



## **NEWCASTLE MUNICIPALITY**

(Registration number KZN252)

## **ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structure Act (Act 117 of 1998) read with section 155(1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	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.
<b>Mayor</b>	Cllr DX Dube
Executive Committee	Cllr SM Thwala Cllr ME Hlatshwayo Cllr CB Kubheka Cllr AP Meiring Cllr RM Molelekoa Cllr LC Sithebe Cllr SA Yende
Councillors	Cllr VG Zondo Cllr TM Zulu Cllr TE Mthembu Cllr F Cassim Cllr VV Bam Cllr ME Buthelezi Cllr SB Buthelezi Cllr EJC Cronje Cllr MJ Dladla Cllr TN Dlamini Cllr NC Dube Cllr FL Duma Cllr VF Hadebe Cllr P Hariram Cllr MME Hlatshwayo Cllr HN Khumalo Cllr LM Khumalo Cllr NR Khumalo Cllr NZB Kunene Cllr MT Lethea Cllr CY Liu Cllr BG Madi Cllr ZE Madi Cllr MTD Makhoba Cllr XS Makhubo Cllr FA Malinga Cllr NP Maseko Cllr NSF Masondo Cllr SP Masuku Cllr LI Mathe Cllr BD Mathunjwa Cllr LP Mazibuko Cllr MV Mbatha Cllr AE Mkhwanazi Cllr MP Mkhwanazi Cllr SW Mngomezulu

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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Cllr PF Mnisi  
Cllr NP Mthabela  
Cllr MV Molefe  
Cllr LP Ndebele  
Cllr JA Vorster  
Cllr MO Ndlovu  
Cllr CS Ngcobo  
Cllr RN Ngcobo  
Cllr AT Nkosi  
Cllr SE Nkosi  
Cllr WP Nkosi  
Cllr S Ntsele  
Cllr MJ Ntshangase  
Cllr RBS Russell  
Cllr NP Shabalala  
Cllr SE Shabangu  
Cllr VN Sibeko  
Cllr S Singh  
Cllr FN Sithole  
Cllr BR Thusi  
Cllr LP Ximba  
Cllr NS Zulu  
Cllr ZE Zwane

**Grading of local authority**

4

**Chief Finance Officer (CFO)**

SM Nkosi

**Accounting Officer**

ZW Mcineka

**Registered office**

37 Murchison Street  
Newcastle  
2940

**Business address**

37 Murchison Street  
Newcastle  
2940

**Postal address**

Private Bag X 6621  
Newcastle  
2940

**Bankers**

Nedbank

**Auditors**

Auditor General South Africa

**Attorneys**

DBM Attorneys, JT Mphela Attorneys  
Purdon and Munsamy

**Audit Committee Members**

Yaasir Haffejee (Chairperson)  
Tshimomola Rabelani  
Zanele Nkosi  
Mamokeaseng Nkopane  
Sijabulile Makhathini

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 2023 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 municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out from page 4, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 30 November 2022.

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**ZW Mcineka**  
**Municipal Manager**

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	24 543 871	18 807 291
Receivables from exchange transactions	9	85 289 596	96 857 315
Receivables from non-exchange transactions	10	16 630 103	16 002 938
VAT receivable	56	-	36 095 192
Consumer debtors from exchange transactions	11	666 712 885	508 217 581
Consumer debtors from non-exchange transactions	11	120 735 153	136 908 187
Cash and cash equivalents	12	76 167 306	9 500 299
		<b>990 078 914</b>	<b>822 388 803</b>
<b>Non-Current Assets</b>			
Investment property	3	372 224 056	327 734 618
Property, plant and equipment	4	6 174 453 795	6 480 678 969
Intangible assets	5	382 212	1 257 668
Heritage assets	6	11 822 732	11 757 932
Investments in associates	7	142 171 037	173 927 882
		<b>6 701 053 832</b>	<b>6 995 357 069</b>
<b>Total Assets</b>		<b>7 691 132 746</b>	<b>7 817 745 872</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Financial liabilities	17	46 652 953	30 987 268
Finance lease obligation	15	606 923	194 829
Payables from exchange transactions	20	778 043 952	821 700 720
VAT payable	21	3 037 875	-
Consumer deposits	22	33 418 184	27 501 909
Unspent conditional grants and receipts	16	206 298 387	38 130 158
Defined benefit plan	18	11 105 000	11 406 000
		<b>1 079 163 274</b>	<b>929 920 884</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	17	314 367 835	362 011 519
Finance lease obligation	15	1 122 219	68 711
Defined benefit plan	18	164 128 001	155 397 002
Provision for rehabilitation of landfill site	19	65 212 118	59 210 858
		<b>544 830 173</b>	<b>576 688 090</b>
<b>Total Liabilities</b>		<b>1 623 993 447</b>	<b>1 506 608 974</b>
<b>Net Assets</b>			
Reserves			
Housing Development fund	13	30 563 967	29 806 660
Self-insurance reserve	14	322 945	435 241
Accumulated surplus		6 036 252 387	6 280 894 997
<b>Total Net Assets</b>		<b>6 067 139 299</b>	<b>6 311 136 898</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	24	1 128 488 051	1 013 999 033
Rental of facilities and equipment	25	8 372 974	7 093 441
Other Revenue	27	12 064 156	18 450 819
Interest received	28	8 308 003	6 660 722
<b>Total revenue from exchange transactions</b>		<b>1 157 233 184</b>	<b>1 046 204 015</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	29	353 326 627	342 533 924
Licences and Permits		45 824	101 472
<b>Transfer revenue</b>			
Government grants & subsidies	30	611 797 759	639 932 157
Fines, Penalties and Forfeits	26	5 352 730	5 401 977
<b>Total revenue from non-exchange transactions</b>		<b>970 522 940</b>	<b>987 969 530</b>
<b>Total revenue</b>	23	<b>2 127 756 124</b>	<b>2 034 173 545</b>
<b>Expenditure</b>			
Employee related costs	31	665 630 377	546 878 068
Remuneration of councillors	32	23 742 260	25 611 680
Depreciation and amortisation	33	348 817 502	351 084 296
Finance costs	35	64 412 397	64 979 614
Debt Impairment	36	123 924 694	202 430 116
Bad debts written off	37	24 492 046	14 597 835
Bulk purchases	38	649 750 143	559 335 056
Contracted services	39	240 901 289	264 109 423
General Expenses	40	143 927 248	148 194 029
<b>Total expenditure</b>		<b>2 285 597 956</b>	<b>2 177 220 117</b>
<b>Operating deficit</b>		<b>(157 841 832)</b>	<b>(143 046 572)</b>
Share of deficit in investment in associates		(31 756 845)	(30 277 147)
Actuarial gains/losses		3 450 182	12 908 000
Fair value adjustments to investment property		49 372 929	-
Impairment loss	34	(109 689 804)	(25 822 582)
Inventories losses/write-downs		(645 854)	(117 170)
Profit/(Loss) on Sale of Assets		3 113 641	(50 052 096)
Public contributions and donations		-	39 249 962
		<b>(86 155 751)</b>	<b>(54 111 033)</b>
<b>Deficit for the year</b>		<b>(243 997 583)</b>	<b>(197 157 605)</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Self Insurance Reserves	Total reserves	Accumulated surplus	Total net assets
<b>Balance at 01 July 2020</b>	<b>28 807 981</b>	<b>532 983</b>	<b>29 340 964</b>	<b>6 448 360 340</b>	<b>6 477 701 304</b>
Changes in net assets					
Deficit for the year	-	-	-	(197 157 605)	(197 157 605)
Transfer to Housing Development Fund	998 679	-	998 679	(998 679)	-
Transfer from Self Insurance Reserves	-	(97 742)	(97 742)	97 742	-
Prior Period error debt impairment	-	-	-	54 634 212	54 634 212
Prior year adjustment	-	-	-	(13 128 194)	(13 128 194)
Investment in associate	-	-	-	10 183 543	10 183 543
Prior Period error Assets	-	-	-	1 637 589	1 637 589
Prior period error Indigent support	-	-	-	(18 469 387)	(18 469 387)
Prior period error Creditors	-	-	-	(4 292 874)	(4 292 874)
Prior period error Interest on arrear accounts	-	-	-	27 356	27 356
Prior period error Other liabilities	-	-	-	954	954
Prior year error Inventory	-	-	-		
Total changes	998 679	(97 742)	900 937	(167 465 343)	(166 564 406)
<b>Restated* Balance at 01 July 2021</b>	<b>29 806 660</b>	<b>435 241</b>	<b>30 241 901</b>	<b>6 280 894 981</b>	<b>6 311 136 882</b>
Deficit for the year	-	-	-	(243 997 583)	(243 997 583)
Transfer to Housing Development Fund	757 307	-	757 307	(757 307)	-
Transfer from Self Insurance Reserves	-	(112 296)	(112 296)	112 296	-
Total changes	757 307	(112 296)	645 011	(244 642 594)	(243 997 583)
<b>Balance at 30 June 2022</b>	<b>30 563 967</b>	<b>322 945</b>	<b>30 886 912</b>	<b>6 036 252 387</b>	<b>6 067 139 299</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		1 229 841 918	1 082 610 029
Grants		779 965 988	632 312 985
Interest income		8 308 003	6 660 722
		<u>2 018 115 909</u>	<u>1 721 583 736</u>
<b>Payments</b>			
Employee costs and Councillors remuneration		(589 991 308)	(568 958 990)
Suppliers		(1 148 046 837)	(975 982 239)
Finance costs		(43 350 276)	(42 709 558)
		<u>(1 781 388 421)</u>	<u>(1 587 650 787)</u>
<b>Net cash flows from operating activities</b>	42	<b><u>236 727 488</u></b>	<b><u>133 932 949</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(149 372 864)	(135 369 348)
Proceeds from sale of property, plant and equipment	4	251 860	2 457 003
Proceeds from sale of Investment property	3	9 679 964	1 478 258
Purchase of other intangible assets	5	(42 244)	-
Purchases of Heritage Assets	6	(64 800)	(87 700)
		<u>(139 548 084)</u>	<u>(131 521 787)</u>
<b>Net cash flows from investing activities</b>		<b><u>(139 548 084)</u></b>	<b><u>(131 521 787)</u></b>
<b>Cash flows from financing activities</b>			
Net movements in long term loans		(31 977 999)	(28 914 561)
Movement on finance lease		1 465 602	(264 800)
		<u>(30 512 397)</u>	<u>(29 179 361)</u>
<b>Net cash flows from financing activities</b>		<b><u>(30 512 397)</u></b>	<b><u>(29 179 361)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>66 667 007</b>	<b>(26 768 199)</b>
Cash and cash equivalents at the beginning of the year		9 500 299	36 268 498
<b>Cash and cash equivalents at the end of the year</b>	12	<b><u>76 167 306</u></b>	<b><u>9 500 299</u></b>



