



# **NEWCASTLE MUNICIPALITY**

(Registration number KZ252)

## **ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## General Information

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### Nature of business and principal activities

The provision of services ( electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment.

### Mayor

Executive Committee

Cllr Dr NNG Mahlaba

Cllr VV Bam

Cllr EJC Cronje

Cllr RN Mdluli

Cllr RM Molelekoa

Cllr M Shunmugam

Cllr SM Thwala

Cllr SE Shabangu

Cllr TM Nzuza

### Councillors

Cllr LL Bosman

Cllr MV Buhali

Cllr SB Buthelezi

Cllr TJC Danisa

Cllr XMN Dladla

Cllr BS Blamini

Cllr TN Dlamini

Cllr DX Dube

Cllr NP Dukashe

Cllr FP Gama

Cllr VF Hadebe

Cllr A Khoza

Cllr BV Khumalo

Cllr PJ Khumalo

Cllr VD Kubheka

Cllr C Liu

Cllr NK Majozi

Cllr FA Malinga

Cllr AP Meiring

Cllr SG Miya

Cllr HN Mkhwanazi

Cllr TP Mkhwanazi

Cllr MS Mlangeni

Cllr SW Mngomezulu

Cllr NG Mnguni

Cllr AS Mokoena

Cllr MV Molefe

Cllr XM Msezane

Cllr MV Mthembu

Cllr PB Mwali

Cllr VP Mzima

Cllr TM Ndaba

Cllr RB Ndimba

Cllr SS Ndlangamandla

Cllr MS Ndlovu

Cllr PF Ndlovu

Cllr ME Ngcobo

Cllr BC Ngema

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## General Information

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Cllr DR Ngema  
Cllr D Ngwenya  
Cllr CL Nhlapho  
Cllr SJ Nhlapho  
Cllr JB Mkhwanazi  
Cllr DM Sibilwane  
Cllr LT Sikhosana  
Cllr JS Sithole  
Cllr GMB Thwala  
Cllr LG Thwala  
Cllr Dr JA Vorster  
Cllr SA Yende  
Cllr MF Zikhali  
Cllr VG Zondo  
Cllr NS Zulu  
Cllr SJ Zulu  
Cllr SZ Zulu  
Cllr TM Zulu  
Cllr NA Zwane  
Cllr N Dukashe

**Grading of local authority**

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**Accounting Officer**

Mr. MJ Mayisela (Acting)

**Chief Finance Officer (CFO)**

Mr. SM Nkosi

**Registered office**

37 Murchison Street  
Newcastle  
2940

**Business address**

37 Murchison Street  
Newcastle  
2940

**Postal address**

Private Bag X 6621  
Newcastle  
2940

**Bankers**

Nedbank

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2020 and were signed on its behalf by:

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**Accounting Officer**  
**Designation**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

	Note(s)	2020	2019 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	10	13 514 303	14 040 157
Other financial assets	8	277	1 646
Receivables from exchange transactions	11	76 970 991	81 446 069
Receivables from non-exchange transactions	12	15 480 338	14 335 398
Consumer debtors from exchange transactions	13	463 923 497	487 534 817
Consumer debtors from non-exchange	13	118 581 590	103 098 282
Cash and cash equivalents	14	36 268 498	9 999 201
		<b>724 739 494</b>	<b>710 455 570</b>
<b>Non-Current Assets</b>			
Investment property	3	342 104 618	342 764 618
Property, plant and equipment	4	6 587 366 022	6 810 242 585
Intangible assets	5	2 224 607	3 001 186
Heritage assets	6	11 670 232	11 488 232
Investments in associates	7	217 333 222	245 306 033
		<b>7 160 698 701</b>	<b>7 412 802 654</b>
<b>Total Assets</b>		<b>7 885 438 195</b>	<b>8 123 258 224</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	17	28 756 915	25 598 172
Finance lease obligation	15	392 517	852 924
Payables from exchange transactions	20	828 491 578	727 334 550
VAT payable	21	11 776 300	9 783 001
Consumer deposits	22	24 939 318	23 497 275
Unspent conditional grants and receipts	16	45 749 330	33 439 273
Defined benefit plan	18	9 752 000	8 667 735
		<b>949 857 958</b>	<b>829 172 930</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	17	371 891 992	400 805 603
Finance lease obligation	15	135 823	392 517
Defined benefit plan	18	150 357 002	148 355 252
Provision for rehabilitation of landfill site	19	52 106 817	28 843 889
		<b>574 491 634</b>	<b>578 397 261</b>
<b>Total Liabilities</b>		<b>1 524 349 592</b>	<b>1 407 570 191</b>
<b>Net Assets</b>		<b>6 361 088 603</b>	<b>6 715 688 033</b>
<b>Reserves</b>			
Housing Development fund		28 807 982	28 021 720
Self insurance reserve		532 983	497 014
Accumulated surplus		6 331 747 638	6 687 169 299
<b>Total Net Assets</b>		<b>6 361 088 603</b>	<b>6 715 688 033</b>

\* See Note 48

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance

	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	24	951 556 727	996 977 844
Rental of facilities and equipment	25	7 794 524	11 789 886
Other Revenue	27	10 113 462	12 657 242
Interest received	28	8 517 417	12 907 083
<b>Total revenue from exchange transactions</b>		<b>977 982 130</b>	<b>1 034 332 055</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	29	320 486 064	287 110 172
<b>Transfer revenue</b>			
Government grants & subsidies	30	560 539 037	509 802 892
Public contributions and donations	31	15 589 293	-
Fines, Penalties and Forfeits	26	10 506 938	8 840 500
<b>Total revenue from non-exchange transactions</b>		<b>907 121 332</b>	<b>805 753 564</b>
<b>Total revenue</b>	23	<b>1 885 103 462</b>	<b>1 840 085 619</b>
<b>Expenditure</b>			
Employee costs	32	553 909 140	567 840 894
Remuneration of councillors	33	25 935 889	24 481 651
Repairs and Maintenance	34	55 255 973	61 475 608
Depreciation and amortisation	35	345 298 647	373 173 572
Finance costs	37	74 116 845	79 777 180
Debt Impairment	38	312 233 449	179 747 429
Collection costs		1 285 179	778 122
Bulk purchases	39	515 427 307	521 388 272
Contracted services	40	148 377 188	119 003 189
General Expenses	41	170 945 944	204 863 124
<b>Total expenditure</b>		<b>2 202 785 561</b>	<b>2 132 529 041</b>
<b>Operating deficit</b>		<b>(317 682 099)</b>	<b>(292 443 422)</b>
Share of deficit in investment in associates		(27 972 811)	(35 071 678)
Actuarial gains/losses	9	9 608 477	10 765 537
Fair value adjustments to investment property	42	-	15 370 000
Impairment loss	36	(22 841 959)	(16 205 077)
Profit/(Loss) on Sale of Assets		5 552 913	3 382 489
		<b>(35 653 380)</b>	<b>(21 758 729)</b>
<b>Deficit for the year</b>		<b>(353 335 479)</b>	<b>(314 202 151)</b>

\* See Note 48

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Changes in Net Assets

	Housing Development Fund	Self Insurance Reserve	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2018</b>	<b>26 076 953</b>	<b>472 159</b>	<b>26 549 112</b>	<b>6 971 119 275</b>	<b>6 997 668 387</b>
Changes in net assets					
Deficit for the year	-	-	-	(314 202 151)	(314 202 151)
Transfer to Housing Development Fund	1 944 767	-	1 944 767	(1 944 767)	-
Transfer from Self Insurance Reserves	-	24 855	24 855	(24 855)	-
Prior year error- Assets	-	-	-	13 088 591	13 088 591
Prior Year Error - Investment in Associate	-	-	-	10 378 182	10 378 182
Prior Year Error - Leave	-	-	-	8 689 516	8 689 516
Transfer to Accumulated Surplus	-	-	-	65 508	65 508
Total changes	<u>1 944 767</u>	<u>24 855</u>	<u>1 969 622</u>	<u>(283 949 976)</u>	<u>(281 980 354)</u>
<b>Restated* Balance at 01 July 2019</b>	<b>28 021 720</b>	<b>497 014</b>	<b>28 518 734</b>	<b>6 687 169 299</b>	<b>6 715 688 033</b>
Deficit for the year	-	-	-	(353 335 479)	(353 335 479)
Transfer of Housing Development Fund	786 262	-	786 262	(786 262)	-
Transfer of Self Insurance Reserve	-	35 969	35 969	(35 969)	-
Transfer to Acumulated Surplus	-	-	-	(1 263 951)	(1 263 951)
Total changes	<u>786 262</u>	<u>35 969</u>	<u>822 231</u>	<u>(355 421 661)</u>	<u>(354 599 430)</u>
<b>Balance at 30 June 2020</b>	<b>28 807 982</b>	<b>532 983</b>	<b>29 340 965</b>	<b>6 331 747 638</b>	<b>6 361 088 603</b>

\* See Note 48

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement

	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		992 823 652	1 095 714 453
Grants		572 849 094	529 560 695
Interest income		8 517 417	12 907 083
		<u>1 574 190 163</u>	<u>1 638 182 231</u>
<b>Payments</b>			
Employee costs and Councillors remuneration		(568 428 992)	(592 322 545)
Suppliers		(801 959 987)	(872 419 844)
Finance costs		(56 364 694)	(79 777 180)
		<u>(1 426 753 673)</u>	<u>(1 544 519 569)</u>
<b>Net cash flows from operating activities</b>	44	<b><u>147 436 490</u></b>	<b><u>93 662 662</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(101 061 332)	(146 656 618)
Proceeds from sale of property, plant and equipment	4	6 061 037	4 426 740
Proceeds from sale of Investment property	3	660 000	5 374 381
Purchase of other intangible assets	5	(172 929)	(120 650)
Purchases of Heritage Assets	6	(182 000)	(4 019 723)
		<u>(94 695 224)</u>	<u>(140 995 870)</u>
<b>Net cash flows from investing activities</b>		<b><u>(94 695 224)</u></b>	<b><u>(140 995 870)</u></b>
<b>Cash flows from financing activities</b>			
Net movements in long term loans		(25 754 868)	(5 650 833)
Movement in Consumer Deposits		-	4 530 750
Movement on finance lease		(717 101)	987 621
		<u>(26 471 969)</u>	<u>(132 462)</u>
<b>Net cash flows from financing activities</b>		<b><u>(26 471 969)</u></b>	<b><u>(132 462)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>26 269 297</b>	<b>(47 465 670)</b>
Cash and cash equivalents at the beginning of the year		9 999 201	57 464 871
<b>Cash and cash equivalents at the end of the year</b>	14	<b><u>36 268 498</u></b>	<b><u>9 999 201</u></b>

