Centlec (SOC) Ltd
(Registration number 2003/011612/30)
Financial statements
for the year ended 30 June 2021

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	State Owned Company
Nature of business and principal activities	The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the Mangaung and Southern Free state area
Chief Executive Officer (CEO)	Mr. MS Sekoboto
Acting Chief Finance Officer (CFO)	Mr. SK Zziwa
Directors	Mr. KM Moroka (Chairperson) T Ngubeni Y Skwintshi R Tsiki T Mazibuko T Manye
Registered office	30 Rhodes Avenue Oranjesig Bloemfontein Free State 9301
Postal address	Private Bag X14 Brandhof Bloemfontein 9324
Controlling entity	Mangaung Metropolitan Municipality incorporated in South Africa
Bankers	ABSA
Auditors	Auditor-General of South Africa
Company Secretary	Mr. T Malgas
Company registration number	2003/011612/30
Tax reference number	9487328156
Attorneys	Bokwa Attorneys Malebogo Maeyane Attorneys Phatsoane Henney Inc. SMO Seobe Attorneys Inc. Tshangana Attorneys

General Information

Enabling Legislation	Local Government: Municipal Finance Management Act (Act 56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Division of Revenue Act (Act 1 of 2019) Companies Act (Act 71 of 2008)

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Abbreviations

NERSA	National Energy Regulator of South Africa
IFRS	International Financial Reporting Standards
VAT	Value Added Tax
GRAP	Generally Recognised Accounting Practice
NDR	Non Distributable Reserve
SDBIP	Service Delivery and Budget Implementation Plan
IAS	International Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
EM	Executive Manager
MFMA	Municipal Finance Management Act
NRV	Net Realisable Value
SOC	State Owned Company
SALGA	South African Local Government Association
AGSA	Auditor-General of South Africa

Corporate Governance Report

The Board & Administrative Governance

Introduction to Governance

The board sees and understands governance as a fundamental requisite in stewardship responsibilities.

To this end, the board is therefore committed to maintain the highest standards of governance. The company has a macro-organisational structure in place, which provides for separation of duties and responsibilities between the board and administrators.

In the course of rendering services to the community, it is therefore important to do so within the parameters of the law, and this can be achieved by connecting corporate governance with legislative risk management as a guideline.

Board Governance

1. Board of Directors

The board strives to provide the right leadership, strategic oversight and control environment to produce and sustain the delivery of value to the company's shareholder. The board applies integrity, principles of good governance and accountability throughout its activities and each director brings independence of character and judgment to the role.

All of the members of the board are individually and collectively aware of their responsibilities to the company's stakeholders and the board keeps its performance and core governance principles under regular review.

The board held both ordinary and special meetings during the period under review as follows in which a number of decisions were taken:

Type of Meeting	Date	Venue
Ordinary	15 September 2020	Virtual meeting
Ordinary	30 October 2020	Virtual meeting
Special	09 November 2020	Virtual meeting
Orientation	27 November 2020	Virtual meeting
Special	15 December 2020	Virtual meeting
Special	19 January 2021	Virtual meeting
Special	26 February 2021	Virtual meeting
Special	05 March 2021	Virtual meeting
Special	10 March 2021	Virtual meeting
Special	07 May 2021	Virtual meeting
Special	24 June 2021	Virtual meeting

2. Board Committees

The board had the following committees during the period under review.

2.1 Audit & Risk Committee

N.P. Lubanga	Chairperson
M.R. Tsupa	Member
T. Malakoane	Member
N.S. Ntingane	Member

2.2. Finance Committee

T. Mazibuko	Chairperson
K.M. Moroka	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.3. Human Resources & Remuneration Committee

C. Choeu (Deceased)	Chairperson
T. Manye	Chairperson
R. Tsiki	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Human Resources	Invitee

2.4. Social Responsibility & Ethics Committee

K.M. Moroka	Chairperson
T. Manye	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.5. Information Technology Governance Committee

Y. Skwintshi	Chairperson
C. Choeu (Deceased)	Member
T. Ngubeni	Member
Chief Executive Officer	Member
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

2.6. Engineering Committee

T. Ngubeni	Chairperson
T. Manye	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

The respective committees held meetings as follows during the period under review:

Committee	No. of Meetings	Dates of meetings
IT Governance	5	11 August 2020
		26 October 2020
		29 January 2021
		26 April 2021
		10 May 2021
Engineering	3	26 October 2020
		02 February 2021
		04 May 20210
HR & Remuneration	6	11 August 2020
		26 October 2020
		19 November 2020
		29 January 2021
		13 May 2021
		24 May 2021
Social Responsibility & Ethics	6	24 August 2020
		29 October 2020
		16 February 2021
		19 May 2021
		02 June 2021
		10 June 2021
Finance	8	12 August 2020
		28 October 2020
		15 January 2021
		16 February 2021
		24 February 2021
		25 March 2021
		09 April 2021
		15 April 2021
Audit & Risk	6	03 August 2020
		19 October 2020
		29 October 2020
		18 February 2021
		05 March 2021
		24 May 2021

Risk Management

The MFMA requires that the municipal entity develops and maintain an effective, efficient and transparent system of financial and risk management and internal control; and an internal audit unit operating in accordance with any prescribed norms and standards.

The municipal entity manages its risk management through the internal audit unit. The internal audit unit is therefore mainly responsible for the review of the implementation of effective risk management as a key element of good governance and rigorous performance management. Risk management is an integral part of corporate, business planning and service delivery.

During the period under review, corporate and operational risk assessments were performed for all areas within the municipal entity.

Director's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the financial statements fairly present the state of affairs of the municipal entity 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 financial statements and was given unrestricted access to all financial records and related data.

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the municipal entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors 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 municipal entity and all employees are required to maintain the highest ethical standards in ensuring the municipal entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipal entity is on identifying, assessing, managing and monitoring all known forms of risk across the municipal entity. While operating risk cannot be fully eliminated, the municipal entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the municipal entity’s cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, they are satisfied that the municipal entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipal entity is a going concern and that the municipal entity has neither the intention nor the need to liquidate or curtail materially the scale of the municipal entity.

Although the directors are primarily responsible for the financial affairs of the municipal entity, they are supported by the municipal entity's external auditors.

The financial statements set out on page 11, which have been prepared on the going concern basis, were approved by the directors on 31 August 2021 and were signed on its behalf by:

Mr. KM Moroka
Chairperson of the Board of Directors

Audit and Risk Committee Report

We are pleased to present our report for the financial year ended 30 June 2021.

Risk management

The audit and risk committee is responsible for the oversight of the risk management function.

Centlec (SOC) Ltd has a risk management strategy and framework in place that was approved by the board. The entity has performed the strategic risk assessment during the period under review. Top ten (10) strategic risks of the entity has been monitored by the audit and risk committee and reported to the board on a quarterly basis.

Fraud risk assessments and information technology risk assessment are amongst the risk assessments which were performed by the entity and monitored by the audit and risk committee on a quarterly basis.

A risk management implementation plan for the period ending 30 June 2021 which outlines the risk management activities to be performed by the risk management function was developed and approved by the audit and risk committee.

The progress status on the execution of the risk management implementation plan was reported to the audit and risk committee on a quarterly basis.

The committee is of the opinion that the risk management activities of the entity still requires a room for improvement. Management should strive to improve the risk management processes within the entity to reach a risk maturity level.

Evaluation of financial statements

The audit and risk committee has:

The audit and risk committee has reviewed the draft annual financial statements prior submission to the external auditors on the 31 August 2021 and has focused on the following:

- Compliance with accounting standards and legal requirements.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Significant financial reporting judgments and estimates contained in the annual financial statements.

The audit and risk committee is satisfied that the annual financial statements have been prepared in accordance with GRAP and MFMA requirements.

Auditor-General of South Africa

The audit and risk committee will discuss the conclusion and audit opinion of the external auditors (AGSA) on the annual financial statements of the entity and will indicate if it concurs with the audit opinion once the audit is completed and audit opinion is presented to the committee.

The external audit function is performed by the Auditor General South Africa which is independent of the entity. The committee met with the external auditors during the year under review to ensure that there were no unresolved issues

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Advocate Neo Ntingane (Interim - Chairperson of the Audit Committee)

Date: ____________________

Director's Report

The directors submit their report for the year ended 30 June 2021.

1. General information and nature of activities

The municipal entity, which is a state owned company, is incorporated and domiciled in South Africa and provides electricity retail, distribution and electrification services.

The municipal entity operates primarily in the Free State Province and employs 670 people. The address of the municipal entity's registered office is 30 Rhodes Avenue, Oranjesig, Bloemfontein, 9301.

The municipal entity is wholly owned by Mangaung Metropolitan Municipality, which is the sole parent municipality of the municipal entity and is domiciled in the Free State Province of South Africa. The address of the parent municipality is C/o Nelson Mandela Drive and Markgraaf Street, Bram Fischer Building, Bloemfontein, 9300.

The municipal entity is one of two state owned electricity companies in South Africa and the only one in the Free State Province.

Other than the area of jurisdiction of Mangaung Metropolitan Municipality, the municipal entity also distributes electricity to the following local municipalities: Kopanong Local Municipality, Mantsopa Local Municipality and Mohokare Local Municipality.

The municipal entity interacts with its customers and clients through a combination of physical and electronic channels, offering a comprehensive range of electricity services (from pre-paid electricity sales and billing through conventional metering, to electricity infrastructure development and bulk connections).

The financial statements set out fully the financial position, results of operations and cash flows of the municipal entity for the reporting period ended 30 June 2021.

Main business and operations

The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the mangaung and southern free state area and operates principally in South Africa.

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

Director's Report

2. Going concern

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

The following analysis supports the going concern assumption:

- Total assets (R 8 477 183 230) exceed total liabilities (R 3 898 646 601).

- The municipal entity has an accumulated surplus and other reserves of R 4 578 536 629.

The following analysis illustrates material uncertainties that may affect the going concern assumption:

- Current liabilities (R 830 201 142) exceed current assets (R 767 802 421).

- The municipal entity had a deficit of R22 057 548 for the current financial year.

Management has reviewed the municipal entity's cash flow forecast for the year ended 30 June 2021. The municipal entity reported a trading deficit of R 22 057 548 which is mainly attributed to the debt impairment methodology in the current year which required the entity to impair government debt for the first time. This is also the main reason for the current liabilities exceeding the current assets. The impact of this change is likely to be smoothed out in the following financial year as the entity has embarked on stringent implementation of the credit control policy. The entity is currently converting most of the rotational meters to prepaid meters which is likely to significantly reduce the accounts subject to debt impairment.

The municipal entity and the parent municipality have continued with the resolution to defer the current liabilities related to the deemed sale of business agreement and the intercompany loans.

Discussions with the parent municipality to revise the entire sale of business agreement are still ongoing. Upon resolution of the new revised agreement it is expected to minimise the impact that the shareholder loan, capital redemption and interest charged on the intercompany related loans will have on the municipal entity's operations.

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

The entity's revenue showed an increase for the current financial year which' trend is projected to continue into the next financial year.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

3. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year that would have an impact on the financial statements.

4. Accounting policies

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

5. Share capital / contributed capital

There were no changes in the authorised or issued share capital of the municipal entity during the year under review.

The entire shareholding of the municipal entity is held by Mangaung Metropolitan Municipality.

Unissued ordinary shares are under the control of Mangaung Metropolitan Municipality.

Director's Report

Authorised:

The authorised share capital of the company consists of 1 000 ordinary value shares of R1 each.

Issued:

The total issued share capital of the company of R100 consists of 100 ordinary value shares of R1 each.

6. Non-current assets

There were no major changes in the physical nature of non-current assets of the municipal entity during the year.

7. Dividends

No dividends were declared or paid to shareholder during the year.

8. Directors

The current board of Directors consists of seven (7) non-executive directors and two (2) executive directors. The current board of directors were appointed with effect from 1 November 2020.

Mr. CAK Choeu passed away after being reappointed as one of the non-executive directors and no new appointment was made to fill the vacant position.

The non-executive directors of the entity during the year and to the date of this report are as follows:

Name	Changes
Mr. KM Moroka (Chairperson)	Reappointed 01 November 2020
Mr. CAK Choeu	Reappointed 01 November 2020
T Ngubeni	Appointed 01 November 2020
Y Skwintshi	Appointed 01 November 2020
R Tsiki	Appointed 01 November 2020
T Mazibuko	Appointed 01 November 2020
T Manye	Appointed 01 November 2020

9. Company secretary

The secretary of the municipal entity is Mr. T Malgas.

His contact details are as follows:

Business address

30 Rhodes Avenue
Oranjesig
Bloemfontein
South Africa
9300

10. Member and executive managers' emoluments

Directors’ and officers’ personal financial interests in contracts

In terms of the supply chain management policy of the municipal entity, directors and the municipal entity’s officers are prohibited from entering into commercial transactions with the municipal entity.

Directors are required to disclose any business interest which they may have elsewhere.

The register of declaration of interest is available in the office of the Company Secretary for inspection.

Consistent with the Supply Chain Management Policy of the municipal entity, except for the remuneration to the executive managers and Board of Directors, none of the directors or officers entered into any commercial transaction with the municipal entity during the period under review.

Furthermore, the directors had no interest in any third party or company responsible for managing any of the business activities of the municipal entity.

Directors’ and prescribed officers’ emoluments

The upper limits of the salary, allowances and other benefits of the Directors, Prescribed Officers and Executive Managers were determined by the parent municipality. Directors, Prescribed Officers and Executive Managers emoluments are disclosed in the notes to the Annual Financial Statements.

11. Corporate governance

General

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

The municipal entity confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The directors discuss the responsibilities of management in this respect, at Board meetings and monitor the municipal entity's compliance with the code on a three monthly basis.

Board of directors

The Board:

- retains full control over the municipal entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipal entity;
- is of a unitary structure comprising:
  - non-executive directors, all of whom are independent directors as defined in the Code; and
  - executive directors.
- has established a Board directorship continuity programme.

Chairperson and chief executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The upper limits of the remuneration of the Chief Executive Officer, and the Chief Financial Officer, who are the only two executive directors of the municipal entity, are determined by the Parent entity, and the directors will determine the remuneration within the above-mentioned limits.

Board meetings

The directors have met on 5 separate occasions during the financial year. The directors schedule to meet at least 4 times per annum.

Non-executive directors have access to all members of management of the municipal entity.

Audit and risk committee

The interim chairperson of the audit committee is Advocate Neo Ntingane. The committee met 6 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Mangaung Metropolitan Municipality, as a parent municipality, must appoint members of the Audit Committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that parent municipalities should appoint further members of the municipal entity's audit committees who are not directors of the municipal entity onto the audit committee. Mangaung Metropolitan Municipality, as a parent municipality, was satisfied that the Audit Committee of the municipal entity then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the board of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

Internal audit

The municipal entity has appointed its own internal audit function with assistance from PricewaterhouseCoopers Inc who continued to perform this function from the previous year while the municipal entity is still developing its internal capacity. This is in compliance with the Municipal Finance Management Act, Section 62(c)(i) & 165, 2003.