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 (Refer to Appendix E for comments)
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1 119 127 801	9 023 212	<b>1 128 151 013</b>	1 128 488 051	<b>337 038</b>	
Rental of facilities and equipment	7 532 029	1 384 716	<b>8 916 745</b>	8 372 974	<b>(543 771)</b>	
Other own revenue	20 986 799	35 143	<b>21 021 942</b>	12 064 156	<b>(8 957 786)</b>	
Interest Received	6 937 974	(397 650)	<b>6 540 324</b>	8 308 003	<b>1 767 679</b>	
<b>Total revenue from exchange transactions</b>	<b>1 154 584 603</b>	<b>10 045 421</b>	<b>1 164 630 024</b>	<b>1 157 233 184</b>	<b>(7 396 840)</b>	
<b>Revenue from non-exchange transactions</b>						
Property rates	362 426 238	(1 320 375)	<b>361 105 863</b>	353 326 627	<b>(7 779 236)</b>	
Licences and Permits	104 938	(63 506)	<b>41 432</b>	45 824	<b>4 392</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	695 021 001	147 910 651	<b>842 931 652</b>	476 755 803	<b>(366 175 849)</b>	
Fines, Penalties and Forfeits	2 104 944	1 838 815	<b>3 943 759</b>	5 352 730	<b>1 408 971</b>	
<b>Total revenue from non-exchange transactions</b>	<b>1 059 657 121</b>	<b>148 365 585</b>	<b>1 208 022 706</b>	<b>835 480 984</b>	<b>(372 541 722)</b>	
<b>Total revenue</b>	<b>2 214 241 724</b>	<b>158 411 006</b>	<b>2 372 652 730</b>	<b>1 992 714 168</b>	<b>(379 938 562)</b>	
<b>Expenditure</b>						
Employee costs	(570 233 902)	(8 184 337)	<b>(578 418 239)</b>	(665 630 377)	<b>(87 212 138)</b>	
Remuneration of councillors	(28 882 467)	4 590 000	<b>(24 292 467)</b>	(23 742 260)	<b>550 207</b>	
Depreciation and amortisation	(378 675 137)	13 641 611	<b>(365 033 526)</b>	(348 817 502)	<b>16 216 024</b>	
Finance costs	(39 754 198)	-	<b>(39 754 198)</b>	(64 412 397)	<b>(24 658 199)</b>	
Debt Impairment	(283 536 108)	8 553 878	<b>(274 982 230)</b>	(123 924 694)	<b>151 057 536</b>	
Bad debts written off	-	-	-	(24 492 046)	<b>(24 492 046)</b>	
Bulk purchases	(688 412 653)	28 146 168	<b>(660 266 485)</b>	(649 750 143)	<b>10 516 342</b>	
Contracted Services	(388 305 778)	(249 377 226)	<b>(637 683 004)</b>	(240 901 289)	<b>396 781 715</b>	
Other expenditures	(111 130 506)	(10 921 288)	<b>(122 051 794)</b>	(143 927 248)	<b>(21 875 454)</b>	
<b>Total expenditure</b>	<b>(2 488 930 749)</b>	<b>(213 551 194)</b>	<b>(2 702 481 943)</b>	<b>(2 285 597 956)</b>	<b>416 883 987</b>	
<b>Operating deficit</b>	<b>(274 689 025)</b>	<b>(55 140 188)</b>	<b>(329 829 213)</b>	<b>(292 883 788)</b>	<b>36 945 425</b>	
Transfers Recognised Capital	121 377 000	34 728 513	<b>156 105 513</b>	135 041 956	<b>(21 063 557)</b>	
Actuarial gains/losses	-	-	-	3 450 182	<b>3 450 182</b>	
Fair value adjustment to IP	-	-	-	49 372 929	<b>49 372 929</b>	
Share of surpluses or (deficits) from Investments in associates	-	-	-	(31 756 845)	<b>(31 756 845)</b>	
Inventories losses/write-downs	-	-	-	(645 854)	<b>(645 854)</b>	
Profit/(Loss) on sale of assets	-	-	-	3 113 641	<b>3 113 641</b>	
Impairment loss or reversal	-	-	-	(109 689 804)	<b>(109 689 804)</b>	
	<b>121 377 000</b>	<b>34 728 513</b>	<b>156 105 513</b>	<b>48 886 205</b>	<b>(107 219 308)</b>	
<b>Deficit before taxation</b>	<b>(153 312 025)</b>	<b>(20 411 675)</b>	<b>(173 723 700)</b>	<b>(243 997 583)</b>	<b>(70 273 883)</b>	
<b>Actual Amount on Comparable Basis</b>	<b>(153 312 025)</b>	<b>(20 411 675)</b>	<b>(173 723 700)</b>	<b>(243 997 583)</b>	<b>(70 273 883)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 (Refer to Appendix E for comments)
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	14 994 565	-	<b>14 994 565</b>	24 543 871	<b>9 549 306</b>	
Receivables from exchange transactions	81 351 346	-	<b>81 351 346</b>	85 289 596	<b>3 938 250</b>	
Receivables from non-exchange transactions	-	-	-	16 630 103	<b>16 630 103</b>	
Consumer debtors	544 147 765	-	<b>544 147 765</b>	666 712 885	<b>122 565 120</b>	
Consumer debtors from non-exchange transactions	-	-	-	120 735 153	<b>120 735 153</b>	
Cash and cash equivalents	9 149 752	(2 968 731)	<b>6 181 021</b>	76 167 306	<b>69 986 285</b>	
	<b>649 643 428</b>	<b>(2 968 731)</b>	<b>646 674 697</b>	<b>990 078 914</b>	<b>343 404 217</b>	
<b>Non-Current Assets</b>						
Investment property	341 873 618	-	<b>341 873 618</b>	372 224 056	<b>30 350 438</b>	
Property, plant and equipment	6 410 126 071	-	<b>6 410 126 071</b>	6 174 453 795	<b>(235 672 276)</b>	
Intangible assets	1 223 846	-	<b>1 223 846</b>	382 212	<b>(841 634)</b>	
Heritage assets	11 710 932	-	<b>11 710 932</b>	11 822 732	<b>111 800</b>	
Investments in associates	217 333 222	-	<b>217 333 222</b>	142 171 037	<b>(75 162 185)</b>	
	<b>6 982 267 689</b>	<b>-</b>	<b>6 982 267 689</b>	<b>6 701 053 832</b>	<b>(281 213 857)</b>	
<b>Total Assets</b>	<b>7 631 911 117</b>	<b>(2 968 731)</b>	<b>7 628 942 386</b>	<b>7 691 132 746</b>	<b>62 190 360</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Financial liabilities	15 117 588	-	<b>15 117 588</b>	46 652 953	<b>31 535 365</b>	
Finance lease obligation	-	-	-	606 923	<b>606 923</b>	
Payables from exchange transactions	601 094 204	88 576 389	<b>689 670 593</b>	778 043 952	<b>88 373 359</b>	
VAT payable	-	-	-	3 037 875	<b>3 037 875</b>	
Consumer deposits	27 094 773	-	<b>27 094 773</b>	33 418 184	<b>6 323 411</b>	
Unspent conditional grants and receipts	-	-	-	206 298 387	<b>206 298 387</b>	
Defined benefit plan	9 752 000	-	<b>9 752 000</b>	11 105 000	<b>1 353 000</b>	
	<b>653 058 565</b>	<b>88 576 389</b>	<b>741 634 954</b>	<b>1 079 163 274</b>	<b>337 528 320</b>	
<b>Non-Current Liabilities</b>						
Financial liabilities	345 654 390	-	<b>345 654 390</b>	314 367 835	<b>(31 286 555)</b>	
Finance lease obligation	-	-	-	1 122 219	<b>1 122 219</b>	
Defined benefit plan	152 313 600	-	<b>152 313 600</b>	164 128 001	<b>11 814 401</b>	
Provision for rehabilitation of landfill site	50 150 219	-	<b>50 150 219</b>	65 212 118	<b>15 061 899</b>	
	<b>548 118 209</b>	<b>-</b>	<b>548 118 209</b>	<b>544 830 173</b>	<b>(3 288 036)</b>	
<b>Total Liabilities</b>	<b>1 201 176 774</b>	<b>88 576 389</b>	<b>1 289 753 163</b>	<b>1 623 993 447</b>	<b>334 240 284</b>	
<b>Net Assets</b>	<b>6 430 734 343</b>	<b>(91 545 120)</b>	<b>6 339 189 223</b>	<b>6 067 139 299</b>	<b>(272 049 924)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 (Refer to Appendix E for comments)
Figures in Rand						
<b>Net Assets</b>						
<b>Reserves</b>						
Housing Development Fund	29 719 759	(4 233 164)	<b>25 486 595</b>	30 563 967	<b>5 077 372</b>	
Insurance reserve	354 500	-	<b>354 500</b>	322 945	<b>(31 555)</b>	
Accumulated surplus	6 400 660 084	(87 311 956)	<b>6 313 348 128</b>	6 036 252 387	<b>(277 095 741)</b>	
<b>Total Net Assets</b>	<b>6 430 734 343</b>	<b>(91 545 120)</b>	<b>6 339 189 223</b>	<b>6 067 139 299</b>	<b>(272 049 924)</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 (Refer to Appendix E for comments)
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods	1 214 721 133	-	<b>1 214 721 133</b>	1 229 841 918	<b>15 120 785</b>	
Grants	816 398 000	164 710 651	<b>981 108 651</b>	779 965 988	<b>(201 142 663)</b>	
Interest received	2 295 509	(1 721)	<b>2 293 788</b>	8 308 003	<b>6 014 215</b>	
Other receipts	29 044 755	228 664 077	<b>257 708 832</b>	-	<b>(257 708 832)</b>	
	<b>2 062 459 397</b>	<b>393 373 007</b>	<b>2 455 832 404</b>	<b>2 018 115 909</b>	<b>(437 716 495)</b>	
<b>Payments</b>						
Employee costs and payments to suppliers	(1 863 263 092)	(362 503 376)	<b>(2 225 766 468)</b>	(1 738 038 145)	<b>487 728 323</b>	
Finance costs	(39 754 198)	-	<b>(39 754 198)</b>	(43 350 276)	<b>(3 596 078)</b>	
	<b>(1 903 017 290)</b>	<b>(362 503 376)</b>	<b>(2 265 520 666)</b>	<b>(1 781 388 421)</b>	<b>484 132 245</b>	
<b>Net cash flows from operating activities</b>	<b>159 442 107</b>	<b>30 869 631</b>	<b>190 311 738</b>	<b>236 727 488</b>	<b>46 415 750</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(145 393 000)	(40 000 178)	<b>(185 393 178)</b>	(149 372 864)	<b>36 020 314</b>	
Proceeds from sale of property, plant and equipment	11 000 000	-	<b>11 000 000</b>	251 860	<b>(10 748 140)</b>	
Proceeds from sale of investment property	-	-	-	9 679 964	<b>9 679 964</b>	
Purchase of other intangible assets	-	-	-	(42 244)	<b>(42 244)</b>	
Purchases of heritage assets	-	-	-	(64 800)	<b>(64 800)</b>	
<b>Net cash flows from investing activities</b>	<b>(134 393 000)</b>	<b>(40 000 178)</b>	<b>(174 393 178)</b>	<b>(139 548 084)</b>	<b>34 845 094</b>	
<b>Cash flows from financing activities</b>						
Movement in long term loans	(31 884 356)	-	<b>(31 884 356)</b>	(31 977 999)	<b>(93 643)</b>	
Movement in finance leases	-	-	-	1 465 602	<b>1 465 602</b>	
<b>Net cash flows from financing activities</b>	<b>(31 884 356)</b>	<b>-</b>	<b>(31 884 356)</b>	<b>(30 512 397)</b>	<b>1 371 959</b>	
Net increase/(decrease) in cash and cash equivalents	(6 835 249)	(9 130 547)	<b>(15 965 796)</b>	66 667 007	<b>82 632 803</b>	
Cash and cash equivalents at the beginning of the year	15 985 000	(6 484 697)	<b>9 500 303</b>	9 500 299	<b>(4)</b>	
<b>Cash at the end of the year</b>	<b>9 149 751</b>	<b>(15 615 244)</b>	<b>(6 465 493)</b>	<b>76 167 306</b>	<b>82 632 799</b>	

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 (Refer to Appendix E for comments)
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Figures in Rand

The budget of the municipality was been prepared on accrual basis of accounting and in accordance with the prescripts of the Municipal Budget and Reporting Regulations (MBRR) as well as the National Treasury's MFMA circulars. In accordance with the MBRR, the classification basis through which the municipality presents its budget is the economic (item) as well as the functional classification (standards and vote classifications). Differences between the budget and the actual financial results exist mainly due to technical GRAP related entries made as well as the actual adjustments made after the adjustments budgets were approved. These differences are considered to be not material since the basis of preparation of the budget and the actual results are the same (accrual basis). Where variances are considered to be material, the reasons for variances are provided in Annexure E attached hereto.

Variances between the approved budget and the final budget presented in the Statement of Comparison of Budget and Actual Information are due to the adjustments budget(s) which have been approved by council. These changes include those that are as a result of reallocations within the approved budget between municipal votes as well as additional grant allocations received by the municipality during the year. Changes also include those done in accordance with the approved virements Policy of Council during the financial year.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

Figures in Rand	Note(s)	2022	2021
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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.

The annual financial statements are rounded off to the nearest R1.

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

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

#### 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 Materiality

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

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.4 Interests in other entities

#### Investments in associates and/or joint ventures

An associate is an entity over which the investor has significant influence.

Binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

Consolidated annual financial statements are the annual financial statements of an economic entity in which assets, liabilities, net assets, revenue, expenses and cash flows of the controlling entity and its controlled entities are presented as those of a single economic entity.

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's surplus or deficit includes its share of the investee's surplus or deficit and the investor's net assets includes its share of changes in the investee's net assets that have not been recognised in the investee's surplus or deficit.

A joint arrangement is an arrangement of which two or more parties have joint control.

Joint control is the agreed sharing of control by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

A joint venturer is a party to a joint venture that has joint control of that joint venture.

Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control of those policies.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the entity continues to apply the equity method and does not remeasure the retained interest.

### 1.5 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 2022

## Accounting Policies

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### 1.5 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 ).

### 1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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 cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated 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.

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

Property, plant and equipment are depreciated on the 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

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Item	Depreciation method	Average useful life
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	5-80 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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 ).

### 1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

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.

### 1.8 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.8 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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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.

### 1.9 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.9 Heritage assets (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.

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 a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

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

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

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

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

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.

#### Impairment

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.9 Heritage assets (continued)

#### 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).

### 1.10 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.

A financial asset is:

- cash;
- a residual interest of another entity; or

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## Accounting Policies

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### 1.10 Financial instruments (continued)

- 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 unutilised 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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## Accounting Policies

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### 1.10 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.

### 1.11 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 - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### 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 .

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.

#### 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.

### 1.12 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.



# Newcastle Municipality

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## Accounting Policies

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### 1.12 Inventories (continued)

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 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.

### 1.13 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.

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:

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## Accounting Policies

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### 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.

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.

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### 1.15 Employee benefits (continued)

#### 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.

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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 2022

## 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

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## 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

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## 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

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## 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 44.

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.



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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 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

#### Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

### 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.

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.

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

#### 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.

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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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.

### 1.20 Grants and transfers

Grants and transfers received or receivable are recognised as assets when the resources have been transferred to the Municipality and meet the definition and criteria for recognition as assets.

A corresponding liability is recognised to the extent that the grant and transfer recognised as an asset, is subject to conditions that require the Municipality either consumes the future economic benefit or service potential of the asset as specified, or that in the event that the conditions are bridged, the Municipality returns such future economic benefits or service potential to the transferor. The liability is transferred to the revenue when conditions attached to the grants and transfers are met. Grants and transfers that are not subject to any conditions are recognised as revenue when the assets are initially recognised.