\* See Note 48

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1 193 398 155	(236 756 642)	<b>956 641 513</b>	951 556 727	<b>(5 084 786)</b>	Refer to Appendix
Rental of facilities and equipment	8 647 050	(556 496)	<b>8 090 554</b>	7 794 524	<b>(296 030)</b>	
Other Revenue	33 485 256	(14 600 256)	<b>18 885 000</b>	10 113 462	<b>(8 771 538)</b>	
Interest Received	13 820 790	(5 441 631)	<b>8 379 159</b>	8 517 417	<b>138 258</b>	
<b>Total revenue from exchange transactions</b>	<b>1 249 351 251</b>	<b>(257 355 025)</b>	<b>991 996 226</b>	<b>977 982 130</b>	<b>(14 014 096)</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	313 498 508	1 377 723	<b>314 876 231</b>	320 486 064	<b>5 609 833</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	604 866 000	120 026 878	<b>724 892 878</b>	560 539 037	<b>(164 353 841)</b>	
Public contributions and donations	-	-	-	15 589 293	<b>15 589 293</b>	
Fines, Penalties and Forfeits	8 197 623	4 292 284	<b>12 489 907</b>	10 506 938	<b>(1 982 969)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>926 562 131</b>	<b>125 696 885</b>	<b>1 052 259 016</b>	<b>907 121 332</b>	<b>(145 137 684)</b>	
<b>Total revenue</b>	<b>2 175 913 382</b>	<b>(131 658 140)</b>	<b>2 044 255 242</b>	<b>1 885 103 462</b>	<b>(159 151 780)</b>	
<b>Expenditure</b>						
Employee costs	(590 700 399)	15 760 076	<b>(574 940 323)</b>	(553 909 140)	<b>21 031 183</b>	
Remuneration of councillors	(26 844 940)	-	<b>(26 844 940)</b>	(25 935 889)	<b>909 051</b>	
Administration	(85 344 925)	19 543 906	<b>(65 801 019)</b>	(55 255 973)	<b>10 545 046</b>	
Depreciation and amortisation	(491 981 910)	96 751 829	<b>(395 230 081)</b>	(345 298 647)	<b>49 931 434</b>	
Finance costs	(52 041 823)	(10 200 000)	<b>(62 241 823)</b>	(74 116 845)	<b>(11 875 022)</b>	
Debt Impairment	(174 245 110)	(15 685 848)	<b>(189 930 958)</b>	(312 233 449)	<b>(122 302 491)</b>	
Collection costs	(1 000 000)	-	<b>(1 000 000)</b>	(1 285 179)	<b>(285 179)</b>	
Bulk purchases	(684 074 110)	133 587 942	<b>(550 486 168)</b>	(515 427 307)	<b>35 058 861</b>	
Contracted Services	(110 042 278)	(168 470 570)	<b>(278 512 848)</b>	(148 377 188)	<b>130 135 660</b>	
Other expenditures	(273 777 077)	(10 111 438)	<b>(283 888 515)</b>	(170 945 944)	<b>112 942 571</b>	
<b>Total expenditure</b>	<b>(2 490 052 572)</b>	<b>61 175 897</b>	<b>(2 428 876 675)</b>	<b>(2 202 785 561)</b>	<b>226 091 114</b>	
<b>Operating deficit</b>	<b>(314 139 190)</b>	<b>(70 482 243)</b>	<b>(384 621 433)</b>	<b>(317 682 099)</b>	<b>66 939 334</b>	
Transfers Recognised Capital	-	-	-	(27 972 811)	<b>(27 972 811)</b>	
Actuarial gains/losses	-	-	-	9 608 477	<b>9 608 477</b>	
Profit/(Loss) on sale of assets	-	-	-	5 552 913	<b>5 552 913</b>	
Impairment Loss	-	-	-	(22 841 959)	<b>(22 841 959)</b>	
	-	-	-	<b>(35 653 380)</b>	<b>(35 653 380)</b>	
<b>Deficit before taxation</b>	<b>(314 139 190)</b>	<b>(70 482 243)</b>	<b>(384 621 433)</b>	<b>(353 335 479)</b>	<b>31 285 954</b>	
<b>Actual Amount on Comparable Basis</b>	<b>(314 139 190)</b>	<b>(70 482 243)</b>	<b>(384 621 433)</b>	<b>(353 335 479)</b>	<b>31 285 954</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	13 756 000	-	<b>13 756 000</b>	13 514 303	<b>(241 697)</b>	
Other financial assets	2 000	-	<b>2 000</b>	277	<b>(1 723)</b>	
Receivables from exchange transactions	35 084 000	-	<b>35 084 000</b>	76 970 991	<b>41 886 991</b>	
Receivables from non-exchange transactions	-	-	-	15 480 338	<b>15 480 338</b>	
Consumer debtors	463 909 000	(126 000 000)	<b>337 909 000</b>	582 505 096	<b>244 596 096</b>	
Cash and cash equivalents	8 389 000	20 365 000	<b>28 754 000</b>	36 268 498	<b>7 514 498</b>	
	<b>521 140 000</b>	<b>(105 635 000)</b>	<b>415 505 000</b>	<b>724 739 503</b>	<b>309 234 503</b>	
<b>Non-Current Assets</b>						
Investment property	379 606 000	(28 826 000)	<b>350 780 000</b>	342 104 618	<b>(8 675 382)</b>	
Property, plant and equipment	6 580 590 000	(9 212 000)	<b>6 571 378 000</b>	6 587 366 022	<b>15 988 022</b>	
Intangible assets	3 773 000	(2 037 000)	<b>1 736 000</b>	2 224 606	<b>488 606</b>	
Heritage assets	7 726 000	3 762 000	<b>11 488 000</b>	11 670 232	<b>182 232</b>	
Investments in associates	262 171 000	(47 243 000)	<b>214 928 000</b>	217 333 222	<b>2 405 222</b>	
	<b>7 233 866 000</b>	<b>(83 556 000)</b>	<b>7 150 310 000</b>	<b>7 160 698 700</b>	<b>10 388 700</b>	
<b>Total Assets</b>	<b>7 755 006 000</b>	<b>(189 191 000)</b>	<b>7 565 815 000</b>	<b>7 885 438 203</b>	<b>319 623 203</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	25 598 000	-	<b>25 598 000</b>	28 756 915	<b>3 158 915</b>	
Finance lease obligation	-	-	-	392 517	<b>392 517</b>	
Payables from exchange transactions	383 584 000	(15 611 000)	<b>367 973 000</b>	828 491 578	<b>460 518 578</b>	
VAT payable	-	-	-	11 776 300	<b>11 776 300</b>	
Consumer deposits	22 883 000	2 582 000	<b>25 465 000</b>	24 939 318	<b>(525 682)</b>	
Unspent conditional grants and receipts	-	-	-	45 749 330	<b>45 749 330</b>	
Defined benefit plan	39 290 000	(29 769 000)	<b>9 521 000</b>	9 752 000	<b>231 000</b>	
	<b>471 355 000</b>	<b>(42 798 000)</b>	<b>428 557 000</b>	<b>949 857 958</b>	<b>521 300 958</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	348 739 000	313 167 000	<b>661 906 000</b>	371 891 992	<b>(290 014 008)</b>	
Finance lease obligation	-	-	-	135 823	<b>135 823</b>	
Defined benefit plan	145 207 000	32 385 000	<b>177 592 000</b>	150 357 002	<b>(27 234 998)</b>	
Provision for rehabilitation of landfill site	-	-	-	52 106 817	<b>52 106 817</b>	
	<b>493 946 000</b>	<b>345 552 000</b>	<b>839 498 000</b>	<b>574 491 634</b>	<b>(265 006 366)</b>	
<b>Total Liabilities</b>	<b>965 301 000</b>	<b>302 754 000</b>	<b>1 268 055 000</b>	<b>1 524 349 592</b>	<b>256 294 592</b>	
<b>Net Assets</b>	<b>6 789 705 000</b>	<b>(491 945 000)</b>	<b>6 297 760 000</b>	<b>6 361 088 611</b>	<b>63 328 611</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Housing Development Fund	5 000 000	10 000 000	<b>15 000 000</b>	28 807 982	<b>13 807 982</b>	
Insurance reserve	440 000	315 000	<b>755 000</b>	532 983	<b>(222 017)</b>	
Accumulated surplus	(401 983 268)	(80 063 624)	<b>(482 046 892)</b>	6 331 747 645	<b>6 813 794 537</b>	
<b>Total Net Assets</b>	<b>(396 543 268)</b>	<b>(69 748 624)</b>	<b>(466 291 892)</b>	<b>6 361 088 610</b>	<b>6 827 380 502</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods	1 350 974 000	(187 704 000)	1 163 270 000	992 823 652	(170 446 348)	
Grants	604 907 000	91 392 000	696 299 000	572 849 094	(123 449 906)	
Interest received	8 931 000	(4 465 000)	4 466 000	8 517 417	4 051 417	
	<b>1 964 812 000</b>	<b>(100 777 000)</b>	<b>1 864 035 000</b>	<b>1 574 190 163</b>	<b>(289 844 837)</b>	
<b>Payments</b>						
Employee costs and payments to suppliers	(1 764 617 000)	78 772 000	(1 685 845 000)	(1 370 388 979)	315 456 021	
Finance costs	(45 042 000)	-	(45 042 000)	(56 364 694)	(11 322 694)	
	<b>(1 809 659 000)</b>	<b>78 772 000</b>	<b>(1 730 887 000)</b>	<b>(1 426 753 673)</b>	<b>304 133 327</b>	
<b>Net cash flows from operating activities</b>	<b>155 153 000</b>	<b>(22 005 000)</b>	<b>133 148 000</b>	<b>147 436 490</b>	<b>14 288 490</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(207 119 000)	22 250 000	(184 869 000)	(101 061 332)	83 807 668	0
Proceeds from sale of property, plant and equipment	2 332 000	-	2 332 000	6 061 037	3 729 037	
Proceeds from sale of investment property	-	-	-	660 000	660 000	
Purchase of other intangible assets	-	-	-	(172 929)	(172 929)	
Purchases of heritage assets	-	-	-	(182 000)	(182 000)	
Decrease(Increase) in non-current debtors	66 420 000	(36 420 000)	30 000 000	-	(30 000 000)	
Decrease (Increase) other non-current receivables	31 068 000	-	31 068 000	-	(31 068 000)	
<b>Net cash flows from investing activities</b>	<b>(107 299 000)</b>	<b>(14 170 000)</b>	<b>(121 469 000)</b>	<b>(94 695 224)</b>	<b>26 773 776</b>	
<b>Cash flows from financing activities</b>						
Movement in long term loans	(25 598 000)	-	(25 598 000)	(25 754 868)	(156 868)	
Movement in finance leases	-	-	-	(717 101)	(717 101)	
Consumer deposits	356 000	5 026 000	5 382 000	-	(5 382 000)	
<b>Net cash flows from financing activities</b>	<b>(25 242 000)</b>	<b>5 026 000</b>	<b>(20 216 000)</b>	<b>(26 471 969)</b>	<b>(717 101)</b>	
Net increase/(decrease) in cash and cash equivalents	22 612 000	(31 149 000)	(8 537 000)	26 269 297	40 345 165	
Cash and cash equivalents at the beginning of the year	9 802 000	197 000	9 999 000	9 999 201	201	
<b>Cash at the end of the year</b>	<b>32 414 000</b>	<b>(30 952 000)</b>	<b>1 462 000</b>	<b>36 268 498</b>	<b>40 345 366</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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### BUDGET INFORMATION DISCLOSURE NOTE

There has been prepared on accrual basis of accounting in accordance with the prescripts of the Municipal Budget and Reporting Regulations as well as the MFMA Budget Circulars. In accordance with the Municipal Budget regulations, the classification basis through which the municipality presents its budget is per the economic as well as the functional classification (per Vote and Standard Classification). It should be noted that minor budget differences between the basis that the budget is prepared is and the actual financial results exists, mainly related to technical GRAP adjustments required. These differences are not material and as the basis of preparation is the same (accrual basis), no restatements have been made to the financial information compared to the budget amount, but where found to be material it is explained in Annexure.

Explanation for the variances between the approved and the final budget are mainly due to reallocations made within the approved budget parameters allowed by the Virement Policy of Newcastle Municipality and the Adjustments Budgets as approved by Council.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2020</b>											
<b>Financial Performance</b>											
Property rates	313 498 508	1 377 723	314 876 231	-		314 876 231	320 486 064		5 609 833	102 %	102 %
Service charges	1 193 398 155	(236 756 642)	956 641 513	-		956 641 513	951 556 727		(5 084 786)	99 %	80 %
Investment revenue	4 040 869	(1 685 244)	2 355 625	-		2 355 625	8 517 417		6 161 792	362 %	211 %
Transfers recognised - operational	431 677 000	170 620 352	602 297 352	-		602 297 352	394 399 846		(207 897 506)	65 %	91 %
Other own revenue	60 109 850	(14 620 855)	45 488 995	-		45 488 995	28 414 924		(17 074 071)	62 %	47 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>2 002 724 382</b>	<b>(81 064 666)</b>	<b>1 921 659 716</b>	<b>-</b>		<b>1 921 659 716</b>	<b>1 703 374 978</b>		<b>(218 284 738)</b>	<b>89 %</b>	<b>85 %</b>
Employee costs	(590 700 399)	15 720 922	(574 979 477)	-	-	(574 979 477)	(553 909 140)	-	21 070 337	96 %	94 %
Remuneration of councillors	(26 844 940)	-	(26 844 940)	-	-	(26 844 940)	(25 935 889)	-	909 051	97 %	97 %
Debt impairment	(174 245 110)	(15 685 848)	(189 930 958)			(189 930 958)	(312 233 449)	-	(122 302 491)	164 %	179 %
Depreciation and asset impairment	(491 981 910)	96 751 829	(395 230 081)			(395 230 081)	(368 140 606)	-	27 089 475	93 %	75 %
Finance charges	(45 041 823)	-	(45 041 823)	-	-	(45 041 823)	(74 116 845)	-	(29 075 022)	165 %	165 %
Materials and bulk purchases	(684 074 110)	133 507 943	(550 566 167)	-	-	(550 566 167)	(515 427 307)	-	35 138 860	94 %	75 %
Other expenditure	(391 819 278)	(170 920 570)	(562 739 848)	-	-	(562 739 848)	(375 864 284)	-	186 875 564	67 %	96 %
<b>Total expenditure</b>	<b>(2 404 707 570)</b>	<b>59 374 276</b>	<b>(2 345 333 294)</b>	<b>-</b>	<b>-</b>	<b>(2 345 333 294)</b>	<b>(2 225 627 520)</b>	<b>-</b>	<b>119 705 774</b>	<b>95 %</b>	<b>93 %</b>
<b>Surplus/(Deficit)</b>	<b>(401 983 188)</b>	<b>(21 690 390)</b>	<b>(423 673 578)</b>	<b>-</b>		<b>(423 673 578)</b>	<b>(522 252 542)</b>		<b>(98 578 964)</b>	<b>123 %</b>	<b>130 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	14 000 000	10 000 000	24 000 000	-		24 000 000	166 139 191		142 139 191	692 %	1 187 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	15 589 293		15 589 293	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(387 983 188)</b>	<b>(11 690 390)</b>	<b>(399 673 578)</b>	<b>-</b>		<b>(399 673 578)</b>	<b>(340 524 058)</b>		<b>59 149 520</b>	<b>85 %</b>	<b>88 %</b>
Share of surplus (deficit) of associate	-	-	-	-		-	(27 972 811)		(27 972 811)	DIV/0 %	DIV/0 %
Actuarial gains/losses	-	-	-	-		-	9 608 477		9 608 477	DIV/0 %	DIV/0 %
Profit/ Loss on sale of assets	-	-	-	-		-	5 552 913		5 552 913	DIV/0 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>(387 983 188)</b>	<b>(11 690 390)</b>	<b>(399 673 578)</b>	<b>-</b>		<b>(399 673 578)</b>	<b>(353 335 479)</b>		<b>46 338 099</b>	<b>88 %</b>	<b>91 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	155 153 000	(20 397 000)	134 756 000	-		134 756 000	147 436 490		12 680 490	109 %	95 %
Net cash from (used) investing	(107 299 000)	14 202 000	(93 097 000)	-		(93 097 000)	(94 695 224)		(1 598 224)	102 %	88 %
Net cash from (used) financing	(25 242 000)	1 644 000	(23 598 000)	-		(23 598 000)	(26 471 969)		(2 873 969)	112 %	105 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>22 612 000</b>	<b>(4 551 000)</b>	<b>18 061 000</b>	<b>-</b>		<b>18 061 000</b>	<b>26 269 297</b>		<b>8 208 297</b>	<b>145 %</b>	<b>116 %</b>
Cash and cash equivalents at the beginning of the year	9 802 000	197 000	9 999 000	-		9 999 000	9 999 201		201	100 %	102 %
<b>Cash and cash equivalents at year end</b>	<b>32 414 000</b>	<b>(4 354 000)</b>	<b>28 060 000</b>	<b>-</b>		<b>28 060 000</b>	<b>36 268 498</b>		<b>(8 208 498)</b>	<b>129 %</b>	<b>112 %</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.3 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

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

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

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

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

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

The nature or type of properties classified as held for strategic purposes are as follows:

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

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

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised. The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of an asset.

