

Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

29. Employee related costs

Basic	173 467 087	157 990 478	166 660 872	152 331 712
Commissions	9 147 605	7 810 364	9 147 605	7 810 364
Bonus	14 989 881	13 067 350	14 655 822	12 816 436
Medical aid - company contributions	13 164 101	11 906 019	12 970 466	11 735 441
UIF	1 431 905	1 355 504	1 408 841	1 333 376
SDL	2 388 492	2 160 258	2 348 297	2 124 027
Leave pay provision charge	4 428 773	3 518 477	4 389 525	3 430 713
Contribution long-service benefits	3 157 638	3 029 263	3 157 638	3 029 263
Other short term costs	119 708	746 879	70 550	66 586
Defined contribution plans	33 700 334	30 400 050	33 499 330	30 042 517
Travel, motor car, accommodation, subsistence and other allowances	1 615 896	1 515 140	1 579 408	1 479 930
Overtime payments	29 684 859	23 912 209	29 471 208	23 711 547
Long-service awards	741 548	2 309 605	741 548	2 309 605
Acting allowances	586 427	1 692 004	586 427	1 692 004
Car allowance	12 414 754	12 229 539	12 414 754	12 229 539
Housing benefits and allowances	1 590 300	1 301 105	1 565 654	1 278 248
	302 629 308	274 944 244	294 667 945	267 421 308

Remuneration of municipal manager

Annual Remuneration	1 071 667	915 394	1 071 667	915 394
Car, entertainment, housing, subsistence and other allowances	294 665	292 746	294 665	292 746
Performance Bonuses	141 380	1 221 029	141 380	122 029
Contributions to UIF, Medical and Pension Funds	247 299	226 747	247 299	226 747
Backpay	-	36 376	-	36 376
	1 755 011	2 692 292	1 755 011	1 593 292

Remuneration of chief finance officer

Annual Remuneration	660 926	571 446	660 926	571 446
Car, entertainment, housing, subsistence and other allowances	460 543	462 926	460 543	462 926
Performance Bonuses	106 875	70 578	106 875	70 578
Contributions to UIF, Medical and Pension Funds	28 221	24 602	28 221	24 602
Backpay	-	25 206	-	25 206
	1 256 565	1 154 758	1 256 565	1 154 758

Corporate and human resources (corporate services)

Annual Remuneration	548 236	488 530	548 236	488 530
Car, entertainment, housing, subsistence and other allowances	581 878	583 136	581 878	583 136
Performance Bonuses	96 187	80 660	96 187	80 660
Contributions to UIF, Medical and Pension Funds	28 221	24 602	28 221	24 602
Backpay	-	25 206	-	25 206
	1 254 522	1 202 134	1 254 522	1 202 134

Remuneration of general manager: Infrastructure and Economic Development

Annual Remuneration	848 318	782 655	848 318	782 655
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29. Employee related costs (continued)				
Car, entertainment, housing, subsistence and other allowances	304 156	307 040	304 156	307 040
Performance Bonuses	74 812	60 495	74 812	60 495
Contributions to UIF, Medical and Pension Funds	13 473	12 946	13 473	12 946
Backpay	-	25 206	-	25 206
	1 240 759	1 188 342	1 240 759	1 188 342

Remuneration of general manager: Water Services

Annual Remuneration	555 011	549 045	555 011	549 045
Car, entertainment, housing, subsistence and other allowances	465 169	461 140	465 169	461 140
Performance Bonuses	85 500	27 985	85 500	27 985
Contributions to UIF, Medical and Pension Funds	123 342	113 990	123 342	113 990
Backpay	-	27 985	-	27 985
	1 229 022	1 180 145	1 229 022	1 180 145

Remuneration of chief executive officer (Ugu South Coast Tourism)

Annual Remuneration	930 000	847 920	-	-
Performance Bonuses	118 709	104 000	-	-
Contributions to UIF, Medical and Pension Funds	12 272	11 304	-	-
Cellphone Allowance	18 786	17 806	-	-
	1 079 767	981 030	-	-

Remuneration of general manager: Finance and Human Resources (Ugu South Coast Tourism)

Annual Remuneration	600 000	476 955	-	-
Performance Bonuses	66 774	56 400	-	-
Contributions to UIF, Medical and Pension Funds	8 231	6 897	-	-
Cellphone Allowance	17 702	15 263	-	-
	692 707	555 515	-	-

