rehabilitating the site is R29 557 380 (2018: R23 414 835).

Gravelotte landfill site has been recommended for closure as it does not comply with the minimum requirements of a landfill site. The estimated cost for rehabilitating the site is R15 113 112 (2018: R12 556 826).

Employee benefit cost provision - Long service awards

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Peter Theunissen, from Independent Actuaries and Consultants (Pty) Ltd, a Fellow of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end 30 June 2019: 392 (2018: 355) employees were eligible for Long-services Awards.

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

	2019 R	2018 R

20. Provisions (continued)

Item description	2019	2018
Discount rates used	8.32 %	8.75 %
Future inflation rate	5.05 %	5.86 %
Salary inflation rate	5.05 %	6.86 %
Net discount rate	2.13 %	1.77 %

Discount rate

The discount rate reflects the estimated timing of benefit payments which is oftenly achieved this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid. The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. The cash flow weighted duration of the liabilities is approximately 7 years (2018: 6,0 years). The valuation, therefore, used the nominal yield curve for SA Government bonds with duration of 7.0 years as at 30 June 2019. The resultant discount rate was 8.32%. The source of the data is the Johannesburg Stock Exchange through I-net BFA data service.

Future inflation

The general inflation assumption was used to estimate the base rate for determining the rate at which the future subsidies will increase. The valuation used the difference between the above SA Government nominal and real bonds with a duration of 7.0 years. The implied inflation assumption is therefore 5.05% (2018: 5.86%) per annum.

Future Salary inflation

The general inflation assumption was used to estimate the base rate for determining the rate at which the future salaries will increase. The assumption was that salary inflation will exceed general inflation by about 1,0% per annum. The Salary inflation rate was therefore set at 6.05% (2018: 6.86%) per annum.

Net discount rate

Even though the actual values used for the discount rate and the expected increase in salary inflation are important, the "gap" between the two assumptions is more important. This "gap" is referred to as the net discount rate. The net discount rate is 2.13% per annum (derived from a discount rate of 8.32% and the expected salary inflation rate of 6.05%.

Pre-retirement mortality

The valuation assumed that the pre-retirement mortality will be in line with the SA85-90 light table, rated down by 1 year, which is a table reflecting mortality experience in South Africa. This assumption is in line with the previous assumption used.

Assumed Retirement Age

The Normal Retirement Age is 65 years. The valuation assumed that all employees will retire at age 63, which implicitly allows for the expected rates of early retirement. It should be noted that by assuming a normal retirement age of 63 there is an implicit assumption that service stops accruing at age 63.

The Municipality does not have any specific assets set aside to fund this liability.

Net expense recognised in the statement of financial performance		
Current service cost	509 940	474 296
Interest cost	469 865	403 184
Actuarial losses (gains)	(238 098)	982 909
	741 707	**1 860 389**

Calculation of actuarial gains		
Actuarial loss on basis	(147 564)	120 980
Actuarial (gain)/loss experience	(90 534)	861 929
	(238 098)	**982 909**

Notes to the Annual Financial Statements

	2019 R	2018 R

20. Provisions (continued)

Sensitivity analysis

The results of the valuation are dependent on the underlying assumptions made. The assumptions represent the best estimate of future experience. The actual cost of the long-service award will however be dependent on the actual experience.

The tables below illustrate the likely impact certain changes to the underlying assumptions would have on the results.

- Liability: the aggregate of the current service cost and interest cost components of net periodic costs; and
- Cost/(Saving): the accumulated obligation for long service awards.

Discount rate	One percentage point decrease	One percenta ge point increase
Effect on the aggregate of the service cost and interest cost	399 118	(355 092)
Effect on defined benefit obligation	399 118	(355 092)

	2019	2018	2017	2016	2016
Defined benefit obligation	5 354 046	5 607 320	5 187 967	5 331 876	4 759 238

21. Revaluation reserve

Opening balance	38 072 442	38 072 442

Revaluation surplus relating to property, plant and equipment

Revaluation surplus beginning of period	38 072 442	38 072 442

22. Revenue

Service charges	110 692 529	117 799 047
Rental of facilities and equipment	655 349	680 083
Agency services	5 743 618	4 944 176
Licences and permits	2 826 148	2 694 405
Other income	67 569 784	3 737 161
Interest received - investment	23 103 037	22 346 256
Property rates	110 617 437	106 413 632
Indigent support FBS	184 634 386	176 813 074
Public contributions and donations	2 282 308	-
Fines, Penalties and Forfeits	2 087 641	2 941 693
Other transfer revenue [1]	2 599	180 425
	510 214 836	**438 549 952**

[1]. This relates to any other monies received of a miscellaneous nature received by the Municipality and includes items such as settlement discounts. R2 599 was received in current year.

	2019 R	2018 R

22. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	110 692 529	117 799 047
Rental of facilities and equipment	655 349	680 083
Agency services	5 743 618	4 944 176
Licences and permits	2 826 148	2 694 405
Other income	67 569 784	3 737 161
Interest received - investment	23 103 037	22 346 256
	210 590 465	**152 201 128**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	110 617 437	106 413 632
Transfer revenue		
Indigent support FBS	184 634 386	176 813 074
Public contributions and donations	2 282 308	-
Fines, Penalties and Forfeits	2 087 641	2 941 693
Other transfer revenue	2 599	180 425
	299 624 371	**286 348 824**

23. Service charges

Sale of electricity	95 540 483	103 836 894
Refuse removal	15 152 046	13 962 153
	110 692 529	**117 799 047**

24. Rental of facilities and equipment

Premises		
Hiring of municipal halls	236 238	149 803
Rent received from investment property	352 251	360 246
	588 489	**510 049**
Facilities and equipment		
Hiring of stadiums	6 676	103 863
Advertisement of billboards	60 184	66 171
	66 860	**170 034**
	655 349	**680 083**

25. Agency services

Water and Sanitation	3 505 378	2 736 934
Vehicle Licenses	2 238 240	2 207 242
	5 743 618	**4 944 176**

Notes to the Annual Financial Statements

26. Licences and permits

	2019 R	2018 R
Drivers licences	599 022	622 713
Licences	2 080 189	1 919 727
Roadworthy certification	146 937	151 965
	2 826 148	**2 694 405**

27. Other income

	2019 R	2018 R
Building plan fees	127 391	130 497
Cemetery fees	185 280	139 506
Clearance certificates	28 982	29 975
Connection fees	857 482	813 136
Sundry income	1 300 597	504 964
Selling bid documents	13 912	494 499
Selling of municipal land	114 785	1 624 584
Write-back of receivables [1]	64 941 355	-
	67 569 784	**3 737 161**

[1]. This represents the effect of write-back of recivables to align them with the age analysis.

28. Interest revenue

Interest revenue

	2019 R	2018 R
Bank	2 334 669	2 071 406
Interest charged on trade and other receivables	20 768 368	20 274 850
	23 103 037	**22 346 256**

29. Property rates

Rates received

	2019 R	2018 R
Residential	50 114 363	45 563 204
Commercial	29 049 526	28 829 765
State	5 533 166	5 793 567
Agriculture	23 963 822	22 483 662
Other	1 956 560	3 743 434
	110 617 437	**106 413 632**

Valuations (R'000s)

	2019 R	2018 R
Residential	5 110 185	4 919 419
Commercial	2 374 108	2 421 535
State	533 318	565 778
Municipal	868 345	517 341
Agriculture	2 966 292	3 151 905
Other	255 965	319 389
	12 108 213	**11 895 367**

The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

	2019 R	2018 R

30. Government grants and subsidies

Operating grants		
Equitable share	132 485 000	120 391 867
Financial management grant	2 215 000	2 145 000
Municipal infrastructure grant	42 372 925	40 401 000
Integrated national electrification grant	6 161 510	7 806 144
Local government sector education training authority grant	399 951	216 693
Expanded public works programme grant	1 000 000	1 000 000
The Energy Efficiency Demand Site Management Program (EEDSM) grant	-	4 852 370
	184 634 386	**176 813 074**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	52 149 386	56 421 207
Unconditional grants received	132 485 000	120 391 867
	184 634 386	**176 813 074**

Equitable Share

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

All registered indigents receive an annual subsidy which is funded from the grant.

Municipal infrastructure grant

Balance unspent at beginning of year	-	785 867
Current-year receipts	46 437 000	39 615 132
Conditions met - transferred to revenue	(42 372 925)	(40 400 999)
	4 064 075	**-**

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

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sports complex infrastructure as part of the upgrading of previously disadvantaged areas.

The Municipality applied for roll over of the unspent portion of the grant to be approved by National Treasury.

Integrated national electrification grant

Balance unspent at beginning of year	1 193 856	-
Current-year receipts	5 000 000	9 000 000
Conditions met - transferred to revenue	(6 161 510)	(7 806 144)
	32 346	**1 193 856**

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

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

The Municipality applied for roll over of the unspent portion of the grant to be approved by National Treasury.

Financial management grant

Notes to the Annual Financial Statements

	2019 R	2018 R

30. Government grants and subsidies (continued)

Current-year receipts	2 215 000	2 145 000
Conditions met - transferred to revenue	(2 215 000)	(2 145 000)
	-	-

The Financial management grant (FMG) is paid to the municipality to help implement the financial reforms required by the municipal financial management act of MFMA 2003.The grant also pays for the cost of the financial management internship programmme i.e. salary of the financial management interns.

Local government sector education training authority grant

Current-year receipts	399 951	216 693
Conditions met - transferred to revenue	(399 951)	(216 693)
	-	-

The Local government sector education training authority grant is paid to the municipality to assist in skills development and capacity building of municipal staff.

Expanded public works programme grant

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

The grant was received from the Department of Public Works for the creation of jobs in the municipal area and to incentivise provincial department to expand work creation efforts through the use of labour intensive delivery methods in identified focus area e.g road maintenance of building and other economic and social infrastructure.