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

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Item	Depreciation method	Average useful life
Land	Straight line	Indefinite

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# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Buildings	Straight line	30 years
Plant and machinery	Straight line	5 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Computer software	Straight line	5 years
Infrastructure	Straight line	7-80 years
Community	Straight line	5-80 Years
Other property, plant and equipment	Straight line	5-10 Years
Landfill site	Straight line	5 years
Heritage	Straight line	Infinite

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

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

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

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

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

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

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

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

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

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

### 1.5 Site restoration and dismantling cost

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

### 1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.6 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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Item	Depreciation method	Average useful life
Computer software, other	Straight line	5

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

Intangible assets are derecognised:

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

### 1.7 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

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### 1.7 Heritage assets (continued)

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

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

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

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

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

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

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

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

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

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

# Newcastle Municipality

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### 1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control over those policies. The municipality exercise judgment in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exist and discontinues the application of the equity method when it no longer has significant influence over an associate. Investment that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures of financial instruments depending on the nature of the retained investment.

The municipality accounts for the investment in associate under the equity method in the financial statements. The equity method involves recognising the investment in associate initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statement of Financial Performance presents the investors share of the associates surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associates in applying the equity method.

### 1.9 Financial instruments

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

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

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

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

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

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

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

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

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

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

# Newcastle Municipality

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### 1.9 Financial instruments (continued)

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

# Newcastle Municipality

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### 1.9 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Newcastle Municipality

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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

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

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

#### Reclassification

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

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

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

# Newcastle Municipality

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### 1.9 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

#### Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

### 1.10 Leases

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

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

#### Finance leases - lessee

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

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

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

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

# Newcastle Municipality

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### 1.10 Leases (continued)

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

### 1.12 Impairment of cash-generating assets

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

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

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

# Newcastle Municipality

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

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

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

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

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

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

Useful life is either:

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

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

[Specify judgements made]

#### Identification

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

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

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

#### Value in use

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

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

# Newcastle Municipality

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

### 1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

# Newcastle Municipality

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### 1.13 Impairment of non-cash-generating assets (continued)

Useful life is either:

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

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

[Specify judgements made]

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Redesignation

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

### 1.14 Share capital / contributed capital

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

### 1.15 Employee benefits

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

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

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

#### Post-employment benefits

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

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

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

#### Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Termination benefits

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

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

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

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

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

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

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

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

### 1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.18 Revenue from exchange transactions

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

### 1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

#### Fines

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

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

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

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.22 Self Insurance fund

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

### 1.23 Comparative figures

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

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.25 Fruitless and wasteful expenditure

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

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

### 1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA as follows:

'Irregular expenditure, in relation to a municipality or municipal entity, means -

- (a) Expenditure incurred by a municipality or municipal entity in contravention of , or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of Section 170;
- (b) Expenditure incurred by a municipality or municipal entity in contravention of , or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) Expenditure incurred by a municipality in contravention of , or that is not in accordance with a requirement of the Public Office -Berears Act, 1998 (Act No 20 of 1998); or

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.27 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.28 Internal reserves

#### Self-insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (adapt to specific circumstances). The balance of the Self-Insurance Reserve is determined based on 5% of the insurance risk carried by the municipality (state basis of determining balance of self-insurance reserve) and past claims history in terms of a Council Resolution XX and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates a self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve is determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus as computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

Premiums are calculated on past claims experienced and are charged to the various Clusters.

The balance of the self-insurance fund is fully cash backed and is invested in fixed and negotiable deposits.

### 1.29 Related parties

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

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

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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### 1.29 Related parties (continued)

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

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020

2019

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

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

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	
• GRAP 20: Related parties	01 April 2019	
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	
• GRAP 107: Mergers	01 April 2019	
• GRAP 108: Statutory Receivables	01 April 2019	
• GRAP 109: Accounting by Principals and Agents	01 April 2019	
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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### 3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	342 104 618	-	342 104 618	342 764 618	-	342 764 618

#### Reconciliation of investment property - 2020

	Opening balance	Disposals	Total
Investment property	342 764 619	(660 000)	342 104 619

#### Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	429 781 000	(100 374 381)	13 358 000	342 764 619

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

### 4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	158 734 543	-	158 734 543	158 889 543	-	158 889 543
Buildings	420 805 425	(58 278 549)	362 526 876	421 654 495	(44 456 426)	377 198 069
Infrastructure	9 380 500 886	(3 543 381 076)	5 837 119 810	9 218 456 408	(3 227 894 009)	5 990 562 399
Community	233 532 446	(50 691 682)	182 840 764	270 793 340	(43 618 561)	227 174 779
Leased Assets	3 632 660	(3 184 028)	448 632	3 437 171	(2 311 383)	1 125 788
Other Assets	200 715 987	(155 020 590)	45 695 397	194 816 066	(139 524 059)	55 292 007
<b>Total</b>	<b>10 397 921 947</b>	<b>(3 810 555 925)</b>	<b>6 587 366 022</b>	<b>10 268 047 023</b>	<b>(3 457 804 438)</b>	<b>6 810 242 585</b>

### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Additions - WIP	Revaluations	Disposals	Work In Progress Movement	Impairment	Depreciation	Change in Estimate	Total
Land	158 889 543	-	-	-	(155 000)	-	-	-	-	158 734 543
Buildings	377 198 069	-	-	-	(353 124)	364 930	(27 452)	(14 655 547)	-	362 526 876
Infrastructure	6 018 062 422	11 410 907	90 409 762	19 494 107	-	8 003 372	(6 531 638)	(303 729 122)	-	5 837 119 810
Community	199 636 361	108 004	11 956 972	-	-	(11 295 407)	(7 889 325)	(9 675 841)	-	182 840 764
Other assets	55 303 384	5 899 503	-	-	-	-	(80 548)	(15 378 933)	(48 009)	45 695 397
Leased Assets	1 125 788	195 489	-	-	-	-	-	(872 645)	-	448 632
	<b>6 810 215 567</b>	<b>17 613 903</b>	<b>102 366 734</b>	<b>19 494 107</b>	<b>(508 124)</b>	<b>(2 927 105)</b>	<b>(14 528 963)</b>	<b>(344 312 088)</b>	<b>(48 009)</b>	<b>6 587 366 022</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Additions WIP	Disposals	Re-allocations	Change in estimates	Depreciation	Impairment loss	Exclusions (VAT and Retentions)	Correction of error	Total
Land	48 249 648	-	367 043	(1 451 000)	95 000 000	375 529	(75 106)	-	(367 043)	16 790 472	158 889 543
Buildings	397 783 446	1 266 439	132 000	(2 975 749)	-	(3 502 022)	(15 505 139)	-	-	(906)	377 198 069
Infrastructure	6 308 862 710	694 716	108 670 120	-	4 919 115	(1 552 843)	(325 610 759)	(9 194 661)	(11 791 464)	(56 934 512)	6 018 062 422
Community	145 229 546	-	20 520 747	-	8 438 518	(4 032 365)	(5 887 581)	(163 796)	273 567	35 257 725	199 636 361
Other assets	53 473 304	3 634 890	9 748 749	(418)	(13 614 791)	-	(15 464 766)	-	(9 701 409)	27 227 826	55 303 385
Leased Assets	42 775	1 621 914	-	-	-	-	(538 901)	-	-	-	1 125 788
	<b>6 953 641 429</b>	<b>7 217 959</b>	<b>139 438 659</b>	<b>(4 427 167)</b>	<b>94 742 842</b>	<b>(8 711 701)</b>	<b>(363 082 252)</b>	<b>(9 358 457)</b>	<b>(21 586 349)</b>	<b>22 340 605</b>	<b>6 810 215 568</b>

#### Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Buildings and Community	Total
Opening balance	74 906 250	15 569 282	90 475 532
Additions/capital expenditure	98 413 134	1 026 496	99 439 630
Impairment of WIP	-	(1 515 788)	(1 515 788)
Transferred to completed items	(90 409 762)	(11 956 972)	(102 366 734)
	<b>82 909 622</b>	<b>3 123 018</b>	<b>86 032 640</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019	
<b>4. Property, plant and equipment (continued)</b>			
<b>Reconciliation of Work-in-Progress 2019</b>			
	<b>Included within Infrastructure</b>	<b>Included within Community</b>	<b>Total</b>
Opening balance	217 639 382	42 488 681	260 128 063
Additions/capital expenditure	124 111 659	20 520 747	144 632 406
Impairments	(6 609 206)	-	(6 609 206)
Exclusions	(27 233 003)	273 567	(26 959 436)
Transferred to completed items	(215 736 718)	(47 204 735)	(262 941 453)
Corection of Error	(17 265 864)	(508 978)	(17 774 842)
	<b>74 906 250</b>	<b>15 569 282</b>	<b>90 475 532</b>

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

### 5. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15 364 268	(12 905 542)	2 458 726	15 191 339	(12 190 153)	3 001 186
Change in Estimate	-	(234 119)	(234 119)	-	-	-
<b>Total</b>	<b>15 364 268</b>	<b>(13 139 661)</b>	<b>2 224 607</b>	<b>15 191 339</b>	<b>(12 190 153)</b>	<b>3 001 186</b>

#### Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software	3 001 184	172 929	(715 388)	(234 119)	2 224 607

#### Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	5 585 264	120 650	(2 704 729)	3 001 185

### 6. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	11 670 232	-	11 670 232	11 488 232	-	11 488 232

#### Reconciliation of heritage assets 2020

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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### 6. Heritage assets (continued)

	<b>Opening balance</b>	<b>Additions</b>	<b>Total</b>
Historical monuments	7 494 319	182 000	7 676 319
Art Collections, antiquities and exhibits	3 993 914	-	3 993 914
	<b>11 488 233</b>	<b>182 000</b>	<b>11 670 233</b>

### Reconciliation of heritage assets 2019

	<b>Opening balance</b>	<b>Additions</b>	<b>Total</b>
Historical monuments	7 237 161	257 158	7 494 319
Works of Art	231 349	3 762 565	3 993 914
	<b>7 468 510</b>	<b>4 019 723</b>	<b>11 488 233</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

				2020	2019
<b>7. Investments in associates</b>					
<b>Name of entity</b>	<b>Listed / Unlisted</b>	<b>% holding 2020</b>	<b>% holding 2019</b>	<b>Carrying amount 2020</b>	<b>Carrying amount 2019</b>
Uthukela Water		34.00 %	34.00 %	217 333 222	245 306 033
The carrying amounts of associates are shown net of impairment losses.					
<b>8. Other financial assets</b>					
<b>At amortised cost</b>					
Stand debtors				277	1 646
<b>9. Employee benefit obligations</b>					
<b>Calculation of actuarial gains and losses</b>					
Actuarial (gains) losses – Obligation				9 608 477	10 765 537
<b>10. Inventories</b>					
Water stock				335 384	268 048
Consumable stores				13 576 534	14 173 621
				13 911 918	14 441 669
Provision for impairment of inventory				(397 615)	(401 512)
				<b>13 514 303</b>	<b>14 040 157</b>
Inventories are initially measured at cost and subsequently at the lower of cost and the net realisable value.					
Inventories to the value of R 0 (2019: R 6 117.49) were scrapped during the year.					
Inventories recognised as an expense during the year				6 698 200	37 843 350
<b>11. Receivables from exchange transactions</b>					
Deposits (Eskom and Nedbank Building)				3 430 190	3 430 190
Sundry debtors				73 328 029	6 373 656
Input VAT on Invoices raised				212 772	71 642 223
				<b>76 970 991</b>	<b>81 446 069</b>
<b>12. Receivables from non-exchange transactions</b>					
Fines (Gross balance)				60 641 488	51 194 372
Less: Provision for impairment				(45 161 152)	(36 858 975)
				<b>15 480 336</b>	<b>14 335 397</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>12. Receivables from non-exchange transactions (continued)</b>		
<b>Reconciliation of Fines</b>		
Opening balance	51 194 372	43 305 673
Add: Fines recognised	10 323 001	8 630 900
Less: Fines received	(875 885)	(742 201)
	<b>60 641 488</b>	<b>51 194 372</b>
<b>Reconciliation for Provision of Impairment</b>		
Opening balance	36 858 975	30 018 453
Add: Contribution	8 302 176	6 840 522
	<b>45 161 151</b>	<b>36 858 975</b>
<b>Receivables from non-exchange transactions impaired</b>		
The ageing of amounts past due but not impaired is as follows:		
Opening balance	36 858 975	30 018 453
Add: Contribution for Impairment	8 297 048	6 840 522
<b>Fines Revenue recognised in surplus comprises of:</b>		
Traffic fines	10 320 701	8 630 900
Other fines	183 937	209 599

