CHAPTER EIGHT: FINANCIAL PLAN 2011- 2015

In general usage a financial plan is a budget, in other words a plan for spending and saving future income. This plan allocates future income to various types of expenses, such as salaries, insurances and also reserves some income for short term and long term savings. A financial plan is also an investment plan, which allocates savings to various assets or projects expected to produce future income.

The Vision of the Budget and Treasury office is to ensure the financial management of the resources of Senqu Municipality to ensure sustainable and equitable service delivery to all the residents of the municipality. This is supported by our mission that commits the department to render sound financial management of the assets, liabilities, revenue and expenditure of the municipality on behalf of the community of Senqu Municipality. In order to achieve the above the following focus areas will be maintained and worked towards:

To ensure efficient and effective financial management, the Department of Financial Services performs the following key tasks:

- Revenue Collection/Income Generation Expenditure And Control
- Budgeting
- Accounting And Reporting Information Technology Assets And Stores
- Motor Licensing

CAPITAL & OPERATING BUDGET

The five-year financial plan includes an Operating Budget and Capital Investment Programme for the five years ending June 2017.

a) Budget Assumptions

The Following are some of the key budget assumptions that was taken into consideration prior to the drafting of the budget

External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank fast and millions of people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven and that growth for 2013 will minimal with a slightly better growth in the outer years. Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2012/13 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity; and
- The increase in the cost of remuneration.

Interest rates for borrowing and investment of funds

The municipality will not borrow any funds during the MTREF period. It is expected that interest rates will be adjusted slightly upwards during the MTREF period and it was budget for as such.

Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term. The rate of revenue collection is currently expressed as a percentage (86 per cent) of annual billings. Cash flow is assumed to be 86 per cent of billings. The performance of any increased collections or arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

Growth or decline in tax base of the municipality

Debtors revenue is assumed to increase at a rate that is influenced by the consumer debtors collection rate, tariff/rate pricing, real growth rate of the Municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

Salary increases

There is no collective agreement on salary increases in place for the budget year, and the guidance on increases as contained in Circular 58 of National Treasury was used to budget accordingly.

Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDP's, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

ABILITY OF THE MUNICIPALITY TO SPEND

It is estimated that a spending rate of at least 97 per cent is achieved on operating expenditure and 98 per cent on the capital programme for the 2012/13 MTREF of which performance has been factored into the cash flow budget.

Table 46: Capital budget expenditure 2010-2012

	2011 - 2012 (Actual)	2011 - 2012 (Budget)	2011 - 2012 (Variance)	2011 - 2012 (%)
Total Capital Budget Expenditure Audited	**38 223 475**	**41 057 664**	**(2 834 189)**	**-7%**

	2010 - 2011 (Actual)	2010 - 2011 (Budget)	2010 - 2011 (Variance)	2010 - 2011 (%)
Total Capital Budget Expenditure Audited	**31 841 232**	**44 809 065**	**(12 967 833)**	**-29%**

Table 47: Percentage of salary budget (Cllr remuneration and employee costs) to operational budget

2013 – 2014 Budget - 42.51 %
2012 – 2011 Budget - 36.40 %

Table 48: Percentage repairs and maintenance on total budget

2013 – 2014 Total Budget - 1.5 %
2012 – 2011 Total Budget - 1.32 %

Table 49: Percentage of budgeted income realised for past 2 years per category

2010 – 2011 = 82%
2011 – 2012 = 91%

Table 50: Debtors turnover rate

1.82 times

Table 51: Creditors turnover rate

32 Days

The table below highlights the actual expenditure for 2011 and 2012 to indicate the ability of the municipality to spend.

Table 52: Expenditure 2011 & 2012

BUDGET COMPARISONS

	2012 R (Actual)	2012 R (Budget)	2012 R (Variance)
Operational			
Revenue by source			
Property taxes	4 001 011	4 174 416	(173 405)
Government Grants and Subsidies - Capital	22 106 014	22 091 031	14 983
Government Grants and Subsidies – Operating	107 758 386	125 317 376	(17 558 990)
Public Contributions and Donations	50 000	50 000	-
Fines	50 455	25 000	25 455
Service Charges	23 335 928	24 300 180	(964 252)
Water Services Authority Contribution	9 286 090	9 734 836	(448 746)
Rental of Facilities and Equipment	558 046	267 000	291 046
Interest Earned - external investments	6 790 249	6 400 000	390 249
Interest Earned - outstanding debtors	1 168 564	851 940	316 624
Licences and Permits	1 680 258	990 000	690 258
Agency Services	579 596	410 000	169 596
Other Income	688 992	670 075	18 917
Actuarial Gains	-	-	-
	178 053 591	***195 281 854***	***(17 228 263)***
Expenditure by nature			
Employee Related Costs	(40 775 916)	(45 460 099)	4 684 183
Remuneration of Councillors	(8 386 846)	(8 565 156)	178 310
Debt Impairment	(3 638 197)	(5 264 520)	1 626 323
Depreciation and Amortisation	(11 675 067)	(13 028 700)	1 353 633
Impairment	(116 766)		(116 766)
Repairs and Maintenance	(3 597 561)	(3 101 953)	(495 608)
Actuarial losses	(935 818)	(428 520)	(507 298)
Finance Charges	(1 717 717)	(1 914 745)	197 028
Bulk Purchases	(15 130 377)	(17 303 100)	2 172 723
Grants and Subsidies Paid	(731 837)	(734 000)	2 163
Other Operating Grant Expenditure	(26 240 396)	(46 678 843)	20 438 447
General Expenses	(18 873 280)	(21 835 480)	2 962 200
Loss on disposal of PPE/Investment	(85 282)	-	(85 282)

BUDGET COMPARISONS

	2011 R (Actual)	2011 R (Budget)	2011 R (Variance)
Operational			
Revenue by source			
Property taxes	4 197 252	3 427 815	769 437
Government Grants and Subsidies - Capital	41 478 066	18 248 550	23 229 516
Government Grants and Subsidies - Operating	76 493 759	136 180 859	(59 687 100)
Fines	69 300	20 000	49 300
Service Charges	16 655 202	17 576 330	(921 128)
Water Services Authority Contribution	9 286 090	9 286 090	-
Rental of Facilities and Equipment	375 048	211 000	164 048
Interest Earned - external investments	4 915 084	4 800 000	115 084
Interest Earned - outstanding debtors	1 136 907	923 080	213 827
Licences and Permits	950 871	530 000	420 871
Agency Services	462 566	479 000	(16 434)
Other Income	499 824	347 100	152 724
Actuarial Gains	632 639	-	632 639
	157 152 609	***192 029 824***	***(34 877 215)***
Expenditure by nature			
Employee related costs	(34 732 945)	(35 960 287)	1 227 342
Remuneration of Councillors	(7 158 923)	(7 161 105)	2 182
Debt Impairment	(1 332 557)	(3 643 830)	2 311 273
Depreciation and Amortisation	(10 810 725)	(9 412 270)	(1 398 455)
Asset Impairment	-		-
Repairs and Maintenance	(3 015 464)	(7 325 100)	4 309 636
Actuarial losses	(48 981)	-	(48 981)
Finance Charges	(1 570 656)	(702 575)	(868 081)
Bulk Purchases	(12 494 708)	(13 655 670)	1 160 962
Grants and Subsidies Paid	(798 812)	(800 000)	1 188
Other Operating Grant Expenditure	(33 748 293)	(67 668 535)	33 920 242
General Expenses	(14 765 959)	(16 488 450)	1 722 491
Loss on disposal of PPE/Investment	(458 428)	-	(458 428)

Property			
	(131 905 060)	*(164 315 116)*	*32 495 337*
Net Surplus for the year (After Discontinued Operations)	**46 148 530**	**30 966 738**	**15 267 074**

Property			
	(120 936 451)	*(162 817 822)*	*42 339 798*
Net Surplus for the year (Before Discontinued Operations)	**36 216 157**	**29 212 002**	**7 462 583**
Discontinued Operations (Health)	(68 355)	-	(68 355)
Net Surplus for the year (After Discontinued Operations)	**36 147 803**	**29 212 002**	**7 394 229**

Capital expenditure by vote	**2012 R (Actual)**	**2012 R (Budget)**	**2012 R (Variance)**
Executive & Council	101 609	150 000	(48 391)
Planning & Development	39 126	55 870	(16 744)
Corporate Services	464 004	550 000	(85 996)
Housing			-
Public Safety			-
Budget & Treasury	459 688	534 131	(74 444)
Road Transport	31 296 180	33 302 022	(2 005 842)
Water			-
Electricity	1 316 720	1 560 500	(243 780)
Community & Social Services	588 521	615 000	(26 479)
Sport & Recreation	2 837 721	2 918 071	(80 350)
Waste Management	1 119 906	1 372 070	(252 164)
	38 223 475	*41 057 664*	*(2 834 189)*

Capital expenditure by vote	**2011 R (Actual)**	**2011 R (Budget)**	**2011 R (Variance)**
Executive & Council	1 288 607	1 549 520	(260 913)
Planning & Development	1 071 111	1 265 000	(193 889)
Corporate Services	9 546 448	10 147 680	(601 232)
Housing		-	-
Public Safety	-	-	-
Budget & Treasury	778 594	784 130	(5 536)
Road Transport	16 704 941	22 708 470	(6 003 529)
Waste Water Management	-	3 091 305	(3 091 305)
Water	-	-	-
Electricity	2 228 567	4 355 000	(2 126 433)
Community & Social Services	110 515	103 000	7 515
Sport & Recreation	-	514 960	(514 960)
Waste Management	112 449	290 000	(177 551)
	31 841 232	*44 809 065*	*(12 967 833)*