The Energy Efficiency Demand Site Management Program (EEDSM) grant

Balance unspent at beginning of year	147 630	-
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(4 852 370)
	147 630	**147 630**

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

The EEDSM programme is managed by the Department of Energy. The grant is for the planning and implementation of energy efficient technologies such as traffic signals, street and building lighting, as well as water service infrastructure.

The municipality could not spend the approved rolled over for an amount of R147 630 to meet the conditions of the grant and as a result, the money will be paid back to National Treasury during the 2019/2020 financial year.

31. Public contributions and donations

Public contributions and donations	2 282 308	-

Ba Phalaborwa Local Municipality received a refuse truck to the value of R2 282 308 as part of the social and labour plan which was adopted in the Ba Phalaborwa Municipality Integrated Development Plan.

32. Fines, Penalties and Forfeits

Library Fines	14 016	9 117
Municipal Traffic Fines	2 073 625	2 932 576
	2 087 641	**2 941 693**

	2019 R	2018 R

33. Employee related costs

Basic	76 147 972	73 245 525
Medical aid - company contributions	5 619 233	4 370 549
UIF	631 156	633 270
WCA	1 862 032	2 006 370
SDL	1 069 763	1 017 624
Other payroll levies	286 347	252 500
Industrial council levies	35 593	35 138
Experiential training	520 500	429 693
Defined contribution plans	14 448 556	13 982 650
Travel, motor car, accommodation, subsistence and other allowances	14 235 333	13 698 924
Overtime payments	4 602 345	3 814 621
Long-service awards	4 260 006	3 729 990
13th Cheques	5 984 263	5 762 564
Acting allowances	2 251 445	1 710 097
Housing benefits and allowances	593 896	677 584
Defined benefit plan expense	7 551 805	5 347 480
Stipends	2 184 000	932 000
	142 284 245	**131 646 579**

The employee costs above are split between key management personnel and other employees as tabulated below:

Breakdown of employee costs		
Key management personnel	5 960 857	5 914 631
Other employees	136 323 388	125 731 948
	142 284 245	**131 646 579**

Remuneration of municipal manager - Moakamela MI

Annual Remuneration	631 970	600 332
Travel Allowance	406 536	384 972
Contributions to UIF, Medical and Pension Funds	10 229	10 027
Other benefits	68 401	81 076
Cellphone Allowance	18 000	18 000
	1 135 136	**1 094 407**

Remuneration of Chief Finance Officer - Mogano TJ

Annual Remuneration	521 868	479 731
Travel Allowance	335 708	333 905
Contributions to UIF, Medical and Pension Funds	10 124	25 452
Other benefits	149 112	80 673
Cellphone Allowance	24 000	22 000
	1 040 812	**941 761**

Remuneration of director planning and development services - Maluleke HP

Annual Remuneration	521 868	493 167
Travel Allowance	335 708	320 469
Contributions to UIF, Medical and Pension Funds	25 541	22 996
Other benefits	86 058	66 959
Cellphone Allowance	24 000	22 000
	993 175	**925 591**

	2019 R	2018 R

33. Employee related costs (continued)

Remuneration of director Community Services - Zungu H

Annual Remuneration	521 868	440 397
Travel Allowance	335 708	278 010
Contributions to UIF, Medical and Pension Funds	9 095	8 778
Other benefits	46 126	106 113
Cellphone Allowance	24 000	22 000
	936 797	**855 298**

Remuneration of Director corporate services - Mokoena SS (Acting from January 2018 to June 2018)

Annual Remuneration	-	175 752
Travel Allowance	-	89 214
Bonus	-	29 292
Contributions to UIF, Medical and Pension Funds	-	60 053
Other benefits	-	51 388
Cell phone Allowance	-	10 728
Acting Allowance	-	64 074
Leave paid out	-	84 312
	-	**564 813**

Remuneration of Director corporate services - Mashale TS (Acting from July 2017 to December 2017)

Annual Remuneration	-	175 752
Travel Allowance	-	89 214
Contributions to UIF, Medical and Pension Funds	-	61 596
Other benefits	-	108 810
Cell phone Allowance	-	10 728
Acting Allowance	-	91 920
	-	**538 020**

Remuneration of Technical services - Mahumani S (Acting from June 2018)

Annual Remuneration	-	29 292
Travel Allowance	-	17 543
Contributions to UIF, Medical and Pension Funds	-	8 429
Other benefits	-	15 999
Cell phone Allowance	-	1 788
Acting Allowance	-	9 837
	-	**82 888**

Remuneration of Technical services director - Lourens CJ (Acting from December 2017 to May 2018)

Annual Remuneration	-	270 851
Travel Allowance	-	180 565
Contributions to UIF, Medical and Pension Funds	-	5 388
Other benefits	-	22 016
Cell phone Allowance	-	12 516
Acting Allowance	-	14 676
	-	**506 012**

Notes to the Annual Financial Statements

	2019 R	2018 R

33. Employee related costs (continued)

Remuneration of Technical services director - Mpharalala K (Upto October 2017)

Annual Remuneration	-	159 574
Travel Allowance	-	122 132
Contributions to UIF, Medical and Pension Funds	-	13 209
Other benefits	-	27 873
Cell phone Allowance	-	6 000
Acting Allowance	-	77 062
	-	**405 850**

Remuneration of senior technical manager (Mdungazi)

Annual Remuneration	403 303	-
Travel Allowance	231 252	-
Contributions to UIF, Medical and Pension Funds	115 172	-
Other benefits	82 396	-
Cellphone allowance	22 000	-
Acting Allowance	52 296	-
	906 419	**-**

Remuneration of corporate department - Nogilana Raphela

Annual Remuneration	448 007	-
Travel Allowance	217 053	-
Contributions to UIF, Medical and Pension Funds	134 561	-
Other benefits	57 091	-
Cellphone Allowance	24 000	-
Bonus	36 000	-
Bonus Taxable	31 802	-
	948 514	**-**

34. Remuneration of councillors

Mayor	833 425	840 574
Executive Committee Members	3 977 534	3 465 291
Speaker	780 861	753 752
Councilors	8 740 463	8 637 296
Chief Whip	684 329	667 987
	15 016 612	**14 364 900**

35. Depreciation and amortisation

Property, plant and equipment	73 624 810	71 199 112
Intangible assets	451 470	438 486
	74 076 280	**71 637 598**

Notes to the Annual Financial Statements

	2019 R	2018 R

36. Impairments

Impairments		
Trade and other receivables	120 867 995	58 695 239

Receivables were impaired following objective evidence of non-recovery using history and knowledge of the customers.

The impairments disclosed above consists of the following:

Impairment		
Consumer debtors	37 492 271	14 487 894
Receivables from non exchange transactions	83 375 724	44 207 345
	120 867 995	**58 695 239**

37. Finance costs

Non-current borrowings	8 762 251	9 362 567
Finance leases	90 991	2 494
Late payment of suppliers	25 215	286 461
Discounting of provisions	6 156 171	6 570 201
	15 034 628	**16 221 723**

38. Bulk purchases

Electricity - Eskom	77 376 382	75 016 186

Included in the electricity bulk purchases is the 21.3% (2018: 20.3%) which relate to distribution losses. Ba-Phalaborwa Municipality gets billed by Eskom on a monthly basis for electricity used/or given to Ba-Phalaborwa Municipality based on readings.Therefore the amount paid to/billed by Eskom includes electricity losses of R16 516 508 (2018: R20 394 504). The loss in terms of Units amounted to 17 407 373 kWh (2018:17 222 601 kWh).

39. Contracted services

Security Services	10 466 663	9 389 175
Agency Services	552 554	868 960
Operating Leases	893 237	300 923
Actuarial and Accounting Services	8 324 076	4 548 347
Insurance	1 290 295	1 377 599
Meter readings	(602 316)	791 061
Business and Advisory	571 826	-
Legal fees	4 978 275	6 288 070
	26 474 610	**23 564 135**

Notes to the Annual Financial Statements

40. General expenses

	2019 R	2018 R
Accommodation	3 439 734	2 623 885
Advertising and marketing campaigns	1 793 493	1 078 872
Assets expensed	26 539	995
Audit and risk committee remuneration	779 118	1 174 543
Auditors remuneration	5 060 445	5 012 199
Bank charges	293 765	482 758
Bursaries	578 059	495 196
Cleaning	432 302	24 932
Commission paid	2 794 524	1 796 841
Consumables	2 467 214	1 707 587
Electricity non-bulk purchases	6 973 856	4 515 847
Energy efficiency and demand side management	411	80 287
Entertainment	553 624	517 314
Expanded Public Works Program expenses	1 000 060	1 190 088
Financial management grant expenses	6 100 417	5 392 118
Fuel and oil	2 875 617	2 565 444
Hire of equipment	4 185 373	5 969 641
IT expenses	145 009	665 846
Indigent support	1 753 472	4 890 436
Internet and connectivity	70 922	44 832
Landfill site restoration expenses	2 057 279	(1 197 238)
Loud hailing	337 167	201 780
Motor vehicle license fees	200 253	297 847
Occupational health and safety	337 707	204 822
Placement fees	38 125	475 315
Postage and courier	738 094	694 056
Pounding	390 340	120 000
Printing and stationery	1 850 984	3 158 365
Project maintenance costs	323 835	2 683 483
Protective clothing	1 171 594	1 680 676
Public participation	2 208 406	2 126 729
Purchase of prepaid boxes	-	140 317
Repairs and maintenance	20 792 762	13 212 187
Staff welfare	828 959	508 840
Strategic sessions	764 830	537 243
Subscriptions and membership fees	3 108 482	3 196 068
Telephone and fax	2 094 117	1 831 942
Title deed search fees	218 342	100 664
Training	1 616 475	3 482 490
Travel - local	2 773 900	3 103 172
Utilities - Water	1 922 823	1 742 031
	85 098 428	**78 530 450**