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	306 887 357	259 854 841
Electricity	166 873 529	155 400 872
Water	450 468 786	378 979 146
Sewerage	329 159 732	276 564 308
Refuse	181 954 170	144 545 426
Other	58 773 914	179 321 539
VAT and sundry services	196 403 152	129 868 772
	<b>1 690 520 640</b>	<b>1 524 534 904</b>
<b>Less: Allowance for impairment</b>		
Rates	(188 305 767)	(156 756 559)
Electricity	(52 515 635)	(53 663 387)
Water	(330 143 872)	(262 878 368)
Sewerage	(256 261 294)	(203 504 580)
Refuse	(129 878 181)	(95 151 148)
Other	(52 458 544)	(152 296 311)
VAT and sundry services	(98 452 254)	(9 651 452)
	<b>(1 108 015 547)</b>	<b>(933 901 805)</b>
<b>Net balance</b>		
Rates	118 581 590	103 098 282
Electricity	114 357 894	101 737 485
Water	120 324 915	116 100 777
Sewerage	72 898 438	73 059 728
Refuse	52 075 989	49 394 278
Other	6 315 370	27 025 228
VAT and sundry services	97 950 898	120 217 320
	<b>582 505 094</b>	<b>590 633 098</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	166 873 529	155 400 872
Water	450 468 786	378 979 146
Sewerage	329 159 732	276 564 308
Refuse	181 954 170	144 545 426
Other	58 773 914	179 321 539
VAT and sundry services	196 403 152	129 868 772
	<b>1 383 633 283</b>	<b>1 264 680 063</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	306 887 357	259 854 841
<b>Total</b>	<b>1 690 520 640</b>	<b>1 524 534 904</b>
<b>Rates</b>		
Current (0 -30 days)	24 786 284	19 907 431
31 - 60 days	12 041 333	9 182 070
61 - 90 days	10 759 545	7 480 889
91 - 120 days	9 903 773	6 952 125
121 - 365 days	8 558 758	10 463 588
> 365 days	240 837 665	205 868 738
	<b>306 887 358</b>	<b>259 854 841</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>13. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	89 819 700	86 975 032
31 - 60 days	11 409 296	8 252 446
61 - 90 days	3 714 218	8 596 940
91 - 120 days	2 436 554	4 978 544
121 - 365 days	1 245 098	9 873 536
> 365 days	58 248 663	36 724 375
	<b>166 873 529</b>	<b>155 400 873</b>
<b>Water</b>		
Current (0 -30 days)	29 828 077	27 845 448
31 - 60 days	11 687 792	8 748 026
61 - 90 days	8 815 735	8 201 044
91 - 120 days	8 637 723	8 513 716
121 - 365 days	8 880 252	8 659 966
> 365 days	382 619 208	317 010 946
	<b>450 468 787</b>	<b>378 979 146</b>
<b>Sewerage</b>		
Current (0 -30 days)	8 153 870	8 022 233
31 - 60 days	6 993 749	6 305 275
61 - 90 days	6 026 606	6 047 083
91 - 120 days	5 867 407	5 786 176
121 - 365 days	5 580 418	5 736 478
> 365 days	296 537 682	244 667 063
	<b>329 159 732</b>	<b>276 564 308</b>
<b>Refuse</b>		
Current (0 -30 days)	6 777 848	5 764 856
31 - 60 days	5 296 867	4 470 015
61 - 90 days	4 604 663	4 226 727
91 - 120 days	4 423 189	3 999 560
121 - 365 days	4 241 198	4 274 789
> 365 days	156 610 405	121 809 479
	<b>181 954 170</b>	<b>144 545 426</b>
<b>VAT and Sundries</b>		
Current (0 -30 days)	(54 813 945)	1 455 772
31 - 60 days	6 046 360	4 605 633
61 - 90 days	3 470 525	4 742 924
91 - 120 days	9 467 688	4 106 424
121 - 365 days	3 110 164	4 779 766
> 365 days	229 122 360	110 178 252
	<b>196 403 152</b>	<b>129 868 771</b>
<b>Other (specify)</b>		
Current (0 -30 days)	1 542 195	(30 602 760)
31 - 60 days	730 584	9 916 260
61 - 90 days	630 259	7 533 398
91 - 120 days	704 311	1 459 166
121 - 365 days	809 904	10 755 590
> 365 days	54 356 661	180 259 885
	<b>58 773 914</b>	<b>179 321 539</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>13. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	63 660 398	25 594 569
31 - 60 days	36 706 212	32 664 772
61 - 90 days	29 471 713	29 859 961
91 - 120 days	28 826 514	27 300 548
121 - 365 days	28 054 478	26 998 765
> 365 days	1 264 914 617	1 085 957 799
	<u>1 451 633 932</u>	<u>1 228 376 414</u>
Less: Allowance for impairment	(1 005 516 877)	(835 417 319)
	<b>446 117 055</b>	<b>392 959 095</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	44 745 497	89 172 170
31 - 60 days	15 728 045	12 063 401
61 - 90 days	7 248 493	13 281 880
91 - 120 days	5 812 122	7 746 534
121 - 365 days	3 854 934	13 339 801
> 365 days	130 808 808	101 146 374
	<u>208 197 899</u>	<u>236 750 160</u>
Less: Allowance for impairment	(102 498 669)	(98 484 485)
	<b>105 699 230</b>	<b>138 265 675</b>
<b>National and provincial government</b>		
Current (0 -30 days)	(2 145 473)	4 726 816
31 - 60 days	1 771 724	6 751 552
61 - 90 days	1 301 346	3 687 163
91 - 120 days	6 802 010	748 628
121 - 365 days	516 378	14 205 147
> 365 days	22 442 826	29 289 023
	<u>30 688 811</u>	<u>59 408 329</u>
<b>Total</b>		
Current (0 -30 days)	106 260 422	119 493 555
31 - 60 days	54 205 981	51 479 725
61 - 90 days	38 021 552	46 829 004
91 - 120 days	41 440 646	35 795 711
121 - 365 days	32 425 790	54 543 713
> 365 days	1 418 166 251	1 216 393 195
	<u>1 690 520 642</u>	<u>1 524 534 903</u>
Less: Allowance for impairment	(1 108 015 546)	(933 901 804)
	<b>582 505 096</b>	<b>590 633 099</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	-	(4 029 339)
31 - 60 days	(3 347 812)	(10 291 873)
61 - 90 days	(4 739 279)	(8 681 010)
91 - 120 days	(5 801 183)	(15 578 643)
121 - 365 days	(7 085 914)	(12 405 450)
> 365 days	(1 087 041 358)	(882 915 489)
	<u>(1 108 015 546)</u>	<u>(933 901 804)</u>
<b>Total debtor past due but not impaired</b>		
Current (0 -30 days)	106 260 422	119 493 555
31 - 60 days	54 205 981	51 479 725
61 - 90 days	38 021 552	46 829 004
91 - 120 days	41 440 646	35 795 711

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>13. Consumer debtors (continued)</b>		
121 - 365 days	32 425 790	54 543 713
> 365 days	1 418 166 249	1 216 393 195
	<b>1 690 520 640</b>	<b>1 524 534 903</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(933 901 804)	(843 762 714)
Contributions to allowance	(174 113 743)	(90 139 090)
	<b>(1 108 015 547)</b>	<b>(933 901 804)</b>

### Receivable from consumer debtors

Receivables are amounts owing by consumers, and are presented in net impairment losses. The municipality has the credit control policy in place, and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of the constitutional mandate to provide all its residence with basic minimum services, without recourse to an assessment of credit worthiness. The municipality strategy for managing its risk includes encouraging residence to pay for services, through an outreach programme, incentives schemes and to install water demand management devices that control water flow to households, as well as prepaid electricity meters for those consumers who struggle to pay for services. A deposit is also required for new service connections, serves as guarantee.

Fines are followed up by issue of summons. Traffic fines can be contested in court and this can lead to a review amount of the fine.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	14 785	274 488
Bank balances	691 584	4 688 340
Short-term Investments	35 562 129	5 036 373
	<b>36 268 498</b>	<b>9 999 201</b>

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and with specific guidelines set in accordance with council's approved investment policy. Consequently, the municipality does not consider that there will be any significant exposure to credit risk.

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances			
	30 June 2020	30 June 2019	30 June 2020	30 June 2019		
Nedbank - 1162667338	(2 892 139)	3 967 639	-	37 405 819	9 612 485	-
Nedbank - 1162660066	-	720 702	-	-	-	-
<b>Total</b>	<b>(2 892 139)</b>	<b>4 688 341</b>	<b>-</b>	<b>37 405 819</b>	<b>9 612 485</b>	<b>-</b>

### Call Investments

Standard Bank - 68450354/015	1 089 090	1 028 807
Standard Bank - 68450354/016	28 701 727	811 948
Standard Bank - 68450354/035	43 254	41 066
Standard Bank - 68450354/036	598 081	446 926
Standard Bank - 68450354/037	422 224	387 724
Standard Bank - 68450354/038	60 264	57 158
Standard Bank - 68450354/039	78 434	76 423
Standard Bank - 68450354/040	5 553 011	1 251 398
ABSA - 9288456248	64 952	65 729
ABSA - 9300506428	529 582	500 843
Nedbank - 037648555441 46	113	107
Nedbank - 037648555441 47	113	107
Nedbank - 037648555441 48	113	107
Nedbank - 037648555441 49	113	107
Nedbank - 037648555441 51	-	367 924
Nedbank - 037648555441 52	965 440	-
Nedbank - 037648555441 53	47	-
Nedbank - 037648555441 54	366 309	-
	<b>38 472 867</b>	<b>5 036 374</b>

### Interest Income

Interest on primary account	362 601	1 575 047
Interest on investment accounts	556 617	3 315 246
	<b>919 218</b>	<b>4 890 293</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	392 517	852 924
- in second to fifth year inclusive	135 823	392 517
<b>Present value of minimum lease payments</b>	<b>528 340</b>	<b>1 245 441</b>
<b>Present value of minimum lease payments due</b>		
- within one year	392 517	852 924
- in second to fifth year inclusive	135 823	392 517
	<b>528 340</b>	<b>1 245 441</b>
Non-current liabilities	135 823	392 517
Current liabilities	392 517	852 924
	<b>528 340</b>	<b>1 245 441</b>
<b>16. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Sport and Recreation	1 980 418	1 980 418
Ingogo Fresh Produce	11 353	11 353
Municipal Water Infrastructure Grant	17 196 148	3 276 300
Title Deeds Restoration Grant	7 233 371	8 072 072
Grant Skills Development	905 456	909 541
Cleanest town	823 975	823 975
Environmental Management Framework	502 871	502 871
Electrification Grant	6 267 094	-
Expanded Public Works Programme	6 738	-
Masification	-	2 772 038
Osizweni Art Centre	36 920	36 920
Sports Maintenance Facilities Grant	10 220	40 820
All Housing Grant	4 266 813	4 266 813
Newcastle Airport	1 815 281	1 815 281
Capacity Building housing	-	4 706 013
Fort Amiel Museum	381 454	370 454
Community Library Service Grant	1 343 706	1 343 706
Corridor Development	131 075	131 075
Carnegie Art Gallery	378 121	198 871
Provincialisation - Libraries	2 458 316	2 180 752
	<b>45 749 330</b>	<b>33 439 273</b>
<b>Movement during the year</b>		
<b>17. Financial liabilities</b>		
<b>At amortised cost</b>		
DBSA loans	144 426 194	157 725 321
ABSA Bank loans	256 222 714	268 678 454
	<b>400 648 908</b>	<b>426 403 775</b>
	<b>400 648 908</b>	<b>426 403 775</b>
<b>Non-current liabilities</b>		
At amortised cost	371 891 992	400 805 603

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>17. Financial liabilities (continued)</b>		
<b>Current liabilities</b>		
At amortised cost	<u>28 756 915</u>	<u>25 598 172</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>18. Defined benefit plan</b>		
<b>Reconciliation of defined benefit plan - 2020</b>		
	<b>Opening Balance</b>	<b>Current Service Cost</b>
Employee benefits	157 022 987	7 378 697
	<b>Benefits Paid</b>	<b>Actuarial (Gain)/Loss</b>
	(8 667 535)	(9 608 477)
	<b>Interest Cost</b>	<b>Total</b>
	13 983 330	160 109 002
<b>Reconciliation of defined benefit plan - 2019</b>		
	<b>Opening Balance</b>	<b>Current Service Cost</b>
Employee benefits	153 204 815	8 131 688
	<b>Benefits Paid</b>	<b>Actuarial (Gain)/Loss</b>
	(7 997 613)	(10 765 537)
	<b>Interest Cost</b>	<b>Total</b>
	14 449 634	157 022 987
Non-current liabilities	150 357 002	148 355 252
Current liabilities	9 752 000	8 667 735
	<b>160 109 002</b>	<b>157 022 987</b>
<b>Health Care Benefits</b>		
Balance at the Beginning of the year	126 567 756	126 069 891
Current Service Cost	4 467 891	5 540 884
Benefits Paid	(5 137 186)	(4 214 110)
Actuarial Loss/(Gain)	(10 013 982)	(13 026 852)
Interest	11 636 521	12 197 943
	<b>127 521 000</b>	<b>126 567 756</b>
<b>Net Expenses Recognised In Statement of Financial Performance PEMA</b>		
Current Service Cost	4 467 891	5 540 884
Benefits Paid	(5 137 186)	(4 214 110)
Actuarial Loss/(Gain)	(10 013 982)	(13 026 852)
Interest	11 636 521	12 197 943
	<b>953 244</b>	<b>497 865</b>
<b>Long Service Bonus Awards</b>		
Balance at the Beginning of the year	30 455 229	27 134 922
Current Service Cost	2 910 806	2 590 804
Benefits Paid	(3 530 349)	(3 783 503)
Actuarial Loss/(Gain)	405 505	2 261 315
Interest	2 346 809	2 251 691
	<b>32 588 000</b>	<b>30 455 229</b>
<b>Net expenses recognised in Statement of Financial Performance LSA</b>		
Current Service Cost	2 910 806	2 590 804
Benefits Paid	(3 530 349)	(3 783 503)
Actuarial Loss/(Gain)	405 505	2 261 315
Interest	2 346 809	2 251 691
	<b>2 132 771</b>	<b>3 320 307</b>

### Employee benefit cost provision: Assumption

The Municipality offers in-service members and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a members' death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. The most recent actuarial valuations of the present value of the unfunded defined obligation was carried out as at 30 June 2020 by Arch Actuarial Consulting, a member of the Actuarial Society of South Africa (ASSA). The present value of the defined obligation, and related current service costs and past service costs were measured using the projected units credit method. No other post retirement medical benefits are provided by the municipality.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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2020

2019

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### 18. Defined benefit plan (continued)

It was assumed that the municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

#### Key financial assumptions used

Discount rate	10.34%
Health care cost inflation rate	6.41%
Net-of-health-care-cost-inflation discount rate	3.69%
Maximum subsidy inflation rate	4.43%
Net of maximum subsidy inflation discount rate	5.66%
Unfunded Accrued Liability	R127 521 000

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020

2019

### 18. Defined benefit plan (continued)

#### Current-service and interest cost

Year ended 30 June 2019	R4 467 891
Interest cost	R11 636 521
Actuarial (Gain)/Loss recognised in surplus/deficit	(R10 013 982)

#### Long service Bonus Awards

The long service bonus award is a fraction of accumulated leave days that is converted into cash in the year an employee attains the service eligible for an award at a rate of 1/250th of annual salary per day.