Remuneration of general manager: Development (Ugu South Coast Tourism)

Annual Remuneration	-	59 248	-	-
Contributions to UIF, Medical and Pension Funds	-	1 174	-	-
Leave pay	-	48 371	-	-
Cellphone Allowance	-	2 544	-	-
	-	111 337	-	-

Remuneration of chief executive officer (South Coast Development Agency)

Annual Remuneration	-	589 489	-	-
Car, entertainment, housing, subsistence and other allowances	-	135 684	-	-
Contributions to UIF, Medical and Pension Funds	-	100 024	-	-
Leave pay	-	40 026	-	-
	-	865 223	-	-

Remuneration of acting chief executive officer (South Coast Development Agency)

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29. Employee related costs (continued)				
Annual Remuneration	848 689	-	-	-
Contributions to UIF, Medical and Pension Funds	8 267	-	-	-
	856 956	-	-	-

Remuneration of general manager: Finance and Human Resources (South Coast Development Agency)

Annual Remuneration	264 486	489 742	-	-
Car, entertainment, housing, subsistence and other allowances	75 481	136 076	-	-
Contributions to UIF, Medical and Pension Funds	21 707	54 472	-	-
Leave pay	96 021	-	-	-
	457 695	680 290	-	-

Remuneration of general manager: Projects (South Coast Development Agency)

Annual Remuneration	257 241	477 819	-	-
Car, entertainment, housing, subsistence and other allowances	80 614	154 122	-	-
Contributions to UIF, Medical and Pension Funds	24 016	49 805	-	-
Leave pay	44 412	-	-	-
	406 283	681 746	-	-

30. Remuneration of councillors

Mayor	343 056	343 056	343 056	343 056
Deputy Mayor	261 568	261 568	261 568	261 568
Executive committee members	1 915 698	1 848 352	1 915 698	1 848 352
Speaker	258 917	258 918	258 917	258 918
Councillors / board members	1 930 714	1 849 646	1 344 223	1 393 608
Company contributions to UIF, medical, and pension funds	352 460	505 583	352 460	505 583
Other allowances (Cellphone, housing, transport etc.)	4 481 335	4 078 836	4 481 335	4 078 836
	9 543 748	9 145 959	8 957 257	8 689 921

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30. Remuneration of councillors (continued)

In-kind benefits

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official council transportation when engaged in official duties.

The following additional personal support is provided by the municipality:

(i) The Mayor has one full-time bodyguard and one full-time driver.

(ii) The Deputy Mayor has one full-time aide, fulfilling various personal duties.

(iii) The Speaker has one full-time driver.

For services as directors

Ugu South Coast Tourism

EJ Crutchfield	41 500	37 350	-	-
HR Kelly	20 750	24 900	-	-
PT Jeffreys	14 525	18 675	-	-
J Harris	18 675	20 750	-	-
ZP Ngubane	14 525	20 750	-	-
C Davenport	18 675	14 525	-	-
WVMzulwini	20 750	18 675	-	-

South Coast Development Agency

S Madikiza	-	44 700	-	-
SJ Nzimande	48 000	38 425	-	-
SD Dlomo	98 965	44 687	-	-
EJ Crutchfield	-	70 146	-	-
C van der Slikke	-	45 500	-	-
N Zamisa	-	56 954	-	-
VK Naidoo	57 522	-	-	-
ZP Mthuli	39 406	-	-	-
HT Shezi	52 973	-	-	-
LG Shezi	62 210	-	-	-
EM Zungu	43 530	-	-	-
B Zulu	34 486	-	-	-

586 492 456 037 - -

In terms of Section 124(1) of the Municipal Finance Act (Act No. 56 of 2003), the accounting officer certifies that the salaries, allowances and benefits of the directors as disclosed in this note within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

31. Depreciation and amortisation

Property, plant and equipment	192 656 652	192 766 431	192 507 944	192 619 441
Intangible assets	2 451 340	3 156 055	2 441 660	3 145 870
	195 107 992	195 922 486	194 949 604	195 765 311

The prior year comparative balances have been accordingly restated retrospectively. (See note: 46)

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32. Impairment of assets				
Impairments				
Property, plant and equipment	420 208	76 295 248	420 208	76 295 248
Trade and other receivables	96 672 979	85 629 566	96 672 979	85 629 566
	97 093 187	161 924 814	97 093 187	161 924 814

33. Finance costs

Non-current borrowings	12 408 084	12 247 515	12 408 084	12 247 515
Other interest paid	1 148 032	565 214	1 148 000	565 192
	13 556 116	12 812 729	13 556 084	12 812 707

34. Debt impairment

Bad debts written off	196 710	17 799	172 017	-
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35. Bulk purchases

Water	66 091 136	52 626 127	66 091 136	52 626 127
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Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Bulk water is purchased from the Umgeni Water Board and eThekweni Municipality.