12. Controlling entity

The municipal entity's controlling entity is Mangaung Metropolitan Municipality incorporated in South Africa. The municipal entity is wholly owned by Mangaung Metropolitan Municipality.

13. Auditors

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

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In accordance with the provisions of the Companies Act 71 of 2008, Mr. T Malgas , the Company Secretary of Centlec State Owned Company Ltd, hereby certify that:

In respect of the reporting period ended 30 June 2021, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission (CIPC), all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Mr. T Malgas
Company Secretary

Statement of Financial Position as at 30 June 2021

	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	15 821 036	32 507 513
Consumer receivables from exchange transactions	4	551 354 718	531 545 611
Inventories	5	96 586 572	107 776 047
Other financial assets	6	275 470	275 470
Other receivables from exchange transactions	7	103 764 625	78 616 013
		767 802 421	**750 720 654**
Non-Current Assets			
Property, plant and equipment	8	6 324 672 319	6 426 341 628
Intangible assets	9	95 231 127	95 877 923
Other financial assets	6	573 470	848 941
Deferred tax	10	1 288 903 893	1 295 275 994
		7 709 380 809	**7 818 344 486**
Total Assets		**8 477 183 230**	**8 569 065 140**
Liabilities			
Current Liabilities			
Consumer deposits	11	127 042 880	128 776 174
Long service awards	13	1 831 000	3 271 000
Other financial liabilities	14	6 654 710	6 697 009
Payables from exchange transactions	15	523 017 438	545 496 554
VAT liability	16	169 841 888	135 341 840
Finance lease obligation	12	1 813 226	-
		830 201 142	**819 582 577**
Non-Current Liabilities			
Loans from shareholders	17	803 609 369	803 609 369
Other financial liabilities	14	853 593 866	911 545 405
Finance lease obligation	12	3 499 425	-
Deferred tax	10	1 383 924 798	1 412 657 987
Long service awards	13	23 818 001	17 728 000
		3 068 445 459	**3 145 540 761**
Total Liabilities		**3 898 646 601**	**3 965 123 338**
Net Assets		**4 578 536 629**	**4 603 941 802**
Share capital / contributed capital	18	100	100
Reserves			
Revaluation reserve	19	4 093 910 707	4 097 258 330
Other NDR	20	60 000 000	60 000 000
Accumulated surplus		424 625 822	446 683 372
Total Net Assets		**4 578 536 629**	**4 603 941 802**

* See Note 40

Statement of Financial Performance

	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	2 596 825 366	2 503 722 302
Agency services		6 444 060	5 566 565
Other income	22	97 246 459	91 355 350
Interest income	23	23 759 586	28 343 399
Inventories reversal		348 677	1 787 308
Total revenue from exchange transactions		**2 724 624 148**	**2 630 774 924**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	24	43 760 976	22 608 696
Public contributions & donations		-	6 183 336
Unclaimed money forfeits	25	7 726 878	-
Total revenue from non-exchange transactions		**51 487 854**	**28 792 032**
Total revenue	26	**2 776 112 002**	**2 659 566 956**
Expenditure			
Employee related costs	27	397 510 816	371 163 806
Depreciation and amortisation	28	227 780 859	150 230 778
Impairment loss/ (reversal of impairments)	29	3 119 608	(3 285 450)
Finance costs	30	205 825 942	259 228 846
(Reversal of) / Contributions to debt impairment provision	31	18 759 156	126 398 872
Bulk purchases	32	1 780 067 168	1 692 794 873
Loss on disposal of assets and liabilities		2 026 439	9 647 299
General expenses	33	185 440 650	179 891 198
Total expenditure		**2 820 530 638**	**2 786 070 222**
Deficit before taxation		**(44 418 636)**	**(126 503 266)**
Taxation	34	22 361 088	95 777 159
Deficit for the year		**(22 057 548)**	**(30 726 107)**

* See Note 40

Statement of Changes in Net Assets

	Share capital / contributed capital	Revaluation reserve	Other NDR	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	100	1 460 029 577	60 000 000	1 520 029 577	765 577 025	2 285 606 702
Adjustments						
Correction of errors	-	-	-	-	(288 167 546)	(288 167 546)
Balance at 01 July 2019 as restated*	**100**	**1 460 029 577**	**60 000 000**	**1 520 029 577**	**477 409 479**	**1 997 439 156**
Changes in net assets						
Surplus/(Deficit) for the year	-	-	-	-	(30 726 107)	(30 726 107)
Revaluation of land, buildings and infrastructure assets	-	2 637 228 753	-	2 637 228 753	-	2 637 228 753
Total changes	-	2 637 228 753	-	2 637 228 753	(30 726 107)	2 606 502 646
Opening balance as previously reported	100	4 097 258 330	60 000 000	4 157 258 330	468 730 347	4 625 988 777
Adjustments						
Correction of errors	-	-	-	-	(22 046 977)	(22 046 977)
Restated* Balance at 01 July 2020 as restated*	**100**	**4 097 258 330**	**60 000 000**	**4 157 258 330**	**446 683 370**	**4 603 941 800**
Changes in net assets						
Surplus for the year	-	-	-	-	(22 057 548)	(22 057 548)
Disposals	-	(3 347 623)	-	(3 347 623)	-	(3 347 623)
Total changes	-	(3 347 623)	-	(3 347 623)	(22 057 548)	(25 405 171)
Balance at 30 June 2021	**100**	**4 093 910 707**	**60 000 000**	**4 153 910 707**	**424 625 822**	**4 578 536 629**
Note(s)	18	19	20			

* See Note 40

Cash Flow Statement

	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		2 636 799 010	2 412 995 030
Grants, public contributions and donations		51 487 854	28 792 032
Interest income		23 759 586	28 343 399
		2 712 046 450	2 470 130 461
Payments			
Employee costs		(392 860 815)	(370 446 806)
Suppliers		(2 136 522 317)	(2 026 801 472)
Finance costs		(11 863 145)	(17 443 294)
		(2 541 246 277)	(2 414 691 572)
Net cash flows from operating activities	35	**170 800 173**	**55 438 889**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(120 088 442)	(93 903 592)
Purchase of intangible assets	9	(9 017 612)	(14 240 099)
(Purchase of)/Proceeds from sale of financial assets		275 471	3 065 652
Net cash flows from investing activities		**(128 830 583)**	**(105 078 039)**
Cash flows from financing activities			
Proceeds from/(Repayment of) other financial liabilities		(57 993 838)	68 476 673
Finance lease payments		(662 229)	-
Net cash flows from financing activities		**(58 656 067)**	**68 476 673**
Net increase/(decrease) in cash and cash equivalents		**(16 686 477)**	**18 837 523**
Cash and cash equivalents at the beginning of the year		32 507 513	13 669 990
Cash and cash equivalents at the end of the year	3	**15 821 036**	**32 507 513**

* See Note 40

Centlec (SOC) Ltd

(Registration number 2003/011612/30)
Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2 737 318 113	-	**2 737 318 113**	2 596 825 366	**(140 492 747)**	Note 49
Agency services	6 450 226	-	**6 450 226**	6 444 060	**(6 166)**	
Other income	33 197 628	-	**33 197 628**	97 246 459	**64 048 831**	Note 49
Interest income	30 517 540	-	**30 517 540**	23 759 586	**(6 757 954)**	Note 49
Total revenue from exchange transactions	**2 807 483 507**	**-**	**2 807 483 507**	**2 724 275 471**	**(83 208 036)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	50 492 049	-	**50 492 049**	43 760 976	**(6 731 073)**	Note 49
Unclaimed Money Forfeits	-	-	**-**	7 726 878	**7 726 878**	
Total revenue from non-exchange transactions	**50 492 049**	**-**	**50 492 049**	**51 487 854**	**995 805**	
Total revenue	**2 857 975 556**	**-**	**2 857 975 556**	**2 775 763 325**	**(82 212 231)**	
Expenditure						
Employee related costs	(355 522 446)	-	**(355 522 446)**	(397 510 816)	**(41 988 370)**	Note 49
Depreciation and amortisation	(44 209 836)	-	**(44 209 836)**	(227 780 859)	**(183 571 023)**	Note 49
Impairment loss/ Reversal of impairments	-	-	**-**	(3 119 608)	**(3 119 608)**	Note 49
Finance costs	(120 056 654)	-	**(120 056 654)**	(205 825 942)	**(85 769 288)**	Note 49
Debt impairment	(363 834)	-	**(363 834)**	(18 759 156)	**(18 395 322)**	Note 49
Bulk purchases	(1 720 706 264)	-	**(1 720 706 264)**	(1 780 067 168)	**(59 360 904)**	Note 49
General expenses	(223 905 067)	-	**(223 905 067)**	(185 440 650)	**38 464 417**	Note 49
Total expenditure	**(2 464 764 101)**	**-**	**(2 464 764 101)**	**(2 818 504 199)**	**(353 740 098)**	
Operating deficit	**393 211 455**	**-**	**393 211 455**	**(42 740 874)**	**(435 952 329)**	
Gain/Loss on disposal of assets and liabilities	362 442	-	**362 442**	(2 026 439)	**(2 388 881)**	Note 49
Inventories losses/gains	(245 424)	-	**(245 424)**	348 677	**594 101**	
	117 018	**-**	**117 018**	**(1 677 762)**	**(1 794 780)**	
Deficit before taxation	**393 328 473**	**-**	**393 328 473**	**(44 418 636)**	**(437 747 109)**	
Taxation	-	-	**-**	(22 361 088)	**(22 361 088)**	
Actual Amount on Comparable Basis	**393 328 473**	**-**	**393 328 473**	**(22 057 548)**	**(415 386 021)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	93 799 202	-	**93 799 202**	96 586 572	**2 787 370**	
Other receivables from exchange transactions	-	-	**-**	103 764 625	**103 764 625**	Note 49
Consumer receivables from exchange transactions	780 620 514	-	**780 620 514**	551 354 718	**(229 265 796)**	Note 49
Cash and cash equivalents	127 351 513	-	**127 351 513**	15 821 036	**(111 530 477)**	Note 49
	1 001 771 229	**-**	**1 001 771 229**	**767 526 951**	**(234 244 278)**	
Non-Current Assets						
Property, plant and equipment	4 100 342 095	-	**4 100 342 095**	6 324 672 319	**2 224 330 224**	Note 49
Intangible assets	86 237 197	-	**86 237 197**	95 231 127	**8 993 930**	Note 49
Other financial assets	-	-	**-**	848 940	**848 940**	
Deferred tax	254 080 194	-	**254 080 194**	1 288 903 893	**1 034 823 699**	Note 49
	4 440 659 486	**-**	**4 440 659 486**	**7 709 656 279**	**3 268 996 793**	
Total Assets	**5 442 430 715**	**-**	**5 442 430 715**	**8 477 183 230**	**3 034 752 515**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	573 687 981	-	**573 687 981**	523 017 438	**(50 670 543)**	Note 49
VAT liability	-	-	**-**	169 841 888	**169 841 888**	
Consumer deposits	100 626 795	-	**100 626 795**	127 042 880	**26 416 085**	Note 49
	674 314 776	**-**	**674 314 776**	**819 902 206**	**145 587 430**	
Non-Current Liabilities						
Loans from shareholders	-	-	**-**	803 609 369	**803 609 369**	Note 49
Other non-current financial liabilities	-	-	**-**	860 248 576	**860 248 576**	Note 49
Finance lease obligation	-	-	**-**	5 312 651	**5 312 651**	
Deferred tax	654 340 825	-	**654 340 825**	1 383 924 798	**729 583 973**	Note 49
Long service awards	24 257 459	-	**24 257 459**	25 649 001	**1 391 542**	
	678 598 284	**-**	**678 598 284**	**3 078 744 395**	**2 400 146 111**	
Total Liabilities	**1 352 913 060**	**-**	**1 352 913 060**	**3 898 646 601**	**2 545 733 541**	
Net Assets	**4 089 517 655**	**-**	**4 089 517 655**	**4 578 536 629**	**489 018 974**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Share capital	1 714 784 887	-	**1 714 784 887**	100	**(1 714 784 787)**	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
Reserves						
Revaluation reserve	881 018 539	-	**881 018 539**	4 093 910 707	**3 212 892 168**	Note 49
Other NDR	60 000 000	-	**60 000 000**	60 000 000	**-**	
Accumulated surplus	1 433 714 229	-	**1 433 714 229**	424 625 822	**(1 009 088 407)**	
Total Net Assets	**4 089 517 655**	**-**	**4 089 517 655**	**4 578 536 629**	**489 018 974**	

Centlec (SOC) Ltd

(Registration number 2003/011612/30)
Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	2 314 992 195	-	**2 314 992 195**	2 636 799 010	**321 806 815**	
Grants, forfeits, public contributions and donations	62 424 900	-	**62 424 900**	51 487 854	**(10 937 046)**	
Interest income	27 465 787	-	**27 465 787**	23 759 586	**(3 706 201)**	
	2 404 882 882	**-**	**2 404 882 882**	**2 712 046 450**	**307 163 568**	
Payments						
Suppliers and employee costs	(2 023 178 405)	-	**(2 023 178 405)**	(2 529 383 132)	**(506 204 727)**	
Finance costs	(56 600)	-	**(56 600)**	(11 863 145)	**(11 806 545)**	
	(2 023 235 005)	**-**	**(2 023 235 005)**	**(2 541 246 277)**	**(518 011 272)**	
Net cash flows from operating activities	**381 647 877**	**-**	**381 647 877**	**170 800 173**	**(210 847 704)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(172 385 561)	-	**(172 385 561)**	(120 088 442)	**52 297 119**	
Purchase of intangible assets	326 198	-	**326 198**	(9 017 612)	**(9 343 810)**	
(Purchase of)/Proceeds from sale of financial assets	-	-	**-**	275 471	**275 471**	
Net cash flows from investing activities	**(172 059 363)**	**-**	**(172 059 363)**	**(128 830 583)**	**43 228 780**	
Cash flows from financing activities						
Proceeds from / (Repayment of) other financial liabilities	(120 000 000)	-	**(120 000 000)**	(57 993 838)	**62 006 162**	
Net movement on other financial liabilities	(4 333 211)	-	**(4 333 211)**	(662 229)	**3 670 982**	
Net cash flows from financing activities	**(124 333 211)**	**-**	**(124 333 211)**	**(58 656 067)**	**65 677 144**	
Net increase/(decrease) in cash and cash equivalents	85 255 303	-	**85 255 303**	(16 686 477)	**(101 941 780)**	
Cash and cash equivalents at the beginning of the year	13 555 909	-	**13 555 909**	32 507 513	**18 951 604**	
Cash and cash equivalents at the end of the year	**98 811 212**	**-**	**98 811 212**	**15 821 036**	**(82 990 176)**	