Table 53: Budget 2009-2015

Description	**2009/10**	**2010/11**	**2011/12**	**Current Year 2012/13**				**2013/14 Medium Term Revenue & Expenditure Framework**		
R thousand	**Audited Outcome**	**Audited Outcome**	**Audited Outcome**	**Original Budget**	**Adjusted Budget**	**Full Year Forecast**	**Pre-audit outcome**	**Budget Year 2013/14**	**Budget Year +1 2014/15**	**Budget Year +2 2015/16**
Revenue By Source										
Property rates	3 938	4 197	4 001	4 425	4 376	4 376	4 376	4 612	4 888	5 182
Property rates - penalties & collection charges	–	–	–	–	–	–	–	–	–	–
Service charges - electricity revenue	7 888	12 156	18 003	19 157	19 456	19 456	19 456	19 499	20 669	21 909
Service charges - water revenue	1 758	–	–	2 436	–	–	–	–	–	–

Service charges - sanitation revenue	765	–	–	1 093	–	–	–	–	–	–
Service charges - refuse revenue	1 626	1 749	1 948	2 171	2 171	2 171	2 171	2 223	2 356	2 497
Service charges – other	6 761	–	–	10 319	–	–	–	–	–	–
Rental of facilities and equipment	541	375	558	283	262	262	262	278	295	312
Interest earned - external investments	5 087	4 915	6 790	6 000	7 300	7 300	7 300	7 000	7 420	7 865
Interest earned - outstanding debtors	919	885	882	903	774	774	774	843	894	948
Dividends received	–	–	–	–	–	–	–	–	–	–
Fines	54	69	50	25	60	60	60	60	64	67
Licences and permits	880	814	1 348	840	1 140	1 140	1 140	1 140	1 208	1 281
Agency services	803	600	912	561	1 731	1 731	1 731	1 802	1 910	2 025
Transfers recognised – operating	60 489	103 353	106 224	99 545	116 003	116 003	116 003	106 932	116 861	143 006
Other revenue	361	1 132	2 219	408	1 848	1 848	1 848	371	393	417
Gains on disposal of PPE	409	–	–	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)	**92 278**	**130 246**	**142 935**	**148 167**	**155 122**	**155 122**	**155 122**	**144 760**	**156 958**	**185 509**
Expenditure By Type										
Employee related costs	29 383	26 261	30 716	49 846	47 476	47 476	47 476	57 313	60 751	64 397
Remuneration of councillors	6 807	7 159	8 464	9 056	9 086	9 086	9 086	9 635	10 213	10 826
Debt impairment	2 332	829	2 694	5 580	3 953	3 953	3 953	4 270	4 526	4 797
Depreciation & asset impairment	8 433	10 480	11 792	13 810	14 542	14 542	14 542	15 224	16 138	17 106
Finance charges	681	1 566	1 718	2 319	2 120	2 120	2 120	1 639	541	573
Bulk purchases	10 328	12 495	15 130	20 072	20 072	20 072	20 072	26 677	28 278	29 975
Other materials	–	–	–	–	–	–	–	–	–	–
Contracted services	–	–	–	–	–	–	–	–	–	–
Transfers and grants	397	799	732	333	333	333	333	334	–	–
Other expenditure	33 171	48 441	47 616	43 190	57 807	57 807	57 807	42 373	42 624	42 743
Loss on disposal of PPE	2 414	447	85	–	–	–	–	–	–	–
Total Expenditure	**93 946**	**108 477**	**118 947**	**144 207**	**155 388**	**155 388**	**155 388**	**157 465**	**163 070**	**170 417**
Surplus/(Deficit)	**(1 667)**	**21 769**	**23 987**	**3 959**	**(266)**	**(266)**	**(266)**	**(12 705)**	**(6 113)**	**15 092**
Transfers recognised – capital	33 626	14 619	23 641	26 624	39 478	39 478	39 478	30 355	34 070	36 499
Contributions recognised – capital	–	–	–	–	–	–	–	–	–	–
Contributed assets	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after capital transfers & contributions	**31 958**	**36 388**	**47 628**	**30 583**	**39 212**	**39 212**	**39 212**	**17 650**	**27 957**	**51 591**
Taxation	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) after taxation	**31 958**	**36 388**	**47 628**	**30 583**	**39 212**	**39 212**	**39 212**	**17 650**	**27 957**	**51 591**

Attributable to minorities	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) attributable to municipality	**31 958**	**36 388**	**47 628**	**30 583**	**39 212**	**39 212**	**39 212**	**17 650**	**27 957**	**51 591**
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	**31 958**	**36 388**	**47 628**	**30 583**	**39 212**	**39 212**	**39 212**	**17 650**	**27 957**	**51 591**

Table 54: Capital comparisons 2009-2015

Vote Description		2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework			
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Capital expenditure - Vote Multi-year expenditure to be appropriated	2										
Vote 1 - Executive & Council		–	–	–	–	–	–	–	–	–	–
Vote 2 - Planning & Development		–	–	–	–	–	–	–	–	–	–
Vote 3 - Corporate Services		–	–	–	2 000	2 000	2 000	2 000	4 000	–	–
Vote 4 - Budget & Treasury		–	–	–	–	–	–	–	–	–	–
Vote 5 - Road Transport		–	–	–	–	–	–	–	18 554	12 038	8 189
Vote 6 - Waste Water Management		–	–	–	–	–	–	–	–	–	–
Vote 7 – Housing		–	–	–	–	–	–	–	–	–	–
Vote 8 – Health		–	–	–	–	–	–	–	–	–	–
Vote 9 - Community & Social Services		–	–	–	–	–	–	–	–	–	–
Vote 10 - Sport & Recreation		–	–	–	–	–	–	–	4 793	5 379	11 910
Vote 11 - Public Safety		–	–	–	–	–	–	–	–	–	–
Vote 12 – Electricity		–	–	–	–	–	–	–	1 508	4 202	2 800
Vote 13 - Waste Management		–	–	–	–	–	–	–	–	–	–
Vote 14 – Water		–	–	–	–	–	–	–	–	–	–
Vote 15 – Other		–	–	–	–	–	–	–	–	–	–
Capital multi-year expenditure sub-total	7	**–**	**–**	**–**	**2 000**	**2 000**	**2 000**	**2 000**	**28 855**	**21 620**	**22 899**
Single-year expenditure to be appropriated	2										
Vote 1 - Executive & Council		656	1 289	102	1 000	822	822	822	1 625	–	–
Vote 2 - Planning & Development		1 886	1 071	39	350	10 084	10 084	10 084	100	–	–
Vote 3 - Corporate Services		8 193	9 546	6 011	900	210	210	210	400	–	–
Vote 4 - Budget & Treasury		551	615	460	500	500	500	500	500	–	–
Vote 5 - Road Transport		32 056	16 705	27 716	27 905	31 580	31 580	31 580	7 160	14 975	14 860
Vote 6 - Waste Water Management		–	–	–	–	–	–	–	–	–	–
Vote 7 – Housing		–	–	–	–	–	–	–	–	–	–
Vote 8 – Health		–	–	–	–	–	–	–	–	–	–

Vote 9 - Community & Social Services		99	111	89	3 150	3 633	3 633	3 633	7 850	7 560	10 660
Vote 10 - Sport & Recreation		25	–	2 374	3 994	7 294	7 294	7 294	–	–	–
Vote 11 - Public Safety		–	–	–	500	500	500	500	1 100	–	–
Vote 12 – Electricity		458	2 229	1 317	805	965	965	965	3 920	2 220	5 200
Vote 13 - Waste Management		17	112	117	4 050	2 140	2 140	2 140	4 970	350	400
Vote 14 – Water		–	–	–	–	–	–	–	–	–	–
Vote 15 – Other		–	–	–	–	–	–	–	–	–	–
Capital single-year expenditure sub-total		**43 941**	**31 677**	**38 223**	**43 154**	**57 727**	**57 727**	**57 727**	**27 625**	**25 105**	**31 120**
Total Capital Expenditure – Vote		**43 941**	**31 677**	**38 223**	**45 154**	**59 727**	**59 727**	**59 727**	**56 480**	**46 725**	**54 019**
Capital Expenditure - Standard											
Governance and administration		**9 400**	**11 450**	**6 572**	**4 400**	**3 532**	**3 532**	**3 532**	**6 525**	**–**	**–**
Executive and council		656	1 289	102	1 000	822	822	822	1 625	–	–
Budget and treasury office		551	615	460	500	500	500	500	500	–	–
Corporate services		8 193	9 546	6 011	2 900	2 210	2 210	2 210	4 400	–	–
Community and public safety		**124**	**111**	**2 462**	**7 644**	**11 427**	**11 427**	**11 427**	**13 743**	**12 939**	**22 570**
Community and social services		99	111	89	3 150	3 633	3 633	3 633	7 850	7 560	10 660
Sport and recreation		25	–	2 374	3 994	7 294	7 294	7 294	4 793	5 379	11 910
Public safety		–	–	–	500	500	500	500	1 100	–	–
Housing		–	–	–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–	–	–
Economic and environmental services		**33 942**	**17 776**	**27 755**	**28 255**	**41 664**	**41 664**	**41 664**	**25 814**	**27 013**	**23 049**
Planning and development		1 886	1 071	39	350	10 084	10 084	10 084	100	–	–
Road transport		32 056	16 705	27 716	27 905	31 580	31 580	31 580	25 714	27 013	23 049
Environmental protection		–	–	–	–	–	–	–	–	–	–
Trading services		**475**	**2 341**	**1 434**	**4 855**	**3 105**	**3 105**	**3 105**	**10 398**	**6 772**	**8 400**
Electricity		458	2 229	1 317	805	965	965	965	5 428	6 422	8 000
Water		–	–	–	–	–	–	–	–	–	–
Waste water management		–	–	–	–	–	–	–	–	–	–
Waste management		17	112	117	4 050	2 140	2 140	2 140	4 970	350	400
Other		–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure – Standard	3	**43 941**	**31 677**	**38 223**	**45 154**	**59 727**	**59 727**	**59 727**	**56 480**	**46 725**	**54 019**
Funded by:											
National Government		20 730	14 514	23 641	26 624	39 478	39 478	39 478	30 355	34 070	36 499
Provincial Government		12 896	105	–	–	–	–	–	–	–	–
District Municipality		–	–	–	–	–	–	–	–	–	–
Other transfers and grants		–	–	–	–	–	–	–	–	–	–