### 1.21 Investment income

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

### 1.22 Borrowing costs

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

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

### 1.23 Accounting by principals and agents

#### Identification

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

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

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

#### Identifying whether an entity is a principal or an agent

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

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

#### Recognition

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.23 Accounting by principals and agents (continued)

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

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

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

### 1.24 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.

### 1.25 Comparative figures

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

### 1.26 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.

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

### 1.27 Fruitless and wasteful expenditure

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

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

### 1.28 Irregular expenditure

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

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

### 1.29 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.

### 1.30 Revaluation reserve

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

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.31 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

The resources of the municipality are allocated in line with the business units, which are as follows:

- Community and Public Safety: which includes community services , sport and recreation , public safety and housing services.
- Economic and Environmental Services: which includes planning and development , road transport and environmental protection services.
- Trading Services: which includes provision of electricity , water management , waste water management and waste management services.
- Other Services: which includes governance and administration of the municipality.

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered.

### Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

### 1.32 Budget information

The annual budget figures have been in accordance with the GRAP standards in an accrual basis, and are consistent with accounting policies used for the preparation of these financial statements. The approved budget is the most recent adjustment budget approved by Council. The final budget is the most recently approved budget that has been adjusted for changes made in terms of the legislation and may not have been formally approved again by Council .

The budget amounts are presented as a separate, additional financial statement, called statement of comparison of budget and actual amount. Explanatory notes on material differences are provided in the notes to the financial statements. Material variances are those variances that are 10% more or less than the approved budget. Comparative information is not required for, and has therefore has not been presented in the statement of comparison of budget and actual amounts..

### 1.33 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.33 Related parties (continued)

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 those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

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

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

### 1.34 Events after reporting date

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

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

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

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

### 1.35 Cash and cash equivalents

Cash includes cash on hand, cash held with banks and call deposits. Cash equivalents are short-term bank deposit with maturity of 3 months or less from inception, readily convertible into cash without significance changes in value.

For the purpose of cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any overdrafts

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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2021

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
<ul style="list-style-type: none"><li>GRAP 25 (as revised 2021): Employee Benefits</li></ul>	01 April 2099	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>iGRAP 7 (as revised 2021): Limit on defined benefit asset, minimum funding requirements and their interaction</li></ul>	01 April 2099	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>GRAP 104 (amended): Financial Instruments</li></ul>	01 April 2025	Expected impact on classification, measurement and disclosure
<ul style="list-style-type: none"><li>iGRAP 21: The Effect of Past Decisions on Materiality</li></ul>	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>GRAP 2020: Improvements to the standards of GRAP 2020</li></ul>	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>GRAP 1 (amended): Presentation of Financial Statements</li></ul>	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none"><li>2099 means that the standard has been issued but does not have an effective date as yet.</li></ul>		



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	372 224 056	-	372 224 056	327 734 618	-	327 734 618

#### Reconciliation of investment property - 2022

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	327 734 618	(4 883 491)	49 372 929	327 224 056

#### Reconciliation of investment property - 2021

	Opening balance	Disposals	Transfers	Total
Investment property	342 104 618	(775 000)	(13 595 000)	327 734 618

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 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	171 830 447	-	171 830 447	171 960 447	-	171 960 447
Buildings	428 264 449	(87 337 228)	340 927 221	424 213 011	(72 883 155)	351 329 856
Infrastructure	9 734 459 849	(4 271 097 173)	5 463 362 676	9 466 599 932	(3 753 515 815)	5 713 084 117
Community	259 873 489	(99 133 978)	160 739 511	290 445 001	(88 500 449)	201 944 552
Leased Assets	3 137 020	(1 605 533)	1 531 487	2 115 330	(1 863 117)	252 213
Other Assets	200 782 586	(164 720 133)	36 062 453	205 362 168	(163 254 384)	42 107 784
<b>Total</b>	<b>10 798 347 840</b>	<b>(4 623 894 045)</b>	<b>6 174 453 795</b>	<b>10 560 695 889</b>	<b>(4 080 016 920)</b>	<b>6 480 678 969</b>

### Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Additions WIP	Transfers	Disposals	Write offs	Depreciation	Impairment loss	Total
Land	171 960 447	-	-	-	(130 000)	-	-	-	171 830 447
Buildings	355 212 639	4 568 438	719 854	(4 568 437)	(62 348)	-	(14 908 726)	-	340 961 420
Infrastructure	5 713 084 120	67 232 847	136 376 796	(67 232 847)	-	(853 315)	(308 828 207)	(102 959 244)	5 436 820 150
Community	197 190 535	3 816 820	5 052 897	(5 043 456)	-	(817 233)	(10 251 962)	(2 699 764)	187 247 837
Leased Assets	252 174	1 922 667	-	-	-	-	(643 353)	-	1 531 488
Other assets	42 979 018	6 527 462	-	-	(14 298)	(57 642)	(13 267 555)	(104 531)	36 062 454
	<b>6 480 678 933</b>	<b>84 068 234</b>	<b>142 149 547</b>	<b>(76 844 740)</b>	<b>(206 646)</b>	<b>(1 728 190)</b>	<b>(347 899 803)</b>	<b>(105 763 539)</b>	<b>6 174 453 796</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Additions WIP	Transfers	Write off	Disposals	Impairment	Depreciation	Correction of prior period error	Total
Land	158 055 447	500 000	-	13 595 000	-	(190 000)	-	-	-	171 960 447
Buildings	362 527 331	5 125 517	3 517 397	-	-	(524 131)	(756 065)	(14 677 410)	-	355 212 639
Infrastructure	5 961 314 068	62 613 128	54 322 689	-	(51 637 754)	-	(16 082 071)	(307 713 841)	10 267 901	5 713 084 120
Community	182 935 593	25 340 912	4 118 090	-	-	-	(5 282 959)	(9 921 101)	-	197 190 535
Leased Assets	448 631	155 700	-	-	-	(2 494)	-	(447 589)	97 964	252 212
Other assets	52 711 292	7 935 440	-	-	(29 109)	-	(38 462)	(17 367 850)	(232 293)	42 979 018
	-	-	-	-	-	-	-	-	-	-
	<b>6 717 992 362</b>	<b>101 670 697</b>	<b>61 958 176</b>	<b>13 595 000</b>	<b>(51 666 863)</b>	<b>(716 625)</b>	<b>(22 159 557)</b>	<b>(350 127 791)</b>	<b>10 133 572</b>	<b>6 480 678 971</b>

#### Assets subject to finance lease (Net carrying amount)

Other leased Assets	1 531 487	252 213
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#### Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	137 743 304	6 876 176	3 882 783	148 502 263
Additions/capital expenditure	136 376 796	5 052 897	719 854	142 149 547
Transferred to completed items	(67 232 847)	(5 043 456)	(4 568 437)	(76 844 740)
	<b>206 887 253</b>	<b>6 885 617</b>	<b>34 200</b>	<b>213 807 070</b>

#### Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	82 897 772	2 758 086	365 385	86 021 243
Additions/capital expenditure	111 498 414	4 118 090	4 449 027	120 065 531

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand			2022	2021
<b>4. Property, plant and equipment (continued)</b>				
Transferred to completed items	(54 171 203)	-	(931 629)	(55 102 832)
Correction of error	(2 481 679)	-	-	(2 481 679)
	<b>137 743 304</b>	<b>6 876 176</b>	<b>3 882 783</b>	<b>148 502 263</b>
<b>Expenditure incurred to repair and maintain property, plant and equipment</b>				
Building Maintenance			5 782 124	4 340 437
Infrastructure Maintenance			52 162 432	34 761 470
Land Maintenance			282 014	286 503
Maintenance of Movable Assets			8 903 249	9 110 292
			<b>67 129 819</b>	<b>48 498 702</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 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	13 485 801	(13 103 589)	382 212	15 583 125	(14 325 457)	1 257 668

#### Reconciliation of intangible assets - 2022

	Opening balance	Additions	Amortisation	Total
Computer software, internally generated	1 257 668	42 245	(917 700)	382 213

#### Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software, internally generated	2 224 607	(966 939)	1 257 668

# Newcastle Municipality

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## Notes to the Annual Financial Statements

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### 6. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	11 822 732	-	11 822 732	11 757 932	-	11 757 932

#### Reconciliation of heritage assets 2022

	Opening balance	Additions	Total
Art Collections, antiquities and exhibits	11 757 932	64 800	11 822 732

#### Reconciliation of heritage assets 2021

	Opening balance	Additions	Total
Art Collections, antiquities and exhibits	11 670 232	87 700	11 757 932

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021			
<b>7. Investments in associates</b>					
<b>Investments in associates</b>					
<b>Name</b>	<b>Determination of ownership interest</b>	<b>% ownership interest 2022</b>	<b>% ownership interest 2021</b>	<b>Carrying amount 2022</b>	<b>Carrying amount 2021</b>
Uthukela Water (Pty) LTD	Unlisted shares	34,00 %	34,00 %	142 171 037	173 927 882
				<u>142 171 037</u>	<u>173 927 882</u>
				<u>142 171 037</u>	<u>173 927 882</u>
<b>8. Inventories</b>					
Water Stock				412 576	387 231
Consumable stores				25 174 764	18 817 675
				<u>25 587 340</u>	<u>19 204 906</u>
Inventories (write-downs)				(1 043 469)	(397 615)
				<u>24 543 871</u>	<u>18 807 291</u>
<b>Reconciliation for inventory write-downs</b>					
Opening Balance				397 615	280 445
Inventory written down				645 854	117 170
				<u>1 043 469</u>	<u>397 615</u>
<b>9. Receivables from exchange transactions</b>					
Deposits (Eskom and Nedbank Building)				3 832 198	3 722 275
Sundry Debtors				3 509 228	(1 202 232)
Input VAT on invoices raised				76 357 240	94 337 272
Prepayment				1 590 930	-
				<u>85 289 596</u>	<u>96 857 315</u>
<b>10. Receivables from non-exchange transactions</b>					
Fines (Gross Balance)				69 380 569	64 827 139
Less: Provision for impairment				(52 750 466)	(48 824 201)
				<u>16 630 103</u>	<u>16 002 938</u>
<b>Reconciliation of Gross Amount</b>					
Opening Balance				64 827 138	60 641 498
Add: Fines recognised				5 178 170	4 647 120
Less: Fines received				(624 740)	(461 480)
				<u>69 380 568</u>	<u>64 827 138</u>
<b>Reconciliation for Provision of Impairment</b>					
Opening Balance				48 824 201	45 161 162
Add: Contribution				3 926 265	3 663 039
				<u>52 750 466</u>	<u>48 824 201</u>
				<u>-</u>	<u>-</u>
<b>Total receivables from non-exchange transactions</b>				<u>16 630 103</u>	<u>16 002 938</u>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>10. Receivables from non-exchange transactions (continued)</b>		
<b>Statutory receivables general information</b>		
Traffic fines are imposed in terms of section 54, 56 and 341 of Criminal Procedure Act 51 of 1977 and Municipality bylaws 623 of 1977. Fines are followed up by issue of summons. Traffic fines can be contested in court and this can lead to a review of the amount of the fine.		
<b>11. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	198 298 573	226 985 393
Electricity	127 864 791	158 904 828
Water	444 057 982	237 933 730
Waste water	384 157 734	211 866 003
Refuse	172 220 707	216 309 700
Sundry receivables *	79 068 859	57 259 607
VAT and sundry services	146 966 768	185 281 035
	<b>1 552 635 414</b>	<b>1 294 540 296</b>
<b>Less: Allowance for impairment</b>		
Rates	(77 563 420)	(90 077 206)
Electricity	(13 918 318)	(8 880 566)
Water	(260 497 551)	(224 285 281)
Waste water	(186 775 450)	(141 696 264)
Refuse	(104 787 349)	(98 989 819)
Sundry receivables	(38 657 415)	(17 211 615)
VAT and sundry services	(82 987 873)	(68 273 779)
	<b>(765 187 376)</b>	<b>(649 414 530)</b>
<b>Net balance</b>		
Rates	120 735 153	136 908 187
Electricity	113 946 473	150 024 262
Water	183 560 431	13 648 449
Waste water	197 382 284	70 169 739
Refuse	67 433 358	117 319 881
Sundry receivables	40 411 444	40 047 992
VAT and sundry services	63 978 895	117 007 257
	<b>787 448 038</b>	<b>645 125 767</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	127 864 791	158 904 828
Water	444 057 982	237 933 730
Waste water	384 157 734	211 866 003
Refuse	172 220 707	216 309 700
Sundry receivables	79 068 859	57 259 607
VAT and sundry services	146 966 768	185 281 035
	<b>1 354 336 841</b>	<b>1 067 554 903</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	198 298 573	226 985 393
	<b>1 552 635 414</b>	<b>1 294 540 296</b>
<b>Rates</b>		
Current (0 -30 days)	33 025 064	24 214 146
31 - 60 days	9 440 269	16 493 113
61 - 90 days	8 461 979	9 471 070
91 - 120 days	8 146 124	8 818 561



