

*"A responsive Municipality in pursuit of service  
excellence"*



# DRAFT ANNUAL REPORT

2018/ 2019 Financial Year

**SJ BAHUMI**

07 Groottrek Street  
Koffiefontein  
9986  
[www.letsemeng.gov.za](http://www.letsemeng.gov.za)

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# 1 MAYOR'S FOREWORD AND EXECUTIVE SUMMARY

## COMPONENT A: MAYOR'S FOREWORD



It is a great pleasure and honour for me, to present the annual report to the community of Letsemeng. The report covers the work done during 2018/19 financial year, which started in July 2018 to June 2019.

It is also of great importance that our municipality has a constitutional obligation to provide democratic and accountable government for local communities. It must also ensure provision of services to communities in a sustainable manner, promote social and economic development, promote safe and healthy environment and encourage the involvement of communities and community organisations in matters of the municipality.

Letsemeng had a prolonged community protest which took place within the vicinity of Koffiefontein during the financial under review. The management clearly understood that “protest” as a popular mobilization in support of a collective grievance and therefore grievance conveys a sense of being wrong, without necessarily being clearly specified. However, the municipality has conducted a number of assessments utilizing various mechanisms in order to pin point areas which are mostly in need of uninterrupted provision of services. Subsequently, we revived all our planning instruments commensurate with the budget and not equal to human capital. It has been noted that the community protest which took eight (8) consecutive months during the financial year under review impacted undesirably on the provision of services and the overall implementation of our IDP, Budget and Revenue Enhancement Strategy.

Our main focus is to turnaround the situation by making sure that service delivery improves for the better. Amongst other issues, the municipality aimed at improving on its organisational structure and appoint the right people with the right qualifications to key positions in the municipality to accelerate service delivery. We must not compromise that aspect. We also have the responsibility to ensure that we provide services to the people efficiently and professionally and that we put people first, in line with Batho Pele principles.

We are also promoting the leadership and institutionalisation of the Code of Conduct for Councillors and officials in order to promote accountability and consequence management within our municipality. We are also aiming to cascade down our performance management system to strengthen our accountability.

### **1.1 Vision**

“A responsive Municipality in pursuit of Service excellence”

### **1.2 Mission**

“Providing sustainable quality services through partnering with Stakeholders and Communities”.

### **1.3 Values**

- Integrity
- Commitment
- Transparency
- Innovation
- Accountability

### **1.4 Key Policy Developments**

Although the municipality is still facing challenges with the developmental agenda as espoused in the IDP and the Free State Growth and Development Strategy, there is progress in achieving some of the goals we have set for ourselves. We have to ensure that our policies becomes consistent in its delivery to achieve the set objectives. We also have the responsibility to address the issues raised by the Auditor General on the pre-determined objectives and our Annual Financial Statements.

### **1.5 Key Service Delivery Improvements**

The municipality has retained its audit outcomes. Some of the Capital projects could not be completed as a result of service delivery protests and the municipality is attentively looking into these challenges which contributed towards deficiencies identified. Detailed information will be reflected in this report in terms of its implementation of these capital projects.

## **1.6 Public Participation**

Public Participation is the cornerstone of deepening the relationship between the communities and the municipality through improved community engagement mechanisms. It creates a an opportunity aim at involving communities to better understand Letsemeng jurisdictions and practically direct efforts at the real needs of our communities. It also requires the involvement of stakeholder groups, including marginalised groups. These involvements are solely directed to create an opportunity for our stakeholders to present the interests of their constituencies. It has always been a challenge in terms of making sure that the regular coordination of our local stakeholder meetings and direct representation in some of the structures which are aimed at improving service delivery due to lack of staff. However, necessary measures are put in place in ensuring that these deficiencies are addressed. Ward Committees are also expected to narrow the gap between the various stakeholder groups, community and the municipality through their involvement during public participation programmes. The challenge had been the number of vacant sits which were deliberately abandoned by a number of ward committee members. However, this shortcoming had been addressed and vacant sits had been filled.