Transfers recognised – capital	4	**33 626**	**14 619**	**23 641**	**26 624**	**39 478**	**39 478**	**39 478**	**30 355**	**34 070**	**36 499**
Public contributions & donations	5	–	–	–	–	–	–	–	–	–	–
Borrowing	6	8 337	16 481	–	–	–	–	–	–	–	–
Internally generated funds		1 978	577	14 583	18 530	20 249	20 249	20 249	26 125	12 655	17 520
Total Capital Funding	7	**43 941**	**31 677**	**38 223**	**45 154**	**59 727**	**59 727**	**59 727**	**56 480**	**46 725**	**54 019**

OPERATING BUDGET

Table F1 details the Operating Budget for the five years staring 1 July 2012 and ending 30 June 2017

Table 55: Operating Budget

EC142 Senqu - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework			LTFS	
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	Forecast 2015/16	Forecast 2016/17
Revenue By Source													
Property rates	2	3 147	3 938	4 197	3 702	4 174	4 174	4 174	4 425	4 690	4 972	5 345	5 692
Property rates - penalties & collection charges		–	–	–	–	–	–	–	–	–	–		
Service charges - electricity revenue	2	5 062	7 888	12 156	15 866	18 922	18 922	18 922	19 157	20 307	21 525	23 139	24 643
Service charges - water revenue	2	–	1 758	1 843	1 849	2 298	2 298	2 298	2 436	2 582	2 737	2 943	3 134
Service charges - sanitation revenue	2	–	765	906	1 002	1 032	1 032	1 032	1 093	1 159	1 229	1 321	1 407
Service charges - refuse revenue	2	1 533	1 626	1 749	2 274	2 049	2 049	2 049	2 171	2 302	2 440	2 623	2 793
Service charges - other		–	6 761	9 286	9 735	9 735	9 735	9 735	10 319	10 938	11 594	12 464	13 274
Rental of facilities and equipment		301	541	375	211	267	267	267	283	300	318	342	364
Interest earned - external investments		7 733	5 087	4 915	4 800	6 400	6 400	6 400	6 000	6 360	6 742	7 247	7 716
Interest earned - outstanding debtors		556	919	1 137	1 085	852	852	852	903	957	1 015	1 091	1 162
Dividends received		–	–	–	–	–	–	–	–	–	–		
Fines		86	54	69	20	25	25	25	25	27	28	30	32
Licences and permits		1 322	880	814	840	840	840	840	840	890	944	1 015	1 081
Agency services		682	803	600	479	560	560	560	561	594	630	677	721
Transfers recognised - operating		53 768	60 489	103 353	89 611	125 317	125 317	125 317	99 545	102 218	111 010	119 336	127 080
Other revenue	2	1 162	361	1 132	234	720	720	720	408	433	459	493	525
Gains on disposal of PPE		–	409	–	–	–	–	–	–	–	–		
Total Revenue (excluding capital transfers and contributions)		75 352	92 278	142 534	131 588	173 191	173 191	173 191	148 167	153 757	165 641	178 064	189 636
Expenditure By Type													
Employee related costs	2	19 727	29 383	34 733	41 159	45 460	45 460	45 460	49 846	53 585	57 604	61 924	65 949
Remuneration of councillors		6 239	6 807	7 159	8 890	8 565	8 565	8 565	9 056	9 736	10 466	11 251	11 982
Debt impairment	3	2 309	2 332	1 333	5 404	5 265	5 265	5 265	5 580	5 915	6 270	6 740	7 179
Depreciation & asset impairment	2	–	8 433	10 811	10 391	13 029	13 029	13 029	13 810	14 639	15 517	16 681	17 765
Finance charges		–	681	1 571	1 000	1 915	1 915	1 915	2 319	2 458	2 605	2 801	2 983
Bulk purchases	2	7 362	10 328	12 495	17 303	17 303	17 303	17 303	20 072	21 276	22 552	24 244	25 820
Other materials	8	–	–	–	–	–	–	–	–	–	–		
Contracted services		–	–	–	–	–	–	–	–	–	–		
Transfers and grants		560	397	799	300	734	734	734	333	334	–		
Other expenditure	4, 5	27 480	33 171	51 647	37 381	72 045	72 045	72 045	43 190	42 694	45 539	48 955	52 137
Loss on disposal of PPE		8	2 414	458	–	–	–	–	–	–	–		
Total Expenditure		63 685	93 946	121 005	121 828	164 315	164 315	164 315	144 207	150 636	160 554	172 596	183 814
Surplus/(Deficit)		11 668	(1 667)	21 529	9 680	8 876	8 876	8 876	3 959	3 121	5 087	5 469	5 824
Transfers recognised - capital		12 137	33 626	14 619	21 947	22 091	22 091	22 091	26 624	28 085	29 708	31 937	34 012
Contributions recognised - capital	6	–	–	–	–	–	–	–	–	–	–		
Contributed assets		–	–	–	–	–	–	–	–	–	–		
Surplus/(Deficit) after capital transfers & contributions		23 804	31 958	36 148	31 627	30 967	30 967	30 967	30 583	31 205	34 796	37 405	39 837
Taxation		–	–	–	–	–	–	–	–	–	–		
Surplus/(Deficit) after taxation		23 804	31 958	36 148	31 627	30 967	30 967	30 967	30 583	31 205	34 796	37 405	39 837
Attributable to minorities		–	–	–	–	–	–	–	–	–	–		
Surplus/(Deficit) attributable to municipality		23 804	31 958	36 148	31 627	30 967	30 967	30 967	30 583	31 205	34 796	37 405	39 837
Share of surplus/ (deficit) of associate	7	–	–	–	–	–	–	–	–	–	–		
Surplus/(Deficit) for the year		23 804	31 958	36 148	31 627	30 967	30 967	30 967	30 583	31 205	34 796	37 405	39 837

CAPITAL BUDGET & BORROWING

Table 56 details the estimated Capital Investment Programme for the five years starting 1 July 2012 and ending 30 June 2017. The Capital Investment Programme remains subject to the availability of funding.