41. Gains or losses on biological assets

	2019 R	2018 R
Gains or losses arising from a change in fair value less point of sale costs	-	(212 591)

42. Fair value adjustments

	2019 R	2018 R
Investment property	58 707 343	1 248 587
Biological assets	87 779	53 409
	58 795 122	**1 301 996**

Notes to the Annual Financial Statements

	2019 R	2018 R

43. Auditors' remuneration

Fees	5 060 445	5 012 199

44. Cash generated from operations

Surplus (deficit)	22 083 188	(33 467 956)
Adjustments for:		
Depreciation and amortisation	74 076 280	71 637 598
Gain (loss) on sale of assets and liabilities	36 554	(1 103 295)
Fair value adjustments	(58 795 122)	(1 301 996)
Finance costs - Finance leases	90 991	2 494
Finance costs other	8 787 466	9 649 028
Impairment deficit	120 867 995	58 695 239
Donations received	(2 282 308)	-
Movements in retirement benefit assets and liabilities	(3 899 000)	6 812 000
Movements in provisions	7 960 176	5 792 318
Inventories losses/write-downs	424 134	796 889
Other non-cash items	(3 312 013)	(62 919 110)
Biological assets written off	-	212 591
Changes in working capital:		
Inventories	(4 012 510)	2 345 756
Consumer debtors	(37 255 982)	(2 286 075)
Other receivables from non-exchange transactions	(82 549 743)	(50 064 895)
Payables from exchange transactions	42 226 065	64 089 057
VAT	3 875 346	(11 093 105)
Unspent conditional grants and receipts	2 902 565	555 619
Consumer deposits	116 175	39 243
	91 340 257	**58 391 400**

45. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	32 759 414	32 759 414
Consumer debtors	37 388 455	37 388 455
Cash and cash equivalents	36 025 670	36 025 670
VAT receivable	1 625 545	1 625 545
	107 799 084	**107 799 084**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	112 847 834	112 847 834
Trade and other payables from exchange transactions	329 259 277	329 259 277
Finance lease	1 096 273	1 096 273
Consumer deposits	4 240 625	4 240 625
	447 444 009	**447 444 009**

	2019 R	2018 R

45. Financial instruments disclosure (continued)

2018

Financial assets

	At amortised cost	Total
Consumer debtors	37 624 746	37 624 746
Receivables from non-exchange transactions	33 585 394	33 585 394
VAT receivable	5 500 891	5 500 891
Cash and cash equivalents	7 810 484	7 810 484
	84 521 515	**84 521 515**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	121 085 581	121 085 581
Trade and other payables from exchange transactions	287 033 212	287 033 212
Consumer deposits	4 124 450	4 124 450
	412 243 243	**412 243 243**

Financial instruments in Statement of financial performance

2019

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	23 103 037	23 103 037
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(15 034 628)	(15 034 628)
Impairment loss	(120 867 995)	(120 867 995)
	(112 799 586)	**(112 799 586)**

2018

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	22 346 256	22 346 256
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(16 221 723)	(16 221 723)
Impairment loss	(58 695 239)	(58 695 239)
	(52 570 706)	**(52 570 706)**

Notes to the Annual Financial Statements

	2019 R	2018 R
46. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	59 465 394	101 540 749
Total capital commitments		
Already contracted for but not provided for	59 465 394	101 540 749
Authorised operational expenditure		
Already contracted for but not provided for		
• Operational expenditure	29 450 330	30 233 506
Orders already issued		
• Operational Expenditure - Purchase order	3 352 415	-
Total operational commitments		
Already contracted for but not provided for	29 450 330	30 233 506
Not yet contracted for and authorised by accounting officer	3 352 415	-
	32 802 745	**30 233 506**
Total commitments		
Total commitments		
Authorised capital expenditure	59 465 394	101 540 749
Authorised operational expenditure	32 802 745	30 233 506
	92 268 139	**131 774 255**

This committed expenditure relates to property, plant and equipment as well as operational expenditure and will be financed by available grants funds, retained surpluses, existing cash resources and funds internally generated.

Notes to the Annual Financial Statements

	2019 R	2018 R

47. Contingencies

Litigation is in the process against the municipality relating to various disputes detailed below:

	2019 R	2018 R
Contingent liabilities		
Makwande Chartered Accountants and Business Advisors [1]	2 734 105	2 734 105
Tlhoala Dynamic (Pty) Ltd [2]	3 039 811	3 039 811
LE Thom [3]	1 294 797	1 294 797
Thaki William Mojapelo and Masako Mary Mojapelo [4]	16 046 000	16 046 520
Tippuprox (Pty) Ltd [5]	5 528 500	5 528 500
Millioniers Club CC [6]	1 650 000	1 650 000
Malatji Khensani Eulender [7]	1 200 000	1 200 000
Thaki William Mojapelo and Masako Mary Mojapelo 2 [8]	300 000	300 000
Kgopotso Lekgothwane [9]	2 600 000	2 600 000
Christoffel Smith [10]	89 115	89 115
Lazwi Engineering [11]	1 259 715	1 259 715
Juxtapose (Pty) Ltd [12]	3 690 587	3 690 587
M L Nkosi Electrical Contractors cc and Soma Construction cc [13]	1 929 975	-
R Shai [14]	184 702	-
Ba-Phalaborwa Municipality [15]	650 000	-
Sebatane Daniel Mohlatlole [16]	189 300	-
Frans Johannes Meintjies NO and others [17]	800 000	-
Morare Freddy Masekwameng SAMWU obo Mkansi and others [18]	224 000	224 000
Thamsanqa Vernon Mdluli [19]	140 000	-
Imatu obo Venter [20]	108 976	-
Lizzy Mathebula [21]	-	77 597
Molau Devyton Malatji [22]	-	10 300 000
	43 659 583	**50 034 747**

1. Makwande Chartered Accountants

The matter relates to the preparation of municipal financial statements for the year ended 30 June 2009. The claimant failed to deliver the reports and the contract was terminated. The claimant is now claiming unpaid fees debt amounting to R2 734 105 inclusive of estimated legal fees. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. The R2 734 105 represents the total possible liability by the municipality, according to the legal advisors. Makwande Chartered accountants requested the court to amend their claim. The request was granted. The municipality opposed the amendment based on the fact that contract entered into by the municipality can only be in writing.

2. Tlhoala Dynamic (Pty) Ltd

This entity was engaged by the municipality to compile and supplement valuation roll and they are claiming that they were underpaid by R2 689 811 and therefore are suing for the shortfall. Included in the amount above is the estimated legal costs resulting in a total contingent liability of R3 039 811. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful and court process is ongoing. The municipality also has a counter claim against Thaola Dynamics over monies overpaid to it. The next court date is 6 November 2019.

3. LE Thom

LE Thom cites that they could not perform certain contractual obligations after being prevented from doing so by the municipality. The municipality on the other hand, claims failure to perform was not caused by the municipality. The claim including estimated legal costs amounts to R1 294 797. The matter has been set for hearing on the 7th of October 2019. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

4. Thaki William Mojapelo and Masako Mary Mojapelo

The plaintiffs bought erven 26, 27 and 28 in the industrial area and they allege that the municipality failed to transfer the properties in their names. As such, they are seeking cancellation of the sale agreement and refund of the purchase price which is alleged to be R46 520 with interest or the transfer of the properties and payment of R15 500 000.00 in damages for loss of business. The legal advisors estimate the total possible cost including legal fees to be R16 046 520. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

Notes to the Annual Financial Statements

	2019 R	2018 R

47. Contingencies (continued)

5. Tippuprox (Pty) Ltd

The company is suing the municipality for a tender they were previously awarded only to be cancelled following uncovering of misrepresentations made during the tendering process by the owner of the company. The company raised a claim against the municipality which the legal advisors estimated including legal fees to be R 5 528 500. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful. The matter was erroneously placed on an undefended roll. Will be re-enrolled correctly. The municipality also has a counter claim amounting to R650 000 in this case.

6. Millioniers Club CC

The claim arose due to a contractual dispute between the plaintiff and the municipality over unpaid invoices. The municipality cites that these are invalid while the plaintiff believes they have a valid claim. The claim is estimated by legal counsel to be R1 650 000 including estimated legal fees. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful. The municipality also has a counter claim amounting to R776 262 in this case.

7. Malatji Khensani Eulender

Malatji Khensani Eulender is suing the municipality for damages following bodily injuries suffered by her child when a water tank fell on her child while fetching water. She sites that the municipality had erected a poor quality tank stand which could not fully support the weight of the water tank. The legal advisors confirmed the total possible liability to be R1 200 000. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful. Trial date was set for the 14th February 2019, however, it was postponed to a further date.

8. Thaki William Mojapelo and Masako Mary Mojapelo 2

The plaintiffs is requesting the court to nullify the approval of sale of erf 3644 between the estate of the late Jackson Mogudi and Charmakala Group by the municipality citing that they owned the erf. The municipality approved because records at deeds office showed that the erf was owned by the estate of the late Mogudi and not the plaintiffs. The legal advisors confirmed the total possible liability to be R300 000. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely.

9. Kgopotso Lekgothwane

Summons against the municipality in the amount of R2 600 000 for an alleged negligent failure by the municipality to barricade a ditch which had been dug up by municipal workers, resulting in the plaintiff falling in it and getting seriously injured. The legal advisors confirmed the total possible liability including legal costs to be R2 600 000.

10. Christoffel Smith

Christoffel Smith issued summons in the amount of R14 115 for an alleged damage caused to his vehicle by an alleged pothole on a municipal road. The legal advisors confirmed the total possible liability to be R89 115 including legal fees.

11. Lazwi Engineering

Lazwi Engineering is demanding payment in the amount of R1 009 715 for work done when they upgraded the Tambo street at Namakgale. While Thsiamiso 135 demands payment of R1 168 669 for work they allege that they did the work bases on specifications which had been made by the municipality's engineers, Lazwi engineering which turned out that they were wrong. The municipality paid Lazwi Engineering only R1 009 715 the balance being their liability for Tshiamiso 135. The legal advisors confirmed the total possible liability to be R1 259 715. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. The plaintiff has indicated that they want to withdraw the matter against the municipality and that each party pays its cost. Waiting for formal notice of withdrawal.