Centlec (SOC) Ltd

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Financial Statements for the year ended 30 June 2021

Appropriation Statement - Unaudited

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Service charges	2 737 318 113	-	2 737 318 113	-		2 737 318 113	2 596 825 366		(140 492 747)	95 %	95 %
Investment revenue	17 614 278	12 903 262	30 517 540	-		30 517 540	23 759 586		(6 757 954)	78 %	135 %
Other own revenue	39 958 055	50 000	40 008 055	-		40 008 055	111 766 074		71 758 019	279 %	280 %
Total revenue (excluding capital transfers and contributions)	**2 794 890 446**	**12 953 262**	**2 807 843 708**	**-**		**2 807 843 708**	**2 732 351 026**		**(75 492 682)**	**97 %**	**98 %**
Employee costs	(371 191 635)	15 669 189	(355 522 446)	-	-	(355 522 446)	(397 510 816)	-	(41 988 370)	112 %	107 %
Debt impairment	(9 297 599)	8 933 765	(363 834)			(363 834)	(18 759 156)	-	(18 395 322)	5 156 %	202 %
Depreciation and asset impairment	(74 148 250)	29 938 414	(44 209 836)			(44 209 836)	(230 900 467)	-	(186 690 631)	522 %	311 %
Finance charges	(56 654)	-	(56 654)	-	-	(56 654)	(205 825 942)	-	(205 769 288)	363 303 %	363 303 %
Materials and bulk purchases	(1 658 425 196)	(62 281 068)	(1 720 706 264)	-	-	(1 720 706 264)	(1 780 067 168)	-	(59 360 904)	103 %	107 %
Other expenditure	(229 302 582)	5 154 332	(224 148 250)	-	-	(224 148 250)	(187 467 089)	-	36 681 161	84 %	82 %
Total expenditure	**(2 342 421 916)**	**(2 585 368)**	**(2 345 007 284)**	**-**	**-**	**(2 345 007 284)**	**(2 820 530 638)**	**-**	**(475 523 354)**	**120 %**	**120 %**
Surplus/(Deficit)	**452 468 530**	**10 367 894**	**462 836 424**	**-**		**462 836 424**	**(88 179 612)**		**(551 016 036)**	**(19)%**	**(19)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	57 499 976	(7 007 927)	50 492 049	-		50 492 049	43 760 976		(6 731 073)	87 %	76 %
Surplus (Deficit) after capital transfers and contributions	**509 968 506**	**3 359 967**	**513 328 473**	**-**		**513 328 473**	**(44 418 636)**		**(557 747 109)**	**(9)%**	**(9)%**
Taxation	-	-	-	-		-	(22 361 088)		(22 361 088)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**509 968 506**	**3 359 967**	**513 328 473**	**-**		**513 328 473**	**(22 057 548)**		**(535 386 021)**	**(4)%**	**(4)%**
Capital expenditure and funds sources											
Total capital expenditure	169 725 001	9 560 773	179 285 774	-		179 285 774	129 106 054		(50 179 720)	72 %	76 %
Sources of capital funds											
Transfers recognised - capital	62 499 976	(7 007 927)	55 492 049	-		55 492 049	42 776 076		(12 715 973)	77 %	68 %
Public contributions and donations	11 932 851	-	11 932 851	-		11 932 851	11 707 029		(225 822)	98 %	98 %
Internally generated funds	95 292 174	16 568 700	111 860 874	-		111 860 874	74 622 949		(37 237 925)	67 %	78 %
Total sources of capital funds	**169 725 001**	**9 560 773**	**179 285 774**	**-**		**179 285 774**	**129 106 054**		**(50 179 720)**	**72 %**	**76 %**

1. Presentation of Financial Statements

The 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 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.

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

Centlec (SOC) Ltd ("the municipal entity") is a municipal entity wholly owned by Mangaung Metropolitan Municipality.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These financial statements are presented in South African Rand and the amounts are rounded off to the nearest Rand. The South African Rand is the functional currency of the municipal entity.

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

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

The municipal entity 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 municipal entity 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 is considered first for individually significant trade receivables and loans and then calculated on a portfolio basis for the remaining balance, including those individually significant trade receivables and loans for which no indicators of impairment exist. For amounts due to the municipal entity, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment

For trade receivables and loans 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 receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the trade receivables and loans.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete inventory items

An allowance for inventory to write inventory down to the lower of cost or net realisable value. An assessment is made of the net realisable value, or current replacement cost where applicable, of inventory at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value, or current replacement cost where applicable, is subsequently provided if needed. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Impairment testing of non-financial assets

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

Value in use of cash generating assets:
The municipal entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets:
The municipal entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the notes to the financial statements.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipal entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipal entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipal entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipal entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Effective interest rate

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

Tax expense

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or

- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

Useful lives of property, plant and equipment and other assets

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation and other long-term obligations 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 and other long-term obligations.

The municipal entity 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 municipal entity considers the market yields at the reporting date on government 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 or long-term obligation. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipal entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Notes to the financial statements.

1.4 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 municipal entity; 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.

1.4 Property, plant and equipment (continued)

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.

Subsequent measurement:

Cost model

Motor vehicles and office equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluation model

Land, buildings, plant and machinery and infrastructure assets is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. 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 class of asset.

The revaluation surplus relating to an asset will be realised over time by transferring some or the whole of the surplus to accumulated surplus or deficit by way of:
- When the asset is derecognised: transferring the portion, when the asset to which the surplus relates to, is disposed.

An impairment loss on a non-revalued asset is recognised in surplus or deficit. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

Depreciation

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

Depreciation is calculated over the depreciable amount, which is the cost or revaluation amount of an asset less its residual value.

Depreciation commences when an asset is available for use and ceases when the asset is derecognised.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

Accounting Policies

1.4 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	
• Office buildings		40 years
• Training centres		40 years
• Fixtures & fittings		3 years
Motor vehicles	Straight-line	
• Trucks and light delivery vehicles		5-7 years
• Ordinary motor vehicles		5-7 years
• Motor cycles		3 years
Office equipment	Straight-line	
• Computer hardware		5 years
• Computer machines		3-5 years
• Air conditioners		5-7 years
• Chairs		7-10 years
• Tables and desks		7-10 years
• Cabinets and cupboards		7-10 years
• Access control systems		5 years
• Security systems		5 years
• Household refuse bins		5 years
• Bulk refuse containers		10 years
• Fire hoses		5 years
• Other fire-fighting equipment		15 years
• Emergency lights		5 years
• GPS		3-10 years
• Vacuum cleaner		3-10 years
• Digital multi meter		5-10 years
• Microwave oven		3-10 years
• Router		3-10 years
• Computer CPU		3-10 years
• Power supply unit		3-10 years
• Chain saw		5-10 years
• Transformer testing equipment		5-10 years
• Measuring wheel		5-10 years
• Insulator tester		5-10 years
• Drilling machine grinder		5-10 years
• Jojo tank		5-10 years
• Wallbox 4U 19		3-10 years
Leased assets	Straight-line	
• Printing machines		3 years

1.4 Property, plant and equipment (continued)

Infrastructure	Straight-line	
• Generation		50 years
• HV Transformers		40 years
• HV Substation Equipment		45 years
• HV Lines		40 years
• HV Cables		45 years
• Buildings		50 years
• MV Transformers		40 years
• MV Switchgear		45 years
• MV Lines		50 years
• MV Cables		50 years
• MV Switching Station		45 years
• OH Line Equipment		40 years
• Service Connections		45 years
• LV Distribution Boxes		50 years
• LV Lines		45 years
• LV Cables		50 years
• Meters Consumer Credit		20 years
• Meters Consumer Prepaid		15 years
• Meter Consumer Electronic		15 years
• Meters Consumer Smart		15 years
• Load Control		15 years
• Protection		20 years
• Electrical Information Systems		7 years
• IT Equipment		5 years
• MV Batteries		20 years
• Security fencing		3 years
• Street lights		45 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 municipal entity assesses at each reporting date whether there is any indication that the municipal entity 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 municipal entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Reviewing the useful life of an asset on an annual basis does not require the municipal entity to amend the previous estimate unless expectations differ from the previous 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.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipal entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

1.4 Property, plant and equipment (continued)

The municipal entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.5 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 entity 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.

Initial recognition

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 municipal entity; and
- the cost or fair value of the asset can be measured reliably.

The municipal entity 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.

Intangible assets are initially recognised at cost.

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

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

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

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

Servitudes are classified as intangible assets. Servitudes are rights that are not amortised as they have an indefinite useful life.

Subsequent measuring

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

Servitudes are subsequently measured in accordance with the revaluation model.

Other intangible assets that are acquired by the municipal entity and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses.

Where an intangible asset is acquired at no cost, or for a nominal cost, the cost is deemed to be its fair value as at the date of acquisition.

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. However, servitudes that are created through an agreement (contract) are recognised as intangible assets.

1.5 Intangible assets (continued)

Subsequent expenditure

Expenditure on intangible assets shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. All other expenditure, including expenditure on internally generated goodwill and customer lists, is recognised in surplus or deficit as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Servitudes are not amortised as their nature are similar to that of land rights, which is not a depreciable item. Servitudes are rights that are not amortised as they have an indefinite useful life.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Item	Depreciation method	Average useful life
Computer software & licenses	Straight-line	1-5 years
Servitudes		Indefinite

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. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Intangible assets are derecognised on disposal or when no future economic benefits or services potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in the Statement of Financial Performance when the asset is derecognised.

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

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

Accounting Policies

1.6 Commitments

The term 'commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipal entity of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability e.g. a purchase contract. Such a decision is evidenced by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

The municipal entity may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the entity has contracted for expenditure but no work has started and no payments have been made.

The notes to the financial statements must disclose the nature and amount of each material individual expenditure commitment and each material class of capital expenditure commitment as well as non-cancelable operating leases contracted for at the reporting date. Commitments for the supply of inventories, where a liability under a contract has not yet been recognised, do not require disclosure as a commitment.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation is disclosed in a note to the financial statements, if both the following criteria are met:
- contracts should be non-cancelable or only cancelable 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 municipal entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.7 Financial instruments

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

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

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

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

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

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

1.7 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or -liability (or group of financial assets or -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 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, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

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

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

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

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

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

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

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

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

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

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

1.7 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipal 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 municipal entity designates at fair value at initial recognition; or
- are held for trading.

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

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

1.7 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Consumer receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Loans from shareholders	Financial liability measured at amortised cost
Other current liabilities	Financial liability measured at amortised cost
Other non-current liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

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

The municipal entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipal entity measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipal entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipal entity analyses a concessionary loan into its component parts and accounts for each component separately. The municipal entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

1.7 Financial instruments (continued)

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipal entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and 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 municipal 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 entity 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.

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

Reclassification

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

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

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

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

The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

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

Impairment and uncollectibility of financial assets

The municipal entity assess 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:

1.7 Financial instruments (continued)

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 (i.e. in the cases of other receivables and investments) or through the use of an allowance account (i.e. in the case of consumer receivables). 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.

For amounts due to the municipal entity, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets

The municipal entity derecognises financial assets using trade date accounting.

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

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

If the municipal entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipal 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 municipal entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipal entity recognise the new financial asset, financial liability or servicing liability at fair value.

1.7 Financial instruments (continued)

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 municipal entity has retained substantially all the risks and rewards of ownership of the transferred asset, the municipal entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipal entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

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

Presentation

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.8 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current tax and deferred taxes are recognised in net assets if the tax relates to items that are credited or recognised, in the same or a different period, to net assets.

Value added tax (VAT)

The municipal entity is registered with the South African Revenue Services (SARS) for VAT on the payments/cash basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991) and accounts for VAT on this basis. The municipal entity is liable to account for VAT at the standard rate of 15% in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipal entity accounts for VAT on a monthly basis.

1.9 Leases

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

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

1.9 Leases (continued)

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or where no interest rate implicit in the lease is available, the rate used is the municipal entity's incremental borrowing rate.

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

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

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

1.10 Inventories

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

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

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

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

Current replacement cost is the cost the municipal entity 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 municipal entity.

1.10 Inventories (continued)

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.

1.11 Impairment of cash-generating assets

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

Designation

At initial recognition, the municipal entity 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 the municipal entity's objective of using the asset.

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

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

Value in use

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

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

Where it is not practical to determine the fair value less costs to sell, the municipal entity uses the value in use.

1.11 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

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

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipal entity 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 municipal entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

1.11 Impairment of 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 municipal entity 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 municipal entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipal entity 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.

1.12 Impairment of non-cash-generating assets

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

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

Designation

At initial recognition, the municipal entity 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 the municipal entity's objective of using the asset.

The municipal entity 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 municipal entity 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 municipal entity 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 municipal entity 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 municipal entity 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 municipal entity 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

Where it is not practical to determine the fair value less costs to sell, the municipal entity uses the value in use.

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

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

Depreciated replacement cost approach

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

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

1.12 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 municipal entity 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 municipal entity 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 municipal entity 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.

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipal entity after deducting all of its liabilities.

1.14 Employee benefits

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

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

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

1.14 Employee benefits (continued)

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

1.14 Employee benefits (continued)

Other long-term employee benefits

For long service awards the cost of providing the benefits is determined using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries.

Actuarial gains and losses are recognised in the statement of financial performance in the period that they occur.

Gains or losses on the curtailment or settlement of long service awards are recognised when the municipal entity is demonstrably committed to curtailment or settlement.

The amount recognised in the statement of financial position represents the present value of the long service award obligation minus the fair value of plan assets, if any.

Actuarial assumptions are included in the note of long service awards.

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

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipal entity 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.

Reimbursements

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 municipal entity 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.

1.15 Provisions and contingencies (continued)

Provisions are not recognised for future operating surplus (deficit).

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the board.

A contingent liability is:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the board; or
- a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.16 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 entity 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, volume rebates and VAT.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipal entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipal entity 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 municipal entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.16 Revenue from exchange transactions (continued)

Rendering of services

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

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity;
- 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.

Service charges

Service charges relating to distribution of electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on historical information.

Pre-paid electricity

Pre-paid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the previous financial years' months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

Interest, royalties and dividends

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

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

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

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

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipal entity and the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

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 municipal entity 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 municipal entity.

When, as a result of a non-exchange transaction, the municipal entity 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.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipal entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

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

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.17 Revenue from non-exchange transactions (continued)

Other grants and donations

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

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

1.18 Service charges

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.19 Investment income

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

1.20 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.

1.21 Comparative figures

When the presentation or classification of an item in the financial statements are amended, comparative amounts are reclassified.

1.22 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. Detailed disclosure have been made in the notes to the financial statements as required by MFMA.