Table 56: Capital Investment Programme

EC142 Senqu - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework			LTFS	
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15	Forecast 2015/16	Forecast 2016/17
Capital expenditure - Vote													
Multi-year expenditure to be appropriated	2												
Single-year expenditure to be appropriated	2												
Vote 1 - Executive & Council		222	656	1 289	150	150	150	150	1 000	212	225	233	237
Vote 2 - Planning & Development		67	1 886	1 071	100	56	56	56	350	159	169	174	178
Vote 3 - Corporate Services		13	8 193	9 546	850	550	550	550	900	954	1 011	1 047	1 068
Vote 4 - Budget & Treasury		76	551	779	450	534	534	534	500	530	562	581	593
Vote 5 - Road Transport		10 146	32 056	16 705	18 405	20 698	20 698	20 698	27 905	20 557	29 033	30 049	30 650
Vote 6 - Waste Water Management		5 264	–	–	4 000	12 604	12 604	12 604	–	–	–	–	–
Vote 7 - Housing		–	–	–	–	–	–	–	–	–	–	–	–
Vote 8 - Health		–	–	–	–	–	–	–	–	–	–	–	–
Vote 9 - Community & Social Services		1 649	99	111	3 200	615	615	615	3 150	5 000	5 000	5 175	5 279
Vote 10 - Sport & Recreation		335	25	–	3 962	2 918	2 918	2 918	3 994	3 500	3 000	3 105	3 167
Vote 11 - Public Safety		446	–	–	–	–	–	–	500	500	–	–	–
Vote 12 - Electricity		270	458	2 229	3 061	1 561	1 561	1 561	805	853	904	936	955
Vote 13 - Waste Management		735	17	112	4 996	1 372	1 372	1 372	4 050	8 775	1 900	1 967	2 006
Vote 14 - Water		–	–	–	–	–	–	–	–	–	–	–	–
Vote 15 - Other		–	–	–	–	–	–	–	–	–	–	–	–
Capital single-year expenditure sub-total		19 223	43 941	31 841	39 173	41 058	41 058	41 058	43 154	41 049	41 804	43 267	44 133
Total Capital Expenditure - Vote		19 223	43 941	31 841	39 173	41 058	41 058	41 058	45 154	43 049	41 804	43 267	44 133
Capital Expenditure - Standard												–	–
Governance and administration		311	9 400	11 614	1 450	1 234	1 234	1 234	4 400	3 696	1 798	1 861	1 898
Executive and council		222	656	1 289	150	150	150	150	1 000	212	225	233	237
Budget and treasury office		76	551	779	450	534	534	534	500	530	562	581	593
Corporate services		13	8 193	9 546	850	550	550	550	2 900	2 954	1 011	1 047	1 068
Community and public safety		2 430	124	111	7 162	3 533	3 533	3 533	7 644	9 089	8 000	8 280	8 446
Community and social services		1 649	99	111	3 200	615	615	615	3 150	5 000	5 000	5 175	5 279
Sport and recreation		335	25	–	3 962	2 918	2 918	2 918	3 994	3 500	3 000	3 105	3 167
Public safety		446	–	–	–	–	–	–	500	500	–	–	–
Housing		–	–	–	–	–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–	–	–	–	–
Economic and environmental services		10 213	33 942	17 776	18 505	20 754	20 754	20 754	28 255	20 716	29 202	30 224	30 828
Planning and development		67	1 886	1 071	100	56	56	56	350	159	169	174	178
Road transport		10 146	32 056	16 705	18 405	20 698	20 698	20 698	27 905	20 557	29 033	30 049	30 650
Environmental protection		–	–	–	–	–	–	–	–	–	–	–	–
Trading services		6 269	475	2 341	12 056	15 537	15 537	15 537	4 855	9 628	2 804	2 903	2 961
Electricity		270	458	2 229	3 061	1 561	1 561	1 561	805	853	904	936	955
Water		–	–	–	–	–	–	–	–	–	–	–	–
Waste water management		5 264	–	–	4 000	12 604	12 604	12 604	–	–	–	–	–
Waste management		735	17	112	4 996	1 372	1 372	1 372	4 050	8 775	1 900	1 967	2 006
Other		–	–	–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Standard	3	19 223	43 941	31 841	39 173	41 058	41 058	41 058	45 154	43 049	41 804	43 267	44 133
Funded by:												–	–
National Government		12 137	20 730	14 514	21 947	22 007	22 007	22 007	26 624	28 085	29 708	30 748	31 363
Provincial Government		–	12 896	105	–	84	84	84	–	–	–	–	–
District Municipality		–	–	–	–	–	–	–	–	–	–	–	–
Other transfers and grants		–	–	–	–	–	–	–	–	–	–	–	–
Transfers recognised - capital	4	12 137	33 626	14 619	21 947	22 091	22 091	22 091	26 624	28 085	29 708	30 748	31 363
Public contributions & donations	5	–	–	–	–	–	–	–	–	–	–	–	–
Borrowing	6	–	8 337	16 481	–	–	–	–	–	–	–	–	–
Internally generated funds		7 087	1 978	741	17 227	18 967	18 967	18 967	16 530	14 956	12 096	12 519	12 769
Total Capital Funding	7	19 223	43 941	31 841	39 173	41 058	41 058	41 058	45 154	43 049	41 804	43 267	44 133

d) Debt Management Framework

Table below details the Debt Management Framework. Loans will only be raised to fund the Capital Investment Programme.

Table: Debt Management Framework

EC142 Senqu - Supporting Table SA17 Borrowing

Borrowing - Categorised by type	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
Parent municipality										
Long-Term Loans (annuity/reducing balance)		-	8 163	15 659	16 586	14 453	14 453	13 150	11 743	10 224
Long-Term Loans (non-annuity)		-	-	-	-	-	-	-	-	-
Local registered stock		-	-	-	-	-	-	-	-	-
Instalment Credit		-	-	-	-	-	-	-	-	-
Financial Leases		-	-	44	-	44	44	44	44	44
PPP liabilities		-	-	-	-	-	-	-	-	-
Finance Granted By Cap Equipment Supplier		-	-	-	-	-	-	-	-	-
Marketable Bonds		-	-	-	-	-	-	-	-	-
Non-Marketable Bonds		-	-	-	-	-	-	-	-	-
Bankers Acceptances		-	-	-	-	-	-	-	-	-
Financial derivatives		-	-	-	-	-	-	-	-	-
Other Securities		-	-	-	-	-	-	-	-	-
Municipality sub-total	1	-	8 163	15 703	16 586	14 497	14 497	13 194	11 787	10 268

GRANTS RECEIVABLE

Table below details the Grants receivable in the 2013/2014 financial year and two outer budget years

Table 57: Grants Receivable

LOCAL GOVERNMENT MTEF ALLOCATIONS: 2013/14 - 2015/16

B EC142 Senqu	2013/14 R thousands	2014/15 R thousands	2015/16 R thousands
DIRECT TRANSFERS FROM NATIONAL DEPARTMENTS			
Local Government Equitable Share	**98 133**	**111 140**	**136 991**
General Fuel Levy Sharing with Metropolitan Municipalities			
Conditional Grants from National Departments	**41 553**	**38 397**	**41 037**
of which			
Infrastructure Grants	**36 953**	**35 863**	**38 420**
Cooperative Governance	**31 953**	**35 863**	**38 420**
Municipal Infrastructure Grant (Schedule 6)	31 953	35 863	38 420

National Treasury	**5 000**	**-**	**-**
Neighbourhood Development Partnership Grant (Schedule 6)	5 000		
Recurrent Grants (Schedule 6)	**2 440**	**2 534**	**2 617**
Cooperative Governance	**890**	**934**	**967**
Municipal Systems Improvement Grant	890	934	967
National Treasury	**1 550**	**1 600**	**1 650**
Local Government Financial Management Grant	1 550	1 600	1 650
Incentive Grants (Schedule 8)	**2 160**	**-**	**-**
Public Works	**2 160**	**-**	**-**
EPWP Incentive Grant for Municipalities	2160		
TOTAL: DIRECT TRANSFERS FROM NATIONAL DEPARTMENTS	**139 686**	**149 537**	**178 028**

B EC142 Senqu	**2012/13 R thousands**	**2013/14 R thousands**	**2014/15 R thousands**
TRANSFERS FROM PROVINCIAL DEPARTMENTS			
Municipal Allocations from Provincial Departments	**1 345**	**1 200**	**1 200**
of which			
Local Government and Traditional Affairs	**145**	**-**	**-**
Capacity Building	145	-	-
Sports, Recreation, Arts and Culture	**1 200**	**1 200**	**1 200**
Libraries Subsidies	1 200	1 200	1 200
SUB-TOTAL: TRANSFERS FROM PROVINCIAL DEPARTMENTS	**1 345**	**1 200**	**1 200**
TOTAL: TRANSFERS FROM NATIONAL AND PROVINCIAL DEPARTMENTS	**139 687**	**149 538**	**178 029**
INDIRECT TRANSFERS FROM NATIONAL DEPARTMENTS			
Allocations-In-Kind to Municipalities (Schedule 7)	**36 705**	**41 000**	**44 000**

of which			
Energy	**35 705**	**40 000**	**43 000**
Integrated National Electrification Programme (Eskom) Grant	35 705	40 000	43 000
Electricity Demand Side Management (Eskom) Grant			
Human Settlements	**-**	**-**	**-**
Rural Households Infrastructure Grant	-	-	-
National Treasury	**1 000**	**1 000**	**1 000**
Neighbourhood Development Partnership Grant	1 000	1 000	1 000
TOTAL: INDIRECT TRANSFERS FROM NATIONAL DEPARTMENTS	**36 705**	**41 000**	**44 000**
	176 391	***190 537***	***222 028***

Table 58: Grants expenditure

Unaudited

SENQU MUNICIPALITY

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	**Balance 1 JULY 2011**	**Contributions during the year**	**Interest on Investments**	**Operating Expenditure during the year Transferred to Revenue**	**Capital Expenditure during the year Transferred to Revenue**	**Balance 30 JUNE 2012**
CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS	**R**	**R**	**R**	**R**	**R**	**R**
National Government Grants						
-						
-						
Equitable Share	-	79 190 000	-	79 190 000	-	-
Municipal Finance Management	(54 422)	1 450 000	-	1 395 578	-	-
Municipal Infrastructure Grant	(267 146)	23 102 000	-	1 155 100	22 021 883	(342 129)
Municipal Systems Improvement	-	790 000	-	790 000		-
NDPG (Neighbourhood Development Partnership Grant)	7 196 397	2 900 000	-	1 931 571	-	8 164 825
EPWP (Expanded Public Works Program)	-	1 625 000	-	1 625 000	-	-