12. Juxtapose (Pty) Ltd

	2019 R	2018 R

47. Contingencies (continued)

Juxtapose (Pty) Ltd was engaged by the municipality to design extension of municipal offices for an amount of R1 766 988. Juxtapose (Pty) Ltd allege that they did the work of which R768 642 is outstanding and further that they were orally requested to do further work which amounted to R2 471 945. The total amount they claim is R3 240 587. The legal advisors confirmed the total possible liability to be R3 690 587. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the entity is under liquidation. The process will continue once a liquidator is appointed.

13. M L Nkosi Electrical Contractors cc and Soma Construction CC

M L Nkosi Electrical Contractors cc and Soma Construction cc demand payment from Ba-Phalaborwa Municipality in the amount of R1 579 974.73 for work done. M L Nkosi Electrical Contractors cc and Soma Construction cc tendered in the amount of R19 541 461.41 but were awarded the tender in the amount of R18 541 461.41, an amount which was never tendered for by any tenderer. The municipality entered into an agreement with these service providers to change the amount, the scope of work and the duration of the contract within four months of entering into the contract. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely.

14. R. Shai

The municipality obtained a demolition order because she has built her house without approved plan. Ms. R Shai would like the order overturned. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. The estimated legal costs is R120 000.

15. Ba-Phalaborwa Municipality

Transfer of properties sold to various residents at Namakgale and registration of owners to obtain deeds of grants at Lulekani. The estimated legal costs are R800 000.

16. Sebatane Daniel Mohlatlole Sebatane Daniel Mohlatlole

Sebatane Daniel Mohlatlole Sebatane Daniel Mohlatlole claims an amount of R69 299.69 against the municipality for alleged damage to his furniture by water flowing from the street into his house. He alleges that the municipality failed to maintain its drainage system while he also built a parameter wall that blocks easy flow of water from his property. The .estimated legal costs amount to R120 000.

17. Frans Johannes Meintjies NO and others

Frans Johannes Meintjies NO and others have applied to the high court to get the categorization of their farms in terms of Municipal Property rates as reflected in the council resolutions for the 2015/16, 2016/17 and 2017/18 financial years declared invalid, declaring the applicable law invalid and to seek costs orders against the municipality. The estimated legal costs are R300 000.

18. SAMWU obo Mkansi and others

This relates to employment issues where the complainant are suing the municipality citing unfair labour practices. The legal advisors confirmed the total possible liability to be R224 000. The matter to be heard on 29 November 2019.

19. Thamsanqa Vernon Mdluli

Referral to the Bargaining Council for alleged unfair dismissal. Employee was dismissed following allegations of various acts of misconduct. He is challenging the fairness of the dismissal. The estimated legal costs are R140 000.

20. Imatu obo Venter

Referral to the Bargaining Council for alleged discrimination against the employee on the basis that she was not shortlisted.

21. Lizzy Mathebula

Lizzy Mathebula issued summons in the amount of R7 597 for an alleged pothole damage to her vehicle caused by an alleged pothole on a road at Matikoxikaya. The legal advisors confirmed the total possible liability to be R77 597 including/ legal fees.

	2019 R	2018 R

47. Contingencies (continued)

22. Molau Devyton Malatji

Molau Devyton Malatji issued summons against the municipality in the amount of R10 000 000 for alleged illegal termination of the brickyard lease agreement. Molau Devyton Malatji brought the matter back at court because the court had dismissed his case previously based on his absence from court. The legal advisors confirmed the total possible liability to be R10 300 000. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely.

Contingent assets

	2019 R	2018 R
Ziyaphenduka Promotions CC [1]	600 000	600 000
Geldenhys' estate [2]	222 000	32 000
Mavambo ITS [3]	3 059 810	3 059 810
Mbiyani Florence Chauke [4]	200 000	200 000
	4 081 810	**3 891 810**

1. Ziyaphenduka Promotions CC

The municipality is suing Ziyaphenduka Promotions CC and summons were issued to force them to account on all amounts collected during the Marula Festival. The municipality obtained an order wherein Ziyaphenduka was ordered to furnish accounts so that the municipality can claim its 20% of the income plus the remaining R600 000 but Ziyaphenduka failed to do so. The municipality has applied for contempt of court.

2. Geldenhys' estate

Geldenhys' estate - The matter relates to acquisition of two properties of the late G J Geldenhys being Erf 141, 142 , 241 and 242 Leydsdorp with a total value of R222 000 to be transferred to the Ba-Phalaborwa Municipality owing to the fact that the deceased was insolvent at point of death and that he owed the Municipality rates and taxes which amount far exceeds the value of the properties concerned. Application for the transfer has been lodged.

3. Mavambo ITS

The municipality is suing Mavambo ITS to repay the municipality R3 059 810 emanating from overpayments made. The municipality cites that Mavambo ITS continued to bill the municipality using originally agreed terms despite the changes which were subsequently agreed upon. Mavambo ITS, on the other hand, disputes this allegation and believe that the municipality owes them R177 130. Summons have been issued against Mavambo ITS.

4. Mbiyani Florence Chauke

The former employee negligently infringed Greater Kruger Tourism CC's copyright as a result the municipality had to pay R200 000 in settlement. Summons have been issued against the former employee to recover the settlement fees paid by the municipality.

Legal Fees

The municipality is pursuing the above contingent asset cases. It also has lodged cases against residents for contravening building standards and regulations act and town planning scheme. The municipality will incur legal costs on these cases in future. These fees have been estimated by the attorneys as tabulated below:

	2019 R	2018 R
Ziyaphenduka Promotions CC	430 000	430 000
Geldenhys' estate	200 000	200 000
Mbiyani Florence Chauke	80 000	80 000
Various cases against residents [1]	600 000	600 000
Mavambo ITS	500 000	500 000
	1 810 000	**1 810 000**

Notes to the Annual Financial Statements

	2019 R	2018 R

47. Contingencies (continued)

1. Cases against residents

These are various cases lodged by the municipality against residents for contravening the Building Standards Act 103 of 1977 and town planning scheme regulations.

Notes to the Annual Financial Statements

	2019 R	2018 R

48. Related parties

Relationships

Accounting Officer	Moakamela MI
Other members of key management	T.J. Mogano - Chief financial officer H. Zungu - Director community services S.S. Mokoena - Acting Director corporate services S. Mahumani - Acting Director technical services H.P. Maluleke - Director planning and development services
Mayor	Cllr.PJ Shayi - up to 23 June 2019
Speaker	Cllr.MM Malatji - to 23 June 2019 Cllr.E Hlungwane - from 23 June 2019
Chief Whip	Cllr.E Hlungwane - Chief Whip to 23 June 2019 Cllr. D Rapatsa - Chief whip - from 23 June 2019
Executive committee members	Cllr.MM Malatji - Speaker - up to 23 June 2019) Cllr. SL Mohlala - Member of Exco Cllr. T Nkuna - Member of Exco Cllr. MS Magomane - Member of Exco Cllr. SR De Beer - Member of Exco Cllr. MM Malesa - Member of Exco Cllr.SP Mashumu - Member of Exco
Councillors	Cllr. K.O. Pilusa - MPAC Chairperson Cllr. R Makasela Cllr. K.A. Peta Cllr. KP Mhlarhi KP Cllr. ST Mkanzi Cllr. B Ramothwala Cllr. NJ Mampuru Cllr. ME Mokgalaka Cllr. Z Ndlovu Cllr. EA Mokoena Cllr. PK Mashego Cllr. LM Matlala Cllr. TC Malatjie Cllr. PS Dikgale Cllr. TS Ndlovu Cllr. GH Lamola Cllr. A Ngobeni Cllr. Williamson MRS Cllr. SM Shayi Cllr. Bayana DR Cllr. Mathebula MMA Cllr. RJ Mphogo Cllr. NB Maake Cllr. MJ Valoyi Cllr. SK Shai Cllr. AN Mmola Cllr. VM Rapatsa
District municipality [1]	Mopani District Municipality

	2019 R	2018 R

48. Related parties (continued)

[1]. The municipality has an Agency relationship with its District Municipality, Mopani District Municipality. Under this agreement the municipality carries out Water Service functions as the Water Services Provider (WSP) in respect of provision of water and sewerage services to the residents on behalf of Mopani District Municipality (as the Water Services Authority). The Municipality receives agency fees for these services in terms of the agency arrangement.