1.23 Irregular expenditure

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

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

1.23 Irregular expenditure (continued)

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 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 program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.24 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 when revalued buildings and infrastructure is disposed off or impaired, 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.

1.25 Budget information

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

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

The 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.

Comparative information is not required.

1.26 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.

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 municipal entity, including those charged with the governance of the municipal entity in accordance with legislation, in instances where they are required to perform such functions.

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

The municipal entity 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 municipal entity to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipal entity is exempt from the disclosures in accordance with the above, the municipal entity 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 financial statements.

1.27 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 municipal entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipal entity 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.

1.28 Accumulated surplus

The municipal entity’s surplus/deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

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

2. New standards and interpretations

GRAP 104 (amended): Financial Instruments

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

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

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

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

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

The entity is unable to reliably estimate the impact of the standard on the financial statements.

Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards

Objective of this directive: The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board (IASB®) for public entities (hereafter referred to as “an entity”) that meet the criteria to apply IFRS Standards as outlined in the Directive on The Selection of an Appropriate Reporting Framework by Public Entities (Directive 12).

Entities that apply IFRS Standards and operate in the public sector may need to formulate an accounting policy in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition (hereafter referred to as “formulating an accounting policy”) using other sources. When formulating an accounting policy in the absence of an IFRS Standard, the entity needs to consider its users and their information needs. Users of financial statements prepared using the IFRS Standards are interested in information on the return on their investments, and/or the return of their investments, and to make decisions about providing resources to the entity.

The objective of this Directive is to explain when, and in what circumstances, an entity may consider the principles in a Standard of GRAP when formulating such an accounting policy.

It covers: Scope, Formulating an accounting policy in the absence of a specific IFRS® Standard, and Basis for conclusions.

The effective date of the Directive is 01 April 2021.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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 2021.

The entity expects to adopt the standard for the first time in the 2000/2021 financial statements.

It is unlikely that the standard will have a material impact on the entity's 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.

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s 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 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).

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;

2. New standards and interpretations (continued)

- Related party transactions; and
- Remuneration of management

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

The entity expects to adopt the standard for the first time in the 2021/2021 financial statements.

The adoption of this standard is not expected to impact on the results of the entity, but may result in more disclosure than is currently provided in the 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 2021.

The entity expects to adopt the directive for the first time in the 2020/2021 financial statements.

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

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 for years beginning on or after 01 April 2099.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The entity does not envisage the adoption of the guideline until such time as it becomes applicable to the entity's operations.

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

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

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

The entity does not envisage the adoption of the guideline until such time as it becomes applicable to the entity's operations.

It is unlikely that the guideline will have a material impact on the entity's 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 2021.

The entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

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

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

2. New standards and interpretations (continued)

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

The entity does not envisage the adoption of the interpretation until such time as it becomes applicable to the entity's operations.

It is unlikely that the interpretation will have a material impact on the entity's 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 entity does not envisage the adoption of the standard until such time as it becomes applicable to the entity's operations.

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

Notes to the Financial Statements

	2021	2020

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Bank balances	15 812 101	32 502 505
Short-term deposits	8 935	5 008
	15 821 036	**32 507 513**

Short-term deposits consist of:

	2021	2020
ABSA - 1 Day call account	8 935	5 008

Short-term deposits consist of the following short-term investment with ABSA. The details and interest earned on this investment is set out below:

- ABSA 1 Day call account with varying interest rates between 0.00% and 6.70% depending on the amount invested and the change in the prime interest rate.

The municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
ABSA Bank - Cheque account - 4058833582	14 244 652	7 339 445	5 807 147	19 079 605	12 331 558	10 081 227
ABSA Bank - Cheque account - 4055133721	2 184	65 118	733	2 183	65 118	733
ABSA Bank - Cheque account - 4054065339	17 711	508 858	59 655	(15 526)	505 129	64 395
ABSA Bank - Cheque account - 470001402	3 678 568	28 037 946	5 497 729	(2 491 747)	21 868 526	5 498 154
ABSA Bank - Cheque account - 4054530924	(282)	815	(19 612)	(1 422)	(325)	(19 551)
ABSA Bank - Cheque account - 4078209583	126 423	905 890	43 229	(715 953)	(2 044 416)	(664 145)
ABSA Bank - Cheque account - 4080522070	3 684	66 316	1 806	11 049	(399 124)	(1 526 429)
ABSA Bank - Cheque account - 4080521896	656	128 543	1 504	656	128 543	1 504
ABSA Bank - Cheque account - 9326102088	98	60 816	3 337	(56 744)	47 496	(31 923)
ABSA Bank - 1 Day call account - 9280674256	8 935	5 008	151 944	8 935	5 008	151 944
Total	**18 082 629**	**37 118 755**	**11 547 472**	**15 821 036**	**32 507 513**	**13 555 909**

Notes to the Financial Statements

	2021	2020

4. Consumer receivables from exchange transactions

Gross balances		
Electricity	1 163 229 439	1 125 310 833
Less: Provision for impairment		
Electricity	(611 874 721)	(593 765 222)
Net balance		
Electricity	551 354 718	531 545 611
Electricity		
Current (0 -30 days)	134 296 956	315 011 235
31 - 60 days	27 717 628	25 055 231
61 - 90 days	23 062 385	26 163 572
90+ days	785 939 809	594 016 642
Meter reading estimate at year end (Consumption across year end)	192 217 513	165 099 316
Discounting	(4 852)	(35 163)
Provision for debt impairment	(611 874 721)	(593 765 222)
	551 354 718	**531 545 611**

Notes to the Financial Statements

	2021	2020

4. Consumer receivables from exchange transactions (continued)

Summary of debtors by customer classification

	2021	2020
Residential and sundry		
Current (0 -30 days)	11 217 663	8 987 539
31 - 60 days	1 471 178	1 506 814
61 - 90 days	1 066 046	1 106 688
90+ days	127 384 405	132 818 348
	141 139 292	**144 419 389**
Business/Commercial and municipal		
Current (0 -30 days)	104 414 047	78 392 941
31 - 60 days	15 179 747	14 972 970
61 - 90 days	11 626 830	15 156 959
90+ days	110 040 752	131 489 674
	241 261 376	**240 012 544**
Government		
Current (0 -30 days)	18 665 245	227 630 754
31 - 60 days	11 066 703	8 575 447
61 - 90 days	10 369 509	9 899 925
90+ days	548 514 652	329 708 620
	588 616 109	**575 814 746**
Total		
Current (0 -30 days)	134 296 956	315 011 235
31 - 60 days	27 717 628	25 055 231
61 - 90 days	23 062 385	26 163 572
90+ days	785 939 809	594 016 642
Meter reading estimate at year end (Consumption across year end)	192 217 513	165 099 316
Discounting	(4 852)	(35 163)
	1 163 229 439	1 125 310 833
Less: Provision for debt impairment	(611 874 721)	(593 765 222)
	551 354 718	**531 545 611**

Reconciliation of allowance for impairment

	2021	2020
Balance at beginning of the year	(593 765 222)	(470 863 468)
Contributions to allowance	(18 759 156)	(122 901 754)
Debt impairment written off against allowance	649 657	-
	(611 874 721)	**(593 765 222)**

Consumer receivables pledged as security

No consumer receivables were pledged as security in the current or prior financial period.

	2021	2020

4. Consumer receivables from exchange transactions (continued)

Fair value of consumer receivables

Consumer receivables are reflected net of the provision for doubtful debt and the effect of discounting. The interest rate used in discounting is the prime rate at period end adjusted for CPI applicable to the public sector.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 551 354 718 (2020: R 531 545 611) were past due but not impaired.

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

Current (0 -30 days)	125 870 338	305 121 665
31 - 60 days	21 153 461	17 205 924
61 - 90 days	15 779 308	14 886 159
90+ days	388 551 611	194 331 863
	551 354 718	**531 545 611**

Consumer debtors impaired

As of 30 June 2021, consumer debtors of R 611 874 721 (2020: R 593 765 222) were impaired and provided for.

The ageing is as follows:

Current (0 -30 days)	8 426 618	9 565 138
31 - 60 days	6 564 167	7 569 458
61 - 90 days	7 283 077	10 819 686
90+ days	589 600 859	565 810 940
	611 874 721	**593 765 222**

The municipal entity enters into settlement agreements with debtors whose accounts are long overdue and these agreements carry no interest. The balance that is settled over a period longer than 12 months is deemed to constitute a financing arrangement and is accounted for at the net present value of the future cash flows. The accounts which are due for more than 12 months are disclosed as non-current receivables.

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Unwinding of discount is included in the notes to the statement of financial performance. 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 consumer receivable mentioned above. The municipal entity does not hold any collateral as security.

Fair value of the consumer debtors approximates the carrying value at year end.

Notes to the Financial Statements

	2021	2020

5. Inventories

	2021	2020
Raw materials, components	97 964 030	110 121 195
	97 964 030	110 121 195
NRV adjustment	(1 377 458)	(2 345 148)
	96 586 572	**107 776 047**

An assessment of the net realisable value against cost was performed and inventory was written down.

Inventories that were recognised as stores issues during the year amounted to R64 340 213 (2020: R55 269 714), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security.

6. Other financial assets

	2021	2020
At amortised cost		
Kopanong Local Municipality	549 647	729 576
The capital funding provided to Kopanong Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%		
Mohokare Local Municipality	299 293	394 835
The capital funding provided to Mohokare Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%		
	848 940	**1 124 411**
Non-current assets		
Loans and receivables	573 470	848 941
Current assets		
Loans and receivables	275 470	275 470

Financial assets at fair value

Renegotiated terms

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

Fair value of the other financial assets approximates the carrying value at year end.

Financial assets pledged as security

None of the financial assets were pledged as security for any financial liabilities and no securities are held for any of the financial assets.

	2021	2020

7. Other receivables from exchange transactions

	2021	2020
Deposits	1 055 996	1 032 338
Kopanong Local Municipality	23 401 865	14 256 305
Mohokare Local Municipality	53 039 920	41 029 182
Other receivables	1 707 450	1 810 282
DOE Grant - Southern Free State Towns	4 737 728	4 737 728
Receipt reversal	451 044	734 887
Vendors	19 370 622	15 015 291
	103 764 625	**78 616 013**

No other receivables from exchange transactions were pledged as security for overdraft facilities of the municipal entity.

Fair value of other receivables

The creation and release of provision for impaired receivables have been included in expenses in surplus or deficit.

Unwinding of discount is included in interest received in surplus or deficit. 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 municipal entity does not hold any collateral as security.

Fair value of other receivables approximates the carrying value at year end.

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	9 331 313	-	9 331 313	9 331 312	-	9 331 312
Buildings	106 143 510	(15 641 798)	90 501 712	105 948 517	(12 079 848)	93 868 669
Motor vehicles	96 585 895	(80 842 298)	15 743 597	96 706 204	(76 727 150)	19 979 054
Office equipment	71 121 352	(47 184 740)	23 936 612	69 287 047	(40 370 667)	28 916 380
Infrastructure	7 249 715 957	(1 069 801 201)	6 179 914 756	7 137 564 718	(863 318 505)	6 274 246 213
Leased assets	6 789 345	(1 545 016)	5 244 329	969 283	(969 283)	-
Total	**7 539 687 372**	**(1 215 015 053)**	**6 324 672 319**	**7 419 807 081**	**(993 465 453)**	**6 426 341 628**

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
Land	9 331 312	-	-	-	-	-	-	-	9 331 312
Buildings	93 868 669	194 994	-	-	-	(3 561 951)	-	-	90 501 712
Infrastructure	6 274 246 213	11 286 867	(1 970 514)	106 687 355	(3 347 623)	(202 885 674)	(4 101 868)	-	6 179 914 756
Motor vehicles	19 979 054	-	(6 110)	-	-	(4 229 131)	(216)	-	15 743 597
Office equipment	28 916 380	1 919 228	(49 819)	-	-	(6 863 963)	-	14 786	23 936 612
Leased Assets	-	5 820 061	-	-	-	(575 732)	-	-	5 244 329
	6 426 341 628	**19 221 150**	**(2 026 443)**	**106 687 355**	**(3 347 623)**	**(218 116 451)**	**(4 102 084)**	**14 786**	**6 324 672 318**

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Capital work in progress	Revaluations	Depreciation	Impairment loss	Total
Land	9 859 500	-	-	-	(528 188)	-	-	9 331 312
Buildings	78 231 883	1 728 503	-	-	16 646 088	(2 737 805)	-	93 868 669
Infrastructure	3 705 489 243	97 067 017	(9 005 685)	(10 817 923)	2 621 110 854	(125 239 089)	(4 358 204)	6 274 246 213
Motor vehicles	26 022 354	-	(75 488)	-	-	(5 965 923)	(1 889)	19 979 054
Office equipment	31 784 226	5 925 987	(566 123)	-	-	(8 006 878)	(220 832)	28 916 380
Leased Assets	69 391	-	-	-	-	(69 391)	-	-
	3 851 456 597	**104 721 507**	**(9 647 296)**	**(10 817 923)**	**2 637 228 754**	**(142 019 086)**	**(4 580 925)**	**6 426 341 628**

Property, plant and equipment pledged as security

No property, plant and equipment are pledged as security

	2021	2020

8. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations for land and buildings was year end 30 June 2020. Revaluations for land and buildings were performed by the independent valuers, Mr. Theunis Hendrik Myburgh & Mr. Raymond Taylor, professional valuers in terms of the Valuers' Act (Act 23 of 1982) of Equity Valuers. Equity Valuers are not connected to the municipal entity.

The effective date of the revaluations for the infrastructure assets was year end 30 June 2020. Revaluations for infrastructure assets was performed by the independent valuers, Mr Marius Koch (B Eng Civil, BSC ITM (Information Technology) and Mrs. Anré Swart (Pr.Eng, GCC, MBA), Engineering Council of South Africa (ECSA) (Reg.no 20110016) from EMS Solutions (Pty) Ltd. EMS Solutions (Pty) Ltd is not connected to the municipal entity.

The valuations were performed using the depreciated replacement costs method.

Unit rates are obtained for each asset through quotation. Unit rates are adjusted with the following factors:

- Preliminary & General (P & G’s)

- Contingencies

- Engineering fees

- Location factor

The depreciated replacement costs are calculated by taking into account the estimated useful life and the condition of the asset.

Depreciated replacement costs = (Current Replacement Cost – Residual Value) x (Remaining Useful Life / Estimated Useful life) + Residual Value.