Total National Government Grants	6 874 828	109 057 000	-	86 087 249	22 021 883	7 822 696
Provincial Government Grants						
-						
-						
Peach & Vegetable Processing	8 302	-	-	8 302	-	-
Holo Hlahatsi Agricultural Project	104 517	-	-	620	-	103 897
Co-op's Development	2 993	-	-	2 993	-	-
Prov Gov - Housing (Lady Grey)	1 618 897			1 618 897		-
Prov Gov - Housing (Hillside)	1 280 832	5 762 799	-	6 213 391		830 240
Implementation Ownership	98 276	-	-	45 060	-	53 216
Rossouw Agricultural Project	92 811	-	-	43 230	-	49 582
Herschel People's Housing	7 094 314	-	318 187	-	-	7 412 501
Internet/Communication Systems	84 131	-	-	-	84 131	-
Plastic Products	206 080	-	-	115 913	-	90 167
Provincial Roads (Musong Road)	5 394 538	6 753 994	-	12 085 399	-	63 134
Greenest Municipality	-	300 000	-	-	-	300 000
Second Economy Regeneration (LED)	100 489	106 591	-	97 218	-	109 862
Clean Audit	-	95 000	-	-	-	95 000
Total Provincial Government Grants	16 086 181	13 018 384	318 187	20 231 023	84 131	9 107 599
-						
District Municipality Grants						
Commonage Management Plan	58 056	-	-	12 000	-	46 056
Municipal Support Programme	61 858	-	-	61 858	-	-
Joe Gqabi DM - District Call Centre	87 383	-	-	87 383	-	-
Libraries	-	1 278 873	-	1 278 873	-	-
Total District Municipality Grants	207 297	1 278 873	-	1 440 115	-	46 056

Total	**23 168 306**	**257**	**123 354**		**318 187**	**107 758 386**	**014**	**22 106**		**16 976 351**

Unaudited

SENQU MUNICIPALITY

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	**Balance 1 JULY 2010**	**Transfers**	**Restated balance 01-Jul-09**	**Transfers**	**Contributions during the year**	**Interest on Investments**	**Other Income**	**Operating Expenditure during the year Transferred to Revenue**	**Capital Expenditure during the year Transferred to Revenue**	**Balance 30 JUNE 2011**
CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS										
	R	**R**	**R**		**R**	**R**	**R**	**R**	**R**	**R**
<u>National Government Grants</u>										
-										
-										
Equitable Share	-	-	-	-	66 492 733	-		66 492 733	-	-
Municipal Finance Management	433 836	-	433 836	-	1 200 000	-		1 688 259	-	(54 422)
Municipal Infrastructure Grant	(1 821)	-	(1 821)	-	15 209 000	-		15 474 325	-	(267 146)

Municipal Systems Improvement	(36 320)	-	(36 320)	-	750 000	-		713 680	-	-
NDPG (Neighbourhood Development Partnership Grant)	-	-	-	-	11 000 000	-		3 803 603	-	7 196 397
EPWP (Expanded Public Works Program)	-	-	-	-	1 088 000	-		1 088 000	-	-
Total National Government Grants	395 695	-	395 695	-	95 739 733	-	-	89 260 600	-	6 874 828
Provincial Government Grants										
-										
-										
Performance Agreements	-	-	-	-	-	-		-	-	-
Peach & Vegetable Processing	8 302	-	8 302	-	-	-		-	-	8 302
Holo Hlahatsi Agricultural Project	104 517	-	104 517	-	-	-		-	-	104 517
Surveying / Land Audit	-	-	-	-		-		-	-	-
Heritage Management	229 912	-	229 912	229 912	-	-		-	-	-
Co-op's Development	2 993	-	2 993	-	-	-		-	-	2 993
Prov Gov - Housing (Lady Grey)	1 984 417	-	1 984 417	-	-	-		365 520.11	-	1 618 897
Prov Gov - Housing (Hillside)	446 773	-	446 773	-	10 440 679	-		9 606 620.39	-	1 280 832
Implementation	233		233			-		135 270	-	98

Ownership	546	-	546	-	-					276
Traffic Test Station (Sterkspruit)	104 879	-	104 879	-	-	-		-	104 879	-
Rossouw Agricultural Project	92 811	-	92 811	-	-	-		-	-	92 811
Herschel People's Housing	6 774 561	-	6 774 561	-	-	319 752		-	-	7 094 314
Internet/Communication Systems	84 131	-	84 131	-	-	-		-	-	84 131
Plastic Products	1 410 047	-	1 410 047	-		-		241 367	962 600	206 080
Provincial Roads (Musong Road)	-	-	-	-	20 985 990	-		15 591 452	-	5 394 538
IEC Elections	-	-	-	-	750 000	-		750 000	-	-
Greenest Municipality	-	-	-	-	200 000	-		200 000	-	-
Small Town	-	-	-	-	100 489	-		-	-	100 489
Total Provincial Government Grants	11 476 889	-	11 476 889	229 912	32 477 158	319 752	-	26 890 229	1 067 479	16 086 181
- **District Municipality Grants**										
Commonage Management Plan	59 781	-	59 781	-	-	-		1 725	-	58 056
Municipal Support Programme	83 650	-	83 650	-	-	-		21 792	-	61 858
Tourism	-	-	-	-	20 000	-		20 000	-	-

Joe Gqabi DM - District Call Centre	87 383	-	87 383	-	-	-		-	-	87 383
IDP	-	-	-	-	50 000	-		50 000	-	-
Libraries	-	-	-	-	660 000	-		660 000	-	-
Total District Municipality Grants	230 815	-	230 815		730 000	-	-	753 517	-	207 297
Total	**12 103 399**	**-**	**12 103 399**	**229 912**	**128 946 891**	**319 752**	**-**	**116 904 346**	**1 067 479**	**23 168 306**

FINANCIAL STRATEGY

Senqu Municipality's three (3) key economic sectors are Agriculture, Services and the Tourism sectors, with the latter (Tourism), having the potential to grow. Data from the 2007 Community Survey indicates that the average unemployment rate of the Senqu Municipal area is 16%. This number only includes people that are actively searching for work. The percentage of people who are unemployed but not looking for work is 65%, compared to 54% for the district and 48% for the province

a) REVENUE RAISING STRATEGY

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Municipality derives most of its operational revenue from the provision of goods and services such as electricity and solid waste removal, property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc).

The revenue strategy is a function of key components such as:

- Growth in the Municipality and economic development;
- Revenue management and enhancement;
- Achievement of a 86 per cent annual collection rate for consumer revenue;
- National Treasury guidelines; Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA)
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

Investment revenue contributes significantly to the revenue base of the Municipality. It needs to be noted that these allocations have been conservatively estimated and as part of the cash backing of reserves and provisions. The actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

The tables below provide detail investment information and investment particulars by maturity.

Table 59: Detail Investment Information

Investment type	Ref	2008/9	2009/10	2010/11	Current Year 2011/12		2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
R thousand									
Parent municipality									
Deposits - Bank		67 095	65 867	113 870	43 983	95 388	95 279	98 785	108 067
Total:		**67 095**	**65 867**	**113 870**	**43 983**	**95 388**	**95 279**	**98 785**	**108 067**

Table 60 – Investment particulars by maturity

Investments by Maturity	Period of Investment	Type of Investment	Monetary value	Interest to be realised
Name of institution & investment ID	Yrs/Months		Rand thousand	
Parent municipality				
Standard Bank 38 848 973 1 - 005	32 day	32 day	42 694	2 202
Standard Bank 38 848 606 6 - 001	Call Deposit	Call Deposit	5 137	265
Standard Bank 38 848 916 2 - 002	Call Deposit	Call Deposit	47 449	2 448
TOTAL INVESTMENTS AND INTEREST			**95 279**	**4 915**

b) ASSET MANAGEMENT STRATEGY

Ultimately the objectives of Senqu Local Municipality regarding Asset Management are to ensure that the assets of the Municipality are properly managed and accounted. The Municipality has developed a comprehensive asset and insurance policy that fully complies with the GRAP standards and regulations placed upon the municipality by the National Treasury. The policy has been implemented and some of the key aspects included in the policy are as follows

- Ensuring the accurate recording of asset information
- The accurate recording of asset movements
- Exercising strict physical control over all assets (Security,
- safekeeping, housekeeping)
- Providing correct and meaningful management information in conjunction with other disciplines and functions which, inter alia, includes Insurance
- Compliance with Council's Insurance and Payments Procedure
- Effecting adequate insurance of all assets
- Maintenance of Council's Assets

By clearly clarifying roles and responsibilities within the asset management policy the municipality has ensured that clear reporting lines exists to ensure that proper account can be given regarding the use/misuse of all municipal assets.

Senqu Local Municipality ensures that proper provision is made within the asset management policy for the maintenance of assets through comprehensive maintenance plans. Every head of department

shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Municipal Manager / Chief Financial Officer of the municipality for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned. The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

ASSET REGISTER

The Municipality has compiled a Fully GRAP Compliant Asset register that were tested by during the 2011 - 2012 Audit were no findings pertaining to the Register were raised by the AG.

Senqu municipality has implemented a system of internal control consistent with the transcripts of the Municipal Asset Management and Insurance policy to ensure that all assets are accounted for and the useful lives of the assets are reassessed on an annual basis.

Strict Control is also kept on the safeguarding of assets to ensure that service delivery is not disrupted in any way or form.

c) CAPITAL FINANCING STRATEGY

Capital Projects are mainly funded from the Municipal Infrastructure Grant but the Municipality maintains efficient and effective revenue collection systems and effective cash flow management systems and is thus in a able position to fund shortfalls from grant funding. Through the above practices, Senqu Municipality is also able to fund capital expenditure not covered in the MIG as an example vehicles and office equipment.