Related party balances

Loan accounts - Owing (to) by related parties		
Mopani District Municipality	(256 673 491)	(217 882 080)

Related party transactions

Agency fees received from related parties		
Mopani District Municipality	3 505 378	2 736 934

Remuneration of management

Notes to the Annual Financial Statements

Figures in Rand

48. Related parties (continued)

Councillors/Mayoral committee members

2019

Name	Basic salary	Cell phone Allowance	Reimbursive expenses	Travel & subsistence Allowance	Total
Cllr. A. Ngobeni	201 321	40 800	-	64 227	306 348
Cllr. A.N. Mmola	232 647	40 800	-	75 328	348 775
Cllr. B. Ramothwala	201 321	40 800	7 614	65 635	315 370
Cllr DM Rapatsa	13 957	3 400	-	12 934	30 291
Cllr. D.R. Bayana	201 322	40 800	25 547	70 017	337 686
Cllr. E. Hlungwane	447 966	40 800	16 620	178 943	684 329
Cllr. E.A. Mokoena	201 321	40 800	4 047	64 610	310 778
Cllr. K.A. Peta	201 322	49 800	14 228	65 763	331 113
Cllr. K.O. Pilusa	257 351	40 800	60 984	87 445	446 580
Cllr. K.P. Mhlarhi	201 322	40 800	5 424	64 610	312 156
Cllr. L.M. Matlala	201 322	40 800	4 407	64 610	311 139
Cllr. M.E. Mokgalaka	201 322	40 800	13 288	70 163	325 573
Cllr. M.J. Valoyi	202 363	40 800	8 386	69 505	321 054
Cllr. M.M. Malatji	476 663	40 800	65 581	197 817	780 861
Cllr. M.M. Malesa	472 949	40 800	28 299	155 007	697 055
Cllr. M.M.A. Mathebula	201 322	40 800	-	72 429	314 551
Cllr. M.S. Magomane	472 949	40 800	32 985	154 950	701 684
Cllr. N.A. Sono	201 322	40 800	-	64 227	306 349
Cllr. N.B. Maake	201 322	40 800	1 879	64 227	308 228
Cllr. N.J. Mampuru	201 322	40 800	24 376	66 403	332 901
Cllr. P.J. Shayi	583 816	40 800	-	208 809	833 425
Cllr. P.K. Mashego	201 322	40 800	10 515	70 144	322 781
Cllr. P.S. Dikgale	201 322	40 800	9 633	65 000	316 755
Cllr. R. Makasela	201 322	40 800	5 311	64 483	311 916
Cllr. R.J. Mphogo	201 322	40 800	-	64 227	306 349
Cllr. S GH Lamola	201 322	40 800	-	64 227	306 349
Cllr. SMRS Williamson	201 322	40 800	898	64 355	307 375
Cllr. S.K. Shai	201 322	40 800	-	64 227	306 349

48. Related parties (continued)

Cllr. SL Mohlala	472 949	40 800	83 290	160 121	757 160
Cllr. S.M. Shayi	201 322	40 800	32 093	72 125	346 340
Cllr. S.P. Mashumu	230 089	40 800	8 652	77 784	357 325
Cllr. S.R. De Beer	265 015	40 800	3 854	87 641	397 310
Cllr. ST Mkanzi	201 322	40 800	5 489	68 066	315 677
Cllr. T. Nkuna	472 948	40 800	47 716	156 758	718 222
Cllr. T.C. Malatjie	201 322	40 800	19 252	71 967	333 341
Cllr. T.S. Ndlovu	201 322	40 800	-	64 227	306 349
Cllr. V.M. Rapatsa	201 322	40 800	15 618	68 109	325 849
Cllr. Z. Ndlovu	201 322	40 800	13 286	69 511	324 919
	9 634 709	**1 522 000**	**569 272**	**3 290 631**	**15 016 612**

2018

Name	Basic salary	Cell phone Allowance	Reimbursive expenses	Travel & subsistence Allowance	Total
Cllr. A. Ngobeni	205 088	30 300	-	60 890	296 278
Cllr. A.N. Mmola	265 412	30 300	-	80 506	376 218
Cllr. B. Ramothwala	205 088	30 300	6 594	61 920	303 902
Cllr. D.R. Bayana	205 088	30 300	13 057	63 750	312 195
Cllr. E. Hlungwane	465 948	30 300	24 797	146 943	667 988
Cllr. E.A. Mokoena	205 088	30 300	9 858	61 508	306 754
Cllr. K.A. Peta	205 088	22 800	7 740	61 714	297 342
Cllr. K.O. Pilusa	259 200	30 300	38 581	81 747	409 828
Cllr. K.P. Mhlarhi	205 088	30 300	-	60 890	296 278
Cllr. L.M. Matlala	205 088	30 300	3 324	61 405	300 117
Cllr. M.E. Mokgalaka	205 088	30 300	8 024	63 337	306 749
Cllr. M.J. Valoyi	205 088	30 300	6 020	63 132	304 540
Cllr. M.M. Malatji	492 470	30 300	70 815	160 167	753 752
Cllr. M.M. Malesa	467 197	30 300	34 487	148 356	680 340
Cllr. M.M.A. Mathebula	205 088	30 300	6 143	61 817	303 348
Cllr. M.S. Magomane	467 197	30 300	27 046	147 032	671 575
Cllr. N.A. Sono	205 088	30 300	-	60 890	296 278
Cllr. N.B. Maake	205 088	30 300	-	60 890	296 278

Notes to the Annual Financial Statements

Figures in Rand

48. Related parties (continued)

Cllr. N.J. Mampuru	205 088	30 300	20 825	62 464	318 677
Cllr. P.J. Shayi	612 962	30 300	128	197 184	840 574
Cllr. P.K. Mashego	205 088	30 300	9 502	64 059	308 949
Cllr. P.S. Dikgale	205 088	30 300	8 339	61 508	305 235
Cllr. R. Makasela	205 088	30 300	3 445	61 534	300 367
Cllr. R.J. Mphogo	205 088	30 300	-	60 890	296 278
Cllr. S.G.H. Lamola	205 088	30 300	11 056	62 023	308 467
Cllr. SMRS Williamson	205 088	30 300	-	60 890	296 278
Cllr. S.K. Shai	205 088	30 300	-	60 890	296 278
Cllr. S.L. Mohlala	467 197	30 300	34 574	146 339	678 410
Cllr. S.M. Shayi	205 088	30 300	13 800	64 059	313 247
Cllr. S.P. Mashumu	205 088	30 300	9 331	63 253	307 972
Cllr. S.R. De Beer	266 612	30 300	4 625	81 897	383 434
Cllr. S.T. Mkanzi	205 088	30 300	7 221	63 750	306 359
Cllr. T. Nkuna	467 197	30 300	31 251	146 567	675 315
Cllr. T.C. Malatjie	205 088	30 300	8 980	65 983	310 351
Cllr. T.S. Ndlovu	205 088	30 300	2 527	60 993	298 908
Cllr. V.M. Rapatsa	205 088	30 300	37 717	65 235	338 340
Cllr. Z. Ndlovu	205 088	30 300	3 884	62 429	301 701
	9 768 768	**1 113 600**	**463 691**	**3 018 841**	**14 364 900**

Remuneration paid to key management personnel

Details of remuneration paid to key management personnel have been disclosed on note 33 "Employee related costs".

49. Prior period adjustments

During the year, the municipality discovered material, errors that affected previous years. All the errors were corrected retrospectively. The nature, details and effects of the errors are shown in the table below.

49. Prior period adjustments (continued)

Error details and the effect on surplus/(deficit	2018 R (Inc)/Dec	Accumulated Surplus R (Inc)/Dec	Total R
Electricity revenue understated in financial statements in prior year	(1 584 315)	-	(1 584 315)
Impairment allowances on consumer accounts misstated in previous years' annual financial statements	(101 244 846)	14 464 806	(86 780 040)
Municipal properties were incorrectly billed for service charges	6 097 896	53 932 340	60 030 236
Revenue collections on behalf of third parties incorrectly classified as an expense	(728 028)	-	(728 028)
Service billings for electricity understated in the books of the municipality	(136 498)	(140 960)	(277 458)
A capital asset (truck) purchased by the municipality incorrectly recorded as an expense	(2 232 511)	-	(2 232 511)
Municipal land not recorded in the books of the municipality	-	(12 195 000)	(12 195 000)
Municipal investment properties not recognised in the municipal books	-	(139 137 000)	(139 137 000)
Land owned by private individuals and other entities incorrectly recorded as if it owned by the municipality	-	44 022 000	44 022 000
Income recognised in incorrect accounting periods	(279 688)	(164 818)	(444 506)
Water consumption charges on municipal properties were not recognised in the previous financial year	1 742 031	-	1 742 031
Inventory issues from stores to various expense accounts were understated in the previous year	299 262	-	299 262
Inventory write downs to net replacement costs were not recorded in the accounting records	748 718	-	748 718
Removal of Electrical Network mistakenly capitalized	(31 756)	555 746	523 990
Reversal of Land errornousely removed due to incorrect application of subdivisions	-	(30 957 000)	(30 957 000)
Recognition of impairment on traffic fines up to 30 June 2016	-	22 478 373	22 478 373
Removal of Land with RDP Houses handed over to Community	-	1 820 000	1 820 000
Removal of Private Land owned by Individuals	-	3 970 000	3 970 000
Removal of Land not for Municipality	-	1 660 000	1 660 000
Impairment adjustment for 2017-2018 FY	595 311	-	595 311
Impairment adjustment for 2016 -2017 FY	-	(5 893 494)	(5 893 494)
	(96 754 424)	**(45 585 007)**	**(142 339 431)**

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

Statement of financial position	As previously disclosed R	Correction of errors R	Reclassifications R	Restated R
Inventories	335 320 566	(11 790 980)	-	323 529 586
Receivables from non-exchange transactions	33 846 925	(261 530)	-	33 585 395
VAT receivable	1 399 656	4 101 235	-	5 500 891
Consumer debtors	10 449 534	23 262 460	3 912 752	37 624 746

	2019 R	2018 R

49. Prior period adjustments (continued)

Cash and cash equivalents	9 036 770	(1 226 286)	-	7 810 484
Investment property	44 303 307	131 687 000	-	175 990 307
Property, plant and equipment	850 657 737	9 349 010	-	860 006 747
Payables from exchange transactions	(269 112 698)	(14 007 762)	(3 912 752)	(287 033 212)
Bank overdraft	(1 226 285)	1 226 285	-	-
Accumulated surplus	(713 464 410)	(142 339 432)	-	(855 803 842)
Employee benefit obligation - current liabilities	-	-	(573 000)	(573 000)
Employee benefit obligation - non-current liabilities	-	-	573 000	573 000
Provision - current liabilities	-	-	(1 098 963)	(1 098 963)
Provision - non current liabilities	-	-	1 098 963	1 098 963
	301 211 102	**-**	**-**	**301 211 102**