Restrictions on title

	2021	2020
Carrying value of assets not yet legally transferred from Mangaung Metropolitan Municipality to Centlec (SOC) Ltd in accordance with the Sale of Business agreement:		
The intention of the sale of business agreement was to sell the land and buildings to the municipal entity for operational usage. The municipal entity has been using the land and buildings for operational usage since inception, 1 July 2005, but as at year end 30 June 2020 the land and buildings have not yet been legally transferred from Mangaung Metropolitan Municipality to the municipal entity.	91 465 327	94 832 285

Notes to the Financial Statements

	2021	2020

8. Property, plant and equipment (continued)

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

Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Land	8 442 664	8 442 664
Buildings	242 500 160	173 423 348
	250 942 824	**181 866 012**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Buildings	8 442 664	8 442 664
The project to convert the old power station into offices was halted due to financial constraints, there was no indication of impairment at year end and therefore the work in progress value was not adjusted.		
Botshabelo substation and 132kv line project	98 327 336	98 327 336
The commissioning of the projects have been delayed as Eskom needs to do the necessary connections. This should take place in early 2021/2022.		
Solar farm project	591 000	591 000
The solar farm project has not as yet fully started, management is still in the process of evaluating whether this project will be initiated therefore the expense to date relating to the feasibility study will remain as work in progress until a final decision is taken on whether the solar farm project will continue or not.		
	107 361 000	**107 361 000**

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	173 423 346	173 423 346
Additions/capital expenditure	117 974 222	117 974 222
Transferred to completed items	(11 286 867)	(11 286 867)
	280 110 701	**280 110 701**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	184 241 270	184 241 270
Additions/capital expenditure	88 344 038	88 344 038
Transferred to completed items	(97 067 018)	(97 067 018)
Transferred to operating expenditure	(2 094 944)	(2 094 944)
	173 423 346	**173 423 346**

	2021	2020

8. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	50 418 987	34 294 101
General expenses	14 708 618	13 361 050
	65 127 605	**47 655 151**

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 municipal entity.

Notes to the Financial Statements

Figures in Rand

9. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licenses	64 626 618	(47 638 057)	16 988 561	55 609 005	(37 973 648)	17 635 357
Servitudes	78 242 566	-	78 242 566	69 406 369	8 836 197	78 242 566
Total	**142 869 184**	**(47 638 057)**	**95 231 127**	**125 015 374**	**(29 137 451)**	**95 877 923**

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software and licenses	17 635 357	9 017 612	(9 664 408)	16 988 561
Servitudes	78 242 566	-	-	78 242 566
	95 877 923	**9 017 612**	**(9 664 408)**	**95 231 127**

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Work in progress	Amortisation	Impairment loss	Impairment reversal	Total
Computer software and licenses	11 842 019	14 053 819	-	(8 211 692)	(48 789)	-	17 635 357
Servitudes	69 220 089	-	186 280	-	-	8 836 197	78 242 566
	81 062 108	**14 053 819**	**186 280**	**(8 211 692)**	**(48 789)**	**8 836 197**	**95 877 923**

	2021	2020

9. Intangible assets (continued)

Pledged as security

No intangible assets are 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 municipal entity.

Intangible assets in the process of being constructed or developed

	2021	2020
Cumulative expenditure recognised in the carrying value of Intangible assets		
Servitudes	-	186 280

	2021	2020

10. Deferred tax

Deferred tax liability

Opening balance	(1 412 657 987)	(667 591 871)
Property, plant and equipment	28 204 347	(745 017 301)
Taxable temporary differences	528 842	(48 815)
Total deferred tax liability	**(1 383 924 798)**	**(1 412 657 987)**

Deferred tax asset

Opening balance	1 295 275 994	454 432 719
Taxable temporary differences	8 065 629	90 141 239
Tax losses available for set off against future taxable income	(14 437 730)	750 702 036
Total deferred tax asset	**1 288 903 893**	**1 295 275 994**
Deferred tax liability	(1 383 924 798)	(1 412 657 987)
Deferred tax asset	1 288 903 893	1 295 275 994
Total net deferred tax liability	**(95 020 905)**	**(117 381 993)**

Reconciliation of deferred tax asset \ (liability)

At beginning of year	(117 381 993)	(213 159 152)
Depreciable assets	28 204 347	(745 017 301)
Finance lease	19 130	-
Provisions	8 575 341	90 092 424
Assessed loss	(14 437 730)	750 702 036
	(95 020 905)	**(117 381 993)**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a deficit in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

The deferred tax asset arose as a result of the municipal entity not having been subject to income tax in the past. However in the 2014/15 financial year the municipal entity had to account for income tax which resulted in the wear and tear allowances being in excess of the available surplus. The municipal entity has the ability to generate profit in the foreseeable future against which temporary differences will be utilised.

Deferred tax assumptions

As at 30 June 2016 no guidance was received from SARS on the transition from a tax exempt entity to a taxable entity. Due to this, uncertainties in the calculation of the municipal entity's taxation exist and will continue to exist going forward until a pronunciation is made by SARS on the municipal entity's tax calculation. In the absence of a pronunciation from SARS and the fact that the municipal entity is no longer tax exempt, the municipal entity had to make certain key assumptions relating to income- and deferred tax to be able to account for tax. These assumptions are set out as follows:

10. Deferred tax (continued)

Infrastructure assets

The base cost for the electrical infrastructure assets of the municipal entity was determined by using the audited infrastructure fixed asset register. The tax exemption for the municipal entity was no longer applicable as at the 1 July 2014, on this date the municipal entity embarked on an exercise to determine the base cost for each of the Infrastructure assets. The closing balance for the 2013/2014 financial year was deemed as the most accurate value to be used as the base cost and carrying values for tax purposes moving forward. Up until 1 July 2014 management had never claimed any wear & tear on infrastructure assets. The base cost was therefore the deemed cost as at 1 July 2014.

Infrastructure assets of the municipal entity are all carried on the revaluation model as per General Recognised Accounting Standards 17 - Property plant and equipment. There is no General Recognised Accounting Standards standard applicable to taxation, therefore the municipal entity referred to the international accounting standards (IAS) for further guidance, which is IAS 12: Income taxation. Through inspection of the income tax act and the practice notes it was noted that there was no clear guidance regarding the write off periods for electrical infrastructure assets. Due to this Section 12D of the income tax action was deemed as the best alternative to use to determine the write off periods for most of the electrical infrastructure assets. Section 12D was applied to the following electrical infrastructure assets: High Voltage conductors, Medium Voltage conductors, Low Voltage conductors and the Streetlights. All other categories of infrastructure assets could operate independent of transmission lines and Section 12D would not be applicable to these assets.

As per the Income Tax Act, 1962 (Act 58 of 1962) the kind of information that could be useful in determining the expected useful life of an asset/write off period include:

- Independent engineering information;

- The taxpayer's own past experience with similar assets;

Based on the above and due to insufficient guidance in the Income Tax Act, 1962 (Act 58 of 1962) the option of best professional judgment in determining an accurate write off period for the Infrastructure assets was used as follows:

- For all the distribution lines and cables a 5% write off period was used

- For all other infrastructure assets a 5 year write off period was adopted as the assets have been in operation for some time and as per the engineering information they cannot fall within Section 12D of the Income Tax Act, 1962 (Act 58 of 1962) .

Section 12 of the Income Tax Act, 1962 (Act 58 of 1962) was applied therefore no apportionment of the wear and tear was done. The wear and tear of assets is the amount that the South African Receiver of Revenue considers an appropriate write off timeframe for each asset. The wear and tear was calculated as follows:

- The depreciated replacement cost was taken per asset and any addition for the year was added and this value was multiplied by 20%

- When an asset is disposed of during the financial year wear and tear is still calculated for that asset and an inspection for a possible recoupment is done.

Non-Infrastructure assets

All assets other than infrastructure assets were written off by making use of Practice note 19.

Debt impairment

The provision for debt impairment is limited as a tax deduction to the extent that the originating revenue was taxable. Since the municipal entity was tax exempt for a period the revenue recognised and subsequently impaired during this period could not fully be included as a tax deduction. Due to this only the movement in the debt impairment for the year when the municipal entity first became taxable was used in calculating the tax.

Notes to the Financial Statements

	2021	2020

11. Consumer deposits

Electricity	127 042 880	128 776 174

Guarantees in lieu of vendor deposits amounted to R 2 153 891 (2020: R 2 153 891).

Guarantees in lieu of consumer deposits amounted to R 37 329 195 (2020: R 39 164 721).

Fair value approximates the carrying value of the vendor deposits.

12. Finance lease obligation

Minimum lease payments due		
- within one year	2 229 052	-
- in second to fifth year inclusive	3 795 876	-
	6 024 928	-
less: future finance charges	(712 276)	-
Present value of minimum lease payments	**5 312 652**	**-**

Present value of minimum lease payments due		
- within one year	1 813 226	-
- in second to fifth year inclusive	3 499 425	-
	5 312 651	**-**

Non-current liabilities	3 499 425	-
Current liabilities	1 813 226	-
	5 312 651	**-**

It is the municipal entity's policy to lease certain photo copier machines under finance leases. The average lease term is 3 years and the average effective borrowing rate was 9.25%. Initial lease payments varied between R6 442 and R8 647 per month and are subject to prime lending rates.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	2021	2020

13. Long service awards

Reconciliation of long service awards - 2021

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	20 999 000	816 012	(955 011)	2 255 000	2 534 000	25 649 001

Reconciliation of long service awards - 2020

	Opening Balance	Actuarial (gains)/losses	Utilised during the year	Current service costs	Interest costs	Total
Provision for long service award	20 282 000	(2 095 649)	(1 548 351)	2 392 000	1 969 000	20 999 000

	2021	2020
Non-current liabilities	23 818 001	17 728 000
Current liabilities	1 831 000	3 271 000
Present value of long service awards obligation	**25 649 001**	**20 999 000**

The long service awards liability arises from the municipal entity being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC . This agreement is effective from 1 July 2010.

The long service awards plan is a defined benefit plan. At year end 632 (2020 - 648) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 2 255 000 (2020 - R 2 392 000) whereas the interest-cost for the next year is estimated to be R 2 534 000 (2020 - R 1 969 000).

As at the valuation date, the long service award liability of the organisation was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets were valued as part of the valuation.

Valuation method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Long service awards liabilities

The expected value of each employee’s long service award is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. The awarded leave days have been converted into a percentage of the employee’s annual salary. The conversion is based on a 250 working day year.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. There was also allowed for mortality, retirements and withdrawals from service.

The accrued liability is determined on the basis that each employee’s long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable.

	2021	2020

13. Long service awards (continued)

The key assumptions utilised by management in determining the long service awards liability are listed below:

Discount rate	Yield Curve	Yield Curve
Normal salary increase rate	CPI + 1%	CPI + 1%
Net effective discount rate	Yield Curve Based	Yield Curve Based
Mortality	SA 85-90 mortality tables	SA 85-90 mortality tables
Normal retirement age	65	65
Average retirement age	63	63
Consumer price inflation (CPI)	Difference between nominal and real yield curve	Difference between nominal and real yield curve

Total expense recognised in the statement of financial performance under the line item employee related costs:

Current service cost	2 255 000	2 392 000
Interest cost	2 534 000	1 969 000
Actuarial (gains) / losses	816 012	(2 095 649)
	5 605 012	**2 265 351**

Present value of long service award obligation:

Present value of long service award as at 30 June 2021	(25 649 001)
Present value of long service award as at 30 June 2020	(20 999 000)
Present value of long service award as at 30 June 2019	(20 282 000)
Present value of long service award as at 30 June 2018	(19 812 000)
Present value of long service award as at 30 June 2017	(15 453 000)

Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation/increase.

Discount rate:

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"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. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

In accordance with the above, the nominal and real zero curves as at 30 June 2021 supplied by the JSE was used to determine the discounted rates and CPI assumptions at each relevant time period.

13. Long service awards (continued)

The net effective discount rate:.

The net effective discount rate is different for each relevant time period of the yield curves’ various durations and therefore the net effective discount rate is based on the relationship between the (yield curve based) discount rate for each relevant time period and the (yield curve based) salary Inflation for each relevant time period.

Normal salary inflation/increase rate:

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2021 of 6.25%. The next salary increase was assumed to take place on 01 July 2022.

Interest cost:

The interest cost represents the accrual of interest on the accrued defined benefit obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment.

Current service cost:

The current service cost reflects the additional liability that is expected to accrue in respect of in members’ service over the corresponding year.

Actuarial loss:

The main reasons for the actuarial loss can be attributed to the following factors:

1. Changes in economic variables - The nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period. As a result, the interest rates, bond yields and inflation figures changed. This resulted in an increase in liability of around R 1,169,000.

2. Membership and other experience changes - Over the past financial year, membership and other demographic changes was different to what was assumed in the previous valuation. This, along with some other smaller factors, resulted in a decrease in liability of around R352,988.

Sensitivity analysis:

In order to illustrate the sensitivity of the results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the normal salary cost inflation

Withdrawal rate:

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Organisation. If the actual rate of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Organisation in the form of benefits will reduce and vice versa. The effect of higher and lower withdrawal rates have been illustrated by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

	2021	2020

13. Long service awards (continued)

Withdrawal rate	-20% Withdrawal rate	Valuation Assumption	+20% Withdrawal rate
Total Accrued Liability	26 890 000	25 649 000	24 519 000
Current Service Cost	2 744 000	2 579 000	2 431 000
Interest Cost	2 931 000	2 789 000	2 660 000
	32 565 000	**31 017 000**	**29 610 000**

Normal salary inflation:

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees. The effect of a 1% p.a. change in the normal salary inflation assumption was tested. The effect is as follows:

Normal salary inflation	-1% Normal salary inflation	Valuation Assumption	+1% Normal salary inflation
Total Accrued Liability	24 216 000	25 649 000	27 218 000
Current Service Cost	2 421 000	2 579 000	2 753 000
Interest Cost	2 627 000	2 789 000	2 966 000
	29 264 000	**31 017 000**	**32 937 000**

14. Other financial liabilities

At amortised cost	2021	2020
Capital Advances Mangaung Metropolitan Municipality	61 003 647	67 700 656
The capital funding provided to the municipal entity is repayable in monthly instalments based on the estimated useful life of the capital asset as initially determined by Mangaung Metropolitan Municipality. The capital funding provided to the municipal entity will bear interest annually at the interest rate equal to the prime lending rate on the first day of each financial year and shall thereafter be fixed for the entire financial year. The prime interest rate at 1 July 2020 was 7.25% (2019/20: 10.25%)		
Intercompany loan	799 244 929	850 541 758
The repayment terms of the intercompany loan was amended to be payable at the end of June 2023. The intercompany loan bears interest annually at the interest rate equal to the prime lending rate on the first day of each financial year calculated on the average of the opening balance and closing balance of the loan. The prime interest rate at 1 July 2020 was 7.25% (2019/20: 10.25%)		
	860 248 576	**918 242 414**
Total other financial liabilities	**860 248 576**	**918 242 414**

There were no defaults on the financial liability during the reporting period.

