

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk.

Trade and other receivables

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of receivables whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of council's credit control and debt collection policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

1. The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
2. A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
3. The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
4. The requirement of a deposit for new service connections, serving as guarantee;
5. Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters.

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	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term receivables and other debtors are individually evaluated annually at statement of financial position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists, based on the payment history of the parties.

Counterparty and location

Dr K Nepaul	3 089 294	-	3 089 294	-
Harry Gwala District Municipality	2 093 651	1 364 670	2 093 651	1 364 670
Kunzaan Property Trust	1 018 706	-	1 018 706	-
Murchison Hospital	1 805 179	1 719 169	1 805 179	1 719 169
SA Police (Jail)	-	1 356 171	-	1 356 171
Plattfour Properties CC	952 999	-	952 999	-
Umzumbe Glades Body Corporate	-	954 176	-	954 176
Blue Marlin Hotel	-	941 246	-	941 246
	8 959 829	6 335 432	8 959 829	6 335 432

Except as detailed in the following table, the carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

Investments	-	-	200	200
Long-term receivables	89 543	303 589	89 543	303 589
Consumer debtors	366 167 050	296 373 620	366 167 050	296 373 620
Other debtors	21 372 056	27 131 826	21 372 056	27 131 826
Bank, cash and cash equivalents	189 201 721	278 567 024	180 503 687	258 763 006
	576 830 370	602 376 059	568 132 536	582 572 241

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Consumer debtors

Households	79,00 %	77,00 %	79,00 %	77,00 %
Industrial/Commercial	16,00 %	18,00 %	16,00 %	18,00 %
National and Provincial Government	5,00 %	4,00 %	5,00 %	4,00 %
Other debtors	- %	1,00 %	- %	1,00 %

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Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

	100,00 %	100,00 %	100,00 %	100,00 %
Bank and cash balances				
ABSA Bank Limited	23 154 848	111 228 409	14 462 797	91 468 011
First National Bank of SA Limited	45 131 741	65 018 578	45 131 741	65 018 578
Nedbank Limited	40 000 000	30 000 000	40 000 000	30 000 000
Investec Bank	35 000 000	40 000 000	35 000 000	40 000 000
Standard Bank	45 736 436	30 000 000	45 736 436	30 000 000
Cash equivalents	8 933	13 892	2 950	4 967
	189 031 958	276 260 879	180 333 924	256 491 556

42. Multi-employer retirement benefit information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors have the option to belong to the Pension Fund for Municipal Councillors.

All full-time employees belong to the KwaZulu-Natal Joint Municipal Pension Fund, which are made up of the Retirement, Superannuation and Provident Funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors/employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

Defined benefits schemes

Retirement fund

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.

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

42. Multi-employer retirement benefit information (continued)

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 2017.

Provident fund

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 market value of the fund was R1 293,4 (31 March 2011: R1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
43. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
• Property, plant and equipment	547 309 354	609 843 160	547 309 354	609 843 160
• Other	65 441 871	97 964 654	65 441 871	97 964 654
	612 751 225	707 807 814	612 751 225	707 807 814
Not yet contracted for and authorised by accounting officer				
• Property, plant and equipment	98 368 201	98 642 426	98 368 201	98 642 426
Total capital commitments				
Already contracted for but not provided for	612 751 225	707 807 814	612 751 225	707 807 814
Not yet contracted for and authorised by accounting officer	98 368 201	98 642 426	98 368 201	98 642 426
	711 119 426	806 450 240	711 119 426	806 450 240
Authorised operational expenditure				
Already contracted for but not provided for				
• Ugu South Coast Tourism - Operating expenditure	1 626 857	3 346 225	-	-
• South Coast Development Agency - Operating expenses	-	2 036 207	-	-
	1 626 857	5 382 432	-	-
Total operational commitments				
Already contracted for but not provided for	1 626 857	5 382 432	-	-
Total commitments				
Total commitments				
Authorised capital expenditure	711 119 426	806 450 240	711 119 426	806 450 240
Authorised operational expenditure	1 626 857	5 382 432	-	-
	712 746 283	811 832 672	711 119 426	806 450 240