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>11. Consumer debtors (continued)</b>		
121 - 150 days	8 087 765	8 688 945
> 150 days	131 137 373	159 299 558
	<b>198 298 574</b>	<b>226 985 393</b>
<b>Electricity</b>		
Current (0 -30 days)	109 123 153	96 587 343
31 - 60 days	2 297 106	5 584 848
61 - 90 days	892 007	1 364 670
91 - 120 days	854 750	1 145 878
121 - 150 days	1 673 743	922 528
> 150 days	13 024 031	53 299 561
	<b>127 864 790</b>	<b>158 904 828</b>
<b>Water</b>		
Current (0 -30 days)	45 634 112	32 211 505
31 - 60 days	11 107 525	15 412 329
61 - 90 days	7 972 158	9 396 467
91 - 120 days	8 098 706	9 279 245
121 - 150 days	9 175 502	10 464 470
> 150 days	362 069 979	161 169 714
	<b>444 057 982</b>	<b>237 933 730</b>
<b>Waste water</b>		
Current (0 -30 days)	14 774 747	8 169 533
31 - 60 days	6 752 192	11 402 153
61 - 90 days	6 221 045	6 387 376
91 - 120 days	6 112 237	6 251 916
121 - 150 days	6 007 565	6 086 907
> 150 days	344 289 947	173 568 118
	<b>384 157 733</b>	<b>211 866 003</b>
<b>Refuse</b>		
Current (0 -30 days)	11 010 149	6 130 468
31 - 60 days	4 806 790	7 720 660
61 - 90 days	4 614 276	4 609 359
91 - 120 days	4 505 204	4 552 623
121 - 150 days	4 426 675	4 344 674
> 150 days	142 857 613	188 951 915
	<b>172 220 707</b>	<b>216 309 699</b>
<b>Sundry receivables</b>		
Current (0 -30 days)	2 363 900	237 783
31 - 60 days	611 047	3 748 741
61 - 90 days	546 333	2 765 794
91 - 120 days	535 039	2 080 525
121 - 150 days	436 809	2 713 641
> 150 days	74 575 730	45 713 124
	<b>79 068 858</b>	<b>57 259 608</b>
<b>VAT and sundry services</b>		
Current (0 -30 days)	7 453 421	(3 020 589)
31 - 60 days	3 927 618	6 136 387
61 - 90 days	3 142 500	3 417 893
91 - 120 days	4 092 316	3 288 006
121 - 150 days	31 609 439	3 372 283
> 150 days	96 741 475	172 087 055
	<b>146 966 769</b>	<b>185 281 035</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>11. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	163 858 316	146 974 443
31 - 60 days	32 201 571	52 580 705
61 - 90 days	28 495 076	32 116 596
91 - 120 days	29 127 456	30 838 213
121 - 150 days	56 874 809	32 608 078
> 150 days	1 090 390 863	817 786 112
	<u>1 400 948 091</u>	<u>1 112 904 147</u>
Less: Allowance for impairment	(739 537 844)	(634 597 416)
	<b><u>661 410 247</u></b>	<b><u>478 306 731</u></b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	58 365 571	97 873 878
31 - 60 days	4 420 538	12 415 606
61 - 90 days	2 706 736	4 163 975
91 - 120 days	2 524 635	3 543 960
121 - 150 days	3 957 440	3 384 778
> 150 days	66 201 130	46 185 479
	<u>138 176 050</u>	<u>167 567 676</u>
Less: Allowance for impairment	(25 649 532)	(14 817 113)
	<b><u>112 526 518</u></b>	<b><u>152 750 563</u></b>
<b>National and provincial government</b>		
Current (0 -30 days)	1 116 334	1 434 621
31 - 60 days	2 321 952	1 445 314
61 - 90 days	650 007	1 122 318
91 - 120 days	692 388	1 026 317
121 - 150 days	587 641	594 104
> 150 days	8 142 950	8 445 799
	<u>13 511 272</u>	<u>14 068 473</u>
<b>Total</b>		
Current (0 -30 days)	223 340 221	246 282 942
31 - 60 days	38 944 061	66 441 625
61 - 90 days	31 851 819	37 402 889
91 - 120 days	32 344 479	35 408 490
121 - 150 days	61 419 890	36 586 959
> 150 days	1 164 734 943	872 417 390
	<u>1 552 635 413</u>	<u>1 294 540 295</u>
Less: Allowance for impairment	(765 187 376)	(649 414 530)
	<b><u>787 448 037</u></b>	<b><u>645 125 765</u></b>
<b>Less: Allowance for impairment</b>		
> 150 days	<u>(765 187 376)</u>	<u>(649 414 530)</u>
<b>Net total debtor past due</b>		
Current (0 -30 days)	223 340 221	246 282 942
31 - 60 days	38 944 061	66 441 625
61 - 90 days	31 851 819	37 402 889
91 - 120 days	32 344 479	35 408 490
121 - 150 days	61 419 890	36 586 959
> 150 days	399 547 567	223 002 860
	<u>787 448 037</u>	<u>645 125 765</u>
<b>Reconciliation of allowance for impairment</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>11. Consumer debtors (continued)</b>		
Balance at beginning of the year	(649 414 530)	(1 110 803 619)
Contributions to allowance	(115 772 846)	461 389 089
	<b>(765 187 376)</b>	<b>(649 414 530)</b>

### Receivables from consumer debtors

#### \*Sundry receivables

Included in sundry receivables are the following minor receivables; Rental income, interest, evren, housing development fund, legal fees, housing sales, deposits and non-vat sundries.

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 municipalities 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.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>12. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	421 568	283 946
Bank balances	29 514 022	7 550 154
Short-term Investments	46 231 716	1 666 199
	<b>76 167 306</b>	<b>9 500 299</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 2022	30 June 2021	30 June 2022	30 June 2021
Nedbank- 1162667338	29 514 022	7 550 153	29 514 022	7 550 154

### Call Investments

Standard Bank - 68450354/015	1 168 669	126 586
Standard Bank - 68450354/016	30 725 304	76 817
Standard Bank - 68450354/035	-	43 497
Standard Bank - 68450354/036	4 007 290	18 529
Standard Bank - 68450354/037	-	36 659
Standard Bank - 68450354/038	-	60 906
Standard Bank - 68450354/039	-	79 269
Standard Bank - 68450354/040	8 913 660	95 976
Absa - 9300506428	560 759	64 584
Absa - 9956019602	-	545 946
Nedbank - 037648555441 46	-	117
Nedbank - 037648555441 47	-	117
Nedbank - 037648555441 48	-	117
Nedbank - 037648555441 49	-	117
Nedbank - 037648555441 52	456 213	132 168
Nedbank - 037648555441 53	-	47
Nedbank 037648555441 56	-	384 747
Nedbank-037648555441 58	399 821	-
	<b>46 231 716</b>	<b>1 666 199</b>

### Interest Income

Interest on Primary Account	811 922	494 239
Interest on Investments	3 703 349	2 328 036
	<b>4 515 271</b>	<b>2 822 275</b>

### 13. Housing development fund

Opening balance	29 806 660	28 807 982
Transfers in	757 307	998 678
	<b>30 563 967</b>	<b>29 806 660</b>

### 14. Self-insurance reserve

Opening balance	435 242	532 983
Transfers in/(out)	(112 297)	(97 742)
	<b>322 945</b>	<b>435 241</b>

### 15. Finance lease obligation

#### Minimum lease payments due

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>15. Finance lease obligation (continued)</b>		
- within one year	606 923	194 829
- in second to fifth year inclusive	1 122 219	68 711
<b>Present value of minimum lease payments</b>	<b>1 729 142</b>	<b>263 540</b>
Non-current liabilities	1 122 219	68 711
Current liabilities	606 923	194 829
	<b>1 729 142</b>	<b>263 540</b>

## 16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

### Unspent conditional grants and receipts

Sports and Recreation	9 396 908	5 647 084
Ingogo Fresh Produce	11 353	11 353
Municipal Water Infrastructure Grant	2 746 628	8 516 370
Title Deed Restoration Grant	5 196 326	5 196 326
Osizweni Art Centre	36 920	36 920
Skills Development Grant	930 688	1 546 185
Cleanest Town	833 575	823 975
Environmental Management Framework	502 871	502 871
Neighbourhood Partnership Development	2 738 678	5 939 933
Title Deeds Restorations	2 270 488	2 717 163
Sports Maintenance Facilities Grant	10 220	10 220
All Housing Grant	152 572 537	1 164 667
Newcastle Airport	3 815 281	1 815 281
Capacity Building Housing Accreditation	15 939 707	2 102 589
Fort Amiel Museum	539 434	552 221
EEDSM Grant	3 656 339	-
Water Intervention Grant	3 904 250	-
Hawker Stalls Grant	1 000 000	-
Community Library Service Grant	18 925	412 549
Corridor Development	131 075	131 075
Provincialisation - Libraries	46 184	1 003 376
	<b>206 298 387</b>	<b>38 130 158</b>

## 17. Financial liabilities

### At amortised cost

DBSA loans	114 233 854	129 704 984
ABSA Bank loans	246 786 934	263 293 803
	<b>361 020 788</b>	<b>392 998 787</b>

### Total other financial liabilities

	<b>361 020 788</b>	<b>392 998 787</b>
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### Non-current liabilities

At amortised cost	314 367 835	362 011 519
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### Current liabilities

At amortised cost	46 652 953	30 987 268
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## 18. Defined benefit plan

### Reconciliation of defined benefit plan - 2022

	Opening Balance	Additions	Utilised during the year	Actuarial (gain) or loss	Change in discount factor	Interest for the year	Total
Employee benefits	166 803 002	7 209 000	(11 147 818)	(3 450 182)	-	15 819 000	175 233 001

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021					
<b>18. Defined benefit plan (continued)</b>							
<b>Reconciliation of defined benefit plan - 2021</b>							
	<b>Opening Balance</b>	<b>Additions</b>	<b>Utilised during the year</b>	<b>Actuarial (gain) or loss</b>	<b>Change in discount factor</b>	<b>Interest for the year</b>	<b>Total</b>
Employee benefits	160 109 002	7 060 000	(9 752 000)	(12 908 000)	7 128 000	15 166 000	166 803 002
Non-current liabilities					164 128 001		155 397 002
Current liabilities					11 105 000		11 406 000
					<b>175 233 001</b>		<b>166 803 002</b>
<b>Health Care Benefits</b>							
Balance at the beginning of the year					131 226 000		127 521 000
Current Service Cost					3 864 000		4 024 000
Benefits Paid					(6 413 977)		(5 897 000)
Actuarial Loss/(Gain)					(4 505 023)		(7 310 000)
Interest					12 752 000		12 888 000
					<b>136 923 000</b>		<b>131 226 000</b>
<b>Net Expenses Recognised in Statement of Financial Performance PEMA</b>							
Current Service Cost					3 864 000		4 024 000
Benefits Paid					(6 413 977)		(5 897 000)
Actuarial Loss/(Gain)					(4 505 023)		(7 310 000)
Interest					12 752 000		12 888 000
					<b>5 697 000</b>		<b>3 705 000</b>
<b>Long Service Bonus Awards</b>							
Balance at the beginning of the year					35 577 000		32 588 000
Current Service Cost					3 345 000		3 036 000
Benefits Paid					(4 733 841)		(3 855 000)
Actuarial Loss/(Gain)					1 054 841		(5 598 000)
Interest					3 067 000		2 278 000
Change in policy					-		7 128 000
					<b>38 310 000</b>		<b>35 577 000</b>
<b>Net Expenses recognised in Statement of Financial Performance LSA</b>							
Current Service Cost					3 345 000		3 036 000
Benefits Paid					(4 733 841)		(3 855 000)
Actuarial Loss/(Gain)					1 054 841		(5 598 000)
Interest					3 067 000		2 278 000
Change in Policy					-		7 128 000
					<b>2 733 000</b>		<b>2 989 000</b>

### Employee benefit cost provision: Assumptions

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 dependents 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 2022 by Arch Actuarial Consulting, a member of Actuarial Society of South Africa (ASSA). The present value of the defined obligation and all 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.

It was assumed that the municipality's health care arrangements and subsidy policy will 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 the current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 18. Defined benefit plan (continued)

#### Key financial assumptions used

Discount rate	11.77%
Health care cost inflation rate	8.40%
Net-of-health-care-cost-inflation discount rate	3.11%
Maximum subsidy inflation rate	5.93%
Net-of-maximum-subsidy-inflation discount rate	5.52%
Unfunded accrued liability	R136 923 000

#### Current-service and interest cost

Year ended 30 June 2022	R3 864 000
Interest cost	R12 752 000
Actuarial (Gain)/Loss recognised in surplus /deficit	(R4 505 023)

#### Long Service Bonus Awards

The long service bonus award is a function 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 1/249th of annual salary per day.

#### Key financial assumptions used

Discount rate	11.12%
General earnings inflation rate (long term)	7.30%
Net effective discount rate	3.56%

The earning used in valuation include an increase on the 01s of July 2021 of 4% as per SALGBC circular 23 of 2021. The next general earnings increase was assumed to take place on 1 July 2022.