36. Contracted services

Specialist Services	22 764 152	19 927 427	22 704 656	19 827 306
Other Contractors	44 232	40 579	-	-
	22 808 384	19 968 006	22 704 656	19 827 306

Contracted services are as follows:

Contractors

Cleaning services	2 234 888	1 956 632	2 234 888	1 956 632
Pest control	52 745	179 548	52 745	79 427

Professional services

Chemistry	3 514 786	3 726 602	3 514 786	3 726 602
Dam safety	1 681 554	353 654	1 681 554	353 654
Engineering services	1 545 615	1 066 057	1 545 615	1 066 057
Other professional services	2 348 679	2 055 553	2 285 686	2 055 553

Security services

Alarm monitoring	747	4 039	747	4 039
Cash banking	133 991	148 999	133 991	148 999
General security	11 291 507	10 473 316	11 254 675	10 436 343

	22 804 512	19 964 400	22 704 687	19 827 306
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37. Grants and subsidies paid

Other subsidies

Low income subsidy	13 063 669	6 207 596	29 909 605	22 251 338
Other grants and subsidy	-	54 195	-	54 195
Other	7 263 389	23 216 449	7 263 389	23 216 449
	20 327 058	29 478 240	37 172 994	45 521 982

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37. Grants and subsidies paid (continued)

Conditional grants paid is in respect of projects undertaken by municipalities within the municipality's area of jurisdiction and funded by Ugu District Municipality.

Community projects consist primarily of ventilated pit latrines constructed for communities that have no access to sanitation services. This project is accelerated to deal swiftly with the municipality's sanitation backlog programme as funded through the Municipal Infrastructure Grant.

The low income subsidy is in respect of providing basic service levels to indigent households.

38. General expenses

Accounting fees	75 000	1 400	-	-
Advertising	2 513 928	1 984 251	110 423	126 222
Auditors remuneration	3 765 919	2 976 641	3 090 207	2 384 650
Bank charges	623 799	595 300	558 333	560 932
Cleaning	373 024	377 323	368 808	377 323
Commission paid	1 554 467	1 482 122	1 378 895	1 223 803
Consulting and professional fees	1 172 253	810 119	1 172 253	761 984
Consumables	207 909	90 438	207 909	90 438
Loose/small tools	436 490	555 375	436 490	555 375
Kwanaloga subscriptions	2 919 853	1 847 144	2 919 853	1 847 144
Accommodation, seminars and travelling	619 375	469 675	619 375	469 675
Insurance	1 631 848	1 551 571	1 554 945	1 487 131
Marketing	2 242 450	187 991	1 992 328	28 013
Magazines, books and periodicals	8 378	3 598	2 483	148
Materials	13 159 483	3 753 708	13 060 045	3 663 500
Drought relief expense (Salt Water)	4 218 048	1 000	4 204 048	-
Fuel and oil	6 112 625	11 601 355	6 112 625	11 601 355
Postage and courier	1 559 517	1 641 387	1 558 349	1 639 821
Printing and stationery	962 050	1 162 017	800 962	1 074 418
Research and development costs	624 734	32 800	624 734	32 800
Subscriptions and membership fees	39 910	81 319	30 110	27 703
Telephone and fax	4 245 068	3 199 043	3 912 524	2 779 683
Transport and freight	1 634 341	12 545 138	1 634 341	12 545 138
Training	2 684 170	2 693 525	2 612 205	2 608 989
Travel - local	198 932	396 116	-	-
Electricity	55 948 605	49 382 977	55 948 605	49 382 977
Uniforms and protective clothing	314 158	902 386	286 873	861 310
Other general expenses	9 684 403	3 498 442	8 939 681	1 584 629
Licenses	6 866 491	5 262 081	6 774 463	5 140 113
Vehicle tracking	1 373 343	355 082	1 117 266	89 269
Events and programmes	3 601 070	3 739 315	227 272	1 004 459
Gardening services	405 183	1 194 728	350 432	1 144 161
Public participation	544 736	1 162 244	544 736	1 162 244
Sports and recreation	320 136	1 624 053	131 459	1 351 268
Refreshments	277 119	167 741	277 119	167 741
Workmen's compensation insurance	1 390 225	1 342 380	1 390 225	1 342 380
Property transfers	1 336 389	907 800	1 336 389	907 800
	135 645 429	119 579 585	126 286 765	110 024 596