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
44. Contingent assets and contingent liabilities				
Guarantees:				
i) Ray Nkonyeni Municipality (Ex, Hibiscus Coast Municipality): The Municipality issued a bank guarantee in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the Municipality.	10 000	10 000	10 000	10 000
(ii) Eskom: The Municipality issued a bank guarantee in favour of Eskom to cover deposits on the electricity accounts of the Municipality.	2 852 000	2 852 000	2 852 000	2 852 000
(iii) South African Post office: The municipality issued a bank guarantee in favour of South African Post office.	200 000	200 000	200 000	200 000
	3 062 000	3 062 000	3 062 000	3 062 000
Contingent liabilities				
(i) Alleged Breach of Contract: Council has been involved in a court case with Thumbprint Events Management, where it is alleged that the Municipality has unilaterally repudiated a contract. Applicant is claiming unpaid invoices and damages in terms of what would have been due to them had the contract not been repudiated by the Municipality. The Municipality is defending this action and awaits a court date. The total claim is valued at R875 258.46 plus 30% of envisaged gate takings for two events and 25% of sale of floor space for two events (excluding VAT). The legal opinion is being solicited on offer of R786 000. The matter is expected to be finalised by 30 September 2017.	786 000	875 248	786 000	875 248
(ii) The Municipality is enjoined with Umzumbe Municipality in litigation with MP & RV Conco regarding alleged illegal encroachment by the Municipalities. The applicants are wanting rehabilitation of their land. Valuation has been concluded and cost of the land is R 564 760 (R70.00 per square metre) This matter is expected to be finalised by 30 September 2017.	564 760	-	564 760	-
(iii) The parent municipality of the entity mandated consultants to assist in regularising their Value Added Taxation affairs. Upon conclusion of the said assignment, an ancillary finding was communicated to the parent, by the consultants, in that the grant funding charged out by the entity should indeed be Vatable. The entity has never levied Value Added Taxation on grants. The directors do not agree with the opinion of the consultants and have initiated steps to obtain a direct ruling from the South African Revenue Services. In any case, there is no loss to the fiscus as any possible effects are inter-governmental with all output directly corresponding with equal and opposite inputs on the governmental partner. Furthermore, the entity has been audited directly and specifically by the South African Revenue Services on its grants and no findings were made.	-	-	-	1

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
44. Contingent assets and contingent liabilities (continued)				
iv) Due to a vat query raised by KPMG in October 2015 with regards to Ugu District Municipality, Ugu - South Coast Tourism logged a VAT rulling request with SARS, regarding whether the grant funding paid to municipal entities should be raised including vat or at the zero rate, which has been the case since the inception of the entity in 2009. To date, there has been no written confirmation on this matter however, in reviewing the VAT Act, it does appear that grant funding to municipal entities should include vat at 14%.	-	-	-	7 004 003
v) Claim fo loss of life due to alleged negligence: The municipality is enjoined with Umuziwabantu Municipality in litigation instituted by Mahlawe family who allege that due to the Municipalities' negligence, a family member died. Applications are claiming damages, interest and costs. Muniaplities are currently in discussions as there is a dispute regarding ownership of the relevant infrastructure.	2 265 000	-	2 265 000	-
vi) Application for Review of Proceedings: The Municipality is enjoined with the MBAT in an application made for the review of a decison reached by MBAT at an appeal hearing in respect of security services tender. Court adjourned for representations from other respondents. Matter expected to be finalised by December 2017. Cost indeterminable at this point.	-	-	-	1
vii) Claim fo Loss of life due to alleged negligence: The Municipality is the subject of litigation instituted by Gramany family who allege that due to the Municipalities' negligence, a family member died. Applicants are claiming damages, interest and costs. Damages claim is for R1 347 538.00, excludng interest and costs	1 347 538	-	1 347 538	-
	4 963 298	875 248	4 963 298	7 879 253