#### Key Demographic Assumption used (PEMA)

Average retirement age	62		
Continuation of membership at retirement	75%		
Proportion with a spouse dependent at retirement	60%		
Mortality during employment	SA 85-90		
Mortality post employment	PA (90)-1 with a 1% mortality improvement per annum from 2010		
Withdrawal from services (Sample annual rate)	Age	Rate-Female	Rate-Male
	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 Assumption used (LSA)

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

#### Unfunded Accrued Liability

Total value of liabilities	R38 310 000
Value of assets	R0
Unfunded accrued liabilities	R38 310 000

#### Current service and interest cost

Current-service cost	R3 345 000
Interest cost	R3 067 000

#### Comparative of Vital Statistics

Number of eligible employees	1190
Average annual salary	R308 598
Salary-weighted average age	44.4
Salary-weighted average past service	11.4

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>19. Provision for rehabilitation of landfill site</b>		
<b>The movement in the rehabilitation of landfill site</b>		
Balance at the beginning of year	59 210 858	52 118 028
(Decrease)/Increase in Provision	758 139	-
Finance Charges recognised	5 243 121	7 092 830
	<b>65 212 118</b>	<b>59 210 858</b>
<b>20. Payables from exchange transactions</b>		
Trade payables	277 660 045	377 969 966
Retentions	42 082 802	38 193 905
Output VAT on Levies	151 271 181	176 521 731
Leave Pay Provision	37 343 917	32 410 854
Bonus Provision	11 915 541	11 015 049
Accruals	89 165 612	87 767 707
Salaries Payable	115 462 210	32 693 947
Advance payments	26 133 126	51 858 538
Unallocated deposits	3 966 254	5 745 954
Sundry Payables	23 043 264	7 523 069
	<b>778 043 952</b>	<b>821 700 720</b>
<b>21. VAT payable</b>		
Tax refunds payables (receivable)	3 037 875	-
The VAT is imposed in terms of Value Added Tax Act 89 of 1991 and levied at 15%		
<b>22. Consumer deposits</b>		
Electricity & Water Deposits	32 846 145	27 052 861
Housing Deposits	572 039	449 048
	<b>33 418 184</b>	<b>27 501 909</b>
<b>23. Revenue</b>		
Service charges	1 128 488 051	1 013 999 033
Rental of facilities and equipment	8 372 974	7 093 441
Licences and Permits (Non-exchange)	45 824	101 472
Sundry revenue	1 555 089	8 341 750
Other income	558 799	564 474
Fee income	9 950 268	9 544 595
Interest received - investment	8 308 003	6 660 722
Property rates	353 326 627	342 533 924
Government grants & subsidies	611 797 759	639 932 157
Fines, Penalties and Forfeits	5 352 730	5 401 977
	<b>2 127 756 124</b>	<b>2 034 173 545</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1 128 488 051	1 013 999 033
Rental of facilities and equipment	8 372 974	7 093 441
Sundry revenue	1 555 089	8 341 750
Other income	558 799	564 474
Fee income	9 950 268	9 544 595
Interest received - investment	8 308 003	6 660 722
	<b>1 157 233 184</b>	<b>1 046 204 015</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>23. Revenue (continued)</b>		
<b>Taxation revenue</b>		
Property rates	353 326 627	342 533 924
Licences or permits	45 824	101 472
<b>Transfer revenue</b>		
Government grants & subsidies	611 797 759	639 932 157
Fines, Penalties and Forfeits	5 352 730	5 401 977
	<b>970 522 940</b>	<b>987 969 530</b>
<b>24. Service charges</b>		
Sale of electricity	713 921 267	621 374 904
Sale of water	195 899 195	188 454 396
Sewerage and sanitation charges	119 755 437	112 145 578
Refuse removal	98 912 152	92 024 155
	<b>1 128 488 051</b>	<b>1 013 999 033</b>
<b>25. Rental of facilities and equipment</b>		
<b>Premises</b>		
Municipal Housing	3 288 749	3 063 812
Venue hire	5 058 952	3 976 575
Rental - HDF	25 273	53 054
	<b>8 372 974</b>	<b>7 093 441</b>
<b>26. Fines, Penalties and Forfeits</b>		
Building Fines	43 465	555 739
Illegal Connections Fines	67 463	177 811
Overdue Books Fines	9 352	3 137
Pound Fees Fines	54 280	18 170
Municipal Traffic Fines	5 178 170	4 647 120
	<b>5 352 730</b>	<b>5 401 977</b>
<b>27. Other revenue</b>		
Sundry revenue	1 555 089	8 341 750
Other income	558 799	564 474
Fee income	9 950 268	9 544 595
	<b>12 064 156</b>	<b>18 450 819</b>
<b>Sundry Revenue</b>		
<b>Sundry Revenue</b>		
Insurance Income	35 500	1 416 466
R/D Admin Fee	129 896	169 107
Other Revenue	1 389 693	6 756 177
	<b>1 555 089</b>	<b>8 341 750</b>
<b>Other Income</b>		
<b>Sales</b>		
Burial Plots	519 974	551 212
Copies	22 670	6 816
Printing	16 155	4 800
Swimming Tickets	-	1 646
	<b>558 799</b>	<b>564 474</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>27. Other revenue (continued)</b>		
<b>Fee Income</b>		
<b>Fees</b>		
Advertising Signs	100 638	393 373
Building Plans	664 376	675 720
Business Letters	839 796	1 141 362
Cemetery	2 243 995	2 575 543
Rates Clearance Certificate	770 610	978 132
Reconnection	2 532 717	3 098 316
Town Planning	1 953 049	297 587
Other	793 463	192 087
Tender	51 624	192 475
	<b>9 950 268</b>	<b>9 544 595</b>
<b>28. Interest Received</b>		
Bank	4 515 271	2 822 275
Interest on arrear account	3 792 317	3 592 543
Other Interest	415	245 904
	<b>8 308 003</b>	<b>6 660 722</b>
<b>29. Property rates</b>		
<b>Rates received</b>		
Residential	221 158 147	209 139 767
Commercial	178 169 282	176 489 664
State	8 838 294	9 683 158
Public Benefit Organisation	15 636	(41 672)
PSI	2 871 991	2 760 605
Vacant Land	16 920 062	16 462 857
Agricultural	3 635 166	3 732 413
Specialises Non-Marketed	112 217	96 866
Less: Income forgone	(78 394 168)	(75 789 734)
	<b>353 326 627</b>	<b>342 533 924</b>
<b>Valuations</b>		
Residential	17 161 316 787	17 014 015 787
Commercial	5 772 812 000	6 072 559 000
State	2 444 933 000	2 444 933 000
Vacant	730 336 500	704 957 500
PSP	1 687 626 000	1 687 629 000
Agriculture	1 362 339 000	1 474 800 000
Place of Worship	377 300 000	379 824 000
Formal Protected Areas	25 523 000	-
Public Benefit Organisation	87 492 000	-
	<b>29 649 678 287</b>	<b>29 778 718 287</b>
Valuations on land and buildings are performed every 4 years. 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.		
<b>30. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	417 790 000	471 963 000
Museum Services	213 518	52 077
Finance Management Grant	1 650 000	1 700 000
Skills Development Grant	1 563 391	639 088
Municipal Infrastructure Grant	6 706 433	38 962 037

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies (continued)</b>		
Community Library Service Grant	2 465 648	3 267 381
Water Service Infrastructure Grant	28 789 512	8 206 259
EPWP Grant	2 948 000	2 901 738
Provincialisation and Library Grant	7 714 192	7 224 755
Electrification Grant	-	94
Capacity Building	6 124 772	4 198 058
Energy Efficiency and Demand Side Management Grant	343 661	-
Tittle Deeds Restoration Grant	446 676	519 882
	<b>476 755 803</b>	<b>539 634 369</b>
<b>Capital grants</b>		
Community Library	402 976	934 961
Neighbourhood Development Partnership	4 701 322	9 060 067
Water Services Infrastructure Grant	8 464 163	18 270 519
Museum Services	228 269	562 278
Sports and Recreation	3 583 509	-
Cleanest Town	390 400	-
Water Intervention Grant	4 795 750	-
Municipal Infrastructure Grant	112 475 567	71 469 963
	<b>135 041 956</b>	<b>100 297 788</b>
	<b>611 797 759</b>	<b>639 932 157</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	194 007 759	167 969 157
Unconditional grants received	417 790 000	471 963 000
	<b>611 797 759</b>	<b>639 932 157</b>
<b>Financial Management Grant</b>		
Current-year receipts	1 650 000	1 700 000
Conditions met - transferred to revenue	(1 650 000)	(1 700 000)
	-	-
<b>Sport and Recreation</b>		
Balance unspent at beginning of the year	5 647 084	1 980 418
Current-year receipts	7 333 333	3 666 666
Conditions met - transferred to revenue	(3 583 509)	-
	<b>9 396 908</b>	<b>5 647 084</b>
<b>Ingogo Fresh Produce</b>		
Balance unspent at beginning of the year	11 353	11 353
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	119 182 000	110 432 000
Conditions met - transferred to revenue	(119 182 000)	(110 432 000)
	-	-
<b>Water Service Infrastructure Grant</b>		
Balance unspent at beginning of year	8 516 370	17 196 148
Current-year receipts	40 000 000	35 000 000
Conditions met - transferred to revenue	(37 253 675)	(26 476 778)

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies (continued)</b>		
Repayment to funder	(8 516 067)	(17 203 000)
	<b>2 746 628</b>	<b>8 516 370</b>
<b>Title Deeds Restoration</b>		
Balance unspent at beginning of year	2 717 163	7 233 371
Current-year receipts	-	1 200 000
Conditions met - transferred to revenue	(446 676)	(519 882)
Transferred to title deeds restoration post grant	-	(5 196 326)
	<b>2 270 487</b>	<b>2 717 163</b>
<b>Osizweni Art Centre</b>		
Balance unspent at beginning of year	36 920	36 920
<b>Skills Development Grant</b>		
Balance unspent at beginning of the year	1 546 185	905 456
Current-year receipts	947 894	1 279 817
Conditions met - transferred to revenue	(1 563 391)	(639 088)
	<b>930 688</b>	<b>1 546 185</b>
<b>Cleanest Town</b>		
Balance unspent at beginning of the year	823 975	823 975
Conditions met - transferred to revenue	(390 400)	-
Prior year receipts	400 000	-
	<b>833 575</b>	<b>823 975</b>
<b>Environmental Management Framework</b>		
Balance unspent at beginning of the year	502 871	502 871
<b>Neighbouring Development Partnership Grant</b>		
Balance unspent at beginning of the year	5 939 933	-
Current-year receipts	7 440 000	15 000 000
Conditions met - transferred to revenue	(4 701 322)	(9 060 067)
Repayment to funder	(5 939 933)	-
	<b>2 738 678</b>	<b>5 939 933</b>
<b>Electrification Grant</b>		
Balance unspent at beginning of the year	-	6 267 094
Current-year receipts	-	7 000 000
Conditions met - transferred to revenue	-	(7 000 094)
Repayment to funder	-	(6 267 000)
	-	-
<b>Expanded Works Programme Incentive</b>		
Balance unspent at beginning of the year	-	6 738
Current-year receipts	2 948 000	2 895 000
Conditions met - transferred to revenue	(2 948 000)	(2 901 738)
	-	-

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies (continued)</b>		
<b>Water Intervention Grant</b>		
Current-year receipts	8 700 000	-
Conditions met - transferred to revenue	(4 795 750)	-
	<b>3 904 250</b>	<b>-</b>
<b>Hawker Stalls</b>		
Current-year receipts	1 000 000	-
<b>Title Deeds Restoration Grant (Post)</b>		
Balance unspent at beginning of year	5 196 326	-
Transferred from title deeds restoration grant	-	5 196 326
	<b>5 196 326</b>	<b>5 196 326</b>
<b>Sports Maintenance Facilities Grant</b>		
Balance unspent at beginning of the year	10 220	10 220
<b>All Housing Grants</b>		
Balance unspent at beginning of the year	1 164 667	4 266 813
Current-year receipts	414 723 579	120 903 440
Conditions met - transferred to revenue	(263 315 709)	(124 005 586)
	<b>152 572 537</b>	<b>1 164 667</b>
<b>Newcastle Airport</b>		
Balance unspent at beginning of the year	1 815 281	1 815 281
Current-year receipts	2 000 000	-
	<b>3 815 281</b>	<b>1 815 281</b>
<b>Capacity Building Housing</b>		
Balance unspent at beginning of the year	2 102 589	-
Current-year receipts	19 961 891	6 300 647
Conditions met - transferred to revenue	(6 124 773)	(4 198 058)
	<b>15 939 707</b>	<b>2 102 589</b>
<b>Fort Amiel Museum</b>		
Balance unspent at beginning of the year	552 221	759 575
Current-year receipts	429 000	407 000
Conditions met - transferred to revenue	(441 787)	(614 354)
	<b>539 434</b>	<b>552 221</b>
<b>Community Library Service Grant</b>		
Balance unspent at beginning of the year	412 549	1 343 706
Current-year receipts	2 475 000	2 312 000
Conditions met - transferred to revenue	(2 868 624)	(4 202 341)
Transferred from provincialisation all library grant	-	959 184