39. Fair value adjustments

Investment property (Fair value model)	96 749	(4 200 000)	96 749	(4 200 000)
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Figures in Rand	2016	2015	2016	2015

40. Auditors' remuneration

Fees	3 765 919	2 976 641	3 090 207	2 384 650
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41. Cash generated from operations

Surplus	174 661 724	125 947 266	170 583 601	121 467 198
Adjustments for:				
Depreciation and amortisation	195 107 992	195 922 486	194 949 604	195 765 311
Loss on sale of assets and liabilities	(716 192)	(862 083)	(646 992)	(883 418)
Assets acquired at no cost	(137 368)	(810 785)	(137 368)	(810 785)
Fair value adjustments	(96 749)	4 200 000	(96 749)	4 200 000
Impairment deficit	97 093 187	161 924 814	97 093 187	161 924 814
Debt impairment	196 710	17 799	172 017	-
Movements in operating lease assets and accruals	15 820	43 665	(12 937)	19 692
Movements in retirement benefit assets and liabilities	321 680	1 725 968	321 680	1 725 968
Movements in provisions - Current	5 446 839	3 869 295	5 395 752	3 362 106
Movements in provisions - Non-current	776 045	2 157 948	776 045	2 157 948
Changes in working capital:				
Inventories	2 902 413	(6 357 053)	2 902 413	(6 357 053)
Receivables from exchange transactions	(59 959 024)	(42 864 457)	(60 483 851)	(50 229 951)
Other receivables from non-exchange transactions	23 829 039	(37 514 728)	23 389 105	(37 058 794)
Payables from exchange transactions	23 992 702	46 796 640	22 932 638	44 646 271
VAT	(36 616 032)	6 568 035	(37 316 158)	6 924 796
Unspent conditional grants and receipts	(12 635 897)	(26 967 272)	(12 635 897)	(26 967 272)
Consumer deposits	572 602	309 343	572 602	309 343
	414 755 491	434 106 881	407 758 692	420 196 174

42. Aquisition of Municipal Entity

On 1 July 2014, Ugu District Municipality acquired 100% of the net assets of South Coast Development Agency NPC

Property, plant and equipment	-	197 994	-	-
Intangible assets	-	27 888	-	-
Receivables from exchange transactions	-	222 076	-	-
Bank and cash	-	1 729 684	-	-
Payables from exchange transactions	-	(818 153)	-	-
Provisions	-	(170 953)	-	-
Operating lease liability	-	(5 538)	-	-
Net assets acquired	-	1 182 998	-	-
Purchase consideration	-	100	-	-
	-	1 183 098	-	-
Cash balance of Municipal Entity	-	1 729 684	-	-
Purchase consideration settled in cash	-	(100)	-	-
Cash flow on acquisition of municipal entity	-	1 729 584	-	-

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43. Financial instruments disclosure

Categories of financial instruments

Economic entity - 2016

Financial assets

In accordance with GRAP 104.13 for the financial assets for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Long-term receivables	-	-	-
- Sundry loans	-	251 734	251 734
Receivables from Exchange Transactions	-	-	-
- Sewerage	-	24 765 754	24 765 754
- Other trade receivables	-	2 475 335	2 475 335
- Water	-	61 098 682	61 098 682
- Water rates	-	7 924 214	7 924 214
Receivables from Non-Exchange Transactions	-	-	-
- Payments made in advance	-	9 740 266	9 740 266
- Sundry deposits	-	1 604 432	1 604 432
- Sundry debtors	-	15 786 685	15 786 685
Cash and Cash Equivalents	-	-	-
- Call deposits	50 184 752	-	50 184 752
- Notice deposits	-	165 018 579	165 018 579
- Bank balances	61 045 657	-	61 045 657
- Cash floats and advances	11 692	-	11 692
Current-portion of Long-term Receivables	-	-	-
- Sundry loans	-	11 594	11 594
	111 242 101	288 677 275	399 919 376

In accordance with GRAP 104.13 for the financial liabilities for the municipality are classified as follows:

Financial liabilities

	At fair value	At amortised cost	Total
Compound instruments	-	-	-
Annuity loans	-	145 553 238	145 553 238
Other financial liabilities	-	-	-
Trade and other payables from exchange transactions	-	177 147 533	177 147 533
Bank overdraft	2 306 145	-	2 306 145
	2 306 145	322 700 771	325 006 916

Economic entity - 2015

Financial assets

In accordance with GRAP 104.13 for the financial assets for the municipality are classified as follows:

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-
- Relocation costs	-	2 661	2 661
- Sundry loans	-	305 361	305 361
Receivables from Exchange Transactions	-	-	-

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43. Financial instruments disclosure (continued)				
- Sewerage	-	-	50 183 184	50 183 184
- Other trade receivables	-	-	1 734 518	1 734 518
- Water	-	-	110 186 253	110 186 253
- Water rates	-	-	18 583 628	18 583 628
Receivables from Non-Exchange Transactions	-	-	-	-
- Payments made in advance	-	-	4 353 985	4 353 985
- Government subsidy claims	-	-	11 562 424	11 562 424
- Insurance claims	-	-	122 367	122 367
- Municipal entities	-	-	50 979	50 979
- Sundry deposits	-	-	808 432	808 432
- Sundry debtors	-	-	342 497 865	342 497 865
Cash and Cash Equivalents	-	-	-	-
- Call deposits	36 344 664	-	-	36 344 664
- Notice deposits	-	-	185 734 892	185 734 892
- Bank balances	15 855 230	-	-	15 855 230
- Cash floats and advances	4 910	-	-	4 910
Current-portion of Long-term Receivables	-	-	-	-
- Relocation costs	-	-	9 567	9 567
- Sundry loans	-	-	3 600	3 600
	52 204 804	726 139 716	778 344 520	

Financial liabilities

	At fair value	At amortised cost	Total
Compound instruments	-	-	-
- Annuity loans	-	163 440 870	163 440 870
Other financial liabilities	-	-	-
- Trade and other payables from exchange transactions	-	156 441 249	156 441 249
- Bank overdraft	5 017 457	-	5 017 457
- Finance lease liability	-	3 063 785	3 063 785
	5 017 457	322 945 904	327 963 361

Controlling entity - 2016

Financial assets

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-
- Sundry loans	-	251 734	251 734
Receivables from Exchnage Transactions	-	-	-
- Sewerage	-	24 765 754	24 765 754
- Other trade receivables	-	1 826 993	1 826 993
- Water	-	61 089 682	61 089 682
- Water rates	-	7 924 214	7 924 214
Receivables from Non-Exchange Transactions	-	-	-
- Payments made in advance	-	9 740 266	9 740 266
- Sundry deposits	-	1 604 432	1 604 432
- Sundry debtors	-	15 808 912	15 808 912
Cash and Cash Equivalets	-	-	-
- Call deposits	50 184 752	-	50 184 752
- Notice deposits	-	165 018 579	165 018 579
- Bank balances	41 248 565	-	41 248 565
- Cash floats and advances	4 967	-	4 967
Current-portion of Long-term Receivables	-	-	-

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44. Multi-employer retirement benefit information (continued)

The scheme is subject to a tri-annual actuarial valuation. The last statutory actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The statutory actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R251,5 (31 March 2011: shortfall of R382,3) million, with a funding level of 82,0% (31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) was expected to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,35% is payable by the local authority.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 15,85% (Total employer contribution of 34,22%) and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 15,85% with effect from 1 July 2012 for an indefinite period of time. The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund merge with the Superannuation Fund in the near future.

Superannuation fund

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els & Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R270,0 (31 March 2011: R549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% of pensionable salaries to meet the shortfall within the 8 year period provided for in the scheme. It was expected that the deficit will be fully funded by 2020.

This surcharge is payable until 31 March 2020. It is necessary that the basic employer contribution be increased by 3,63% to 21,63% and the surcharge be increased to 9,5% and extended by a further 8 years to 31 March 2020. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for an indefinite period of time.

It is intended that the fund merge with the retirement fund in the near future.

Defined contributions schemes

Municipal councillors pension fund.

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 31 March 2012.

The statutory valuation performed as at 30 June 2011 revealed that the market value of the fund was R1 446,8 (30 June 2010: R1 446,8) million. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the actuaries, the fund was in a sound financial condition as at 30 June 2014.

Provident fund