Contigent assets

i) Claim instituted by Municipality against Sanlam: The Municipality is claiming contribution made to an erstwhile life assurance scheme, pursuant to Sanlam's undertaking in writing to reimburse same.	-	-	-	1
ii) Claim instituted by Municipality against Eyethu Translodge & Plant Hire (Pty) Ltd: The Municipality is claiming an amount erroneously paid, in contravention of court order.	340 343	-	340 343	-
iii) Due to a vat query raised by KPMG in October 2015 with regards to Ugu District Municipality, Ugu - South Coast Tourism logged a VAT rulling request with SARS, regarding whether the grant funding paid to municipal entities should be raised including vat or at the zero rate, which has been the case since the inception of the entity in 2009. To date, there has been no written confirmation on this matter however, in reviewing the VAT Act, it does appear that grant funding to municipal entities should include vat at 14%.	-	-	-	7 004 003
iv) An objetcion was lodged with SARS regarding assessments and journals that appearing on Ugu's SARS statement. The amount of R6 590 567 is receivable depending on completion of an assessment by SARS.	-	6 590 567	-	6 590 567
	340 343	6 590 567	340 343	13 594 571

Notes to the Consolidated Financial Statements

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	2017	2016	2017	2016

45. Related parties

Relationships

Mr DD Naidoo (Accounting Officer)	Refer to accounting officer's report note
Controlled entities	Refer to note 13
Ms V Tsako (General Manager: Corporate Services)	Section 57 employee
Ms LH Cele (General Manager: Water Services)	Section 57 employee
Ms SP Ngilande (General Manager: Budget and Treasury Office)	Section 57 employee
Ms Z Mbonane (General Manager: Infrastructure & Economic Development)	Section 57 employee
Mr J Mackrory (USCT: Chief Executive Officer)	Ugu South Coast Tourism: Chief Executive Officer
Ms Deborah Ludick (General Manager: Finance and Human Resources)	Ugu South Coast Tourism: Section 57 employee
Mr M Mabece (USCDA: Chief Executive Officer)	Ugu South Coast Development Agency: Chief Executive Officer
Ms EJ Crutchfield (USCDA(Acting): Chief Executive Officer)	Ugu South Coast Development Agency: Acting Chief Executive Officer (Resigned)
Mr KMN Duma (USCDA: General Manager: Finance and Human Resources)	Ugu South Coast Development Agency: Section 57 employee
Mr S Chagi (USCDA: General Manager: Projects)	Ugu South Coast Development Agency: Section 57 employee

Municipality and individuals as well as their close family members, and /or entities are related parties if one has the ability, directly, indirectly 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.

The municipality procured goods and/or services from the following companies, which are considered to be related parties:

Related party transactions

Grants and transfers from /(to) related parties

Ugu South Coast Tourism (Pty) Ltd	12 175 726	11 595 930
Ugu South Coast Development Agency NPC	5 512 500	5 250 000
EFG (Proprietary) Limited	-	-
	17 688 226	16 845 930

Transactions with key management personnel (Ugu District Municipality)

Councillors	8 323 243	8 967 257
Municipal Manager and Section 57 personnel	7 130 716	6 756 668
	15 453 959	15 723 925

Transactions with key management personnel (Ugu South Coast Tourism)

Board of directors	180 525	149 400
Senior management	2 388 667	1 772 474
	2 569 192	1 921 874

Transactions with key management personnel (Ugu South Coast Development Agency)

Board of directors	909 282	437 091
Senior management	3 086 317	1 720 934
	3 995 599	2 158 025

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

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	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

45. Related parties (continued)

In terms of GRAP 20 para 35 remuneration paid by Ugu District municipality to councillors and Municipal Manager and section 57 personnel respectively is a related party transaction.