#### Key financial assumptions used

Discount rate	7.42%
General earnings inflation rate (long term)	4.00%
Net effective discount rate	3.29%

The earnings used in the valuation include an increase on 01 July 2020 of 6.25% as per SALGBC circular number 02/2020. The next general earnings increase was assumed to take place on 1 July 2021.

#### Key Demographic Assumptions used (PEMA)

Average retirement age	62
Continuation of membership at retirement	75%
Proportion with the spouse dependant at retirement	60%
Mortality during employment	SA 85-90
Mortality post employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010
Withdrawal from services (Sample annual rate)	Age Rate-Female RateMale
	20 9% 9%
	25 8% 8%
	30 6% 6%
	35 5% 5%
	40 5% 5%
	45 4% 4%
	50 3% 3%
	55+ 0% 0%

#### Key Demographic Assumptions used (LSA)

Average retirement age	62
Mortality during employment	SA 85-90
Withdrawal from services (Sample annual rate)	Age Rate-Female RateMale
	20 9% 9%
	30 6% 6%
	40 5% 5%
	50 3% 3%
	55 0% 0%

#### Unfunded Accrued Liability

Total value of liabilities	R32 588 000
Value of assets	R0
Unfunded Accrued liabilities	R32 588 000

#### Current service and interest cost

Current cost	R2 910 806
Interest cost	R2 346 809

#### Comparative of Vital Statistics

Number of eligible employees	1374
Average annual salary	R269 855
Salary-weighted average age	44.6
Salary-weighted average past service	12.2

#### Social benefits provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>18. Defined benefit plan (continued)</b>		
An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.		
The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.		
<b>19. Provision for rehabilitation of landfill site</b>		
<b>The movement in the provision is reconciled as follows</b>		
Balance at the beginning of the year	28 843 889	31 292 755
(Decrease)/Increase in provision	19 494 107	(5 071 037)
Finance Charges recognised	3 768 821	2 622 172
	<b>52 106 817</b>	<b>28 843 890</b>
<b>20. Payables from exchange transactions</b>		
Trade payables	532 187 054	439 274 542
Retentions	44 315 257	34 528 048
Output VAT on levies	127 166 521	126 440 810
Stale cheques written back	(60 707)	743 585
Leave pay provision	27 789 083	23 679 636
Bonus provision	11 920 291	11 992 398
Other payables	85 174 079	90 675 531
	<b>828 491 578</b>	<b>727 334 550</b>
<b>21. VAT payable</b>		
Tax payables	11 776 300	9 783 001
VAT is accounted for on a payment basis.		
<b>22. Consumer deposits</b>		
Consumers - Electricity	24 816 167	23 249 313
Consumer Guarantees	(292 280)	(137 260)
Housing Deposits	415 431	385 222
	<b>24 939 318</b>	<b>23 497 275</b>
Guarantees to the value of R 5 682 300.00		
<b>23. Revenue</b>		
Service charges	951 556 727	996 977 844
Rental of facilities and equipment	7 794 524	11 789 886
Fee income	10 113 462	12 657 242
Interest received	8 517 417	12 907 083
Property rates	320 486 064	287 110 172
Government grants & subsidies	560 539 037	509 802 892
Public contributions and donations	15 589 293	-
Fines, Penalties and Forfeits	10 506 938	8 840 500
	<b>1 885 103 462</b>	<b>1 840 085 619</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	951 556 727	996 977 844
Rental of facilities and equipment	7 794 524	11 789 886
Fee income	10 113 462	12 657 242
Interest received - investment	8 517 417	12 907 083
	<b>977 982 130</b>	<b>1 034 332 055</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>23. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	320 486 064	287 110 172
<b>Transfer revenue</b>		
Government grants & subsidies	560 539 037	509 802 892
Public contributions and donations	15 589 293	-
Fines, Penalties and Forfeits	10 506 938	8 840 500
	<b>907 121 332</b>	<b>805 753 564</b>
<b>24. Service charges</b>		
Sale of electricity	578 860 713	623 102 967
Sale of water	180 469 538	176 688 426
Sewerage and sanitation charges	109 095 131	108 895 738
Refuse removal	83 131 345	88 290 713
	<b>951 556 727</b>	<b>996 977 844</b>
<b>25. Rental of facilities and equipment</b>		
<b>Premises</b>		
Municipal housing	6 838 049	10 689 108
Venue hire	821 815	959 039
Rental - HDF	134 660	141 739
	<b>7 794 524</b>	<b>11 789 886</b>
	-	-
<b>26. Fines, Penalties and Forfeits</b>		
Traffic Fines	10 323 001	8 630 900
Library Fines	17 468	22 037
Town Planning Penalties	34 000	89 326
Tampering Fees Penalties	119 119	71 505
Pound Fees Fines	13 350	26 731
	<b>10 506 938</b>	<b>8 840 499</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>27. Other revenue</b>		
<b>Sundry Revenue</b>		
Insurance Income	40 858	1 049 217
Legal Fees Recoverable	1 273	220 176
Proceeds on Sale of Asset	957	-
R/D Admin Fee	227 960	333 131
Other Revenue	1 892 862	1 234 220
	<b>2 163 910</b>	<b>2 836 744</b>
<b>Other Income</b>		
<b>Sales</b>		
Burial Plots	354 010	372 847
Copies	56 821	70 474
Prepaid meters	115 304	95 709
Printing	23 319	20 260
Swimming tickets	114 330	207 611
	<b>663 784</b>	<b>766 901</b>
<b>Fee income</b>		
<b>Fees</b>		
Advertising signs	793 908	1 481 545
Building plans	529 536	751 127
Business letters	930 191	779 017
Cemetery	1 204 202	1 176 960
Meter reading	236 367	367 253
Rates clearance certificate	576 323	542 982
Reconnection	2 284 336	3 111 822
Town planning	235 167	280 953
Other	396 153	474 036
Tender	99 583	87 905
	<b>7 285 766</b>	<b>9 053 600</b>
<b>28. Interest received</b>		
<b>Interest revenue</b>		
Bank	2 762 709	4 890 293
Arrear consumer accounts	5 753 980	8 014 550
Other Interest	728	2 240
	<b>8 517 417</b>	<b>12 907 083</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>29. Property rates</b>		
<b>Rates received</b>		
Residential	198 771 448	152 619 161
Commercial	167 075 735	129 463 993
State	10 485 637	6 419 610
Specialised Non-market	147 372	587 820
Vacant land	15 829 820	16 352 063
Agriculture	3 550 224	2 471 528
Public Benefit Organisation	708 872	-
Less: Income forgone	(76 083 044)	(20 804 003)
	<b>320 486 064</b>	<b>287 110 172</b>
<b>Valuations</b>		
Residential	16 937 554 787	13 331 254 000
Commercial	6 065 323 000	4 381 511 000
State	2 444 813 000	2 113 182 000
Vacant	711 031 500	485 967 200
PSP	1 687 629 000	1 556 820 900
Agriculture	1 461 559 000	1 416 242 000
Unratable properties	379 161 000	311 502 000
	<b>29 687 071 287</b>	<b>23 596 479 100</b>