Statement of financial performance	**As previously disclosed R**	**Correction of errors R**	**Reclassifications R**	**Restated R**
Service charges	(118 357 171)	558 124	-	(117 799 047)
Rental of facilities and equipment	(656 329)	(23 755)	-	(680 084)
Agency services	(4 767 436)	(176 741)	-	(4 944 177)
Licences and permits	(2 647 777)	(49 628)	-	(2 697 405)
Other income	(3 707 290)	(29 871)	-	(3 737 161)
Interest received - investment	(26 165 524)	3 819 267	-	(22 346 257)
Employee related costs	135 383 488	-	(3 736 909)	131 646 579
Impairments	159 392 945	(100 649 535)	48 171	58 791 581
Contracted services	24 292 163	(728 028)	-	23 564 135
Actuarial losses	-	-	3 736 909	3 736 909
Inventories losses/write-downs	-	748 718	(48 171)	700 547
General Expenses	78 721 666	(191 218)	-	78 530 448
Depreciation and amortisation	71 669 355	(31 757)	-	71 637 598
	313 158 090	**(96 754 424)**	**-**	**216 403 666**

Statement of cash flows	**As previously disclosed R**	**Correction of errors R**	**Restated R**
Net cash flows from operating activities	58 634 688	(243 288)	58 391 400
Net cash flows from investing activities	(52 475 602)	243 288	(52 232 314)
Net cash flows from financing activities	(15 386 384)	-	(15 386 384)
	(9 227 298)	**-**	**(9 227 298)**

Corrections to prior period disclosures

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

Description	**As previously disclosed R**	**Correction of errors R**	**Restated R**
Contingent Assets	3 891 810	268 000	4 159 810
Contingent Liabilities	50 711 877	(677 130)	50 034 747
Legal costs	1 310 000	500 000	1 810 000
Unauthorised expenditure	182 336 468	138 836 149	321 172 617
Fruitless and wasteful expenditure	13 824 658	196 569	14 021 227
Irregular expenditure	325 578 471	(108 419 954)	217 158 517
	577 653 284	**30 703 634**	**608 356 918**

	2019 R	2018 R

50. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are shown above.

51. Risk management

Liquidity risk

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

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.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2019	No later 1 year (R)	Later than one year and not later than 5 years (R)	Later than 5 years (R)
Gross Finance Lease obligations	550 580	682 841	-
Payables from exchange transactions	329 289 297	-	-
Other Financial Liabilities	20 400 000	104 400 000	-
Consumer deposits	4 240 625	-	-
	354 480 502	**105 082 841**	**-**

2018	No later 1 year (R)	Later than one year and not later than 5 years (R)	Later than 5 years (R)
Trade and Other Payable	287 033 212	-	-
Other Financial Liabilities	20 400 000	102 000 000	19 400 000
Consumer deposits	4 124 450	-	-
	311 557 662	**102 000 000**	**19 400 000**

	2019 R	2018 R

51. Risk management (continued)

Credit risk

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

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due date are cut immediately.

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

The maximum credit and interest rate risk exposure in respect of relevant financial instruments is as follows:

Description of type of financial instrument		
Receivables from non-exchange transactions	32 759 414	33 585 394
Consumer debtors	37 388 455	37 624 746
Cash and cash equivalents	36 025 670	7 810 484
Maximum credit and interest rate risk exposure	**106 173 539**	**79 020 624**

Market risk

Interest rate risk

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

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

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Receivables from non-exchange transactions - normal credit terms	10.25 %	32 759 414	-	-	-	-
Consumer debtors - normal credit terms	10.25 %	37 388 455	-	-	-	-
Cash on call accounts with current banking institutions	- %	36 023 912	-	-	-	-
financial liabilities - fixed rate	7.50 %	(20 400 000)	(20 400 000)	(20 400 000)	(20 400 000)	(24 185 581)

Price risk

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

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

Notes to the Annual Financial Statements

	2019 R	2018 R

52. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 877 887 039 and that the municipality's total liabilities exceed its assets by R 915 959 481.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

53. Events after the reporting date

There are no material adjusting and non-adjusting events after the reporting date.

54. Unauthorised expenditure

Opening balance as previously reported	321 172 617	182 336 468
Opening balance as restated	**321 172 617**	**182 336 468**
Add: Irregular Expenditure - prior period	-	70 160 464
Expenditure incurred during the year	99 659 596	68 675 685
Closing balance	**420 832 213**	**321 172 617**

The Unauthorised expenditure for the year was due to overspending of the municipal budget. The overspending was experienced in non cash items of finance costs, impairment adjustments and depreciation of property, plant and equipment.

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

Non-cash	99 659 596	138 836 149

Analysed as follows: non-cash

Depreciation and amortisation	2 443 096	1 552 371
Finance charges	14 489 828	15 476 923
Provision of impairment	82 265 984	121 594 264
Biological assets	36 554	212 591
Inventories losses/write downs	424 134	-
	99 659 596	**138 836 149**

Unauthorised expenditure: Budget overspending – per municipal department

Finance	99 659 596	138 836 149

55. Fruitless and wasteful expenditure

Opening balance as previously reported	14 021 227	13 824 658
Opening balance as restated	**14 021 227**	**13 824 658**
Add: Fruiteless and Wasteful Expenditure - current period	44 631	196 569
Closing balance	**14 065 858**	**14 021 227**

Notes to the Annual Financial Statements

	2019 R	2018 R

55. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	2019 R	2018 R
Interest -Eskom		-	110 972
Interest - SARS (PAYE, SDL, VAT)		5 377	78 488
Other- Interest charged by suppliers		7 479	7 109
Auditor General (Interest)		31 775	-
		44 631	**196 569**

56. Irregular expenditure

	2019 R	2018 R
Opening balance as previously reported	217 158 517	288 217 435
Correction of prior period error	-	(101 212 835)
Opening balance as restated	**217 158 517**	**187 004 600**
Add: Irregular Expenditure - prior period	-	(7 207 119)
Add: Irregular Expenditure - current period	35 504 537	37 361 036
Closing balance	**252 663 054**	**217 158 517**

Notes to the Annual Financial Statements

		2019 R	2018 R

56. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings	2019 R	2018 R
Tenders where advertisement was less than minimum required timeframe	[1]	2 212 987	3 674 391
Tender document without clear evaluation criteria	[1]	-	547 155
Bid not disqualified in accordance with the pre-determined objectives	[1]	-	1 395 873
Awards without valid B-BBEE certificates	[1]	363 671	476 448
Construction contracts not advertised on the CIDB website	[1]	569 457	2 151 177
Bids awarded to bidders without a valid tax clearance certificate	[1]	2 553 538	3 885 829
Lack of compliance registers at closing of bids	[1]	-	456 436
Tenders awarded to bidders without signed declarations	[1]	-	678 988
Various operational procurement made without following proper supply chain procedures	[2]	21 232 440	20 457 977
Point score calculated incorrectly	[1]	-	3 636 762
Values applicable to each evaluation criteria not clearly indicated in the invitation to submit tender	[1]	856 936	-
Proof of B-BBEE of a subcontractor not attached	[1]	3 132 233	-
Provision of services on expired contract	[1]	4 524 624	-
		35 445 886	**37 361 036**

[1] These are various cases where the competitive bidding process was not followed to the full requirements of the procurement procedures, policies and legislation. These cases have been referred to the Municipal Public Accounts Committee for investigation after which they will be referred to council for appropriate action.

[2] These relate to procurement of operational items including legal services, accommodation, catering, meter readings, valuation roll services and certain upgrades and maintenance to the municipal property among others. Procurement policies and procedures were not fully adhered to in securing these services. All the cases will be referred to the Municipal Public Accounts Committee for investigation.

Notes to the Annual Financial Statements

	2019 R	2018 R

57. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2019 R	2018 R
Current year subscription / fee	1 374 270	3 033 332
Amount paid - current year	(1 374 270)	(3 033 332)
	-	-

Audit fees

	2019 R	2018 R
Opening balance	47 271	-
Current year fees	5 833 718	6 199 651
Amount paid - current year	(5 880 989)	(6 152 380)
	-	**47 271**

Medical Aid Deductions

	2019 R	2018 R
Current year subscription / fee	12 413 013	10 167 351
Amount paid - current year	(12 413 013)	(10 167 351)
	-	-

Pension Deductions

	2019 R	2018 R
Current year subscription / fee	24 310 854	23 027 506
Amount paid - current year	(24 310 854)	(23 027 506)
	-	-

Skills Development Levy

	2019 R	2018 R
Opening balance	105 736	101 391
Current year fee	1 669 317	1 805 562
Amount paid - current year	(1 669 317)	(1 801 217)
	105 736	**105 736**

PAYE and UIF

	2019 R	2018 R
Current year subscription / fee	23 753 227	31 071 517
Amount paid - current year	(23 753 227)	(31 071 517)
	-	-

VAT

	2019 R	2018 R
VAT receivable	1 625 545	5 500 891

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

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

	2019 R	2018 R

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr.P.J. Shayi	367	-	367
Cllr.M.M. Malatji	2 676	-	2 676
Cllr.S.L. Mohlala	827	-	827
Cllr.M.S. Magomane	363	-	363
Cllr.N.J. Mampuru	754	-	754
Cllr.S.T. Mkansi	732	-	732
Cllr.K.A. Peta	985	-	985
Cllr.J.A. Williamson	2 068	-	2 068
Cllr.K.P. Mhlarhi	111	-	111
Cllr.E.A. Mokoena-Mashele	1 957	2 161	4 118
Cllr.P.S. Dikgale	245	-	245
Cllr.A. Ngobeni	520	-	520
Cllr.N.A. Sono	1 216	-	1 216
Cllr.R.J. Mphogo	976	-	976
Cllr.B. Ramothwala	864	-	864
Cllr.G.H. Lamola	581	-	581
	15 242	**2 161**	**17 403**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr.P.J. Shayi	940	-	940
Cllr.M.M. Malatji	1 392	-	1 392
Cllr.S.L. Mohlala	859	-	859
Cllr.T. Nkuna	105	-	105
Cllr.M.S. Magomane	238	-	238
Cllr.S.R. de Beer	523	-	523
Cllr.N.J. Mampuru	865	-	865
Cllr.S.T. Mkansi	759	-	759
Cllr.K.A. Peta	1 296	-	1 296
CCllr.J.A. Williamson	1 640	-	1 640
Cllr.K.P. Mhlarhi	105	-	105
Cllr.E.A. Mokoena-Mashele	2 148	-	2 148
Cllr.P.S. Dikgale	618	-	618
Cllr.A. Ngobeni	3 265	-	3 265
Cllr.N.A. Sono	844	-	844
Cllr.R.J. Mphogo	927	-	927
Cllr.B. Ramothwala	799	-	799
Cllr.G.H. Lamola	418	-	418
	17 741	**-**	**17 741**

30 June 2019	Highest outstanding amount	Aging (in days)
Cllr.E.A. Mokoena-Mashele	2 161	90

Notes to the Annual Financial Statements

	2019 R	2018 R

58. Deviation from supply chain management regulations

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

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

Equipment was procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations for the period up to 30 June 2019

The amount for deviations as at 30 June 2019 is R1 567 067.