- The municipality did not conduct any business with any service provider that can be considered a related party.
- The municipality did not trade with service providers that are in the employment nor blacklisted by Treasury.
- The disclosure in relation to paragraph 35 of GRAP 20, remuneration paid by UGU District municipality to councillors and Municipal Manager and section 57.
- Key Management and Councillors have direct or indirect significant control over the municipality.
- No transactions with related parties other than that key management and councils were identified during 2016/17.

46. Prior period errors

Corrections were made during the previous financial years. Details of the corrections are described below:

Receivables from exchange transactions

Report Amount	-	59 138 600	-	58 696 872
Correction of error	-	980 663	-	980 663
	-	60 119 263	-	59 677 535

During the current financial period it was noted that journal for unbilled debtors during the 2014/15 period was not reversed during the 2015/16 financial period. Therefore a journal amount to R280 663 has to be reversed as prior period error.

The amount of debtor totaling to R700 000 for Umzumbe municipality was not raised as debtor during 2015/16 financial period. Therefore a debtor was not recognised. Therefore an adjustment as prior period error.

Property, plant and equipment - Economic Entity	Year	Land and Buildings	Other PP&E	Infrastructure	Total
Reported Amount	2015/16	162 601 186	47 851 540	3 785 943 139	3 996 395 865
Correction of error	2015/16	-	(1 407 615)	(144 338 155)	(145 745 770)
		162 601 186	46 443 925	3 641 604 984	3 850 650 095

Property, plant and equipment - Controlling Entity	Year	Land and Buildings	Other PP&E	Infrastructure	Total
Report Amount	2015/16	162 601 186	46 408 662	3 785 943 139	3 994 952 987
Correction of error	2015/16	-	(1 407 615)	(144 338 155)	(145 745 770)
		162 601 186	45 001 047	3 641 604 984	3 849 207 217

During the current financial period it was noted that some of the Infrastructure (Work-in-progress) projects were identified to be slow moving or abandoned with various reasons. After assessment the projects were to be impaired in the prior year.

Vat receivable

Reported Amount	-	36 329 808	-	36 461 097
Correction of error	-	(6 590 567)	-	(6 590 567)
	-	29 739 241	-	29 870 530

The amount of R6 590 567 that was receivable from SARS, but has not been received in the bank and is not included in SARS statement of balances. The objection has been lodged with SARS and assessment is still in progress. A contingent asset has been disclosed. Refer to note 44. The amount has been reversed in the prior period as material prior period error.

Statement of financial position

Property, plant and equipment	-	(147 572 883)	-	(147 572 883)
Receivables from exchange transactions	-	980 663	-	980 663
	-	(146 592 220)	-	(146 592 220)

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46. Prior period errors (continued)				
Statement of financial performance				
Revenue - Service charges	-	980 663	-	980 663
Impairment loss	-	(147 572 883)	-	(147 572 883)
	-	(146 592 220)	-	(146 592 220)

Other Disclosure

Commitments

During the current financial period the capital commitments has been restated as result of mistatements noted from the prior year balances. The prior year balances of capital commitments was re-stated. Refer to note 43.

Commitments reported

Reported Amount	-	554 969 884	-	554 969 884
Restated Amount	-	802 652 423	-	802 652 423
Commitments Adjustment	-	247 682 539	-	247 682 539

47. Comparative figures

The comparative figures were restated as a result of effect of prior period errors.

48. Going concern

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.

49. Events after the reporting date

There has been no non-adjusting events after the reporting date.

50. Unauthorised expenditure

Opening balance	113 949 531	310 376 720	113 949 531	310 376 720
Unauthorised expenditure for period	161 195 351	113 949 531	161 195 351	113 949 531
Unauthorised expenditure written-off during the period	-	(310 376 720)	-	(310 376 720)
	275 144 882	113 949 531	275 144 882	113 949 531

Incident

Budgeted amounts exceeded:

Disciplinary steps/ criminal proceedings: Investigations are being conducted by the internal audit.