Valuations on land and buildings are performed every 4 years, with an extension of 1 year, approved by MEC: Cogta. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>30. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	368 648 000	341 408 000
Carneige Art Gallery	195 750	265 000
Finance management grant	1 700 000	1 700 000
Skills development grant	4 085	5 068 472
Expanded Public Works programme incentive	3 091 262	3 199 000
Disaster Relief Grant	757 000	-
Capacity Building	4 706 013	6 823 070
Community Library Service Grant	2 536 895	-
Municipal Water Infrastructure Grant	-	18 877 657
Energy Efficiency and Demand Side Management Grant	6 000 000	-
Provincialisation- All Libraries	5 891 541	9 621 651
Title Deeds Restoration	838 700	1 196 635
Sports Maintenance Facilities Grant	30 600	9 180
Fort Amiel Museum	-	6 414
Sports and Recreation	-	644 844
	<b>394 399 846</b>	<b>388 819 923</b>
<b>Capital grants</b>		
Municipal Water Infrastructure Grant	22 787 153	38 412 497
Electrification Grant	-	8 227 962
Neighbourhood development partnership	8 000 000	12 118 797
Municipal Infrastructure Grant	112 580 000	56 232 000
Shared Economic Infrastructure Facility Grant	-	4 941 714
IT Tirelo Bosha Project	-	1 050 000
Massification Grant	22 772 038	-
	<b>166 139 191</b>	<b>120 982 970</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Unconditional grants received	368 648 000	341 408 000
Conditional grants received	191 891 037	168 394 893
	<b>560 539 037</b>	<b>509 802 893</b>
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	112 580 000	56 232 000
Conditions met - transferred to revenue	(112 580 000)	(56 232 000)
	-	-
<b>Financial Management Grant</b>		
Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
	-	-
<b>Skills Development Grant</b>		
Balance unspent at beginning of year	909 545	3 070 801
Current-year receipts	-	2 907 222
Conditions met - transferred to revenue	(4 085)	(5 068 478)
	<b>905 460</b>	<b>909 545</b>
<b>Expanded Works Programme Incentive</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>30. Government grants and subsidies (continued)</b>		
Current-year receipts	3 098 000	3 199 000
Conditions met - transferred to revenue	(3 091 262)	(3 199 000)
	<b>6 738</b>	<b>-</b>
<b>Environmental Management Framework</b>		
Balance unspent at beginning of year	502 871	502 871
<b>Neighbourhood Development Partnership</b>		
Balance unspent at beginning of year	-	12 118 797
Current-year receipts	8 000 000	-
Conditions met - transferred to revenue	(8 000 000)	(12 118 797)
	<b>-</b>	<b>-</b>
<b>Electrification Grant</b>		
Current-year receipts	14 000 000	15 000 000
Conditions met - transferred to revenue	(7 732 906)	(15 000 000)
	<b>6 267 094</b>	<b>-</b>
<b>Water Services Operating &amp; Masification Subsidies</b>		
Balance unspent at beginning of year	2 772 038	11 000 000
Current-year receipts	20 000 000	-
Conditions met - transferred to revenue	(22 772 038)	(8 227 962)
	<b>-</b>	<b>2 772 038</b>
<b>I.T - Tirelo Bosha Project</b>		
Current-year receipts	-	1 050 000
Conditions met - transferred to revenue	-	(1 050 000)
	<b>-</b>	<b>-</b>
<b>Sports Maintenance Facilities Grant</b>		
Balance unspent at beginning of year	40 820	-
Current-year receipts	-	50 000
Conditions met - transferred to revenue	(30 600)	(9 180)
	<b>10 220</b>	<b>40 820</b>
<b>Title Deeds Restoration</b>		
Balance unspent at beginning of year	8 072 071	-
Current-year receipts	-	5 192 726
Conditions met - transferred to revenue	(838 700)	(1 196 635)
Other	-	4 075 980
	<b>7 233 371</b>	<b>8 072 071</b>
<b>Community Library Service Grant</b>		
Balance unspent at beginning of year	1 343 706	7 467 928
Current-year receipts	2 160 000	12 147 000
Conditions met - transferred to revenue	(2 536 895)	(18 877 657)
Other	376 895	606 435
	<b>1 343 706</b>	<b>1 343 706</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>30. Government grants and subsidies (continued)</b>		
<b>Municipal Water Infrastructure Grant</b>		
Balance unspent at beginning of year	3 276 300	-
Current-year receipts	40 000 000	40 000 000
Conditions met - transferred to revenue	(22 787 153)	(38 412 497)
Adjustment	(3 293 000)	1 688 797
	<b>17 196 147</b>	<b>3 276 300</b>
<b>Disaster Relief Grant</b>		
Current-year receipts	757 000	-
Conditions met - transferred to revenue	(757 000)	-
	<b>-</b>	<b>-</b>
<b>Provincialisation- All Libraries</b>		
Balance unspent at beginning of year	2 180 751	6 174 837
Current-year receipts	6 546 000	6 234 000
Conditions met - transferred to revenue	(5 891 541)	(9 621 651)
Other	(376 895)	(606 435)
	<b>2 458 315</b>	<b>2 180 751</b>
<b>Capacity Building housing</b>		
Balance unspent at beginning of year	4 706 013	8 414 666
Current-year receipts	-	7 190 396
Conditions met - transferred to revenue	(4 706 013)	(6 823 070)
Other	-	(4 075 979)
	<b>-</b>	<b>4 706 013</b>
<b>Osizweni arts centre</b>		
Balance unspent at beginning of year	36 920	36 920
<b>Corridor development</b>		
Balance unspent at beginning of year	131 075	131 075
<b>Cleanest town</b>		
Balance unspent at beginning of year	823 975	823 975
<b>Energy Efficiency and Demand Side Management Grant</b>		
Current-year receipts	6 000 000	-
Conditions met - transferred to revenue	(6 000 000)	-
	<b>-</b>	<b>-</b>
<b>Sport and Recreation</b>		
Balance unspent at beginning of year	1 980 417	8 761
Current-year receipts	-	2 666 500
Conditions met - transferred to revenue	-	(644 844)
Other	-	(50 000)
	<b>1 980 417</b>	<b>1 980 417</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>30. Government grants and subsidies (continued)</b>		
<b>Ingogo Fresh Produce</b>		
Balance unspent at beginning of year	11 353	11 353
<b>Carnegie Art Gallery</b>		
Balance unspent at beginning of year	198 871	279 871
Current-year receipts	193 000	184 000
Conditions met - transferred to revenue	(13 750)	(265 000)
	<b>378 121</b>	<b>198 871</b>
<b>Fort Amiel Museum</b>		
Balance unspent at beginning of year	370 454	192 868
Current-year receipts	193 000	184 000
Conditions met - transferred to revenue	(182 000)	(6 414)
	<b>381 454</b>	<b>370 454</b>
<b>All Housing grants</b>		
Balance unspent at beginning of year	4 266 813	4 266 813
Current-year receipts	76 966 343	29 274 136
Conditions met - transferred to revenue	(76 966 343)	(29 274 136)
Other	-	-
	<b>4 266 813</b>	<b>4 266 813</b>
<b>Newcastle Airport</b>		
Balance unspent at beginning of year	1 815 281	1 815 281
<b>31. Public contributions and donations</b>		
Public contributions and donations 1	15 589 293	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>32. Employee related costs</b>		
Basic	333 368 379	339 339 942
Medical aid - company contributions	18 633 485	19 649 781
UIF	2 291 262	2 501 353
WCA	2 954 698	-
SDL	3 754 755	4 710 732
Bonuses paid	26 249 802	22 829 846
Defined contribution plans	60 209 111	59 485 635
Travel, motor car, accommodation, subsistence and other allowances	13 665 507	7 342 414
Overtime payments	38 823 943	59 374 705
Long-service awards	4 509 331	2 302 437
Transport allowance	23 237 063	24 403 380
Housing benefits and allowances	7 595 214	8 290 174
Group insurance	7 033 518	5 747 810
Bargaining council	144 618	149 739
Night work allowance	1 685 146	1 848 686
Leave pay provision	9 753 308	9 864 260
	<b>553 909 140</b>	<b>567 840 894</b>
<b>Remuneration of the Municipal Manager</b>		
Annual Remuneration	-	1 342 020
Car Allowance	-	121 581
Contributions to UIF, Medical and Pension Funds	-	169 776
Acting Allowance	167 215	86 679
	<b>167 215</b>	<b>1 720 056</b>
<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	605 440	180 292
Car Allowance	151 360	33 333
Annual Bonuses	54 181	-
Contributions to UIF, Medical and Pension Funds	110 343	14 441
Other	18 771	-
Leave paid/sold	36 612	-
	<b>976 707</b>	<b>342 999</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>32. Employee related costs (continued)</b>		
<b>Remuneration of Executive Directors &amp; Municipal Manager</b>		
Annual Remuneration	5 079 599	5 368 260
Car Allowance	801 350	618 002
Annual Bonuses	488 115	133 695
Contributions to UIF, Medical and Pension Funds	707 371	701 775
Acting Allowances	167 215	252 633
Leave paid/en-cashed	36 612	285 313
Other	71 570	-
	<b>7 351 832</b>	<b>7 359 678</b>
<b>Community Services</b>		
Annual Remuneration	798 637	798 641
Car Allowance	199 660	199 660
Annual Bonuses	145 207	-
Contributions to UIF, Medical and Pension Funds	132 199	141 961
Other	10 795	-
	<b>1 286 498</b>	<b>1 140 262</b>
<b>Development and Planning Services</b>		
Annual Remuneration	778 901	280 250
Car Allowance	165 000	45 000
Annual Bonuses	141 618	170 913
Contributions to UIF, Medical and Pension Funds	188 238	79 644
Other	10 371	-
Acting Allowance	-	51 021
	<b>1 284 128</b>	<b>626 828</b>
<b>Internal Audit</b>		
Annual Remuneration	907 312	916 300
Car Allowance	86 856	27 424
Annual Bonuses	74 937	76 358
Contributions to UIF, Medical and Pension Funds	164 952	177 301
Leave paid/leave en-cashed	-	114 400
Other	9 781	-
	<b>1 243 838</b>	<b>1 311 783</b>
<b>Technical</b>		
Annual Remuneration	1 195 412	1 155 678
Car Allowance	-	17 234
Contributions to UIF, Medical and Pension Funds	1 636	13 625
Other	12 057	-
	<b>1 209 105</b>	<b>1 186 537</b>
<b>Corporate Services</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>32. Employee related costs (continued)</b>		
Annual Remuneration	793 897	695 079
Car Allowance	198 474	173 770
Annual Bonuses	72 172	57 337
Contributions to UIF, Medical and Pension Funds	110 003	105 027
Other	9 795	-
	<b>1 184 341</b>	<b>1 031 213</b>
<b>33. Remuneration of councillors</b>		
Mayor	831 630	904 319
Deputy Mayor	585 581	681 584
Executive Committee Members	4 439 662	4 612 963
Speaker	563 230	664 238
Councillors	18 503 031	16 156 871
Chief Whip	639 280	723 596
MPAC Chairperson	333 883	689 600
Traditional Leaders	39 592	48 480
	<b>25 935 889</b>	<b>24 481 651</b>
<b>Mayor</b>		
Annual Remuneration	513 333	602 533
Car Allowances	197 515	210 579
Cellphone allowances	37 400	40 800
Contribution to UIF, medical aid and pension	-	28 399
Other	83 382	22 008
	<b>831 630</b>	<b>904 319</b>
<b>Deputy Mayor</b>		
Annual Remuneration	336 314	392 969
Car Allowances	129 067	150 638
Cellphone Allowances	30 600	35 755
Contribution to UIF, medical aid and pension	50 505	58 945
Other	39 096	43 277
	<b>585 582</b>	<b>681 584</b>
<b>Speaker</b>		
Annual Remuneration	336 314	392 969
Car Allowances	130 344	150 638
Cellphone allowances	30 600	35 755
Contribution to UIF, medical aid and pension	51 004	58 937
Other	14 968	25 939
	<b>563 230</b>	<b>664 238</b>
<b>Chief Whip</b>		
Annual Remuneration	385 360	420 393
Car Allowances	147 722	161 151
Cellphone Allowance	37 400	40 800
Contribution to UIF, Medical aid and pension	57 804	63 059
Other	10 994	38 193
	<b>639 280</b>	<b>723 596</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>33. Remuneration of councillors (continued)</b>		
<b>In-kind benefits</b>		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
Also, Chief Whip and MPAC Chairperson are provided with offices.		
The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.		
<b>34. Repairs and Maintenance</b>		
Building Maintenance	2 534 197	4 005 695
Infrastructure Maintenance	42 629 073	48 290 419
Land Maintenance	164 449	241 435
VIP toilets maintenance	-	8 938 060
Maintenance of movable assets	9 928 247	19 618 964
	<b>55 255 966</b>	<b>81 094 573</b>
<b>35. Depreciation and amortisation</b>		
Property, plant and equipment	345 298 647	373 173 572
<b>36. Impairment of assets</b>		
<b>Impairments</b>		
Fines	8 302 176	6 841 195
Inventory	10 821	6 117
Property, plant and equipment	14 528 962	9 358 457
	<b>22 841 959</b>	<b>16 205 769</b>
The main classes of assets affected by impairment losses are: Fines debtors, Inventory, and Infrastructure asset and community asset.		
Impairment of outstanding traffic fines debtors calculated as the average of uncollected fines.		
Inventories which are impaired are goods which are damaged and obsolete. Refer to note No: 1.11		
The main events and circumstances that led to the recognition of these impairment losses are as follows : Property, plant and equipment was mainly affected by roads under construction which had it's materials damaged and some street lights were also damaged. Further, certain play parks were vandalised which resulted in impairment.		
<b>37. Finance costs</b>		
Non-current borrowings	44 886 092	42 340 887
Provisions and current borrowings	18 210 969	17 538 994
Interest Expense	11 019 784	19 897 299
	<b>74 116 845</b>	<b>79 777 180</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>38. Debt impairment and Bad debts written off</b>		
Debt impairment	174 113 742	90 139 090
Indigents written off	33 566 637	72 072 090
Bad debts written off - Incentives	19 505 838	6 408 033
Write-offs as per council resolution	85 047 232	11 128 216
	<b>312 233 449</b>	<b>179 747 429</b>
<b>39. Bulk purchases</b>		
Electricity - Eskom	404 371 472	423 037 391
Water	111 055 835	98 350 881
	<b>515 427 307</b>	<b>521 388 272</b>
<b>40. Contracted services</b>		
Legal Fees	15 169 045	8 389 086
Security Services	31 191 696	27 898 873
Consultants and Professional Services	48 053 508	24 813 034
Contractors	53 962 939	57 902 196
	<b>148 377 188</b>	<b>119 003 189</b>
<b>41. General expenses</b>		
Assessment rates & municipal charges	1 068 026	5 856 044
Auditors remuneration	4 421 922	4 393 123
Bank charges	3 806 819	1 911 992
Legal fees	96 324	56 990
Entertainment	33 957	92 598
Insurance	6 796 863	6 929 841
Community development and training	5 892 155	6 756 372
IT expenses	14 324 580	11 608 150
Magazines, books and periodicals	21 672	278 375
Medical expenses	26 169	43 113
Motor vehicle expenses	16 575 953	19 763 867
Expenditure on Grants	-	(1 875)
Subsistence and Travelling	1 252 356	2 358 299
Petrol, Oil and Grease	410 141	584 278
Postage and courier	3 244 375	3 867 039
Printing and stationery	1 438 656	2 733 515
Promotions	32 055	22 234
Protective clothing	2 943 872	4 676 547
Royalties and license fees	160 738	159 374
Membership fees	1 238 735	10 554 003
Telephone and fax	10 561 262	11 465 145
Training	3 757 482	6 413 545
Refuse	3 500 228	4 730 462
Tools	55 966	72 752
Other expenses	13 141 314	27 836 160
Administration expenses	65 858 241	57 090 280
Contribution to post retirement benefits	7 378 697	8 131 688
Material	2 618 425	6 185 201
Signage	29 843	-
Chemicals	259 118	294 012
	<b>170 945 944</b>	<b>204 863 124</b>
<b>42. Fair value adjustment to investment property</b>		
Gains or losses arising from a change in fair value less point of sale costs	-	15 370 000

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>43. Auditors' remuneration</b>		
Fees	4 105 349	4 044 245
Audit Committee	316 573	348 878
	<b>4 421 922</b>	<b>4 393 123</b>
<b>44. Cash generated from operations</b>		
Deficit	(353 335 479)	(314 202 151)
<b>Adjustments for:</b>		
Depreciation and amortisation	345 298 647	373 173 572
Share of deficit in associate	27 972 811	35 071 678
Impairment/Gain of investment	-	(3 382 489)
Fair value adjustment	-	(15 370 000)
Gain on Actuarial Valuation	(9 608 477)	(10 765 537)
Other non-cash items	-	(32 573)
Public contribution and donations	(15 589 293)	-
Impairment of assets	14 528 963	16 205 077
Debtors Impairment - other receivables from non-exchange	8 302 176	179 747 429
Debtors Impairment - receivables from exchange transactions	142 090 706	-
Debtors Impairment - receivables from non-exchange transactions	32 023 037	-
Bad debts written off - receivables from exchange transactions	138 119 706	-
Profit on sale of assets	(5 552 913)	-
WIP Movement	(364 930)	-
Impairment of Inventory	10 821	-
Current service cost- Employee benefit liability	7 378 697	-
Finance costs- Employee benefit liability	13 983 330	-
Finance costs-- Rehabilitation provision	3 768 821	-
Accumulated Surplus	(1 263 951)	-
Movements in impairment provisions	-	(5 071 037)
Movement in leave on bonus provisions	4 037 340	-
Movement in employee benefit liability	(8 667 535)	-
Government grants non-cash	-	(19 757 803)
<b>Changes in working capital:</b>		
Inventories	515 033	(1 578 007)
Receivables from exchange transactions	4 475 078	(16 595 725)
Consumer debtors	(304 105 438)	(197 183 295)
Other receivables from non-exchange transactions	(9 447 116)	(1 048 178)
Other financial assets	1 369	1 975
Other financial assets	-	3 988 524
Other financial liabilities	-	(3 885 809)
Payables from exchange transactions	97 119 688	114 689 604
VAT	1 993 299	8 007 396
Finance lease obligation	-	619 413
Unspent conditional grants and receipts	12 310 057	(22 877 542)
Consumer deposits	1 442 043	4 530 751
Other financial liability	-	(31 292 733)
Short term portion of defined benefit	-	670 122
	<b>147 436 490</b>	<b>93 662 662</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>45. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure Assets	58 978 157	79 670 185
• Community Assets	193 284	2 233 882
• Other	6 504 076	-
	<b>65 675 517</b>	<b>81 904 067</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Infrastructure Assets	143 367 436	120 559 336
<b>Total capital commitments</b>		
Already contracted for but not provided for	65 675 517	81 904 067
Not yet contracted for and authorised by accounting officer	143 367 436	120 559 336
	<b>209 042 953</b>	<b>202 463 403</b>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	209 042 953	202 463 403
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	1 666 398	2 246 574
- in second to fifth year inclusive	1 110 932	10 225 653
	<b>2 777 330</b>	<b>12 472 227</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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2020

2019

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### 46. Contingencies

#### **Plaintiff: Sigatha Africa Joint Venture**

Singatha Africa Joint Venture is seeking damages of R815 475 for loss of profit relating to a dispute of breach of contract. the claim that they were engaged as a Project Manager of housing project but the contract was cancelled. Estimated legal costs are R300 000. Awaiting trial date.