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Government grants and subsidies (continued)</b>		
	<b>18 925</b>	<b>412 549</b>
<b>Corridor Development</b>		
Balance unspent at beginning of the year	131 075	131 075
<b>Energy Efficiency and Demand Side Management Grant</b>		
Current-year receipts	4 000 000	-
Conditions met - transferred to revenue	(343 661)	-
	<b>3 656 339</b>	<b>-</b>
<b>Provincialisation- All Libraries</b>		
Balance unspent at beginning of the year	1 003 387	2 458 316
Current-year receipts	6 757 000	6 729 000
Conditions met - transferred to revenue	(7 714 192)	(7 224 745)
Transferred to Community library services grant	-	(959 184)
	<b>46 195</b>	<b>1 003 387</b>
<b>31. Employee related costs</b>		
Basic	419 622 590	339 920 278
Medical aid - company contributions	22 603 401	17 470 630
UIF	2 576 485	2 135 239
Annual Bonus	32 777 372	25 689 885
Defined contribution plans	83 538 458	59 383 546
Travel, motor car, accommodation, subsistence and other allowances	16 101 321	14 236 079
Overtime payments	36 135 182	38 332 041
Long-service awards	-	3 882 846
Car allowance	22 594 251	22 242 760
Housing benefits and allowances	8 372 168	6 857 860
Group insurance	10 050 989	7 792 980
Bargaining council	150 657	140 481
Night work allowance	2 097 748	1 864 456
Termination benefits	9 009 755	6 928 987
	<b>665 630 377</b>	<b>546 878 068</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	726 827	-
Car Allowance	133 413	-
Annual Bonuses	101 191	-
Contributions to UIF, Medical and Pension Funds	154 438	-
Acting allowance	707 944	176 576
Other	23 605	-
	<b>1 847 418</b>	<b>176 576</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	1 003 588	951 070
Car Allowance	164 297	240 199
Annual Bonuses	77 799	77 799
Contributions to UIF, Medical and Pension Funds	169 326	171 400
Other	124	119
	<b>1 415 134</b>	<b>1 440 587</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>31. Employee related costs (continued)</b>		
<b>Remuneration of Executive Directors &amp; Municipal Manager</b>		
Annual Remuneration	3 719 377	5 406 562
Car Allowance	692 270	813 938
Annual Bonuses	370 341	386 309
Contributions to UIF, Medical and Pension Funds	691 538	734 401
Acting Allowances	996 701	254 882
Other	23 975	614
	<b>6 494 202</b>	<b>7 596 706</b>
<b>Community Services</b>		
Annual Remuneration	851 665	171 804
Car Allowance	210 630	44 238
Annual Bonuses	-	74 637
Contributions to UIF, Medical and Pension Funds	197 253	27 667
Acting Allowance	-	62 841
Other	103	20
	<b>1 259 651</b>	<b>381 207</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>31. Employee related costs (continued)</b>		
<b>Development and Planning Services</b>		
Annual Remuneration	243 317	895 477
Car Allowance	51 084	193 014
Annual Bonuses	72 792	81 850
Contributions to UIF, Medical and Pension Funds	35 173	213 588
Other	31	119
Acting Allowance	135 872	33 402
	<b>538 269</b>	<b>1 417 450</b>
<b>Internal Audit/Governance</b>		
Annual Remuneration	646 605	1 047 078
Car Allowance	82 127	126 171
Annual Bonuses	118 558	85 075
Contributions to UIF, Medical and Pension Funds	123 748	190 259
Other	82	119
	<b>971 120</b>	<b>1 448 702</b>
<b>Corporate Services</b>		
Annual Remuneration	94 300	936 924
Car Allowance	19 394	210 316
Annual Bonuses	-	76 007
Contributions to UIF, Medical and Pension Funds	11 248	129 703
Other	10	119
Acting Allowance	104 562	-
	<b>229 514</b>	<b>1 353 069</b>
<b>Technical</b>		
Annual Remuneration	153 076	1 377 214
Car Allowance	31 325	-
Contributions to UIF, Medical and Pension Funds	354	1 785
Acting allowance	48 322	-
Other	21	119
	<b>233 098</b>	<b>1 379 118</b>
<b>32. Remuneration of councillors</b>		
Mayor	867 761	900 271
Deputy Mayor	702 073	728 375
Executive Committee Members	3 418 075	4 674 326
Speaker	700 723	728 375
Councillors	17 124 573	17 177 437
Chief Whip	454 918	685 403
MPAC Chairperson	474 138	666 493
Traditional Leaders	-	51 000
	<b>23 742 261</b>	<b>25 611 680</b>



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>32. Remuneration of councillors (continued)</b>		
<b>In-kind benefits</b>		
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The 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 two full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards		
<b>Mayor</b>		
Annual Remuneration	539 778	560 000
Car Allowance	207 690	215 471
Cellphone Allowance	39 327	40 800
Contributions to UIF, Medical Aid and Pension	80 967	84 000
	<b>867 762</b>	<b>900 271</b>
<b>Deputy Mayor</b>		
Annual Remuneration	432 226	448 419
Car Allowance	165 686	171 891
Cellphone Allowance	39 327	40 800
Contributions to UIF, Medical Aid and Pension	64 834	67 263
	<b>702 073</b>	<b>728 733</b>
<b>Speaker</b>		
Annual Remuneration	458 290	448 419
Car Allowance	165 690	171 891
Cellphone Allowance	39 327	40 800
Contributions to UIF, Medical Aid and Pension	23 916	67 623
Other	13 500	-
	<b>700 723</b>	<b>728 733</b>
<b>Chief Whip</b>		
Annual Remuneration	272 961	420 393
Car Allowance	105 081	161 151
Cellphone Allowance	35 927	40 800
Contributions to UIF, Medical Aid and Pension	40 950	63 059
	<b>454 919</b>	<b>685 403</b>
<b>33. Depreciation and amortisation</b>		
Property, plant and equipment	347 899 802	350 117 357
Intangible assets	917 700	966 939
	<b>348 817 502</b>	<b>351 084 296</b>
<b>34. Impairment loss</b>		
<b>Impairments</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>34. Impairment loss (continued)</b>		
Property, plant and equipment	105 763 538	22 159 543
Fines	3 926 266	3 663 039
	<b>109 689 804</b>	<b>25 822 582</b>
<b>35. Finance costs</b>		
Non-current borrowings	38 662 710	41 797 407
Provisions and Current borrowings	21 139 794	22 323 678
Interest Expense	4 609 893	858 529
	<b>64 412 397</b>	<b>64 979 614</b>
<b>36. Debt impairment</b>		
Debt impairment	115 772 846	183 997 551
Bad debts written off - Council resolution	8 151 848	18 432 565
	<b>123 924 694</b>	<b>202 430 116</b>
<b>37. Bad debts written off</b>		
Indigents written off	24 492 046	14 597 835
<b>38. Bulk purchases</b>		
Electricity - Eskom	518 830 790	436 880 517
Water	130 919 353	122 454 539
	<b>649 750 143</b>	<b>559 335 056</b>
<b>Electricity losses</b>		
Units purchased	432 669 460	428 083 451
Units sold	(398 238 476)	(395 378 086)
<b>Total loss</b>	<b>34 430 984</b>	<b>32 705 365</b>
<b>Percentage Loss:</b>		
Technical losses	8 %	8 %
Estimated cost per unit (Rands)	R 0.97	R0.78
Estimated cost of loss (Rands)	R33 398 055	R25 510 185
<b>Electricity distribution losses comprise of the following:</b>		
<b>Administrative losses</b>		
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 all unpaid accounts.		
<b>Technical losses</b>		
Technical losses within the municipality are made up of standard line losses, unmetered own consumption, free basic electricity, street lighting and traffic lights.		
<b>Non-technical losses</b>		
Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.		
<b>Water losses</b>		

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>38. Bulk purchases (continued)</b>		
Units purchased	33 759 451	32 136 904
Units sold	(20 703 689)	(21 218 848)
<b>Total</b>	<b>13 055 762</b>	<b>10 918 056</b>
<b>Comprising of:</b>		
Technical losses	13 055 762	10 918 056
<b>Percentage Loss:</b>		
Technical losses	39 %	34 %
Bulk Tariff (R/KL)	R3.94	R3.83
Technical water losses (Rands)	R51 439 702	R41 816 154
<b>Water distribution losses:</b>		
Water losses are the sum of the real and apparent losses and are calculated from the difference between the system input volume and the authorized consumption.		
<b>Non-Revenue Water</b>		
Non-revenue water amounts to 60.2%, which is disclosed in the annual performance report and this includes unbilled authorized consumption (metered or unmetered) and apparent and real losses. There are unaccounted for water, they are the component of system input volume (SIV) which are not billed and do not generate revenue.		
<b>39. Contracted services</b>		
<b>Outsourced Services</b>		
Security Services	52 493 704	39 295 453
VIP Toilets	17 040 684	47 135 575
Plant Hire	24 489 130	27 640 718
<b>Consultants and Professional Services</b>		
Professional Services	39 665 794	59 387 147
Legal Cost	9 954 605	23 037 529
<b>Contractors</b>		
Other	859 495	1 018 916
Media and Communication	3 021 523	1 092 289
Electrical	3 679 905	4 493 496
Employee Wellness	479 834	80 587
Public Participation	8 198 338	837 413
Maintenance of Buildings and Facilities	5 782 124	4 340 437
Maintenance of Infrastructure	52 162 432	34 761 470
Maintenance of Land	282 014	286 503
Maintenance of Movables	8 903 249	9 110 292
Medical Services	823 795	970 632
Pest Control and Fumigation	290 214	324 117
IT Services	3 737 398	3 812 387
Training	3 466 762	1 875 945
Refuse services	5 570 289	4 608 517
	<b>240 901 289</b>	<b>264 109 423</b>
<b>40. General expenses</b>		
Auditors remuneration	5 773 617	5 186 267
Bank charges	4 031 625	4 384 789
Entertainment	7 681	3 916
Insurance	6 434 342	7 218 762
Community development and training	4 421 417	6 211 668
IT expenses	12 699 608	13 482 683
Magazines, books and periodicals	18 069	18 497
Motor vehicle expenses	8 481 214	8 199 880

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>40. General expenses (continued)</b>		
Subsistence and Travelling	629 129	516 051
Fuel and oil	14 699 066	10 091 521
Postage and courier	3 255 819	3 233 584
Printing and stationery	1 773 137	1 705 062
Promotions	13 184	1 576
Protective clothing	3 461 919	4 067 834
Royalties and license fees	55 999	28 867
Staff welfare	13 258	16 680
Subscriptions and membership fees	6 556 757	6 682 712
Telephone and fax	4 011 760	4 155 826
Training	3 788 184	3 821 845
Assets expensed	136 354	409 463
Advertising	989 350	313 162
Contribution to post retirement	7 209 000	14 188 000
Material	6 277 714	5 226 658
Skills Development Levy	4 789 011	3 255 574
Rental Office machines	2 507 434	2 960 635
Provision to rehabilitation of landfill site	758 139	-
Departmental services	38 640 191	39 437 120
Workmans compensation	2 494 270	3 375 397
	<b>143 927 248</b>	<b>148 194 029</b>
<b>41. Auditors' remuneration</b>		
Audit Fees	5 641 461	4 808 996
Audit Committe	132 156	377 271
	<b>5 773 617</b>	<b>5 186 267</b>
<b>42. Cash generated from operations</b>		
Deficit	(243 997 583)	(197 157 605)
<b>Adjustments for:</b>		
Depreciation and amortisation	348 817 502	351 084 296
Share of deficit in associate	31 756 845	30 277 147
Salary back pay provision	115 462 210	-
Fair value adjustment	(49 372 929)	-
Gain on Actuarial Valuation	(3 450 182)	(12 908 000)
change in estimate of landfil site provision	758 139	-
Accumulated surplus	-	43 546 844
Public contribution and donations	-	(39 249 962)
Impairment of assets	105 763 538	22 159 557
Debtors Impairment - other receivables from non-exchange	3 926 263	3 663 040
Movement in provision for leave	(4 933 060)	-
Bad debts written off - receivables from exchange	148 416 740	217 027 951
Profit on sale of assets	(3 113 641)	50 052 096
Impairment of Inventory	645 854	117 170
Current service cost- Employee benefit liability	7 209 000	7 060 000
Finance costs- Employee benefit liability	15 819 000	15 166 000
Finance costs- Rehabilitation provision	5 243 121	7 104 041
Movement in leave on bonus provisions	900 493	(905 242)
Movement in employee benefit liability	(11 147 819)	(2 624 000)
<b>Changes in working capital:</b>		
Inventories	(6 382 434)	(5 235 752)
Receivables from exchange transactions	11 567 719	(19 886 325)
Consumer debtors	(290 739 019)	(283 461 540)
Other receivables from non-exchange transactions	(4 553 431)	(4 185 640)
Other financial assets	-	277
Payables from exchange transactions	(155 086 409)	5 216 669
VAT	39 133 067	(47 871 492)
Unspent conditional grants and receipts	168 168 229	(7 619 172)
Other financial liabilities	5 916 275	2 562 591
	<b>236 727 488</b>	<b>133 932 949</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>43. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure Assets	140 598 162	156 402 129
• Community Assets	10 561 765	498 234
• Other	-	101 242
	<b>151 159 927</b>	<b>157 001 605</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	936 000	-
	<b>936 000</b>	<b>-</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	151 159 927	157 001 605
Not yet contracted for and authorised by accounting officer	936 000	-
	<b>152 095 927</b>	<b>157 001 605</b>

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

### Operating leases - as lessee (expense)

#### Minimum lease payments due

- within one year	2 458 594	1 110 932
- in second to fifth year inclusive	746 681	-
	<b>3 205 275</b>	<b>1 110 932</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

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## Notes to the Annual Financial Statements

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### 44. Contingencies

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

There is litigation process against the municipality relating to the 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.