Description	Reason for deviation	Supplier	Amount
The drop safe machines Software upgrade to accept new Mandela Notes	The sole provider to maintain the and repair cash system	Mandlethu Cash Systems	38 934
Repair of a sewer pump at phalaborwa	Emergency as delay in procurement on the pump will result in contamination of streams in Kruger National Park	Slurry Pump	171 583
Annual subscription of microsoft	Sole service provider	Microsoft	1 131 390
Reusable Cash bags for the cash machines	For security purposes as specific individuals are assigned to handle cash	Mandlethu Cash Systems	33 110
Collection of refuse bags	Emergency procurement as municipal trucks had broken down	Mampudidi Property and Development	192 050
Total			**1 567 067**

59. Budget differences

Material differences between budget and actual amounts

There variances between budget and actual are explained below.

59.1 Service charges

Electricity - The variance was due to the fact budget is estimated after increasing last year actual amounts with the CPI rates ,and the increased tarrifs as approved by NERSA,and also the fact that in terms of sale of prepaid electricity customers control purchases of electricity .

Refuse - The variance was due the fact that that budget was made without considering the past practises ,having exact refuse revenue.

59.2 Rental of facilities and equipment

The rental of facilities was estimated to be lower due to past practises and the fact is on cash basis not accrual basis.

Notes to the Annual Financial Statements

	2019 R	2018 R

59. Budget differences (continued)

59.3 Agency services

The actual income for Agency fees received is higher than the budget due to more revenue collected than forecasted by the Municipality as a result of more members of community paying for their traffic fines, contravention of Roads Acts within the Municipality and the accrual of agency fees under the agency relationship with Mopani District Municipality

59.4 Licences and permits

The Licences and Permits actual income received is lower than the budgeted amount due to low revenue collected by Municipality as due to a decrease in numbers for people paying for Learners drivers licence, Driving licence and Permit for Vehicles.

59.5 Other income

Other income comprises of write back of receivables previously written off, sale of bid documents, connection fees, building plans and related income items. This was higher than budgeted mainly due to the write back of receivables after year end that was not previously budgeted for.

59.6 Interest received - investment

External investment - The Muncipality had deposited more money in the Municipal call Account for a longer period which earned ba-Phalaborwa higher intrest earned than budgeted for .

Debtors - The variance was due to high estimates of interest as results of long terms owing to Municipalit over 120 days which casted doubt to the municipality however, the municipality will continue encouraging customers to pay on time.

59.7 Property rates

The variance was the fact that budget was estimated by increasing the actual billing CPI inflation rate and also the increased tariffs.

59.8 Government grants and subsidies

The Municipality was allocated grants as per Division of Revenue Act by the Minister to assist municipalities in services delivery however municipality could not spend all of it to meet the recognition criteria as revenue after meeting conditions. The Municipality applied for roll over to be used in the 2019-2020 financial year.

59.9 Penalties and Fines

The Municipality collected more money from Fines and penalties due the fact that members of the community are always contravening the By-laws and the acts and are expected to pay the fines and penalties. The increase is attributable also to the increase in enforcement and collection efforts by the Municipality.

59.10 Personnel

The variance is due unpaid salaries as results of high vacancy rate on the Municipal Organisational structure.

59.11 Remuneration of councillors

The Variance is due to additional budget made to give allowance to Ministerial upper limits for councillors salaries which varies annual due to improvement in grading.

59.12 Depreciation and amortisation

The Municipality had actual increase in depreciation amortisation because of additions to property, plant and equipment as well as due to the changes in useful lives of assets owned by the Municipality.

59.13 Finance costs

Notes to the Annual Financial Statements

	2019 R	2018 R

59. Budget differences (continued)

The variance is due financing component of the long term liabilities owed to lepelle Northern Water that will be repaid over five years , the time value for money was taken into account.

59.14 Impairment loss/ Reversal of impairments

The variance due pay rate Impairment methodology which resulted in high debt impairment than budgeted for ,the municipality has lower payment rate of debtors on settle their payment on time.

59.15 Bulk purchases

The Municipality had higher Budget on Electricity than actual expenditure because during the preparation of the Budget we could not anticipate the increase in the amounts billed to consumers by the municipality and the Municipality had purchased less Bulk Electricity.

59.16 Contracted services

The municipality budgeted a higher amount for contracted services anticipation of appointing consultants and legal costs in the year. However, the expenditure for contracted services was lower that the anticipated costs.

59.17 General expenses

General Expenditure actuals was less than budgeted due to lesser expenditure incurred by the Municipality as well as due to implementation of cost-containment measures.

59.18 Loss on disposal of assets and liabilities

Income received on Disposal of assets was not budgeted for

59.19 Fair value adjustments

Fair value adjustments were not budgeted for.

59.20 Actuarial gains

Actuarial gains were not budgeted for.

59.21 Inventories losses/write-downs

Inventory losses/write-downs were not budgeted for.

59.22 Public contributions and donations

Public conytributions and donations were not budgeted for.

59.23 Other transfer revenue

Sundry receipts were not budgeted for.

Schedule of external loans as at 30 June 2019

	Loan Number	Redeemable	Balance at 30 June 2018 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2019 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock			-	-	-	-	-	-
Other financial liabilities								
Lepelle Northern Water			121 085 581	-	-	121 085 581	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			121 085 581	-	-	**121 085 581**	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			-	-	-	-	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
Total external loans								
Loan Stock			-	-	-	-	-	-
Other financial liabilities			121 085 581	-	-	121 085 581	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			-	-	-	-	-	-
Bonds			-	-	-	-	-	-
Other loans			-	-	-	-	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-

Ba-Phalaborwa Local Municipality
Ba-Phalaborwa Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2019

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Fair value adjustment Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Historical monuments	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
	317 000	-	-	-	-	-	**317 000**	-	-	-	-	-	-	**317 000**
Work in progress														
Work in progress	97 915 407	42 366 113	-	(56 015 550)	-	-	84 265 970	-	-	-	-	-	-	84 265 970
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	97 915 407	**42 366 113**	-	**(56 015 550)**	-	-	**84 265 970**	-	-	-	-	-	-	**84 265 970**
Other assets - Movables														
Computer Equipment	3 093 843	1 361 763	-	-	-	-	4 455 606	(2 128 574)	-	-	(438 851)	-	(2 567 425)	1 888 181
Furniture & Fittings	12 755 318	1 133 252	-	-	-	-	13 888 570	(9 869 936)	-	-	(1 189 336)	-	(11 059 272)	2 829 298
Machinery and equipment	4 697 970	1 158 952	-	-	-	-	5 856 922	(3 263 750)	-	-	(526 920)	-	(3 790 670)	2 066 252
Office Equipment	959 197	127 725	-	-	-	-	1 086 922	(172 487)	-	-	(99 988)	-	(272 475)	814 447
Vehicles	22 318 721	4 456 222	-	-	-	-	26 774 943	(16 960 567)	-	-	(1 135 021)	-	(18 095 588)	8 679 355
Library books	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	43 825 049	8 237 914	-	-	-	-	52 062 963	(32 395 314)	-	-	(3 390 116)	-	(35 785 430)	16 277 533

Analysis of property, plant and equipment as at 30 June 2019

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Fair value adjustment Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	435 575 760	-	-	(28 530 192)	-	-	407 045 568	(215 406 860)	-	-	(12 002 892)	-	(227 409 752)	179 635 816
Infrastructure	841 295 324	1 277 732	-	56 015 550	-	-	898 588 606	(457 678 397)	-	-	(34 181 381)	-	(491 859 778)	406 728 828
Community Assets	401 138 697	393 583	-	-	-	2 778 928	404 311 208	(254 239 660)	-	-	(22 966 627)	-	(277 206 287)	127 104 921
Heritage assets	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
Work in progress	97 915 407	42 366 113	-	(56 015 550)	-	-	84 265 970	-	-	-	-	-	-	84 265 970
Other assets - Movables	43 825 049	8 237 914	-	-	-	-	52 062 963	(32 395 314)	-	-	(3 390 116)	-	(35 785 430)	16 277 533
	1 820 067 237	52 275 342	-	(28 530 192)	-	2 778 928	1 846 591 315	(959 720 231)	-	-	(72 541 016)	-	1 032 261 247)	814 330 068
Agricultural/Biological assets														
Trees and flowers	104 525	-	-	-	87 778	(36 554)	155 749	-	-	-	-	-	-	155 749
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	104 525	-	-	-	87 778	(36 554)	155 749	-	-	-	-	-	-	155 749
Intangible assets														
Computers software	2 279 945	-	-	-	-	-	2 279 945	(1 732 305)	-	-	(451 470)	-	(2 183 775)	96 170
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2 279 945	-	-	-	-	-	2 279 945	(1 732 305)	-	-	(451 470)	-	(2 183 775)	96 170
Investment properties														
Investment property	43 303 307	-	-	-	-	-	43 303 307	-	-	-	-	-	-	43 303 307
	43 303 307	-	-	-	-	-	43 303 307	-	-	-	-	-	-	43 303 307
Total														
Land and buildings	435 575 760	-	-	(28 530 192)	-	-	407 045 568	(215 406 860)	-	-	(12 002 892)	-	(227 409 752)	179 635 816
Infrastructure	841 295 324	1 277 732	-	56 015 550	-	-	898 588 606	(457 678 397)	-	-	(34 181 381)	-	(491 859 778)	406 728 828
Community Assets	401 138 697	393 583	-	-	-	2 778 928	404 311 208	(254 239 660)	-	-	(22 966 627)	-	(277 206 287)	127 104 921
Heritage assets	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
Work in progress	97 915 407	42 366 113	-	(56 015 550)	-	-	84 265 970	-	-	-	-	-	-	84 265 970
Other assets - Movables	43 825 049	8 237 914	-	-	-	-	52 062 963	(32 395 314)	-	-	(3 390 116)	-	(35 785 430)	16 277 533
Agricultural/Biological assets	104 525	-	-	-	87 778	(36 554)	155 749	-	-	-	-	-	-	155 749
Intangible assets	2 279 945	-	-	-	-	-	2 279 945	(1 732 305)	-	-	(451 470)	-	(2 183 775)	96 170
Investment properties	43 303 307	-	-	-	-	-	43 303 307	-	-	-	-	-	-	43 303 307
	1 865 755 014	52 275 342	-	(28 530 192)	87 778	2 742 374	1 892 330 316	(961 452 536)	-	-	(72 992 486)	-	1 034 445 022)	857 885 294