Thus the functionality of the Ward Committees and regular ward meetings are imperative. The municipality did not do well in this field. However, the situation is improving gradually and for the better since one public participation officer was appointed. The Council should look at some of the issues below for effective strategy to be developed in addressing the failures;

- ❖ Public communication systems;
- ❖ Feedback to communities.
- ❖ Public Participation Models
- ❖ Service Delivery Satisfaction Survey for 19/20 Financial Year.

Amongst the above-mentioned issues, electronic complaints management system had been implemented and the municipality need to conduct awareness campaign by making sure that the community is aware of this service.

Capacity building of the Ward Committees will also be the main key in ensuring that our communities participate fully in the democratic processes and strengthening of the municipality.

## **1.7 Future Actions**

I also need to inform that our plans have been drawn to accommodate public participation, implementation of revenue enhancement strategy without any fail. The municipality has also considered to interconnect human resource management, performance management system and strengthen retention strategies in order to ensure that we retain skilled employees. That the management fill up critical vacant positions promptly to improve remarkably on service delivery.

## **1.8 Agreements / Partnerships**

The municipality did not enter into any agreement or partnership with any entity or service provider regarding local economic development as a result of long unrest and community protest that took place during the financial year under review

## 1.9 Conclusion

We rendered services under difficult circumstances mainly influenced by external forces within the space of service delivery.

We remain committed in making sure that we provide a responsive systems which support service delivery initiatives and local economic development.

We also recognised all the identified areas of development within communities. We anticipate improvements more especially on developmental needs of the communities through service delivery projects and programmes.

I must say that we remain committed to the principle of a responsive and accountable local government, a local government by the people, for the people.

Thank you,



CLLR SJ BAHUMI  
ACTING MAYOR

## 2 EXECUTIVE SUMMARY

### COMPONENT B: MUNICIPAL MANAGER'S OVERVIEW



Our motto “we sparkle in pursuit of service delivery” compels administration in general, and management in particular, to perform to our utmost best in ensuring that service delivery is rendered in an efficient and effective manner at all our communities irrespective of socio-economic status, colour or creed. In pursuance of the motto, minor changes were effected in the technical department to accommodate the electrical manager in the organogram. Further staff placement and re-assignment of duties in the technical and community services departments were made in order to minimise escalating overtime costs and improve efficiencies. Some improvement is starting to show through the downward trend of overtime costs at one of our units and slight improvement of refuse removal at the other unit.

The following specific activities highlight where there has been either improvement or under performance.

Year after year the municipality seem to be facing the same challenges. The situation can only change if the municipality and the supporting economic sector cluster can bring about a radical economic transformation in the area. **The key challenges are;**

- ❖ Attracting economic investment opportunities to improve the economy of the municipal area;
- ❖ Professionalizing the institution so as to enable it to render efficient government services to the people as per the electoral mandate;
- ❖ Creating adequate job opportunities in attempting to alleviate poverty;
- ❖ Empowerment of the SMMEs and entrepreneurs to create job opportunities and increase economic activity in the area;
- ❖ Provide alternative means of support to rural / informal population in order to decrease dependencies on the grants
- ❖ Improvement of the road networks (internal and external roads);

Council, management and staff strongly believe that challenges can be effectively addressed only if we maintain and continue to build partnerships that include all spheres of government, organizations of civil society, communities and the private sector.

The Municipality has now an internal audit unit in place. The risk management unit has also been established and headed by an officer.

The municipality used to have a shared Audit committee , unfortunately it was dissolved in the third quarter of the year under review.

### **Appreciation**

I record my thanks and appreciation to the political leadership for support and guidance. The appreciation is also extended to the management and administration team who selflessly devoted so much time and effort in the execution of their mandates.

Regards,

A handwritten signature in blue ink, consisting of a large, stylized 'M' followed by a series of loops and a horizontal stroke at the end.