#### **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. An 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 R1 100 000 and estimated legal costs of R350 000.

#### **Plaintiff: Bigen Services Africa PTY (LTD)**

The former service provider objected to the municipality's appointment of another service provider to take over the debt management services. The municipality is being sued for 2.5% of collected debt under 60 days estimated to be R30 000 000. Estimated legal costs are 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: Scarlet Hibus Investments 220 (PTY) LTD**

The municipality has been sued an estimated amount of R42 000 000 for payment of monies owing in terms of a lease agreement. Legal costs of R1 500 000

#### **Plaintiff: VN Trading and Projects (PTY) LTD**

The municipality is being sued an amount of R2 000 000 for damages of failing to fulfil the terms of a service contract, estimated legal cost of R500 000.

#### **Plaintiff: Mageba Capital Projects CC**

The municipality is being sued the amount of R16 444 934 for holding time and for failing to fulfill an as and when required service contract, estimated legal cost of R250 000.

#### **Plaintiff: PRB Bhagwandass**

The municipality is being sued for vehicle damage claim. Claim is for R18 022.37 and estimated legal costs of R50 000.

#### **Plaintiff: Violet Sky Trading**

The municipality is being sued R2 085 000 for implementation and use of a software system.

#### **Plaintiff: Viola Water Solutions and Technologies SA (PTY) LTD**

The municipality has received a letter of demand for payment due of R407 836.84 for services rendered at Ncandu pump station.

#### **Plaintiff: Eldocrete**

The Municipality received a claim of R1 313 688 for outstanding payment according to the cession signed by the municipality and main contractor on a project of VIP toilets. Legal costs amount to R200 000.

#### **Plaintiff: Joey Grasman**

The municipality is being sued R750 000 for failing to cover holes from damaged traffic poles. estimated legal costs of R50 000.

#### **Plaintiff: Isimo Engineers**

Claiming monies owed by the municipality for professional services provided to the municipality amounting to R987 568 and estimated legal costs of R75 000.

#### **Plaintiff: Newcastle Industrial Laundry**

Wants compensation of R14 000 000 for loss of income and damages suffered as a result of a discharged interdict against the company by the municipality. Estimated legal costs of R1000 000.

#### **INSURANCE CLAIMS FROM THIRD PARTIES PUBLIC LIABILITY**

Alistair Kevin van Wyk for personal injuries, Sued an amount of R6 000 000 and estimated legal costs of 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 of R5 000.

Vusi Mahlangu for vehicle damage claim. Sued amount R140 835 and estimated legal costs of R50 000

Vishal Heerelal for personal injuries. Sued amount is R1 050 000 and estimated legal fees is R5 000

Nicole Adale Pillay for vehicle damage claim. Sued amount R101 327 and estimated legal costs of R5 000

Porto Fish and Chips for motor vehicle claim, Municipality motor vehicle collided with Porto Fish and Chips vehicle claim for R141 300 and estimated legal costs of R50 000.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 44. Contingencies (continued)

Thanduxolo Winston Kubheka is claiming R17 407.21 from the municipality for vehicle damages caused by a pothole. estimated legal fees of R20 000.

### LABOUR REVIEWS AND BARGAINING COUNCIL

CK Mazibuko, unfair labour practice relating to non-appointment. Estimated legal cost of R70 000.

BP Ngubeni, for unfair labour practice relating to non-appointment.

BN Khumalo for unfair labour practice relating to non-appointment.

SP Tshabalala, for unfair labour practice relating to non-appointment.

ZZ Qwabe for unfair dismissal for a contract not renewed when other employees contracts were renewed.

B Mkhize and others for unfair labour practice relating to appointment of 10 traffic wardens. Estimated legal cost of R70 000.

Vish Govender suspended with pay, settlement agreement of R900 000 is under review. Estimated legal costs of R450 000.

### 45. Related parties

The Municipality is in a relationship with Uthukela Water (Pty) Ltd as the water service provider for the provision of bulk water. The Municipality does not solely have significant control of the entity as it owns 34% of its interest.

The Municipality also has councillors and senior managers, who are responsible for leadership, governance and management of the municipality. These are also disclosed as related parties in line with GRAP standards.

### Related party balances

#### Amounts included in Trade receivable (Trade Payable) regarding related parties

Uthukela Water	(156 581 537)	(116 667 909)
<b>Bulk Water Purchases</b>		
Uthukela Water	130 896 374	122 454 539

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Related parties (continued)

#### Remuneration of management

##### Councillors

##### 2022

Name	Basic salary	Pension Contribution	Medical Aid Contribution	Motor Vehicle Allowance	Cellphone and other Allowances	Housing Allowance	Total
Executive Committee Members	3 810 293	526 722	33 610	1 539 176	468 520	239 367	6 617 688
Other Councillors	9 727 330	1 239 894	3 283	3 639 005	2 224 276	290 785	17 124 573
	<b>13 537 623</b>	<b>1 766 616</b>	<b>36 893</b>	<b>5 178 181</b>	<b>2 692 796</b>	<b>530 152</b>	<b>23 742 261</b>

##### 2021

Name	Basic salary	Pension Contribution	Medical Aid Contribution	Motor Vehicle Allowance	Cellphone and other Allowances	Housing Allowance	Total
Executive Committee Members	4 643 187	665 068	78 160	1 977 028	482 800	588 000	8 434 243
Other Councillors	9 371 825	1 109 260	2 504	3 916 235	2 270 613	507 000	17 177 437
	<b>14 015 012</b>	<b>1 774 328</b>	<b>80 664</b>	<b>5 893 263</b>	<b>2 753 413</b>	<b>1 095 000</b>	<b>25 611 680</b>

### 46. Risk management

#### Financial risk management

##### Market risk

The municipality's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Market is the risk that changes in the market prices, such as interest rate and foreign-exchange rate that may affect the Municipality's income or value of financial instrument. The Municipality manages the market risk on investment by engaging on short-term call investments, which are withdrawn without any material changes in the interest rate. The risk on loans is managed by ensuring that all interest rates of loans are fixed for the duration of the loan term.



# Newcastle Municipality

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### 46. Risk management (continued)

#### Operational risk

The Municipality is exposed to the operational risk in the normal operation of its business. This risk is managed through the development and monitoring of risk registers and through the delegation and segregation of duties. Operational risk is also managed through the development and implementation of various policies and standard operating procedures.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds not available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the municipality.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 46. Risk management (continued)

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

Cash and cash equivalents	76 167 306	9 500 299
Other receivables	101 919 699	148 955 445
Receivables from consumer debtors	787 448 038	508 217 581
	<b>965 535 043</b>	<b>666 673 325</b>

### 47. Going concern

As at 30 June 2022, the municipality had an accumulated surplus (deficit) of R 6 036 252 387 (2021:R6 280 894 997) and that the municipality's current liabilities exceed its current assets by R(89 084 360) (In 2021 current liabilities exceeded current assets by: R107 532 081).

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 2022, the municipality had a net profit(deficit) of R(243 997 583) (2021: R(197 157 605)) and the municipality's Cash and Cash equivalents is R76 167 306 (2021: R9 500 299) which is not sufficient to cover the current liabilities of the municipality. The current assets are more than the current liabilities, the collection rate has improved a little bit however but there is still a risk that all the outstanding debtors might not be collected. Over the next 12 months, the municipality is still committed to ensure the 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 receive funding for the ongoing operations for 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.

### 48. Unauthorised expenditure

Opening balance as previously reported	967 778 930	967 778 930
Correction of prior period error (written off in the prior year)	(747 586 856)	-
<b>Opening balance as restated</b>	<b>220 192 074</b>	<b>967 778 930</b>
Add: Expenditure identified - current	-	-
<b>Closing balance</b>	<b>220 192 074</b>	<b>967 778 930</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>49. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	59 403 688	55 822 311
Correction of prior period error (written off in the prior year)	(38 355 768)	-
<b>Opening balance as restated</b>	<b>21 047 920</b>	<b>55 822 311</b>
Less: Amount written off - prior period	(780 984)	-
DBSA	24 219	-
Dr Pixley ka Isaka Seme Local Municipality	-	2 388
Eskom	-	4 125
Itec Finance	3 949	1 145
Ithala	1 260	2 872
New Integrated Solution	-	2 633 512
SARS	204	835 421
Salary Overpayment	-	43 068
Salary Overpayment	-	55 267
Telkom	3 483	3 579
Chapps Construction CC	430 881	-
<b>Closing balance</b>	<b>20 730 932</b>	<b>59 403 688</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 49. Fruitless and wasteful expenditure (continued)

#### Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 780 984 - from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

Write-of fruitless and wasteful expenditure of R 780 984 for employee salary over-payment.

### 50. Irregular expenditure

Opening balance as previously reported	498 352 518	466 707 308
Correction of prior period error	18 787 485	-
<b>Opening balance as restated</b>	<b>517 140 003</b>	<b>466 707 308</b>
Add: Irregular Expenditure - current	37 725 791	31 645 210
Less: Amount written off - prior period	(81 629 736)	-
<b>Closing balance</b>	<b>473 236 058</b>	<b>498 352 518</b>

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 50. Irregular expenditure (continued)

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

#### Payments made to contracts where SCM procedures were not followed

Amabuso Security Solutions	11 436 793	-
Bhekisiwe Electrical Investments	-	888 447
Biyela MM Geomatics	-	68 085
Bravolex	3 542 263	872 699
DBM	-	224 322
Egxen Engineering	-	5 669 683
Fidelity Security Services	278 601	55 601
Gladmod Transport and Shories Projects	4 170 130	-
Hloniphane Trading Ent. cc	-	2 041 294
Impumelelo Consulting Engineering	300 001	3 992 017
Insidedata South (PTY) Ltd	349 071	282 676
Ithala Properties	135 602	137 451
Jenny Internet	-	32 199
M-Charlie	-	1 042 170
Magubane Plant and Contractors	-	298 219
Mobile Networks	2 290	-
Njengamanje Trading CC	-	5 724 320
NN Land Survey Office	-	35 880
Ongoti Risk Management Service	303 758	-
Royal Haskoning DHV	1 652 198	-
SS Masondo Attorneys	-	2 604 756
Somkhanda Plant Hire	-	853 908
Tactical Security Services	-	5 478 419
TJ Mphela Attorneys	204 470	-
Vodacom Service Provider Company (Pty)Ltd	32 564 974	-
Zanele Plumbers	-	131 383
Zenawe	174 761	996 659
Zero Defect Construction	-	199 000
	<b>55 114 912</b>	<b>31 629 188</b>

As at the end of the reporting period, the Municipality had not concluded investigations into the unauthorised, irregular, fruitless and wasteful expenditures. Strides by the MPAC are however at an advance state to finalise the investigations and to submit its recommendations to Council for approval.

Awards to close family members in the service of state

The Municipality identify the following for awards made to close family members of the employees in service of the state in terms of section 45 of the Municipal Supply Chain Management Regulations.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 50. Irregular expenditure (continued)

#### Employed in the service of the state

Ababhungi Enterprise	174 015	-
Bangwati Catering and Services	-	16 021
Elethu Igugu (Pty) Ltd	23 840	-
Ikamva Logistics Fast Moving	999 518	-
Malikhula	60 980	-
NASTA Projects and kitchen	28 500	-
Sihlangu Sithebe Attorneys	787	-
Zamancama Project and Training	95 235	-
Zathaphi	15 490	-
	<b>1 398 365</b>	<b>16 021</b>

#### Amounts written-off

After the council committee investigations, council adopted the MPAC recommendation to write-off an amount of R 81 629 736 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

Write-off of irregular expenditure of R3 040 078 due to that the amount was incorrectly included in the UIF&W register

Write-off of irregular expenditure of R495 171 for non-compliance of MFMA circular 69 as SCM officials not trained on the implementation of the circular.

Write-off of irregular expenditure of R13 514 516 for expired contracts as there is no financial losses for the municipality and goods were delivered and no evidence of criminal activities.

Write-off of irregular expenditure of R1 305 678 for suppliers employed in the service of the state due to that the municipality does not have the software to identify suppliers who are employed in the service of the state.

Write-off of irregular expenditure of R14 156 799 due to that there was no financial loss to the municipality and goods were delivered.

Write-off of irregular expenditure of R13 292 382 for expired contracts due to weak controls caused by under-capacitated of the SCM unit and there was no financial loss to the municipality.

Write-off of irregular expenditure of R4 394 924 for non compliance to SCM processes.

Write-off of irregular expenditure of R31 430 188 as the expenditure related to old contracts which were already investigated and written off.