Non-current liabilities		
At amortised cost	853 593 866	911 545 405
Current liabilities		
At amortised cost	6 654 710	6 697 009

Notes to the Financial Statements

	2021	2020

15. Payables from exchange transactions

Accrued bonus	8 994 715	8 439 819
Accrued leave pay	43 883 853	36 024 307
Deferred revenue	20 292 339	18 201 411
Electricity connections	22 006 417	13 607 092
Mantsopa Local Municipality	5 707 232	2 659 168
Operating expense accrual	4 820 553	15 271 652
Retention creditors	761 350	818 538
Salary control	5 308 799	3 551 908
Trade payables	351 862 935	390 358 933
Unallocated consumer and vendor payments received in advance	59 379 245	56 563 726
	523 017 438	**545 496 554**

16. VAT liability

VAT liability	169 841 888	135 341 840

17. Loans to (from) shareholders

Mangaung Metropolitan Municipality	(803 609 369)	(803 609 369)

The loans are unsecured and bears interest at the lower of 15% of the revenue (sale of electricity and pre-paid electricity) of the municipal entity for the previous financial year or the interest rate on the loan for the financial year ended 30 June 2011 adjusted annually for the CPI applicable to the Public Finance Sector.

Instalments of R267 867 789 are payable every five (5) years with the initial payment on 30 June 2015.

There were no defaults on the shareholders loan during the reporting period.

18. Share capital / contributed capital

Authorised

1000 Ordinary shares of par value of R1	1 000	1 000

Issued

100 Ordinary shares	100	100

19. Revaluation reserve

Revaluation surplus beginning of period	4 097 258 330	1 460 029 577
Movements in the reserve for the year	(3 347 623)	2 637 228 753
	4 093 910 707	**4 097 258 330**

Notes to the Financial Statements

	2021	2020

20. Other NDR

In accordance with the terms of the NERSA (National Energy Regulator of South Africa) agreement it was agreed that R60 000 000 is to be held as a non-distributable reserve.

	2021	2020
Non-distributable reserve beginning of period	60 000 000	60 000 000
Movements in the reserve for the year	-	-
Closing balance	**60 000 000**	**60 000 000**

21. Service charges

	2021	2020
Free services recoverable	19 615 510	17 762 839
Sale of electricity	1 556 259 365	1 528 629 017
Sale of pre-paid electricity	1 020 950 491	957 330 446
	2 596 825 366	**2 503 722 302**

22. Other income

	2021	2020
Advertisement	23 115	46 750
Credit control fees	6 840 341	5 463 290
Fines & reconnection income	3 791 191	2 777 793
Insurance claim recovery	-	415 142
New connections	7 080 600	9 949 952
Sale of clearance certificates	781 215	614 189
Sale of tender documents	-	12 026
Street lighting	78 338 714	72 070 304
Training income	373 756	5 904
Transaction handling fees	17 527	-
	97 246 459	**91 355 350**

23. Interest Income

Interest revenue

	2021	2020
Interest on ABSA current account	540 472	2 354 213
Interest on loans and other receivables from exchange transactions	112 441	139 988
Interest on consumer receivables from exchange transactions	22 985 879	25 239 164
Interest on bank investments	97 136	584 064
Interest received - Eskom deposit	23 658	25 970
	23 759 586	**28 343 399**

Short-term deposits consists of an ABSA 1 Day call account with varying interest rates between 0.00% and 6.45% depending on the amount invested and the change in the prime interest rate

Notes to the Financial Statements

	2021	2020

24. Government grants & subsidies

Capital grants

Urban settlements development grant	43 760 976	22 608 696

Urban Settlements Development Grant

Current-year receipts	43 760 976	22 608 696
Conditions met - transferred to revenue	(43 760 976)	(22 608 696)
	-	-

The purpose of the grant is to upgrade informal settlements, either by creating formal housing or by upgrading services to informal settlements.

The conditions were met and the grant was transferred to revenue.

25. Unclaimed Money Forfeits

Unclaimed Money Forfeits	7 726 878	-

During the current financial year unclaimed monies older than 3 years was recognised as revenue.

26. Revenue

Service charges	2 596 825 366	2 503 722 302
Agency services	6 444 060	5 566 565
Inventories reversal	348 677	1 787 308
Other income	97 246 459	91 355 350
Interest received	23 759 586	28 343 399
Government grants & subsidies	43 760 976	22 608 696
Public contributions & donations	-	6 183 336
Unclaimed money forfeits	7 726 878	-
	2 776 112 002	**2 659 566 956**

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

Service charges	2 596 825 366	2 503 722 302
Interest income	6 444 060	5 566 565
Other income	97 246 459	91 355 350
Interest income	23 759 586	28 343 399
	2 724 275 471	**2 628 987 616**

Notes to the Financial Statements

	2021	2020

26. Revenue (continued)

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

Government grants & subsidies	43 760 976	22 608 696
Public contributions & donations	-	6 183 336
Unclaimed money forfeits	7 726 878	-
	51 487 854	**28 792 032**

27. Employee related costs

Basic salary and wages	247 982 144	237 750 941
Bargaining council	79 487	76 158
Housing benefits and allowances	1 499 058	1 345 315
Leave pay provision charge	8 196 701	4 650 014
Long-service awards	5 605 013	2 265 351
Medical aid - company contributions	22 412 263	21 186 349
Overtime payments	47 094 347	42 065 447
Pension and provident fund contributions	38 109 031	35 942 279
Travel, motor car, accommodation, subsistence and other allowances	25 312 702	24 662 575
UIF	1 220 070	1 219 377
	397 510 816	**371 163 806**

Remuneration of Chief Executive Officer - Mr. MS Sekoboto

Annual Remuneration	1 111 630	2 044 716
Travel, motor car, accommodation, subsistence and other allowances	72 000	24 294
Contributions to UIF, Medical and Pension Funds	12 696	65 701
Acting allowance	159 837	-
	1 356 163	**2 134 711**

Mr. NA Mgoqi's employment contract came to an end during June 2020.

During January 2021 Mr. MS Sekoboto was appointed as the Chief Executive Officer after acting in the position since July 2020.

Remuneration of Chief Financial Officer - Mr. MM Matsimela

Annual Remuneration	1 066 095	1 430 637
Travel, motor car, accommodation, subsistence and other allowances	73 800	99 566
Contributions to UIF, medical and pension funds	13 359	16 371
Acting allowance	30 010	-
	1 183 264	**1 546 574**

Mr. MM. Matsimela resigned as Chief Financial Officer during March 2021. Mr. SK Zziwa was appointed as acting Chief Financial Officer.

	2021	2020

27. Employee related costs (continued)

Remuneration of Executive Manager: Compliance and Performance - Me. NA Leteno

Annual Remuneration	981 395	963 613
Travel, motor car, accommodation, subsistence and other allowances	254 400	254 400
Contributions to UIF, medical and pension funds	14 344	13 061
	1 250 139	**1 231 074**

Remuneration of Company Secretary - Mr. T Malgas

Annual Remuneration	1 339 070	1 311 956
Travel, motor car, accommodation, subsistence and other allowances	152 400	143 121
Contributions to UIF, medical and pension funds	17 217	33 241
	1 508 687	**1 488 318**

Remuneration of Executive Manager: Retail - Mr. SS Mokoena

Annual Remuneration	931 895	1 002 613
Travel, motor car, accommodation, subsistence and other allowances	303 900	215 400
Contributions to UIF, Medical and Pension Funds	14 245	13 139
	1 250 040	**1 231 152**

Remuneration of Executive Manager: Wires

Annual Remuneration	-	1 297 263
Travel, motor car, accommodation, subsistence and other allowances	-	132 294
Contributions to UIF, medical and pension funds	-	15 319
Acting allowance	98 377	-
	98 377	**1 444 876**

During July 2020 Mr. MS Sekoboto, the Executive Manager: Wires at the time, was appointed as the acting Chief Executive Officer and subsequently appointed as the permanent Chief Executive Officer during January 2021. This resulted in Mr. P Mohapi and Mr. XG Faku being appointed as acting Executive Manager: Wires during the 2020/21 financial year in 3 month intervals.

Remuneration of Executive Manager: Human Resources

Annual Remuneration	-	1 359 973
Travel, motor car, accommodation, subsistence and other allowances	-	197 251
Contributions to UIF, medical and pension funds	-	16 423
Acting allowance	78 235	-
	78 235	**1 573 647**

Me. S Molefe's employment contract came to an end during June 2020. During July 2020 Me. M Molemela was appointed as acting Executive Manager: Human Resources. During January 2021 the Executive Manager: Human Resources responsibilities were temporarily taken over by the office of the Chief Executive Officer.

	2021	2020

27. Employee related costs (continued)

Remuneration of non-executive directors

Annual Remuneration	392 671	597 228
Contributions to UIF, medical and pension funds	7 044	11 300
	399 715	**608 528**

Refer to note 44 for details of the remuneration per person.

28. Depreciation and amortisation

Property, plant and equipment	218 116 451	142 019 086
Intangible assets	9 664 408	8 211 692
	227 780 859	**150 230 778**

29. Impairment loss / (reversal of impairments)

Impairments

Property, plant and equipment The recoverable amount of the asset was assessed at the end of the financial year and it was found to be less than the carrying amount of the asset and an impairment loss was raised.	4 087 298	4 629 715
Intangible assets - Servitudes The recoverable amount of the servitudes was assessed at the end of the financial year by comparing the servitudes value against the updated municipal property valuation roll. The nett recoverable amount was found to be more than the carrying amount of the asset and an impairment reversal was raised.	-	(8 836 197)
Inventories An assessment of the net realisable value against cost was performed and inventory was written down.	(967 690)	921 032
	3 119 608	**(3 285 450)**

30. Finance costs

Capital advances Mangaung Metropolitan Municipality	4 908 298	7 625 761
Finance leases	154 818	-
Interest on intercompany loan	55 112 213	62 582 404
Shareholders loan	133 787 468	171 577 388
Trade and other payables	11 863 145	17 443 293
	205 825 942	**259 228 846**

31. (Reversal of) / Contributions to debt impairment provision

(Reversal of) / Contributions to debt impairment provision	18 759 156	126 398 872

32. Bulk purchases

Electricity - Eskom	1 780 067 168	1 692 794 873

Notes to the Financial Statements

33. General expenses

	2021	2020
Advertising & marketing	251 869	738 350
Auditors remuneration	6 284 386	5 981 519
Bank charges	1 768 234	1 463 439
Bursaries	347 681	247 273
Cleaning	155 289	839 442
Commission paid	48 088 511	53 807 642
Conferences and delegations	63 369	284 852
Consulting and professional fees	19 878 380	22 856 704
Contractors fees	-	536 988
Credit control fees	146 174	15 186
Entertainment	35 640	120 527
Fuel and oil	5 623 237	7 642 862
Fumigation	28 706	2 659 860
Insurance	5 091 967	4 665 783
Internal audit fee	1 931 272	1 705 890
Lease rentals on operating lease	759 406	690 369
Legal costs	6 292 144	1 423 537
Legal settlements	-	10 000
License fees	4 601 088	439 906
Meter reading	953 009	5 447 444
Other expenses	10 372	101 982
Printing and stationery	1 645 961	2 530 874
Protective clothing	1 229 012	1 461 269
Rented office buildings utilities - Water	61 441	179 133
Repairs and maintenance	65 127 605	47 655 151
Security services	1 549 800	869 960
Skills development levy	3 201 810	3 046 173
Staff welfare	52 443	11 704
Stores and materials	624 724	771 825
Subscriptions and membership fees	84 476	70 532
Telephone and fax	4 699 066	3 734 525
Training	185 942	2 724 342
Travelling	108 242	741 106
Workman's compensation	4 559 394	4 415 049
	185 440 650	**179 891 198**

Notes to the Financial Statements

34. Taxation

Major components of the tax income

	2021	2020
Current		
Local income tax - current period	-	-
Deferred		
Originating and reversing temporary differences	(36 798 818)	654 924 877
Assessed loss used	1 147 178 657	396 476 621
Assessed loss raised	(1 132 740 927)	(1 147 178 657)
	(22 361 088)	**(95 777 159)**

Reconciliation of the tax expense

Reconciliation between accounting surplus and tax expense.

	2021	2020
Accounting deficit	(44 418 636)	(126 503 266)
Tax at the applicable tax rate of 28% (2020: 28%)	(12 437 218)	(35 420 914)
Tax effect of adjustments on taxable income		
Non-taxable income	(12 253 073)	(6 330 435)
Non-deductible expenses	2 329 203	(54 025 810)
	(22 361 088)	**(95 777 159)**

35. Net cash flows from operating activities

	2021	2020
Deficit	(22 057 548)	(30 726 107)
Adjustments for:		
Depreciation and amortisation	227 780 859	150 230 778
(Gain)/Loss on sale of assets and liabilities	2 026 439	9 647 299
Finance costs - Finance leases	154 818	-
Impairment	3 119 608	(3 285 450)
Debt impairment	18 759 156	126 398 872
Movements in long service awards	4 650 001	717 000
Annual charge for deferred tax	(22 361 088)	(95 777 159)
Changes in working capital:		
Inventories	12 157 165	(21 329 142)
Other receivables from exchange transactions	(25 148 612)	(10 268 353)
Consumer receivables from exchange transactions	(38 568 263)	(177 380 835)
Payables from exchange transactions	(22 479 116)	59 142 026
VAT receivable / payable	34 500 048	34 346 894
Consumer deposits	(1 733 294)	13 723 066
	170 800 173	**55 438 889**

36. Auditors' remuneration

	2021	2020
Audit fees	6 284 386	5 981 519

Notes to the Financial Statements

	2021	2020

37. Commitments

Authorised capital expenditure

Approved and contracted for		
• Property, plant and equipment- infrastructure	27 947 533	36 842 421
Total capital commitments		
Approved and contracted for	27 947 533	36 842 421

Authorised operational expenditure

Approved and contracted for		
• Contracted services	1 315 869	12 754 413
Total operational commitments		
Approved and contracted for	1 315 869	12 754 413

Total commitments

Total commitments		
Authorised capital expenditure	27 947 533	36 842 421
Authorised operational expenditure	1 315 869	12 754 413
	29 263 402	**49 596 834**

This committed expenditure relates to Infrastructure and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

All commitments include VAT.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	835 347	759 406

The municipal entity leases a building situated in Botshabelo from Free State Development Corporation (FDC) for an indefinite period which can be terminated by way of a 3 month cancellation clause. Management agreed to rent from FDC for the next financial year at the end of which management will re-assess the likelihood of extending the lease further. The lease rental is escalated annually on 1 December by 10%.

Notes to the Financial Statements

38. Contingencies

The municipal entity is being sued for the following pending claims. All the claims are being contested based on legal advice. The certainty and the timing of the outflow of these liabilities are uncertain. The possibility for reimbursements relating to these liabilities are uncertain.