FINANCIAL MANAGEMENT POLICIES (See Annexure 1)

a) General Financial Philosophy

The financial policies of Senqu Local Municipality has been drafted to provide a sound control environment thus ensuring adherence to all applicable laws regulations and to comply with best practices thereby providing a secure and fraud free management of financial services. The Budget and Finance Office has the following objectives:

- To Fully Implement the MFMA and all its underlying reforms
- Implementation of the Legislature relevant to municipal finances and the municipality as a whole
- Effective Management of the Budget Process
- Providing strategic and specialised financial information and guidance through the Budget and Treasury Office in support of all other departments within the municipality
- Efficient and Effective Management of Municipal Revenue
- Establishment of a Supply Chain Management Unit and the full implementation of the municipal supply chain policy
- Establishment of a FBS/Indigent Support Unit
- Maintenance of Internal Financial Control
- Production of Financial Performance Reports
- To Retain the Financial Viability of the Municipality
- To have an Unqualified Audit Report

b) Budget and Integrated Development Policy

This policy sets out the budgeting principles, which Senqu Municipality will follow in preparing each annual budget, as well as the Integrated Development Planning process through which the municipality will prepare a strategic integrated development plan, for each five-year period. This policy is not reviewed annually

c) Tariff Policy

A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy) of the Municipal Systems Act No. 32 of 2000. In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

All tariffs are be indicated in a tariff schedule, which is an addendum to the policy and is reviewed and amended by Council annually.

d) Rates Policy

The local Government: Municipal Property Rates Act, No 6 of 2004, requires that the municipality develop and adopt a rates policy in consistent with the Act on the levying of rates on rate able property in the municipality. The rates policy of the municipality to which residents / communities will annually be invited to make suggestions / recommendations during its budget process will be based on public submissions, which can include oral presentations and bilateral meetings in order to obtain clarity on the submitted comments as well as further motivations thereof. The municipal council will not take the final decision before such a consultative processes has been concluded.

In developing and adopting this Rates Policy, the Council has sought to give effect to the sentiments expressed in the preamble of the Property Rates Act, namely that:

The Constitution enjoins local government to be developmental in nature, in addressing the service delivery properties of our country and promoting the economic and financial viability of our municipalities. There is a need to provide local government with access to a sufficient and buoyant source of revenue necessary to fulfil its developmental responsibilities. Revenues derived from property rates represent a critical source of income for municipalities to achieve their constitutional objectives, especially in areas neglected in the past because of discriminatory legislation and practices and it is essential that municipalities exercise their powers to impose rates within a statutory framework which enhances certainty, uniformity and simplicity across the nation and which take account of historical imbalances and the burden of rates on the poor.

The municipality needs a reliable source of revenue to provide basic services and perform its functions. Property Rates are the most important source of general revenue for the municipality. Revenue from property rates is used to fund services that benefit the community as a whole as opposed to individual households; these includes installing and maintaining streets, roads, sidewalks, lighting and cemeteries. Property Rates revenue is also used to fund municipal administration and costs of governance, which facilitate community participation on issues of Integrated Development Plans and municipal budgets. Property Rates revenue would under circumstances be used to fund any function of the municipality.

Municipal Property Rates are set, collected and used locally. Revenue from property rates is spent within the municipality, where the citizens and voters have a choice on how the revenue is spent as part of the Integrated Development Plan and budget processes, which the municipality will annually

invites the community to input prior the council's adoption of the budget. The following principles will ensure that the municipality treats persons liable for rates equitable:

Equity – the municipality will treat ratepayers with similar properties the same;

Affordability – the ability of a person to pay rates will be taken into account by the municipality. In dealing with the poor / indigent ratepayers the municipality will provide relief measures through exemptions, reductions or rebates.

In applying its Valuations and Rates Policy, the Council adheres to all the requirements, as set out below, of the Property Rates Act no. 6 of 2004 including any regulations promulgated in terms of that Act.

e) Free Basic Services and Indigent Support Policy

The principles of the Free Basic Services and Indigent Support Policy is as follows:

- Ensure that the Equitable Share received annually will be utilised for the benefit of the poor only and not to subsidise rates and service charges of those who can afford to pay;
- To link this policy with the municipality's *IDP (Integrated Development Plan), LED (Local Economic Development)* initiatives and poverty alleviation programmes;
- To promote an integrated approach to free basic service delivery; and
- To engage the community in the development and implementation of this policy.

Policy Objectives

In support of the above principles the objective of this policy will be to ensure the following:

- The provision of basic services to the community in a sustainable manner within the financial and administrative capacity of the Council;
- The financial sustainability of free basic services through the determination of appropriate tariffs that contribute to such sustainability through cross subsidisation;
- Establishment of a framework for the identification and management of indigent households including a socio-economic analysis where necessary and an exit strategy;
- The provision of procedures and guidelines for the subsidisation of basic charges and the provision of free basic energy to indigent households; and
- Co-operative governance with other spheres of government.

f) Credit Control & Debt Collection Policy

The purpose is to ensure that credit control forms an integral part of the financial system of the local authority, and to ensure that the same procedure be followed for each individual case.

Principles underlined in the policy is as follows

- The administrative integrity of the municipality must be maintained at all costs. The democratically elected councillors are responsible for policy-making, while it is the responsibility of the Municipal Manager to ensure the execution of these policies.
- All customers must complete an official application form, formally requesting the municipality to connect them to service supply lines. Existing customers may be required to complete new application forms from time to time, as determined by the Municipal Manager.
- A copy of the application form including conditions of services must be handed to every new customer on date of application for services. A copy of the council's Credit Control and Debt Collection policy would on request is made available to any customer.
- Billing is to be accurate, timeous and understandable.
- The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- The customer is entitled to an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of a reasonable appeal.
- Enforcement of payment must be prompt, consistent and effective.
- Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of municipal services will lead to disconnections, penalties, loss of rights and criminal prosecutions.
- Incentives and disincentives may be used in collection procedures.
- Results will be regularly and efficiently reported by the Municipal Manager and the Mayor.
- Application forms will be used to, inter alia, categorise customers according to credit risk and to determine relevant levels of services and deposits required.
- Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- Debtors may be referred to third party debt collection agencies and may be placed on the National Credit Rating list.

g) Supply Chain Management Policy

The objective of this policy is to provide a policy framework within which the municipal manager and chief financial officer can institute and maintain a supply chain management system which is transparent, efficient, equitable, competitive, which ensures best value for money for the municipality, applies the highest possible ethical standards, and promotes local economic development.

All officials and other role players in the supply chain management system of the municipality must implement this Policy in a way that –

- gives effect to – section 217 of the Constitution; and Part 1 of Chapter 11 and other applicable provisions of the Act;
- is fair, equitable, transparent, competitive and cost effective;
- complies with – the Regulations; and
- any minimum norms and standards that may be prescribed in terms of section 168 of the Act; is consistent with other applicable legislation and guidelines, being:
- does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres; and
- is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.

Banks Act, 1990, Act No.94 of 1990
The Constitution of the Republic of South Africa, 1996, Act No 108 of 1996
Public Finance Management Act, 1999, Act No 1 of 1999
Preferential Procurement Policy Framework Act, 2000, Act No 5 of 2000
Local Government: Municipal Systems Act, 2000, Act No 32 of 2000
Construction Industry Development Board Act, 2000, Act 38 of 2000
Preferential Procurement Regulations, 2001, Pertaining to the Preferential Procurement Framework Act – Notice 22549 of 10 August 2001 – Gazette No 7134
Broad-Based Black Economic Empowerment Act, 2003, Act No 53 of 2003
Municipal Finance Management Act, 2003, Act No 56 of 2003
National Treasury: MFMA Circular No. 2 – Supply Chain Management – 20 July 2004
Prevention and Combating of Corruption Activities Act, Act No 12 of 2004.
Local Government: Municipal Finance Management Act, 2003 – Municipal Supply Chain Management Regulations – Notice 868 of 2005
National Treasury: MFMA Circular No. 22 – Model Supply Chain Management Policy – 25 August 2005
Code of Conduct for Supply Chain Management Practitioners and Other Role Players - August 2005.
Municipal Supply Chain Management Model Policy – August 2005.
National Treasury: MFMA Circular No.25 – Supply Chain Management Guide, General Conditions of Contract and Municipal Bidding Documents – 3 October 2005.
A Guide for Accounting Officers of Municipalities and Municipal Entities – October 2005
General Conditions of a Contract – October 2005.
Senqu Municipality: Supply Chain Management Policy Ver. 1 – 1 January 2006.

Government Notice 44 – Exemptions from Supply Chain Management Regulations – 18 January 2006.
National Treasury: MFMA Circular No. 29 – Supply Chain Management Issues – 31 January 2006.
National Treasury: MFMA Circular No.33 – Supply Chain Management Issues – 27 March 2006.

Although there were findings raised by the AG related to SCM in the 2012 – 2013 Audit the municipality remains committed to the full implementation of the SCM Regulations, MFMA requirements and the Municipal SCM policy.

Control measures were implemented to address the findings raised by the AG and additional controls were also implemented by the municipality to be in a position to ensure compliance with SCM and PPPFA regulations such as the redesign of evaluation forms and the reviewal of the SCM policy. Senqu Municipality also plans to implement demand and procurement management plans for the 2013- 2014 Budget year to ensure enhanced compliance through proper planning.