#### **Plaintiff: Evmic ADZ Construction CC**

There is litigation process against the municipality relating to the dispute with ADZ Construction CC, who is seeking damages of R1 245 491 for breach of contract. It alleges that the contract was unlawfully terminated. Estimated legal costs are R250 000. Litigation to proceed.

#### **Plaintiff: Matilda Plumbing & Projects CC**

There is litigation process against the municipality relating to the dispute with Matilda Plumbing and Projects CC. The estimated claim amounts to R200 000 and the estimated legal costs are R300 000.

#### **Plaintiff: SJ Zulu**

There is litigation process against the municipality relating to the dispute SJ Zulu. SJ Zulu has lodge an application to cease excavation and construction of sewerage pumpstation project initiated by the municipality. The case is in High court and the estimated cost is R20 million and R400 000 of legal costs.

#### **Plaintiff: Rusha/Dylan Peterson**

There is a litigation process against the municipality relating to a dispute with Rush Peterson where has allegations that the municipality was negligent, leaving the drainage water pipes open in a public place that was accessible to children. Her child was injured. The case now is in her son's name Dylan as he is now over 18 years. The claim for damages now is R2 800 000. Estimated Legal costs is R 5 000.

#### **Plaintiff: Sibiya (Ingogo Fresh Produced)**

There is a litigation process against the municipality relating to a dispute with Mr Sibiya whereas there was an agreement between the municipality and Mr Sibiya to pay the rental of R1500 per month on the portion of land belonging to Mr Sibiya now demands R30 000 instead of R1500. EXCO authorised that the matter be handled by COGTA.

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#### **Plaintiff: Sagewise 1018 cc & Kadbro Taxi City**

The NMPT previous set aside the restrictive condition which was successful on internal appeal. The applicant did not participate in the internal appeal. The estimated costs are R650 000.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020

2019

### 46. Contingencies (continued)

**Plaintiff: Minister of Water Affairs**

The Minister of Water Affairs is suing the municipality for services of water rendered for the period April 2002 to 31 August 2016. An arrangement has been made to pay this in instalments of 3 years. Amount sued for is R35 906 412.22 and estimated legal costs are R380 000

**Plaintiff: Small Enterprise Finance Agency SOC Ltd**

Summons were issued against the municipality for R 1 100 000 and estimated legal costs of R350 000.

**Plaintiff: Bigen Service frica PTY(LTD)**

The former service provider objected to the municipality appointing another service provider to take over the debt management service. Legal costs of R250 000.

**Plaintiff: Miracle Mile Investments**

This is a collection matter for outstanding money wherein fraud was perpetrated. The monies outstanding with interest will be in the region of R 1 100 000 . Legal costs of R90 000.

**Plaintiff: New Integrated Credit Solutions (NICS)**

Dispute regarding the non payment of a service provider. Legal costs of R1 200 000.

**Plaintiff: Scarlet Hibus investments 220 (PTY) LTD**

The municipality has been sued an estimated amount of R 42 000 000. Legal costs R 1 500 000

Paintiff: Nomsa Communal Property Association & 2 Others

The municipality is being for used for an estimated amount of R 1 100 000, Legal costs R420 000

**Plaintiff: Tactical Security Services cc**

The Municipality is being sued for R15 000 000, estimated legal costs R 300 000.

**Plaintiff: Dr HPF Adendorff**

The municipality was cited and costs sought against it in an eviction matter involving farm dwellers, municipality is being sued for R 150 000, estimated legal costs of R50 000.

**Plaintiff: Simphiwe N Nkosi**

The municipality was cited and costs sought against on an urgent basis for removing a councillor. The interdict was unsuccessful and no relief was granted against the municipality. The claim amount is R 400 000 and estimated legal costs R 250 000.

**Plaintiff: HG Khumalo**

The municipality is being sued for an amount of R250 000 for failure to ensure proper storm water reticulation, estimated legal costs R50 000

**Plaintiff: Chapps Construction CC**

The municipality is being sued for R 2 700 000, estimated legal costs R 500 000

**Plaintiff: Zanele Khumalo**

The municipality is being sued for R 400 000, estimated legal costs R 120 000

**SAMWU obo Members & SAPS**

The municipality instituted an urgent interdict proceedings against SAMWU and its members for an unlawful strike action. The estimated legal costs are R250 000.

**Farm Dwellers NN**

The municipality was cited and costs sought against it in urgent interdict proceedings for failing to interdict a property developer from continuing construction of a service station.

**ZEST FAMILY TRUST**

An Illegal structure was erected on portion 1 of ERF 10805 encroaching on ERF 10807 situated at Huttenheights, estimated legal costs R 250 000.

**Insurance Claim from Third Parties Public Liability**

Alistair Kevin van Wyk for Personal Injuries. Sued amount R6 000 000 and estimated legal costs R5 000.

Diaan and AJ Von Broembsen for property damage due to rain storm. Sued amount is R220 580 and estimated legal fees is R5 000.

Olivia Sizani Nzimande for Motor Vehicle claim. Sued amount R109 550 and estimated legal costs R5 000.

Vusi Mahlangu for Vehicle damage claim. Sued amount R140 835 and legal costs R5 000.

Vishal Heeralal for Personal injuries claim. Sued amount R1 050 000 and estimated legal costs R5 000.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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2020

2019

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### 46. Contingencies (continued)

Nicole Adele Pillay for Motor Vehicle damage claim. Sued amount R101 327 and legal costs of R5 000.

Chemile Dlabehlezi Dladla for Personal injurie. Sued amount R6 000 000 and legal costs of R5 000.

SK Made/Shories for personal injuries while attending Youth celebration. Sued amount R10 000 000 and legal costs R5 000.

### Labour reviews and Bargaining Council

Ravesh Singh and 3 others, they have launched a grievance on non appointments on some posts. The estimated legal costs are R20 000.

LP Zwane & Others (Traffic wardens), unfair labour practice

ZB Maduna, unfair labour practice

N Nkutha, unfair labour practice

SAMWU OBO Mpanza, unfair labour practice.

The municipality is being sued for R 20 000.00, estimated legal costs R12 000.

SAMWU OBO LP Zulu & Others, unfair labour practice.

The municipality is being sued for R 3 400 000, estimated legal costs R200 000.

SAMWU & IMATU obo Members, unfair labour practice.

The municipality is being sued for R 180 000 000, estimated legal costs R 350 000.

SAMWU obo D Mfusi & Others, unfair labour practice.

The municipality is being sued for R 180 000 000, estimated legal costs R 1 000 000

CZ Malembe

The municipality is being claimed against R400 000 to R600 000, estimated legal costs R 200 000

Bongani P Ngubane, unfair labour practice

Mhlaliseni James Masondo, unfair labour practice, estimated legal costs R 250 000

Fikile Lorraine Ntshingila & 17 Others, unfair labour practice, claim amount R 2 890 000, estimated legal costs R250 000

IMATU obo KS Ngema, unfair labour practice, claim amount R18 000 000, estimated legal costs R 1 000 000

Douglas B Nkosi, unfair labour practice, claim amount R1 500 000 to R2 000 000.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>47. Related parties</b>		
<b>Relationships</b>		
Associates	Refer to note 7	
<b>Related party balances</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
UThukela Water	85 470 035	61 896 146
<b>Investments in Associates</b>		
Uthukela Water (Proprietary) Limited	(31 221 733)	(35 071 678)
<b>Bulk Water</b>		
Uthukela Water (Proprietary) Limited	111 055 835	95 285 645
Dr Pixley ka Isaka Seme Local Municipality	-	164 509
<b>Related party transactions</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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### 47. Related parties (continued)

#### Remuneration of management

##### Councillors

2020

	Basic salary	Pension Contribution	Medical Aid Contributions	Motor Vehicle Allowance	Cellphone and other Allowances	Housing Allowance	Total
<b>Name</b>							
Executive Committee members	3 074 778	443 644	73 942	1 351 310	457 555	455 644	5 856 873
Other Councillors	11 394 164	1 448 985	33 101	4 237 436	2 250 330	715 000	20 079 016
	<b>14 468 942</b>	<b>1 892 629</b>	<b>107 043</b>	<b>5 588 746</b>	<b>2 707 885</b>	<b>1 170 644</b>	<b>25 935 889</b>

2019

	Basic salary	Pension Contribution	Medical Aid Contributions	Motor Vehicle Allowance	Cellphone and other Allowances	Housing Allowance	Total
<b>Name</b>							
Executive Committee members	3 552 671	331 927	81 386	1 418 022	526 859	28 800	6 198 866
Other Councillors	10 446 248	1 267 373	2 849	3 595 987	2 308 488	661 840	18 282 785
	<b>13 998 919</b>	<b>1 599 300</b>	<b>84 235</b>	<b>5 014 009</b>	<b>2 835 347</b>	<b>690 640</b>	<b>24 481 651</b>

### 48. Prior period errors

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

#### Errors

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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2020

2019

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### 48. Prior period errors (continued)

#### Error 1

##### Investment in Associates

During the preparation of financial statements, it was identified that UThukela water had changes to their financial statements:

The effect of the adjustments are as follow:

Statement of Financial Position		
Increase/(Decrease) in	Investment in Associates	10 378 182
(Increase)/Decrease in	Accumulated Surplus	(10 378 182)

#### Error 2

##### Leave Provision

During the preparation of financial statements, it was identified that there were changes to the Leave provision:

The effect of the adjustments are as follow:

Statement of Financial Position		
Increase/(Decrease) in	Payables from Exchange Transactions	8 689 516
(Increase)/Decrease in	Accumulated Surplus	(8 689 516)

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020

2019

### 48. Prior period errors (continued)

#### Error 3

##### 3.1 Asset Verification Reclassification

Properties Incorrectly classified as Investment Property restated in Land PPE, and the reversal of Fair value Gains in 2019, on the properties in IP that were removed.

The effect of the adjustments are as follow:

##### **Statement of Financial Position**

Increase/(Decrease) in	Property, Plant and Equipment	17 166 000
Increase/(Decrease) in	Investment Property	(10 417 000)
Increase/(Decrease) in	Investment Property Fair Value gains 2019 reversed	(990 000)
(Increase)/Decrease in	Accumulated Surplus	(5 759 000)

##### 3.2 Investment Property

Derecognition of properties in the Investment Property that did not belong to Newcastle Municipality and the reversal of Fair Value adjustments done on properties removed from IP in 2019.

The effect of the adjustments are as follow:

##### **Statement of Financial Position**

Increase/(Decrease) in	Investment Property	(1 546 000)
Increase/(Decrease) in	Investment Property	(96 000)
(Increase)/Decrease in	Accumulated Surplus	1 642 000

##### 3.3 Reclassification from Infrastructure assets to Community Assets

During the preparation of the financial statements and verification infrastructure assets were reclassified as Community assets as per the Municipal Finance Management Act is classified as Community assets

The effect of the adjustments are as follow:

##### **Statement of Financial Position**

Increase/(Decrease) in	Property, Plant and Equipment	(22 026 279)
Increase/(Decrease) in	Accumulated Surplus	22 002 579
(Increase) Decrease in	Payables from Exchange Transactions	23 700

##### 3.4 Gains on Other Assets and Correction of Depreciation

During the Physical Verification of assets Movable assets were found on the floor that were not on the Fixed Asset Register. Gains of Other assets were added to the Fixed Asset Register

The effect of the adjustments are as follow:

##### **Statement of Financial Position**

Increase/(Decrease) in	Property, Plant and Equipment	27 228 297
(Increase)/Decrease in	Accumulated Surplus	(30 974 170)

##### **Statement of Financial Performance**

(Increase) Decrease in	Depreciation and Amortisation	3 745 873
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### 49. Comparative figures

Certain comparative figures have been reclassified.

[Insert reasons for reclassification.]

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020

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### 49. Comparative figures (continued)

The effects of the reclassification are as follows:

#### Statement of Financial Performance

	2019/20 AFS	2018/19 AFS	Diff	Comments
Fines, Penalties Forfeits	8 840 500	8 650 101	190 399	Reclassified penalties from other and revenue & Rental
Other Revenue	12 657 242	12 834 315	-177 073	Reclassified Other Revenue to Fines, Penalties and Forfeits & Rental (Previous was split into 3, Fees, Other income & sundry)
Rental of Facilities and	11 789 886	11 803 212	-13 326	Reclassified Other Rev to Fines, Penalties & Rental
Contracted Services	119 003 189	116 099 751	2 903 438	Reclassified from General Expenses to Contracted Services
General Expenses	266 338 732	269 242 169	-2 903 4348	Reclassified from General Expenses to Contracted Services

#### Statement of Financial Position

Receivable from Exchange	81 446 069	81 187 338	258 731	R 157 416 reclassified to Payables R 101 315 reclassified to Debtors
Payables from Exchange	727 358 250	735 890 350	8 532 100	R 8 689 515 Prior year error - R 157 416 Reclassified from Receivable
Consumer Debtors from exchange	487 636 133	487 534 817	- 101 315	Reclassified from receivables from exchange

#### Cashflow Statement

Suppliers	872 419 844	876 408 367	- 3 988 523	Reclassified to Purchases of Heritage Assets
Purchases of Heritage	4 019 723	31 200	3 988 523	Reclassified from Suppliers

### 50. Risk management

#### Financial risk management

Financial management risk is to determine whether the municipality's financial health is able to meet its short-term commitments or obligations.

#### Liquidity risk

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

The municipality recorded the cash ratio of 4% (2019: 1%) in the current year. The entity required to maintain the cash ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

The municipality also recorded the current ratio of 76% (2019: 85%) in the current year. The municipality is required to maintain the current ratio of 150% in order to ensure that current assets are adequate to cover its current liabilities.