	2021	2020
Contingent liabilities		
Litigations of Centlec (SOC) Ltd vs RR Burger - Litigation against Centlec (SOC) Ltd relating to fines levied on tampering of electricity.	-	50 000
Litigations of Centlec (SOC) Ltd vs RPS Engineering - Litigation against Centlec (SOC) Ltd relating to payments.	-	7 000 000
Litigations of Centlec (SOC) Ltd vs Jimmy Roos School and one other - Litigation relating to damages caused by fire.	-	1 300 000
Litigations of Centlec (SOC) Ltd vs Makola - Litigation relating to repayment of an amount paid by the plaintiff in respect of a quotation for tampering	80 000	50 000
L Masepole and 3 others vs Centlec (SOC) Ltd. Litigation relating to declaring the revocation of their promotion unlawful.	-	500 000
SAMWU OBO M N Zweni vs Centlec (SOC) Ltd litigation relates to unfair labour practice.	-	1 500 000
Litigations of Centlec (SOC) Ltd vs H Potgieter relating to civil claim for past and future damages suffered.	1 120 771	1 120 771
Litigations of Centlec (SOC) Ltd vs Van den Berg and 5 others - Litigation against Centlec (SOC) Ltd relating to a claim for damages suffered as a result of a veldt fire allegedly caused by Centlec (SOC) Ltd.	8 000 000	7 000 000
Litigations of Centlec (SOC) Ltd vs Roberts - Litigation relating to a rescission application and instruction to oppose the matter.	-	30 000
Litigations of Centlec (SOC) Ltd vs KM Moroole - Litigation relating to a summons for a motor vehicle accident.	100 000	100 000
Litigations of Centlec (SOC) Ltd vs Combrinck - Action instituted against Centlec and MMM due to improper disconnection.	-	50 000
Litigations of Centlec (SOC) Ltd vs MJ Makofane - Litigation relating to restoration of electricity supply and damages.	100 000	50 000
Litigations of Centlec (SOC) Ltd vs Mankhele - Litigation relating to pension fund claim documentation submission to SALA & legal costs.	62 951	1 000 000
Litigations of Centlec (SOC) Ltd vs C Strydom - Litigation relating to electrical tampering.	-	130 000
Litigations of Centlec (SOC) Ltd vs Bonakele Daniel - Litigation relating to damages to electrical appliances.	48 000	60 000
Litigations of Centlec (SOC) Ltd vs Ramothello inc. - Litigation relating to claims. Summons were issued, pleas & counter-claim received.	184 000	-
Litigations of Centlec (SOC) Ltd vs Various Government Institutions - Litigation relating to IGR processes.	173 000	-
Litigations of Centlec (SOC) Ltd vs Impala restaurant Edenburg - Litigation relating to electricity disconnection being contested.	15 000	-
Litigations of Centlec (SOC) Ltd vs Woodland Hills Wildlife Estate (Pty) Ltd - Litigation relating to services to be rendered by Centlec (SOC) Ltd & asociated legal costs.	150 000	-
Litigations of Centlec (SOC) Ltd vs KPM/CMAI/DOMANI Joint venture - Litigation relating to alleged services rendered to Centlec (SOC) Ltd.	2 000 000	-
Litigations of Centlec (SOC) Ltd vs Boompies kitchen - Litigation relating to alleged meter tampering and electricity disconnection.	200 000	-
Litigations of Centlec (SOC) Ltd vs Legends 8079 (PTY) Ltd - Litigation relating to a claim for goods allegedly delivered to Centlec (SOC) Ltd.	1 600 000	-
Litigations of Centlec (SOC) Ltd vs JC Nel - Labour dispute relating to unfair dismissal claim.	93 713	-
Litigations of Centlec (SOC) Ltd vs IMATU OBO MPJ Xaba & 2 others - Labour dispute relating to unfair labour practice claim.	23 669	-
Litigations of Centlec (SOC) Ltd vs IMATU OBO MPJ Xaba & 2 others - Section 74 labour dispute.	16 100	-

Notes to the Financial Statements

	2021	2020

38. Contingencies (continued)

Litigations of Centlec (SOC) Ltd vs MS Moloabi - Labour dispute relating to unfair dismissal claim.	28 568	-
Litigations of Centlec (SOC) Ltd vs SAMWU OBO Z Williams - Labour dispute relating to unfair dismissal claim.	2 000 000	-
	15 995 772	**19 940 771**

39. Change in estimate

Property, plant and equipment

During the year, the municipal entity changed its accounting estimates with respect to property, plant and equipment. In order to conform with the benchmark treatment of GRAP17, the residual values, estimated useful lives and depreciation method were reviewed at 30 June 2021. Adjustments to the useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well.

The aggregate effect of the changes in accounting estimate on the financial statements for the year ended 30 June 2021 is as follows

Depreciation expense before remaining useful lives review	25 859 791
Future decrease in depreciation due to review	(4 668 747)
Depreciation expense after remaining useful lives review	**21 191 044**

	2021	2020

40. Prior period errors

The municipal entity corrected the following prior period errors retrospectively and restated comparative amounts In terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors:

40.1. Prior period error - Cash and cash equivalents:

During the period under review it was noted that ACB payments relating to periods prior to the comparative year was incorrectly captured against the cash book and reflecting as a reconciling item. These transactions were investigated and it was determined that they should have been stopped and cancelled. A correction was made and the comparative statements for the 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in cash and cash equivalents	114 081
Statement of financial performance	
Increase in opening accumulated surplus or deficit	(114 081)

40.2. Prior period error - Debt impairment:

During the period under review it was noted that government debt was excluded from the debt impairment provision in the current and prior years. The debt impairment methodology was revised to include impairment testing for government debt. A correction was made and the comparative statements for the 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in consumer receivables from exchange transactions	(337 005 884)
Statement of financial performance	
Increase in contributions to debt impairment provision	48 724 257
Decrease in opening accumulated surplus or deficit	288 281 627

40.3. Prior period error - Taxation:

During the period under review restatements were made to the 2019/20 comparative figures resulting in a change to the net surplus/(deficit) before taxation which in turn resulted in a change to the deferred- and income tax calculations. The calculation was adjusted and the comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in deferred tax asset	70 771 236
Statement of financial performance	
Decrease in taxation	(70 771 236)

41. Events after the reporting date

The directors are not aware of any material matter or circumstances arising since the end of the financial year to the date of this report in respect of matters which would require adjustments to or disclosures in the financial statements.

42. Going concern

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

- Total assets (R 8 477 183 230) exceed total liabilities (R 3 898 646 601).

- The municipal entity has an accumulated surplus and other reserves of R 4 578 536 629.

The following analysis illustrates material uncertainties that may affect the going concern assumption:

- Current liabilities (R 830 201 142) exceed current assets (R 767 802 421).

- The municipal entity had a deficit of R22 057 548 for the current financial year.

Management has reviewed the municipal entity's cash flow forecast for the year ended 30 June 2021. The municipal entity reported a trading deficit of R 22 057 548 which is mainly attributed to the debt impairment methodology in the current year which required the entity to impair government debt for the first time. This is also the main reason for the current liabilities exceeding the current assets. The impact of this change is likely to be smoothed out in the following financial year as the entity has embarked on stringent implementation of the credit control policy. The entity is currently converting most of the rotational meters to prepaid meters which is likely to significantly reduce the accounts subject to debt impairment.

The municipal entity and the parent municipality have continued with the resolution to defer the current liabilities related to the deemed sale of business agreement and the intercompany loans.

Discussions with the parent municipality to revise the entire sale of business agreement are still ongoing. Upon resolution of the new revised agreement it is expected to minimise the impact that the shareholder loan, capital redemption and interest charged on the intercompany related loans will have on the municipal entity's operations.

The revenue protection unit's effort to curb meter tampering/bypassing is likely to improve revenue collection.

The entity's revenue showed an increase for the current financial year which' trend is projected to continue into the next financial year.

The entity still has the capacity and ability to continue with providing the services it is mandated to at the approved rates and will thus generate revenue from services in the future.

	2021	2020

43. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;

- associates;

- joint ventures and management;

- key management personnel, and close members of the family of key management personnel;

- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence; and

- entities that control or exert significant influence over the municipality

Controlling entity

Mangaung Metropolitan Municipality is the sole shareholder of the municipal entity. The municipal entity was formed to take over all activities in respect of the supply of electricity.

Executive management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the municipal entity, directly or indirectly, including any director (whether executive or otherwise) of the municipal entity. The municipal entity's key management personnel includes the Chief Executive Officer, Chief Financial Officer, Company Secretary and Executive Managers.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the group.

Related party balances

Loan accounts - Owing (to) by related parties

	2021	2020
Mangaung Metropolitan Municipality - Advances	(61 003 647)	(67 700 656)
Mangaung Metropolitan Municipality - Shareholders loan	(803 609 368)	(803 609 368)
Mangaung Metropolitan Municipality - Intercompany loan balance	(799 244 929)	(850 541 758)
Mangaung Metropolitan Municipality - Consumer debtor balance *	-	74 337 559

Issued share capital

	2021	2020
Mangaung Metropolitan Municipality	100	100
Percentage of shares owned by Mangaung Metropolitan Municipality	100%	100%

Notes to the Financial Statements

	2021	2020

43. Related parties (continued)

Related party transactions

Interest paid to (received from) related parties		
Mangaung Metropolitan Municipality - Advances	4 908 298	7 625 761
Mangaung Metropolitan Municipality - Shareholder loan	133 787 468	171 577 388
Mangaung Metropolitan Municipality - Intercompany loan	55 112 213	62 582 404
Purchases from (sales to) related parties		
Mangaung Metropolitan Municipality - Amounts received on behalf of Centlec (SOC) Ltd	-	(764)
Mangaung Metropolitan Municipality - Electricity charges - Municipal consumption & training	(38 541 672)	(64 641 355)
Mangaung Metropolitan Municipality - Reimbursable expenses - USDG grant	(43 760 976)	(22 608 696)
Mangaung Metropolitan Municipality - Reimbursable expenses - Free basic services	(19 615 510)	(17 762 839)
Mangaung Metropolitan Municipality - Shareholder loan capital redemption	-	267 869 789
Mangaung Metropolitan Municipality - Streetlight consumption	(78 338 714)	(72 070 304)
Mangaung Metropolitan Municipality - Capital advance redemption	6 697 009	6 697 009
Transfers made to (received from) related parties		
Mangaung Metropolitan Municipality - Cash transfers to Mangaung Metropolitan Municipality	6 200 000	70 000 000

The sale of business and service level agreement which govern the relationship between Mangaung Metropolitan Municipality and Centlec (SOC) Ltd were reviewed by Council. As a result the recoverability of certain intercompany loan balances and -receivables (included as part of the trade receivables) relating to revenue from streetlighting and electricity usage by Mangaung Metropolitan Municipality properties are also subject to review by Council.

* During the 2019/20 financial year the parent municipality and municipal entity took the resolution that with effect from 1 July 2019 the Mangaung Metropolitan Municipality - Consumer debtor balance will not be set off against the intercompany loan accounts and will be disclosed separately. However this resolution was reviewed during the 2020/21 financial year and it was decided to revert back to setting off the Mangaung Metropolitan Municipality - Consumer debtor balance against the intercompany loan accounts with effect from 1 July 2020.

Compensation to directors and other key management		
Annual remuneration	5 430 086	9 410 773
Travel, motor car, accommodation, subsistence and other allowances	856 500	1 066 326
Contributions to UIF, medical and pension funds	78 906	184 557
Acting allowance	366 458	-
Directors fee	392 671	597 228
	7 124 621	**11 258 884**

44. Directors' emoluments

Non-executive

2021

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. KM Moroka (Chairperson)	78 374	618	784	79 776
Me. DC Myeni	67 470	554	675	68 699
Mr. N Mokhesi	93 109	595	931	94 635
Mr. CAK Choeu	66 470	618	665	67 753
T Ngubeni	13 776	138	138	14 052
Y Skwintshi	18 368	149	183	18 700
R Tsiki	18 368	149	183	18 700
T Mazibuko	18 368	149	183	18 700
T Manye	18 368	149	183	18 700
	392 671	**3 119**	**3 925**	**399 715**

2020

	Directors' fees	Company contribution - UIF	Company contribution - SDL	Total
Mr. KM Moroka	96 204	962	962	98 128
Me. DC Myeni (Deputy Chairperson)	161 928	1 619	1 619	165 166
Mr. N Mokhesi (Chairperson)	242 892	1 785	2 429	247 106
Mr. CAK Choeu	96 204	962	962	98 128
	597 228	**5 328**	**5 972**	**608 528**

Notes to the Financial Statements

	2021	2020

45. Fruitless and wasteful expenditure

	2021	2020
Opening balance	33 366 086	10 133 000
Expenditure incidents identified during the financial year	11 918 301	23 233 086
Closing balance	**45 284 387**	**33 366 086**

Expenditure identified in the current year include those listed below:

Incident	Disciplinary steps taken/criminal proceedings	
Interest incurred on late payment of ESKOM and TELKOM accounts	The interest was incurred due to the cash flow challenges the entity was facing at the time. No official of the entity is liable and expense has been submitted to council for consideration of write off.	11 863 145
Employee related costs incurred for an employee after his employment contract ended	An employee was paid remuneration after his fixed term contract had expired. No official of the entity is liable and expense has been submitted to council for consideration of write off.	55 156
		11 918 301

Analysis of fruitless and wasteful expenditure to be considered for write off by council are as follows:

Relating to prior years	33 366 086
Current year	11 918 301
	45 284 387

	2021	2020

46. Irregular expenditure

	2021	2020
Opening balance	500 035 542	188 805 229
Expenditure incidents identified during the financial year	187 682 608	311 230 313
Irregular Expenditure - prior period	31 456 149	-
Closing balance	**719 174 299**	**500 035 542**

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

Incident	Disciplinary steps taken/criminal proceedings	
Expenditure in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	Expenditure incurred was more than the contractual amount agreed upon. Contravention with the Municipal Financial Management Act requirements. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	450 118
Procurement in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	Preferential Procurement Regulations of 2011 was not fully complied with due to irregular quotation rankings. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	113 928
Non-compliance to Municipal Financial Management Act section 87(8) due to overspending of budget.	Overspending on items such as employee related costs, bulk purchases, finance costs and general expenses occurred during the financial year. No disciplinary steps were taken as the overspending is mainly attributed to - actual figures at year end including provision amounts such as leave-, bonus- and long service provisions which could not be budgeted for accurately due to their unpredictable nature. - an increase in un-anticipated factors such as overtime and acting allowances which could not be budgeted for - expenditure budget cuts during the adjustment budget resulting in under budgeting on bulk purchases. The expenditure has been submitted to council for consideration of being written off.	187 118 562
Total 2020/21 irregular expenditure.		**187 682 608**

Incidents/cases identified in the current year relating to prior periods include those listed below:

Incident	Disciplinary steps taken/criminal proceedings	
Procurement in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	Preferential Procurement Regulations of 2011 was not fully complied with due to irregular quotation rankings. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	107 150
Procurement in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act.	Preferential Procurement Regulations of 2011 was not fully complied with due to irregular relating to panel based appointments. The incident is currently being considered for investigation. The expenditure has been submitted to council for consideration to be written off.	31 348 999
		31 456 149

Notes to the Financial Statements

	2021	2020

46. Irregular expenditure (continued)

Analysis of expenditure to be considered for write off by council per age classification

	2021	2020
Current year	187 682 608	311 230 313
Prior years	531 491 691	188 805 229
	719 174 299	**500 035 542**

The full extent of irregular expenditure is still in the process of being determined.

47. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2021	2020
Opening balance	-	139 994
Current year fee	6 284 386	5 841 525
Amount paid - current year	(6 278 922)	(5 841 525)
Amount paid - previous years	-	(139 994)
	5 464	**-**

47. 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 2021:

Councillor	July 2020	August 2020	September 2020	October 2020
LA Masoetsa	11 800	11 800	11 800	11 800
MB Monanyane	64 905	65 112	65 425	65 631
J Nothnagel	23 803	23 803	23 803	23 803
JE Petersen	9 302	9 302	9 302	9 302
LER Rasoeu	584	584	584	584
CSK Sechoaro	3 826	3 826	3 826	3 826
E Snyman van Deventer	454	454	454	454
	114 674	**114 881**	**115 194**	**115 400**

Councillor	November 2020	December 2020	January 2021	February 2021
LA Masoetsa	11 800	11 800	11 800	11 800
MB Monanyane	65 837	66 044	66 250	66 456
J Nothnagel	23 803	23 803	23 803	23 803
JE Petersen	9 302	9 302	9 302	9 302
LER Rasoeu	584	584	584	584
CSK Sechoaro	3 826	3 826	3 826	3 826
MA Siyonzana	-	-	-	100 845
E Snyman van Deventer	454	454	454	454
	115 606	**115 813**	**116 019**	**217 070**

Councillor	March 2021	April 2021	May 2021	June 2021
LA Masoetsa	11 800	11 800	11 800	11 800
MB Monanyane	66 662	66 869	67 075	67 281
J Nothnagel	23 803	23 803	23 803	23 803
JE Petersen	9 302	9 302	9 302	9 302
LER Rasoeu	584	584	584	584
CSK Sechoaro	3 826	3 826	3 826	3 826
MA Siyonzana	100 845	100 845	100 845	100 845
E Snyman van Deventer	454	454	454	454
	217 276	**217 483**	**217 689**	**217 895**

	2021	2020

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

Distribution losses

In the current year the energy losses were 10.05% (2020: 8.04%). These losses are the result off theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

kWh - units	157 539 739	127 757 457
Rand value	182 694 562	138 776 833
Percentage	10,05%	8,04%

For the 2020/21 financial year the distribution losses amount to 10.05% (2020: 8.04%). The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:

Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc. Non-technical losses amounted to 52 513 246 kWh - units (2020: 42 585 819 kWh - units) with a Rand value of R 60 898 187 (2020: R 46 258 944).

Technical losses:

Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity have certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution. Technical losses amounted to 105 026 493 kWh - units (2020: 85 171 638 kWh - units) with a Rand value of R 121 796 375 (2020: R 92 517 889).

PAYE and UIF

Opening balance	1 050 909	5 257 904
Payable for the current year	72 181 594	68 250 892
Amount paid - current year	(71 702 696)	(67 199 983)
Amount paid/refunded - previous years	(1 050 909)	(5 257 904)
	478 898	**1 050 909**

Pension and Medical Aid Deductions

Opening balance	65 101	(31 947)
Payable for the current year	94 334 146	89 416 920
Amount paid - current year	(94 373 249)	(89 351 819)
Amount paid/refunded - previous years	(65 101)	31 947
	(39 103)	**65 101**

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

Supply chain management regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations any deviation from the supply chain management policy needs to be approved by the Accounting Officer and noted by the board of Directors.

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.

For the period under review there were instances where goods and services were procured via a deviation from the normal Supply Chain Management Regulations.

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.

Incident	Number of deviations 2021	Rand value 2021	Number of deviations 2020	Rand value 2020
Sole supplier	23	2 728 278	5	697 155
Urgent	4	3 224 936	-	-
Other	14	482 375	12	318 043
	41	**6 435 589**	**17**	**1 015 198**

VAT

	2021	2020
VAT payable	169 841 888	135 341 840

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

48. Risk management

Financial risk management

This note presents information about the municipal entity's exposure to each of the financial risks below and the municipal entity's objectives, policies and procedures for measuring and managing financial risks. Further quantitive disclosures are included in the financial statements.

The board of directors has overall responsibility for the establishment and oversight of the municipal entity’s risk management framework. The municipal entity’s audit committee oversees the monitoring of compliance with the municipal entity’s risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipal entity. The audit committee is assisted in its oversight role by the municipal entity's internal audit function.

The municipal entity's exposure to risk is similar to that of the previous year. The municipal entity still faces the same risks as in the previous financial year with the exception of where the municipal entity experienced challenges arising from the COVID-19 lockdown.

The municipal entity monitors and manages the financial risks relating to operations through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:

- liquidity risk;

- credit risk; and

- market risk (including interest rate risk).

The municipal entity seeks to minimise the effects of these risks in accordance with the municipal entity’s policies approved by the board. The policies provide written principles on interest rate risk, credit risk, and in the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The municipal entity does not enter into or trade in financial instruments for speculative purposes.

48. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipal entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The municipal entity's exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipal entity manages liquidity risk through ongoing review of commitments.

The municipal entity has started replacing rotational meters with prepaid meters to improve the cash funds available.

The municipal entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipal entity has not defaulted on payables and lease commitment payments.

All of the municipal entity's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipal entity.

The table below analyses the municipal entity’s 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.

2021	Less than 1 year	Between 1 and 2 years
Consumer deposits	127 042 880	-
Finance lease obligation	1 813 226	3 499 425
Other financial liabilities	6 654 710	853 593 866
Payables from exchange transactions	523 017 438	-
	658 528 254	**857 093 291**

2020	Less than 1 year	Between 1 and 2 years
Consumer deposits	128 776 174	-
Other financial liabilities	6 697 009	911 545 405
Payables from exchange transactions	545 496 554	-
	680 969 737	**911 545 405**

48. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The municipal entity utilizes a system where when debtors do not settle their account within 60 days a warning letter is issued after which the electricity supply will be cut until the account is settled. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instruments disclosure

Carrying amount of financial asset measured at amortised cost	2021	2020
Cash and cash equivalents	15 821 036	32 507 513
Consumer receivables from exchange transactions	551 354 718	531 545 611
Other financial assets	848 940	1 124 411
Other receivables from exchange transactions	103 764 625	78 616 013

Carrying amount of financial liability measured at amortised cost	2021	2020
Consumer deposits	127 042 880	128 776 174
Finance lease obligation	5 312 651	-
Loans from shareholders	803 609 369	803 609 369
Other current liabilities	6 654 710	6 697 009
Other non-current liabilities	853 593 866	911 545 405
Payables from exchange transactions	523 017 438	545 496 554

These balances represent the maximum exposure to credit risk.

48. Risk management (continued)

Market risk

Interest rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipal entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year to the municipal entity's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

Foreign currency risk

The municipal entity does not enter into significant foreign currency transactions and has had very limited exposure to foreign currency risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipal entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Long term borrowings are therefore usually at fixed rates. The municipal entity's exposures to interest rates on financial assets and financial liabilities are detailed below:

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipal entity's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the entity.

Interest charged on the intercompany loans are calculated using the prime rate at the beginning of the financial year on a weighted average basis. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these loans.

Fair values

The municipal entity's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

48. Risk management (continued)

Investments

Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised.

Receivables from exchange transactions

The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Trade payables

The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing loans

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipal entity's financial instruments are affected by the whole sale price of electricity from ESKOM.

49. Budget differences

Variance Explanations

The budget is approved on an accrual basis by nature of classification. The budget and the accounting bases are both on the accrual basis. The financial statements are prepared using the nature of expenses in the statement of financial performance. The approved budget covers the fiscal period from 1 July 2020 to 30 June 2021.

Changes from approved budget to final budget are the result of reallocations and shifting within the budget.

Basis for material differences between budget and actual amounts

It is general practice to deem a 5% or higher deviation on operational revenue and expenditure versus the final budget as material and for capital expenditure the percentage deviation is 5% or higher.

Explanations for material variances relating to the Statement of Financial Performance is set out as follows:

1. Service charges - The variance is mainly attributed to the impact of the lock down during which the KWH units sold dropped sales dropped as compared to the prior year. Other factors include the changes in the customers' consumption pattern as alternative cheaper sources of energy are becoming a norm in the country.

2. Other Income - The variance is mainly due to the revision of the number of street lights and streetlight lumineers that are used as a basis to calculate the street light consumption revenue following the asset verification.

3. Interest income received - During the budget preparation process there was an expectation that there was going to be a strict implementation of the credit control processes, thus there was likely to be a drop in the interest on the consumer receivables. However due to the impact of the COVID-19 lock down, the credit control processes were not effectively implemented and a number of customers accounts that were in arrears accumulated interest as there were no or slow payments during the lock down period.

4. Government grants & subsidies - The variance is due to the fact that the amount budgeted for included VAT while the actual amount recognized for the grant revenue excludes VAT.

5. Employee related costs - The variance can be attributed to un-anticipated acting allowances that were paid during the year as posts became vacant. Other factors include overtime, provisions and allowances which are variable in nature.

6. Depreciation and amortisation - The variance is mainly due to the underestimation of the depreciation and amortisation values which are influenced by condition assessment of individual assets at year end and the revaluation of assets at the end of the prior financial year.

7. Impairment loss/ Reversal of impairments - No budget is provided for impairment losses of this nature as they are unpredictable in nature since there is no pattern of such disasters in the history of the entity.

8. Finance costs - The variance is due to interest on the shareholder's loan and intercompany loan with Mangaung Metropolitan Municipality which was not budgeted for as it was assumed during the budget process that the sale of the business agreement was to be revised.

9. Debt impairment - The budget was prepared based on the prior debt impairment. The variance is due to the change in the impairment methodology which now includes impairment on government debt.

10. Bulk purchases - The variance is attributed to an under provision for the bulk purchases budget during the adjustment budget process.

11. General Expenses - The variance is attributed to over provision on some of the individual line items in the general expenses category.

12. Loss on disposal of assets and liabilities - No auction due to Covid-19 lock down but items have been identified for disposal, auction to be held at the end of August 2021

49. Budget differences (continued)

Explanations for material variances relating to the Statement of Financial Position is set out as follows:

Current assets

The municipal entity does not budget for current portions of long term assets. The current portion as reflected on the face of the statement of financial position is budgeted for as part of the non-current assets.

1. Other receivables from exchange transactions - The unpredictable nature of the various line items that make up the total balance makes it impossible to prepare a reasonable budget.

2. Consumer debtors - The variance is mainly attributed to the effect of the various COVID-19 lockdowns when the credit control measures could not be implemented. A number of customers' accounts went into arrears during this period. The variance is also due to the change in the impairment methodology which now includes impairment on government debt.

3. Cash and cash equivalents - The variance is mainly attributed to the fact that there was a proposal to revise the sale of the business agreement between the municipal entity and the parent municipality (MMM). This would have resulted in better cash flow for the municipal entity linked to the shareholder's loan and the intercompany loan. As this revision did not materialize the cash reserves budget for, were not realized.

Non-Current Assets

1. Property, plant and equipment - The variance is mainly attributed to the revaluation of infrastructure assets resulting in a large increase in the asset value. The actual revaluation amount was larger than initially budgeted for.

2. Intangible assets - The increase is due to more licenses being maintained and paid than in previous years

3. Deferred Tax - The variance is mainly attributed to the larger than anticipated taxable loss resulting in a large temporary tax difference.

Current Liabilities

The municipal entity does not budget for current portions of long term liabilities. The current portion as reflected on the face of the statement of financial position is budgeted for as port of the non-current liability.

1. Payables from exchange transactions - The variance is due to a number of factors namely accrued leave pay and electricity connections that could not be completed due to the effects of Covid 19.

2. Consumer deposits - The municipal entity's budgets assumption were that customers on rotational meters were to be converted to prepaid meters which could have resulted in a reduction in the consumer deposit. This assumption was affected by the COVID-19 lockdown.

Non-Current Liabilities

1. Loans from shareholders - The budget was prepared on the basis that the sale of business agreement was to be replaced with a new settlement agreement, thus no budget was made for the loan balance.

2. Other financial liabilities - The budget was prepared on the basis that the sale of business agreement was to be replaced with a new settlement agreement, thus no budget was made for the loan balance.

3. Deferred tax - The variance is mainly attributed to a larger than anticipated asset revaluation resulting in a large temporary tax difference.

49. Budget differences (continued)

Share Capital

1. Share capital - At the time the budget was finalised it was assumed that the sale of business agreement was to be revised and the debt converted to equity. This did not materialise and the confirmation only came after year end.

2. Revaluation reserve - The variance is mainly attributed to the revaluation of infrastructure assets resulting in a large increase in the asset value. The actual revaluation amount was larger than initially budgeted for.

50. Inter-departmental consumption

	2021	2020
Inter-departmental consumption	1 171 647	2 689 278

The inter-departmental consumption is based on units consumed as per the meter records.

51. Non-compliance with Municipal Finance Management Act and other Legislation

Non-compliance with Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified:

- **Non-compliance with MFMA sec 65(2)(e)**
  Money owing by the entity to the value R 682 698 240 was not paid within 30 days of receiving the relevant invoice or statement mainly due to lack of proper supporting documents and late submission of invoices by the suppliers

Non-compliance with the Companies Act

In terms of section 9 of the Companies Act 71 of 2008 the municipal entity must comply with all relevant provisions of the Act except where the municipal entity has obtained exemptions. This was not complied with in the following aspects:

- The municipal entity did not have the whistle-blowing mechanism during the period under review as required by Section 159 of the Act.
- The municipal entity did not finalise the code of conduct of ethics for the board of Directors that meets the provisions of Section 214 of the Act.

Non-compliance with King IV Code of Governance for South Africa, 2016

The King IV Report on Corporate Governance (2016) provides governance principles and best implementation practice guides. The municipal entity did not fully comply with the provisions of the code in the following aspects:

- The Shareholder Compact was not signed by the speaker/representative of the Council.
- The evaluation of the board, its committees and the individual directors was not conducted as required by Par 2.22 of the code.

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2021

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
										Yes/ No
Urban Settlements Development Grant	National Government	-	-	-	43 760 976	-	10 378 493	7 499 301	25 883 182	Yes
		-	-	-	43 760 976	-	10 378 493	7 499 301	25 883 182	

The purpose of the urban settlements development grant is to upgrade informal settlements, either by creating formal housing or by upgrading services to informal settlements.