Ba-Phalaborwa Local Municipality
Ba-Phalaborwa Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2018

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	98 673 485	-	-	-	-	-	98 673 485	-	-	-	-	-	-	98 673 485
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	326 637 832	391 444	-	-	-	-	327 029 276	(203 386 094)	-	-	(12 020 767)	-	(215 406 861)	111 622 415
	425 311 317	391 444	-	-	-	-	425 702 761	(203 386 094)	-	-	(12 020 767)	-	(215 406 861)	210 295 900
Infrastructure														
Bridges	14 967 765	-	-	-	-	-	14 967 765	(3 344 652)	-	-	(187 097)	-	(3 531 749)	11 436 016
Electricity network	182 189 734	95 760	-	-	-	-	182 285 494	(90 960 616)	-	-	(4 791 372)	-	(95 751 988)	86 533 506
Rail network	97 982	-	-	-	-	-	97 982	(66 954)	-	-	(6 532)	-	(73 486)	24 496
Road network	591 923 175	-	-	30 744 223	-	-	622 667 398	(327 301 997)	-	-	(26 188 033)	-	(353 490 030)	269 177 368
Stormwater network	25 335 583	-	-	-	-	-	25 335 583	(7 869 196)	-	-	(626 855)	-	(8 496 051)	16 839 532
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastructure)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	814 514 239	95 760	-	30 744 223	-	-	845 354 222	(429 543 415)	-	-	(31 799 889)	-	(461 343 304)	384 010 918
Community Assets														
Buildings	207 266 600	495 116	-	-	-	-	207 761 716	(119 451 760)	-	-	(6 899 807)	-	(126 351 567)	81 410 149
Carports	4 048 962	-	-	-	-	-	4 048 962	(744 533)	-	-	(134 965)	-	(879 498)	3 169 464
Guard rooms	78 421	-	-	-	-	-	78 421	(215)	-	-	(2 614)	-	(2 829)	75 592
Other facilities	2 652 199	-	-	-	-	-	2 652 199	(1 459 541)	-	-	(123 102)	-	(1 582 643)	1 069 556
Pavings	9 668 751	-	-	-	-	-	9 668 751	(2 703 644)	-	-	(483 438)	-	(3 187 082)	6 481 669
Perimeter fencing	5 868 317	83 440	-	-	-	-	5 951 757	(2 012 650)	-	-	(237 141)	-	(2 249 791)	3 701 966
Signs	36 431	-	-	-	-	-	36 431	(23 277)	-	-	(2 429)	-	(25 706)	10 725
Stadium with separated buildings	87 312 943	-	-	-	-	-	87 312 943	(53 032 463)	-	-	(2 910 431)	-	(55 942 894)	31 370 049
Streetlights	809 488	-	-	-	-	-	809 488	(441 851)	-	-	(20 237)	-	(462 088)	347 400
Landfill sites	76 068 639	6 749 390	-	-	-	-	82 818 029	(49 603 945)	-	-	(13 951 617)	-	(63 555 562)	19 262 467
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	393 810 751	7 327 946	-	-	-	-	401 138 697	(229 473 879)	-	-	(24 765 781)	-	(254 239 660)	146 899 037

Ba-Phalaborwa Local Municipality

Appendix B

Analysis of property, plant and equipment as at 30 June 2018

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Historical monuments	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
Work in progress														
Work in progress	78 161 083	50 498 539	-	(30 744 223)	-	-	97 915 399	-	-	-	-	-	-	97 915 399
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	78 161 083	50 498 539	-	(30 744 223)	-	-	97 915 399	-	-	-	-	-	-	97 915 399
Other assets - Movables														
Computer Equipment	3 439 970	294 464	(640 591)	-	-	-	3 093 843	(2 595 984)	-	629 641	(162 231)	-	(2 128 574)	965 269
Furniture & Fittings	12 477 495	437 917	(160 094)	-	-	-	12 755 318	(8 646 941)	-	135 397	(1 358 392)	-	(9 869 936)	2 885 382
Machinery and equipment	5 334 298	177 107	(813 435)	-	-	-	4 697 970	(3 326 652)	-	599 896	(536 994)	-	(3 263 750)	1 434 220
Office Equipment	695 805	263 392	-	-	-	-	959 197	(105 957)	-	-	(66 530)	-	(172 487)	786 710
Vehicles	25 382 759	1 600 826	(4 662 820)	-	-	-	22 320 765	(20 307 146)	-	3 948 473	(601 894)	-	(16 960 567)	5 360 198
Library books	69 539	-	-	-	-	-	69 539	(44 416)	-	-	(18 443)	-	(62 859)	6 680
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Airports	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	47 399 866	2 773 706	(6 276 940)	-	-	-	43 896 632	(35 027 096)	-	5 313 407	(2 744 484)	-	(32 458 173)	11 438 459

Ba-Phalaborwa Local Municipality
Ba-Phalaborwa Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2018

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	425 311 317	391 444	-	-	-	-	425 702 761	(203 386 094)	-	-	(12 020 767)	-	(215 406 861)	210 295 900
Infrastructure	814 514 239	95 760	-	30 744 223	-	-	845 354 222	(429 543 415)	-	-	(31 799 889)	-	(461 343 304)	384 010 918
Community Assets	393 810 751	7 327 946	-	-	-	-	401 138 697	(229 473 879)	-	-	(24 765 781)	-	(254 239 660)	146 899 037
Heritage assets	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
Work in progress	78 161 083	50 498 539	-	(30 744 223)	-	-	97 915 399	-	-	-	-	-	-	97 915 399
Other assets - Movables	47 399 866	2 773 706	(6 276 940)	-	-	-	43 896 632	(35 027 096)	-	5 313 407	(2 744 484)	-	(32 458 173)	11 438 459
	1 759 514 256	61 087 395	(6 276 940)	-	-	-	1 814 324 711	(897 430 484)	-	5 313 407	(71 330 921)	-	(963 447 998)	850 876 713
Agricultural/Biological assets														
Trees and flowers	263 708	63 668	-	-	-	(212 591)	114 785	-	-	-	-	(10 259)	(10 259)	104 526
Biological assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	263 708	63 668	-	-	-	(212 591)	114 785	-	-	-	-	(10 259)	(10 259)	104 526
Intangible assets														
Computers software	2 279 945	-	-	-	-	-	2 279 945	(1 293 818)	-	-	(438 486)	-	(1 732 304)	547 641
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	2 279 945	-	-	-	-	-	2 279 945	(1 293 818)	-	-	(438 486)	-	(1 732 304)	547 641
Investment properties														
Investment property	43 054 720	-	-	-	-	-	43 054 720	-	-	-	-	1 248 587	1 248 587	44 303 307
	43 054 720	-	-	-	-	-	43 054 720	-	-	-	-	1 248 587	1 248 587	44 303 307
Total														
Land and buildings	425 311 317	391 444	-	-	-	-	425 702 761	(203 386 094)	-	-	(12 020 767)	-	(215 406 861)	210 295 900
Infrastructure	814 514 239	95 760	-	30 744 223	-	-	845 354 222	(429 543 415)	-	-	(31 799 889)	-	(461 343 304)	384 010 918
Community Assets	393 810 751	7 327 946	-	-	-	-	401 138 697	(229 473 879)	-	-	(24 765 781)	-	(254 239 660)	146 899 037
Heritage assets	317 000	-	-	-	-	-	317 000	-	-	-	-	-	-	317 000
Work in progress	78 161 083	50 498 539	-	(30 744 223)	-	-	97 915 399	-	-	-	-	-	-	97 915 399
Other assets - Movables	47 399 866	2 773 706	(6 276 940)	-	-	-	43 896 632	(35 027 096)	-	5 313 407	(2 744 484)	-	(32 458 173)	11 438 459
Agricultural/Biological assets	263 708	63 668	-	-	-	(212 591)	114 785	-	-	-	-	(10 259)	(10 259)	104 526
Intangible assets	2 279 945	-	-	-	-	-	2 279 945	(1 293 818)	-	-	(438 486)	-	(1 732 304)	547 641
Investment properties	43 054 720	-	-	-	-	-	43 054 720	-	-	-	-	1 248 587	1 248 587	44 303 307
	1 805 112 629	61 151 063	(6 276 940)	-	-	(212 591)	1 859 774 161	(898 724 302)	-	5 313 407	(71 769 407)	1 238 328	(963 941 974)	895 832 187