### 51. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	8 148 561	8 796 076
Current year subscription / fee	6 433 193	6 572 200
Amount paid - current year	(6 433 193)	(7 219 715)

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>51. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
Amount paid - previous years	(8 148 561)	-
	<u>-</u>	<u>8 148 561</u>
<b>Audit fees</b>		
Opening balance	11 759	163 044
Current year subscription / fee	6 487 630	5 648 490
Amount paid - current year	(6 302 306)	(5 636 731)
Amount paid - previous years	(11 759)	(163 044)
	<u>185 324</u>	<u>11 759</u>
<b>PAYE and UIF</b>		
Opening balance	7 385 016	6 942 137
Current year subscription / fee	95 855 329	91 872 671
Amount paid - current year	(87 775 400)	(84 487 655)
Amount paid - previous years	(7 385 106)	(6 942 137)
	<u>8 079 839</u>	<u>7 385 016</u>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	3 350 404	9 757 007
Current year subscription / fee	129 651 568	121 410 819
Amount paid - current year	(118 899 918)	(118 060 415)
Amount paid - previous years	(3 350 404)	(9 757 007)
	<u>10 751 650</u>	<u>3 350 404</u>
<b>VAT</b>		
VAT receivable	(5 448 051)	(3 074 315)
VAT payable	8 485 926	7 541 055
	<u>3 037 875</u>	<u>4 466 740</u>
<b>Councillors' arrear consumer accounts</b>		
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:		
<b>30 June 2022</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Councillor FN Sithole	<u>8 919</u>	<u>8 919</u>
<b>30 June 2021</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Councillor MP Sibilwane	<u>4 249</u>	<u>4 249</u>
<b>52. Utilisation of Long-term liabilities reconciliation</b>		
Long-term liabilities raised	<u>361 020 788</u>	<u>392 998 787</u>

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 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 53. 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.

Repairs and maintenance services 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 36	2 719 912	15 745 009
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### 54. Accounting by principals and agents

#### Details of an entity as an agent are as follows

The Municipality has entered in to principal-agent with the Department of Human Settlement and Department of Energy Settlements and provision of housing and electricity infrastructure connections respectively. The mandate to provide these services lies with the two departments, however the municipality is acting as an agent on behalf of the two departments to provide such services. The assets constructed are not capitalised in the books of the Municipality. The revenue and expenditure in relation to such agreement is also not accounted for in the financial statements, except those that relate to the municipality as an agent.

The following principal-agent transactions were accounted for;

#### Grants received

Housing Grants	414 723 580	120 903 440
Electrification Grant	-	7 000 000
	<b>414 723 580</b>	<b>127 903 440</b>

#### Grants revenue

Housing Grant	263 315 709	124 005 586
Electrification Grant	-	7 000 000
	<b>263 315 709</b>	<b>131 005 586</b>

#### Grants expenditure

Housing Grant	263 315 709	124 005 586
Electrification Grant	-	7 000 000
	<b>263 315 709</b>	<b>131 005 586</b>

#### Grant Payable

Housing Grants	152 572 537	1 164 667
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#### Agent fees

Housing Accredation fees	19 961 890	6 300 647
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#### Entity as principal

##### Details of the entity as a principal are as follows:

Cigicell had a contract of providing prepaid vending system for the municipality and also a 3rd party vending solution enabling 3rd party vendors to sell electricity tokens on our behalf.

Cigicell collected and banked collections from the third party vendors almost on daily basis and banked these into our municipal account. For these services hosting fees for the system and commission on collections was paid to Cigicell monthly as stipulated on the attached contract.

At the end of the reporting period Cigicell still had made total sales amounting to R28 192 864.81 and of the total sales, and amount of R124 980 was still due to the municipality at the end of the reporting period. Cigicell paid the outstanding amount in 3 days to the municipality.



# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 54. Accounting by principals and agents (continued)

There are no cost implications for the entity if the principal-agent arrangement is terminated according to the contract entered into by the parties.

#### Fee paid

Fee paid as compensation to the agent	794 980	1 906 037
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### 55. Covid-19 Pandemic

The Municipality continued to experience the devastating impact of the Covid-19 pandemic during the year, which has created significant challenges to the Municipality, business sector and the community of Newcastle at large. The impact required the Municipality to act swiftly to reprioritise its expenditure and to respond to the under-collection of revenue due to the business and individuals' economic impact. The Municipality was also required to implement measures to ensure the safety of its employees, councillors and community.

The following transactions relate to the revenue and expenditure in respect of the Covid-19

#### Grant transfers

Equitable Share	-	68 899 000
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#### Covid-19 expenditure

Protective equipment	182 477	341 352
Thermometer	-	101 714
Other	-	93 680
	<b>182 477</b>	<b>536 746</b>

### 56. VAT receivable

VAT	-	36 095 192
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### 57. Prior-year adjustments

#### Statement of financial position

##### 2021

	Note	As previously reported	Correction of error	Restated
Inventories		18 806 337	954	18 807 291
Receivable from exchange transactions		99 418 303	(2 560 988)	96 857 315
VAT receivable (payable)		(18 539 020)	54 634 213	36 095 193
Consumer debtors		504 404 673	3 812 908	508 217 581
Property, plant and equipment		6 470 545 398	10 133 572	6 480 678 970
Investment in associate		187 056 075	(13 128 194)	173 927 881
Finance lease obligation - Current		109 927	84 902	194 829
Payables from exchange transactions		796 421 953	25 278 767	821 700 720
Unspent conditional grants and receipts		41 232 304	(3 102 146)	38 130 158
Finance lease obligation - Non Current		42 180	26 531	68 711
Provision for rehabilitation of Landfill site		59 199 647	11 211	59 210 858
Accumulated Surplus		6 250 301 798	30 593 197	6 280 894 995
		<b>14 408 999 575</b>	<b>105 784 927</b>	<b>14 514 784 502</b>

#### Cash flow statement

##### 2021

	Note	As previously reported	Correction of error	Restated
<b>Cash flow from operating activities</b>				

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
<b>57. Prior-year adjustments (continued)</b>			
Sale of good and services	1 083 861 952	(1 251 923)	1 082 610 029
Grants	635 415 131	(3 102 146)	632 312 985
Suppliers	(990 347 232)	14 364 993	(975 982 239)
Finance costs	(42 720 784)	11 211	(42 709 573)
	<b>686 209 067</b>	<b>10 022 135</b>	<b>696 231 202</b>
<b>Cash flow from investing activities</b>			
Purchase of PPE	(124 427 766)	(10 941 570)	(135 369 336)
Sale of PPE	1 649 005	807 998	2 457 003
	<b>(122 778 761)</b>	<b>(10 133 572)</b>	<b>(132 912 333)</b>
<b>Cash flow from financing activities</b>			
Finance lease obligation	(376 233)	111 433	(264 800)
<b>Prior Period Errors</b>			

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>57. Prior-year adjustments (continued)</b>		
Error 1		
Inventory		
Inventory gains were not accounted for correctly in the prior year		954
Error 2		
Receivables from exchange transactions		
Correction of invoices that were not paid in the correct financial year resulted in an input vat debtor		94 297
Interest income was charged to individuals and was reversed		(4 292 874)
Audit tests on indigent support were not accounted for during the audit of 2020/2021		1 637 588
		2 560 988
Error 3		
VAT receivable (payable)		
Reversal of VAT output included on debtors write off		54 634 213
Error 4		
Consumer Debtor from exchange transactions		
Debtors were incorrectly captured as creditors payment		3 812 908
Error 5		
Property, plant and equipment		
Upon investigation by the Asset department , it was established that two vehicles are not the property of the municipality and are indeed rented vehicles , these were moved from other assets		(126 718)
The asset was delivered in the current financial year and not in the prior year		(199 861)
Correcting the prior year difference between depreciation of other assets between FAR and they system		(4 605)
During the physical verification and review of the fixed asset register , assets were identified that were in service on the floor, but were not captured on the fixed asset register. these asset were added in accordance with directive 7 at Deemed cost		9 745 055
During the current financial year , it was discovered that WIP additions were paid by consultants vote instead of project vote		522 845
Finance leased additions for prior financial year that were not recorded in the 2020/2021 financial year		97 964
Vehicle donated to the municipality in 2014 not initially added to the FAR		(98 890)
		10 133 570
Error 6		
Investment in Associate		
Share in the prior year adjustment in the books of Uthukela Water, an associate of the municipality		(13 128 194)
Error 7		
Finance lease obligation - Current		
Current portion of finance lease liability.		84 902
Error 8		
Payables from exchange transactions		
Government gazette advert was not paid in the correct financial year		26 619
Various expenditure accruals were not reversed in the incorrect financial year		(30 177)
Various expenditure was not accounted for in the correct financial year		30 073
Payment raised as an accrual should be reversed as there was no budget to pay for it in 2021		(199 972)
Accrual that should have been raised was not raised on 2020/21		695 750
Interest expense was not paid in the correct financial year.		2 586
Debtors were incorrectly captured as creditors payment		3 842 709
Invoice was recognised in an incorrect financial year		3 102 146
Accruals that were paid from general appropriation		17 809 033
		<b><u>25 278 767</u></b>
Error 9		
Finance lease obligation		
Finance lease liability was not raised in the prior year		150 000
Finance lease payments not realized		(38 567)
Current portion of lease liability		(84 902)
		26 531
Error 10		
Provision for Rehabilitation of Landfil site		
Landfil was not accounted for correctly		11 211
Error 11		
Accumulated surplus		
All profit and losses for prior year errors		
Interest Recieved		(4 292 874)

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>57. Prior-year adjustments (continued)</b>		
Interest Received	(29 802)	
Indigent write-off	1 637 589	
Debt impairment	54 634 213	
Depreciation	10 083 543	
Interest Expense	(2 586)	
General Expenses (Telephone expense)	38 567	
General Expenses (Adjustment to provision for rehabilitation of landfill site)	(11 211)	
General Expenses (Collection fees)	(605 000)	
General Expenses	(22 967)	
Gain on inventory	954	
Share of deficit in investment in associate	(13 128 194)	
Accruals that were paid from general appropriation	17 809 033	
	<b><u>30 593 198</u></b>	
Error 12		
Unspent conditional grant and receipts		
An invoice was erroneously recognised in an incorrect financial year.	(3 102 146 )	

### Reclassifications

The following reclassifications adjustment occurred:

Comparative Figures	2021/22	2020/21	Differences	Comments
<b>Revenue</b>				
Service charges	1 013 999 033	1 013 748 409	250 624	Reclassified from Other Revenue to Service Charges.
Other Revenue	18 450 819	18 701 443	(250 624)	Reclassified from Other Revenue to Service Charges.
<b>Expenditure</b>				
Repairs and maintenance	0	44 151 131	(44 151 131)	Reclassified from Repairs and Maintenance to Contracted Service and General Expense as per mSoa data strings classification.
Contracted Services	273 737 451	230 421 048	43 316 403	Reclassified from Repairs and Maintenance to contracted Services as per mScoa data strings alignment.
General Expenses	138 566 001	137 731 271	834 730	Reclassified from Repairs and Maintenance to General Expenses as per mScoa data strings alignment.

# Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 58. Events after the reporting date

#### Full time appointment of Municipal Manager

The Municipality made a full time appointment of Mr ZW Mcineka as a the Municipal Manager as of the 10th of August 2022. Mr Mcineka has been the acting Municipal Manager since February 2022.

#### Grants roll-over applications

As of August 2022 the Municipality is in the process of submitting the applications to the National and Provincial Treasuries of the roll-over of the unspent conditional grants in respect of the Community Library Service Grant, Provincialisation, Fort Amiel Museum Grant, Hwaker Stalls Grant, Newcastle Airport, Water Service Infrastructure grants, Neighbourhood Development Partnership grant, Sport and Recreation grant and the Water Intervention Grant. The municipality has since received feedback from National Treasury, grants amounting to R9.1 Million have not been approved for roll-over.

#### Assets write-off

As of August 2022 the Municipality write-off of the assets that either could not be identified or with zero carrying values as at 30 June 2022. The resolution was subsequent to the physical asset verification process which was conducted and concluded during the reporting period. As such, the asset register and the annual financial statements were adjusted to reflect the impact of this resolution.

#### Employee related cost liability

As of September 2022 the Municipal council took a resolution to reinstate 223 employees who were dismissed in 2019. Due to court order dated 12 September 2022 the municipality will retrospectively pay 12 months of employee related cost amounting to R80 264 536.14 in total, As a result the Annual Financial Statements were adjusted to reflect the accrued expenditure and the related liability. The money for the back pay will be paid in four trenches. The employees returned to work as of the 1st of October 2022.

### 59. Segment Reporting

Reportable Segments	Community And Public Safety	Economic and Environmental services	Trading services	Other	Total
<b>Segment Revenue</b>	<b>174 101 387</b>	<b>129 851 579</b>	<b>1 348 239 992</b>	<b>533 285 299</b>	<b>2 185 478 257</b>
External revenue from exchange transactions	106 497 749	2 976 791	1 029 321 286	15 032 261	1 153 828 087
External revenue from non-exchange transactions	67 603 638	126 874 787	318 918 707	457 125 803	970 522 935
Interest received	-	-	-	8 308 002	8 308 002
Other revenue	-	-	-	52 819 233	52 819 233
<b>Segment Expenses</b>	<b>(406 281 382)</b>	<b>(266 187 101)</b>	<b>(1 185 214 638)</b>	<b>(571 792 719)</b>	<b>(2 429 475 840)</b>
Depreciation and amortisation	(9 047 708)	(166 664 248)	(140 042 433)	(33 063 113)	(348 817 502)
Interest expense	-	-	-	(64 412 398)	(64 412 398)
Internal charges	(339 523)	-	(26 377 998)	(17 947)	(26 735 468)
Other segment expenses	(396 894 150)	(99 522 852)	(1 018 794 207)	(474 299 261)	(1 989 510 470)
	<b>(232 179 995)</b>	<b>(136 335 522)</b>	<b>163 025 354</b>	<b>(38 507 420)</b>	<b>(243 997 583)</b>