The SCM unit within the municipality is also being capacitated and this in turn ensures that the SCM Policy is being properly enforced and implemented.

Policy reviewal and implementation

Policies are reviewed annually to ensure compliance, relevance and consistency. The last review was on the 28 May 2013. Policies are implemented but have not been promulgated into by-laws and gazetted as an adopted Council policy is taken as a legal document of Council. However the municipality is looking at the legal necessity of turning some financial policies into bylaws. All other policies and bylaws are contained in Annexure 1 with their reviewal dates.

ACCOUNTING PRINCIPLES & POLICIES APPLIED IN ANNUAL FINANCIAL STATEMENTS

Basis of Preparation

The annual financial statements have been prepared on the accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. The annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The standards are summarised as follows:

GRAP 5	Borrowing Costs

GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associate
GRAP 8	Interests in Joint Ventures
GRAP 101	Agricultural
GRAP 102	Intangible assets
IPSAS 20	Related Party Disclosure
IFRS 3 (AC140)	Business Combinations
IFRS 4 (AC141)	Insurance Contracts
IFRS 6 (AC143)	Exploration for and Evaluation of Mineral Resources
IAS 12 (AC102)	Income Taxes
SIC – 21 (AC421)	Income Taxes – Recovery of Revaluated Non-Depreciable Assets
SIC – 25 (AC425)	Income Taxes – Changes in the Tax Status on an Entity or its Shareholders
SIC – 29 (AC429)	Service Concessions Arrangements – Disclosures
IFRIC 2 (AC435)	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4 (AC437)	Determining whether an Arrangement contains a Lease
IFRIC 9 (AC442)	Reassessment of Embedded Derivatives
IFRIC 12 (AC445)	Service Concession Arrangements
IFRIC 13 (AC446)	Customer Loyalty Programmes
IFRIC 14 (AC447) IAS19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 15 (AC448)	Agreements for the Construction of Real Estate
IFRIC 16 (AC449)	Hedges in a Net Investment in a Foreign Operation

The municipality resolved to early adopt the following GRAP standards which have been issued but are not yet effective.

Standard	**Description**	**Effective Date**
GRAP 1 (Revised)	Presentation of Financial Statements	1 April 2011
GRAP 2 (Revised)	Cash Flow Statements	1 April 2011
GRAP 3 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2011
GRAP 4 (Revised)	The Effects of changes in Foreign Exchange Rates	1 April 2011
GRAP 9 (Revised)	Revenue from Exchange Transactions	1 April 2011
GRAP 10 (Revised)	Financial Reporting in Hyperinflationary Economics	1 April 2011
GRAP 11 (Revised)	Construction Contracts	1 April 2011
GRAP 12 (Revised)	Inventories	1 April 2011
GRAP 13 (Revised)	Leases	1 April 2011
GRAP 14 (Revised)	Events after the reporting date	1 April 2011
GRAP 16 (Revised)	Investment Property	1 April 2011
GRAP 17 (Revised)	Property, Plant and Equipment	1 April 2011
GRAP 19 (Revised)	Provisions, Contingent Liabilities and Contingent Assets	1 April 2011
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-Exchange Transactions	1 April 2012

GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 100 (Revised)	Non-current Assets held for Sale and Discontinued Operations	1 April 2011

The municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not yet effective.

Standard	**Description**	**Effective Date**
GRAP 25	Employee Benefits	Unknown
GRAP 104	Financial Instruments	Unknown

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3. A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP. The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements. In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible Assets where the acquisition cost of an asset could not be determined.

If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or an intangible asset, an entity may estimate such fair value using depreciated replacement cost. The cost for depreciated replacement cost is determined by using either one of the following:

- cost of items with a similar nature currently in the municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

PRESENTATION OF BUDGET INFORMATION

As noted, GRAP 24 is not yet effective, however budget information required in terms of GRAP 1 paragraph 14 to 18 have been disclosed in the financial statements. The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury.

MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. In general, materiality is determined as 1% of total expenditure.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

Standard	Description	Effective Date
GRAP 6 (Revised)	**Consolidated and Separate Financial Statements** No significant impact is expected as the municipality does not participate in such business transactions.	**Unknown**
GRAP 7 (Revised)	**Investments in Associate** No significant impact is expected as the municipality does not participate in such business transactions.	**Unknown**
GRAP 8 (Revised)	**Interest in Joint Ventures** No significant impact is expected as the municipality does not participate in such business transactions.	**Unknown**
GRAP 18	**Segment Reporting** Information to a large extent is already included in the notes to the annual financial statements.	**Unknown**
GRAP 24	**Presentation of Budget Information in Financial Statements** Information to a large extent is already included in the notes to the annual financial statements.	**1 April 2012**
GRAP 25	**Employee Benefits** Information to a large extent is already included in the notes to the annual financial statements.	**Unknown**
GRAP 103	**Heritage Assets** No adjustments necessary as the municipality has any significant heritage assets.	**1 April 2012**
GRAP 104	**Financial Instruments** Information to a large extent is already included in the notes to the annual financial statements.	**Unknown**
GRAP 105	**Transfer of Functions Between Entities Under Common Control** No significant impact is expected as the municipality does not participate in such business transactions.	**Unknown**
GRAP 106	**Transfer of Functions Between Entities Not Under Common Control** No significant impact is expected as the municipality does not participate in such business transactions.	**Unknown**
GRAP 107	**Mergers** No significant impact is expected as the municipality does not participate in such business transactions.	**Unknown**

These standards, amendments and interpretations will not have a significant impact on the municipality once implemented.

RESERVES

Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus / (deficit) to the CRR. The cash in the CRR can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus / (deficit) are credited by a corresponding amount when the amounts in the CRR are utilised.

Valuation Roll Reserve

The aim of this reserve is to ensure sufficient cash resources are available for the future payment of the Valuation roll

Employee Benefits Reserve

The aim of the reserve is to ensure sufficient cash resources are available for the future payment of employee benefits. Contributions equal to the short term portion of employee benefits, plus 5% of the prior year closing balance of long term employee benefits is contributed to the reserve from accumulated surplus/(deficit.

Revaluations Reserve

The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17. All increases in the carrying value of assets as a result of a revaluation are credited against the reserve, except to the extent that the increase reverses a revaluation decrease of the same asset previously recognised in surplus or deficit. All decreases in the carrying value of assets as a result of a revaluation are debited against the reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

LEASES

Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease

payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables. Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

GOVERNMENT GRANTS AND RECEIPTS

Unspent Conditional Government Grants and Receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable. Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants and subsidies. This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.

- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Unpaid Conditional Government Grants and Receipts

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

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

UNSPENT PUBLIC CONTRIBUTIONS

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable. Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public. This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

PROVISIONS

Provisions are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is possible. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

EMPLOYEE BENEFITS

(a) Post Retirement Medical Obligations

The municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(b) Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans. Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(c) Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

(d) Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is maintained. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

(e) Pension and Retirement Fund Obligations

The municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Defined benefit plans are post-employment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

PROPERTY, PLANT AND EQUIPMENT

Initial Recognition

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 year. Items of property, plant and

equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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. Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. 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 assets acquired are 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. Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Subsequent Measurement – Revaluation Model

Subsequent to initial recognition, Land and Buildings are carried at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit. A decrease in the carrying amount of an asset

as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		***Years***
Infrastructure		**Other**	
Roads and Paving	5 - 50	Buildings	100
Pedestrian Malls	20	Specialist vehicles	10 - 30
Electricity	15 - 50	Other vehicles	5 - 20
Water	15 - 20	Office equipment	5 - 10
Sewerage	10 - 50	Furniture and fittings	7 - 15
		Bins and containers	5 - 10
Community		Specialised plant and	
Buildings	100	Equipment	10 - 30
Recreational Facilities	20 - 30	Other plant and	
Security	5	Equipment	2 - 12
Halls	20 - 30	Landfill sites	30
Libraries	20 - 30		
Parks and gardens	15 - 20	Emergency equipment	10 - 30
Other assets	15 - 20	Computer equipment	5 - 10
Heritage Assets and Land Heritage assets Land **Finance lease assets**	 50- Infinite Infinite		
Office equipment	3		

Other assets	5 - 6		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Land and Buildings and Other Assets – Application of Deemed Cost (Directive 7)

The municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007. For Other Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2007.

INTANGIBLE ASSETS

Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance. An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably. Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost. Where an intangible asset 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, the deemed cost is the carrying amount of the asset(s) given up.

Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Intangible Assets	Years
Computer Software	5
Computer Software Licenses	5

De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Application of deemed cost (Directive 7)

The municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2007.

INVESTMENT PROPERTY

1.17.1 Initial Recognition

Investment property shall be recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

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

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Subsequent Measurement – Fair Value Model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

De-recognition

Investment property is derecognised when it is disposed of or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Application of deemed cost - Directive 7

The municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2007.

NON-CURRENT ASSETS HELD FOR SALE

Initial Recognition

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Subsequent Measurement

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return. The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset’s recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets. The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance. The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciated replacement cost approach* - the present value of the remaining service potential of an 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 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.

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

- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an 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. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

NON CURRENT INVESTMENTS

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance. The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

INVENTORIES

Initial Recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process. Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal

charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. In general, the basis of allocating cost to inventory items is the weighted average method. Cost of land held for sale is assigned by using specific identification of their individual costs.

FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange transactions and non-exchange transactions).

Initial Recognition

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability

Subsequent Measurement

Financial Assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial Liabilities are categorised as either at fair value, financial liabilities at cost or financial liabilities carried at amortised cost (”other”). The subsequent measurement of financial assets and liabilities depends on this categorisation.

Receivables

Receivables are classified as loans and receivables, and are subsequently measured at amortised cost using the effective interest rate method. For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

De-recognition of Financial Instruments

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the municipality has transferred substantially all the risks and rewards of the asset, or (b) the municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

REVENUE

Revenue from Non-Exchange Transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount. Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine revenue constitutes both spot fines and summonses. Revenue from spot fines and summonses is recognised based on an estimation of future collections of fines issued based on prior period trends and collection percentages. Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have

been received but the municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets. Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

After a period of twelve months all unclaimed deposits into the municipality's bank account will be treated as revenue as historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognised all unclaimed monies older than twelve months as revenue. Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof is virtually certain. Revenue is measured at the fair value of the consideration received or receivable.

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

Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable. Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when

invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Billings for electricity are done monthly for customers served directly by the municipality as per the norms and standards of revenue management. Monthly billing and reconciliation takes place ESKOM bills the other customers. Customers are billed annually for rates Does the municipality bill consumers on a monthly basis as per norms and standards of revenue management

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. An adjustment is made at year-end for unused units. Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage. Service charges from sanitation (sewerage) are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements.

Interest revenue is recognised using the effective interest rate method. Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement. Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits. Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer. Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity. In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Grants, Transfers and Donations (Non-Exchange Revenue)

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

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.

(a) Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;

- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

(b) Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted or is expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, or is expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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 200), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

CONTINGENT LIABILITIES

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 entity. A contingent liability could also be 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 will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability. Management judgement is required when recognising and measuring contingent liabilities.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Post Retirement Medical Obligations and Long Service Awards

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of Receivables

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

Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and

service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets. For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time. For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Provisions and Contingent liabilities

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

Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value of the expected future cash flows to rehabilitate the landfill site at year end. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset is charged to the Statement of Financial Performance.

Provision for Task Implementation and Back Pay

The provision at 30 June 2010 for Task Implementation represents the municipality's obligation towards qualifying officials as a result of a new national grading system for municipalities which came into effect on 1 October 2009. The calculation was based on the difference between the current basic salary compared to the basic salary as per new TASK grading. The difference between these two packages was backdated to the implementation date of the TASK grading system. The provision at 30 June 2011 for Back Pay represents the municipality's obligation towards Section 57 Directors as a result of an amendment in their employment contracts. The calculation was based actual remuneration paid versus the requirements of the amended packages.

Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by council.

Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.

Pre-paid electricity estimation

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year end, that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using between 5 and 10 days' worth of unused electricity.

Componentisation of infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

INFORMATION & COMMUNICATION TECHNOLOGY

The ICT Software used by Senqu Local Municipality is summarized in Table below:

Table 61: ICT software

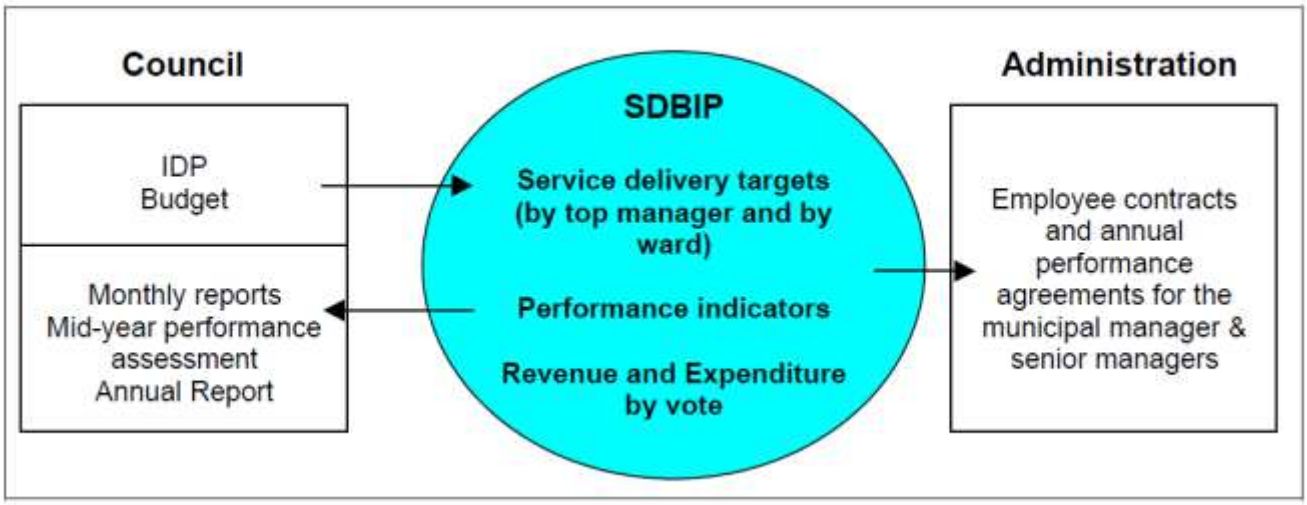
Company	Programme	Application
Sebata	Sebata Financial Management Solutions	Sebata Consolidated Billing Sebata Ledger Sebata Payroll Sebata Assets Sebata Stores Sebata Cashbook Sebata Financial Management Solutions
Microsoft	MS Office	MS Word MS Excel MS PowerPoint MS Publisher Adobe MS Outlook
Sophos	Sophos Protection	Sophos Antivirus
Standard Bank	Standard Bank Business Online	Standard Bank Business Online Electronic Banking
SITA	eNatis	Motor Vehicle Registration

Source: Senqu Municipality

THE SERVICE DELIVERY BUDGET IMPLEMENTATION PLAN (SDBIP)

The SDBIP marries the Performance Management System (as required under the Municipal Systems Act) with the budget and the IDP. Thus the strategic direction mapped out in the IDP is matched with financial resources and delivery of services as specified in the PMS.

The requirement for a SDBIP is stated in the MFMA, Section 69.3 (a) and is the responsibility of the Municipal Manager.



The SDBIP allows the budget to be implemented fully as it identifies:

- The Strategic Imperative – Through links with the IDP.
- The Financial Imperative – Through links with the budget.
- The Performance Imperative – Through links to the PMS.

The National Treasury Circular 13 describes in detail the approach to SDBIP's. Basically there is a high level SDBIP for the purpose of high level monitoring by stakeholders, backed by full detail all the way to the individual employee.

Starting from the top (the Municipal Manager), all staff operate under KPI's within the identified KPA's. In effect the SDBIP becomes the implementation tool for the budget and the basis for non-financial monitoring.

At the highest level every vote could be aligned to an IDP strategy and some KPI's. These then form the basis of future monthly and in year reporting. The draft SDBIP is contained in Annexure 8.

VALUATION ROLL

The Municipal Valuation date is the 1st of July 2012, thus all valuations must this be completed before the 31st of January 2012. In terms of The Municipal Property Rates Act of 2004, Chapters 4, 5, 6 and 7 a municipal valuation process of all properties within a municipal jurisdiction must be completed by a municipality within the ambit of this Act (MPRA) given due consideration to rights of community members and the municipality/municipal valuator which will conduct the valuation process.

In order to achieve the above an informative consultation process with community members will be embarked upon explaining activities to be performed by the municipal valuators and the rights of

community members regarding the entire valuation process. This informative consultation process will also afford community members an opportunity to gain clarity on any uncertain matters which they might have. All meeting dates and places will be formally advertised and placed on notice boards in municipal offices.

It is expected that meetings will take place either in the last week of September 2012 or the first week of October 2012. Formal dates for meetings to be held, will be decided upon at a meeting with the Municipal Valuator on the 11th of September 2012 and published in newspapers and notice boards on the 12th of September 2012. This has been done and the process of lodging objections closed on the 26th March 2013.

In conclusion the new updated valuation roll will be implemented in the 2013 – 2014 budget year and the updated valuation roll to be implemented in the 2013 – 2014 budget year. Yearly Supplementary Valuation Rolls are being conducted in years that general valuation does not take place

INTERNAL CONTROLS

The municipality has an effective internal control system in place as evidenced by its VUNA award for 3 consecutive year's unqualified audit. All issues relating to the audit are addressed in Chapter 5

Risk management is conducted on an annual basis by the IPME department and risk assessment reports generated quarterly per department.

SUPPLY CHAIN MANAGEMENT

Senqu has two committees viz the Specification/Evaluation Committee which ensures that the specifications are correct and in line with scm legislation and approves them for tender advertisements. The Committee also evaluates bids once tenders have closed and forwards their recommendations to the Bid Committee. The second committee is the Bid Committee makes the final decision on tenders except for tenders above R 10 million. The specifications and evaluation committee are combined as this assists with administrative efficiency.

The Unit consists of 5 staff members who handle bids, demand management, contract management as well as managing the database and issuing orders. The Unit assists the Compliance and Governance Manager to monitor the performance of suppliers and bidders. The turnover rate of the

procurement process is not accurately measured but normally takes about 3 months from specification to appointment.

Contract Management is shared between the Unit and the officials who requested the service and Corporate Services who archive the signed contracts.