The municipality recorded the acid test ratio of 75% (2018: 86%) in the current year. The entity required to maintain the acid test ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020

2019

### 50. Risk management (continued)

#### Credit risk

Credit risk is the risk of financial loss to the municipality if its customers or counterpart fail to meet their contractual obligations. Credit risk arise primarily from the municipality's investments, cash and cash equivalents and receivables. The carrying values of these financial assets represents the maximum credit exposure. The maximum exposure as at 30 June 2020 was as follows:

	2020	2019
Cash and cash equivalents (excluding cash on hand)	R 36 268 498	R 9 999 201
Other receivables	R 92 451 329	R 95 522 736
Receivables from consumer debtors	R 582 505 094	R 590 633 098
<b>Total</b>	<b>R 711 224 921</b>	<b>R 687 155 035</b>

### 51. Going concern

As at 30 June 2020, the municipality had an accumulated surplus (deficit) of 6 331 747 638 (2019: 6 687 169 299) and that the municipality's current liabilities exceed its assets by R 225 118 464 (2019: R 118 717 360).

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

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated deficit of R 353 million and the municipality's Cash and Cash Equivalent is R36 million which is not sufficient to cover the current liabilities of the municipality. The current assets are less than current liabilities, the collection rate has improved a little bit but there is still a risk that all the outstanding debtors might not be collected. Over the next twelve months, the municipality is still committed to ensure their expenditure is kept within the funded and approved budget.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to secure funding for the ongoing operations of the municipality and that the Provincial and National government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

### 52. Events after the reporting date

In January 2021 the Municipality was informed by National Treasury that an amount of R23.5 million which was unspent at the end of the financial year has not been approved as a roll over. The unspent amount is in respect of Integrated National Electrification Programme (R6.3 million), WSIG (R17.2 million) and EPWP (R7 thousand). National Treasury has offset a portion unspent amount of R6.3 million from the municipality's 8 December 2020 equitable share installment available to our municipality in terms of section 22(4) of the 2019 DORA, while the balance of R17.2 million will be offset on a later date which is 16 March 2021.

### 53. Unauthorised expenditure

Opening balance as previously reported	918 057 612	918 010 182
<b>Opening balance as restated</b>	<b>918 057 612</b>	<b>918 010 182</b>
Add: Unauthorised Expenditure - current year	49 721 318	47 430
<b>Closing balance</b>	<b>967 778 930</b>	<b>918 057 612</b>

The municipality incurred unauthorised expenditure of R49 721 318 (2019: R 47 430) during the financial year. While the municipality did not exceed its total budget, the unauthorised expenditure however relate to the over-spending in the department of Technical Services due to the high debt impairment.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>54. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	42 446 743	9 974 342
<b>Opening balance as restated</b>	<b>42 446 743</b>	<b>9 974 342</b>
Eskom	2 382 029	17 529 920
SARS	7 684 239	2 527 408
DBSA	115 761	884 745
Ithala	3 874	2 180
Retentions overpayment	763 709	-
Arena Holdings	88 579	-
Impairment of Assets (Esdidini Road)	-	6 609 206
Telkom	23 136	93 105
Bytapex	19 325	1 712
Unauthorised Debit Orders	-	199 350
Natal Joint Municipal Pension Fund	-	25 198
Delca Consulting	-	765 860
ABSA	60 747	-
Auditor General	5 412	-
Itec Finance	947	-
Dr Pixley ka Isaka Seme Local Municipality	724 315	-
Employee: Mr TP Mlangeni (Deceased)	20 119	-
Salary Overpayment	14 517	1 087 692
Salary Overpayment	369 036	2 746 025
Zanele Plumbers	320 037	-
<b>Closing balance</b>	<b>55 042 525</b>	<b>42 446 743</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>55. Irregular expenditure</b>		
Opening balance as previously reported	370 225 064	283 338 197
Add: Irregular Expenditure - current year	96 482 244	86 886 867
	<u>-</u>	<u>-</u>
<b>Closing balance</b>	<b><u>466 707 308</u></b>	<b><u>370 225 064</u></b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>55. Irregular expenditure (continued)</b>		
<b>Irregular Expenditure was made out of the following</b>		
	<b>Disciplinary steps taken/criminal proceedings</b>	
Blaauwbosch Bulk Water Project	-	3 008 785
Newcastle East Water Supply Extension	-	2 621 151
Newcastle East Water Supply Extension	-	104 252
	<b>-</b>	<b>5 734 188</b>
Payments made to contracts where SCM procedures were not followed	-	-
Adapt It	125 728	-
Amadlelandawonye Trading	19 850	-
Amajuba Cateres	64 500	-
Bamazi Trading Enterprise cc	-	22 000
Bangs Trading and Projects	-	763 820
Bravolex	479 359	-
Brett Purdon Attorneys	8 922 025	2 129 030
Buzwe Giomatics	-	5 543
Bytepax IT cc	-	218 840
Castle Construction Hire	-	54 111
Concost Quality Surveyors	-	329 113
DBM Attorneys	23 754	-
EGM Izinhlelo	-	156 812
Easypay	-	3 155 920
Egxen Engineering	12 532 650	5 700 118
Eskom Holdings	-	1 606 251
FBL Trading Enterprise	472 665	192 716
Fidelity Security Services	268 502	26 893
First National Battery	-	611 251
First Technology	77 924	87 973
Flint Rail Projects	-	330 916
Global Payment Technologies	-	3 220
Hamisa Constructions	500 000	-
Heavenly Breeze Air Conditioning	31 108	-
Hlela Attorneys	111 399	-
Ibini (Pty) Ltd	488 750	-
Ilembe Trading	500 000	-
Impumelelo Consulting Engineering	7 200 048	1 446 346
Inside Data South (Pty) Ltd	-	1 064 538

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>55. Irregular expenditure (continued)</b>		
Itec Tiyende (Pty) Ltd	400 878	6 013
Ithala Properties	70 009	-
Jayshree Moodley & Associates	81 729	-
Jenny internet	131 484	-
Juta and Company LTD	-	2 856
KFC Pipes & Fittings &KFC Engineering	-	902 840
Kinno's Marquee and Tarpaulin Hire cc	-	403 195
Klus Civils	2 495 374	2 114 447
Kuntwela Ezansi Ventures	-	831 653
Kusile Engineering cc	226 234	694 995
LH Marthinussen Denver a division of Actom (Pty) Ltd	-	487 510
Legent International and Projects	-	105 570
Lekotlopo Associates	70 000	-
Lemalwa Trading	15 255	-
Lexis Nexis	-	3 759
Logo Graphics cc	-	2 013
M-Charlie Trading	11 902 397	-
MI 7 Security Intelligence	1 063 258	-
Madudla Contractors	3 146 923	1 859 685
Magubane Plant and Contractors	1 246 451	1 342 810
Mbodvula Trading/NBN Civils	1 879 018	2 745 651
Metgovis	78 218	-
Moralla Shopping Complex	80 960	139 237
Msalela Transport	1 562 496	971 142
Mtec	-	2 838 837
Murray and Dickson	-	12 606 571
Ncolisa Trading (Pty) Ltd	-	325 468
Newcastle Master Lock	-	1 553
Ngidi and Company Inc	64 800	64 800
Njabulo Binda Trading and Projects	-	117 000
Njengamanje Trading cc	4 227 724	2 935 192
Nkosenathi Construction & Projects	-	1 182 472
Nobongile Business Enteprise	-	28 665
Northern Cleaning Services	871	7 479
Ongoti Risk Management	207 966	258 520
Ontec Systems	155 355	-
Osmans Racing Wheel & Trye	-	2 196 338
Otis (Pty) Ltd	17 334	-
Paper House	-	3 152
Phaks Mankahlane	120 000	-
Phumuza Facilities Management	-	193 200

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>55. Irregular expenditure (continued)</b>		
Ravindra Maniklall and Company Inc	227 368	-
Rocla	15 853	-
Rosenbauer South Africa	-	5 305
Royal Haskoning DHV	3 090 981	-
Roypan Enterprise	211 634	-
S & M 2 way radio	34 911	-
SS Masondo Attorneys	200 000	573 552
Sandman Sizazonke	-	293 288
Shalom-Yeshurum Elektriess Kontrakteurs	10 000	-
Shantis Electrical	-	3 743 825
Sibonisiwe Primary cooperative limited	93 104	-
Siyeza -Sisendleleni	-	286 200
Sizela Transport	11 811 732	16 677 521
Sizisa Ukhanyo 471 Trading	-	872 950
Smenywa Trading Projects	-	188 700
Snababa Trading Enterprise	-	108 000
Snakho Projects	-	157 000
Snyman Vunumphelo	-	32 981
Somkhanda Plant Hire	3 567 333	1 662 906
Sukuma Security Services	-	1 478
Supreme Range General Supplier	77 269	41 330
TJ Mphela Demolition Masimula	103 940	-
Tactical Security Services	10 917 211	-
Tellumat (Pty) Ltd	-	256 638
The Image House	48 300	-
Tswakelo (Pty) Ltd	-	162 150
Uhhiya t/a Fast Moving Trading	63 250	-
Umfazi Safety (Pty) Ltd	-	5 950
Umpisi Constructions and plant hire	3 127 477	-
Uphokophela Trading	500 000	-
Uthilomkhonto	-	29 850
Uvika Trading	11 000	-
Veros Trueth Verification Centre	8 540	-
Vodacom	457 800	-
Water Skills	166 221	-
Wemntomnyama Trading CC	139 095	-
Zanele plumbers	36 130	-
Zeatobrite (Pty) Ltd	-	1 817 160
Zenawe	500 099	780 239
Zenzo Trading and Projects	-	108 770
	<b>96 482 244</b>	<b>81 083 827</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>55. Irregular expenditure (continued)</b>		
<b>Awards to employees in service of the state</b>		
Banothile Civil Engineering	-	23 500
Dlongwane General Trading	-	18 502
Munky Trading	-	26 850
	<u>-</u>	<u>68 852</u>
<b>56. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	2 833 478	-
Current year subscription / fee	6 260 655	5 839 840
Amount paid - current year	-	(3 006 362)
	<u>9 094 133</u>	<u>2 833 478</u>
<b>Audit fees</b>		
Opening balance	479 847	12 824
Current year subscription / fee	4 105 339	4 044 245
Amount paid - current year	(3 942 295)	(3 564 398)
Amount paid - previous years	(479 847)	(12 824)
	<u>163 044</u>	<u>479 847</u>
<b>PAYE and UIF</b>		
Opening balance	18 303 623	-
Current year subscription / fee	91 259 200	93 363 467
Amount paid - current year	(84 317 063)	(75 059 844)
Amount paid - previous years	(18 303 623)	-
	<u>6 942 137</u>	<u>18 303 623</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

	2020	2019
<b>56. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Pension and Medical Aid Deductions</b>		
Opening balance	10 552 223	-
Current year subscription / fee	124 847 609	126 186 459
Amount paid - current year	(115 090 602)	(115 634 236)
Amount paid - previous years	(10 552 223)	-
	<b>9 757 007</b>	<b>10 552 223</b>

### VAT

VAT payable	11 776 300	9 783 001
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### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

<b>30 June 2020</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Councillor Y Meiring	2 453	-	2 453
Councillor MS Mlangeni	30 894	-	30 894
Councillor MF Zikhali	5 417	-	5 417
Councillor SS Ndlangamanda	6 627	-	6 627
Councillor NNG Mahlaba	15 550	-	15 550
Councillor VP Mzima	2 192	436	2 628
	<b>63 133</b>	<b>436</b>	<b>63 569</b>
<b>30 June 2019</b>			
	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Councillor MF Zikhali	734	2 799	3 533
Councillor MS Mlangeni	2 573	15 055	17 628
	<b>3 307</b>	<b>17 854</b>	<b>21 161</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

### 57. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	400 648 907	426 403 775
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

2020 2019

### 58. Deviation from supply chain management regulations

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

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

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

#### Deviations

Section 16	32 422	69 781
Section 17	525 497	344 394
Section 36	3 191 710	951 690
	<b>3 749 629</b>	<b>1 365 865</b>

### 59. Transitional provisions

### 60. Water distribution losses

Input Volume (KL)	31 938 151	31 739 319
Water Losses (KL)	12 551 693	14 788 167
Water Losses (%)	39.30%	46.6%
Bulk Tariff (R/KL)	3.48	3.05
Water loss ( Rands)	R43 679 892	R45 103 909

#### Water distribution losses comprises of the following:

##### Physical /Real losses

Leaking from transmission and distribution mains (leaks and burst pipes) as well as leaking on services connections up to the customers meter were noted as physical losses.

##### Commercial/Apparent losses

Unauthorised consumptions consisting of illegal connections, meter bypass and illegal uses of fire hydrant were noted as apparent losses, furthermore customer meters inaccuracies due to old meter and intermittent water supply were also reason for the losses. Human error from manual and capturing of data resulted in a meter reading errors, data handling and accounting errors.

### 61. Electricity distribution losses

Purchases (KWH)	414 578 816	534 914 635
Less: Sales	388 090 062	506 062 833
Loss of units (kwh)	26 488 754	28 851 805
Loss of units (%)	6.39%	5.39%
Estimated cost per unit - Cents	R0.78	R0.65
Estimated cost of loss in (R)	R20 661 228	R18 753 673

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

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2020

2019

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### 61. Electricity distribution losses (continued)

#### Electricity distribution losses comprised of the following:

##### Administrative losses

Administrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. Administrative losses are minimal as the municipality ensures that the cut-offs are effected on allmunpaid accounts.

##### Technical losses

Technical losses within the municipality are made up of standard up of standard line losses, unmetered own consumption, free basic electricity, street lighting and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600Kwh per annum which equates to approximately 8% (3 600 000kwh) of electricity losses.

##### Non-technical losses

Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.