**Mr. TL Mkhwane**  
**Municipal Manager**

## 2 CHAPTER 1: MUNICIPAL FUNCTIONS, POPULATION & ENVIRONMENTAL OVERVIEW

### 2.1 INTRODUCTION TO BACKGROUND DATA

Our Municipality is situated in the South Western part of the Free State Province and forms part of the smallest district namely Xhariep District Municipality, a rich agricultural area with natural economic resources. The local municipality area measures 10 192 square kilometres in extend and comprises of five towns; Koffiefontein (which is the head office), Petrusburg, Jacobsdal, Oppermansgronde and Luckhoff. The figure below shows the Letsemeng area with its main towns and neighbouring municipalities of the Xhariep District.



**Figure 1: Letsemeng Municipal Area**

It borders the Northern (through Jacobsdal) and Western Cape Provinces and is renowned for diamond, salt and slate mining as well as irrigation farming along the Orange Riet Canal and Van der Kloof Dam. Letsemeng Local Municipality is situated in the south-west of the Free State province within the Xhariep District Municipality, a rather agriculturally rich area with limited natural economic resources.



The N8 route transgresses the area to the North West and links Kimberley and Bloemfontein via Petrusburg. The N8 route also crosses the area to the north and links Kimberley and Bloemfontein via Petrusburg. The Port Elizabeth railway line starts at Koffiefontein and connects at Springfontein with the Bloemfontein/Cape Town. It is also bordered by Tokologo Local Municipality in Lejweleputswa District to the north, Mangaung Metro Municipality to the east and Kopanong Local Municipality in the south-east. Other borders are the Pixley ka Seme District Municipality (Sol Plaatje Local Municipality) in Northern Cape Province to the west and Frances Baard District Municipality (Siyacuma, Thembalihle and Renoster Local Municipalities) in Northern Cape Province to the south-west.

The Local Municipality consists of the towns Koffiefontein, Jacobsdal, Petrusburg, Luckhoff and Oppermansgronde. Koffiefontein is the municipal head office.

The five towns are connected with tarred road infrastructure via Koffiefontein. The R705 links Jacobsdal with Koffiefontein while the R48 links Petrusburg, Koffiefontein and Luckhoff in a north-south direction. The R704 links Koffiefontein, Fauresmith and Jagersfontein with one another.

The municipal area also accommodates Oppermansgronde, just west of Koffiefontein, which is part of a land restitution project. Several pans occur in the area while the Van der Kloof dam, Kalkfontein Dam and Wuras Resort are some of the more prominent water sources available near the area. The Riet River drains through the area in a Westerly direction while the Orange River is the border west of the area. Although there are ample water sources available near the area, access to potable water in some of the towns remain problematic.

The Northern parts of the municipal area surrounding Petrusburg are good cultivated agricultural land while the southern area is renowned for livestock farming. The socio-economic development of the municipality is centred on agriculture. The municipal area also has mining activities, with diamonds being the major natural resource that helps with employment creation.

**Table 1: Overview of Neighbourhoods within Letsemeng Municipality**

Overview of Neighbourhoods within Letsemeng	
Settlement Type	Households
<b>Towns</b>	
Jacobsdal	1003
Koffiefontein	3203
Petrusburg	2639
Luckhoff	1007
Sub-Total	7852
<b>Townships</b>	
Ratanang	1112
Sub-Total	1112

Overview of Neighbourhoods within Letsemeng	
Settlement Type	Households
Rural settlements	1717
Oppermansgronde	230
Sub-Total	1947
Informal settlements	202
Sub-Total	202
Total	11113
	<i>T 1.2.6</i>

### 2.1.1 DEMOGRAPHIC AND SOCIO-ECONOMIC PROFILE

The population figures are based on the census conducted in 2016 and the recent 2016 household survey. Migration tends to be voluntary, in most cases it is in search of better economic opportunities and a quality of life. A case in point is foreign nationals. Thus migration patterns are difficult to measure, keep track and get the exact reasons for migrating.

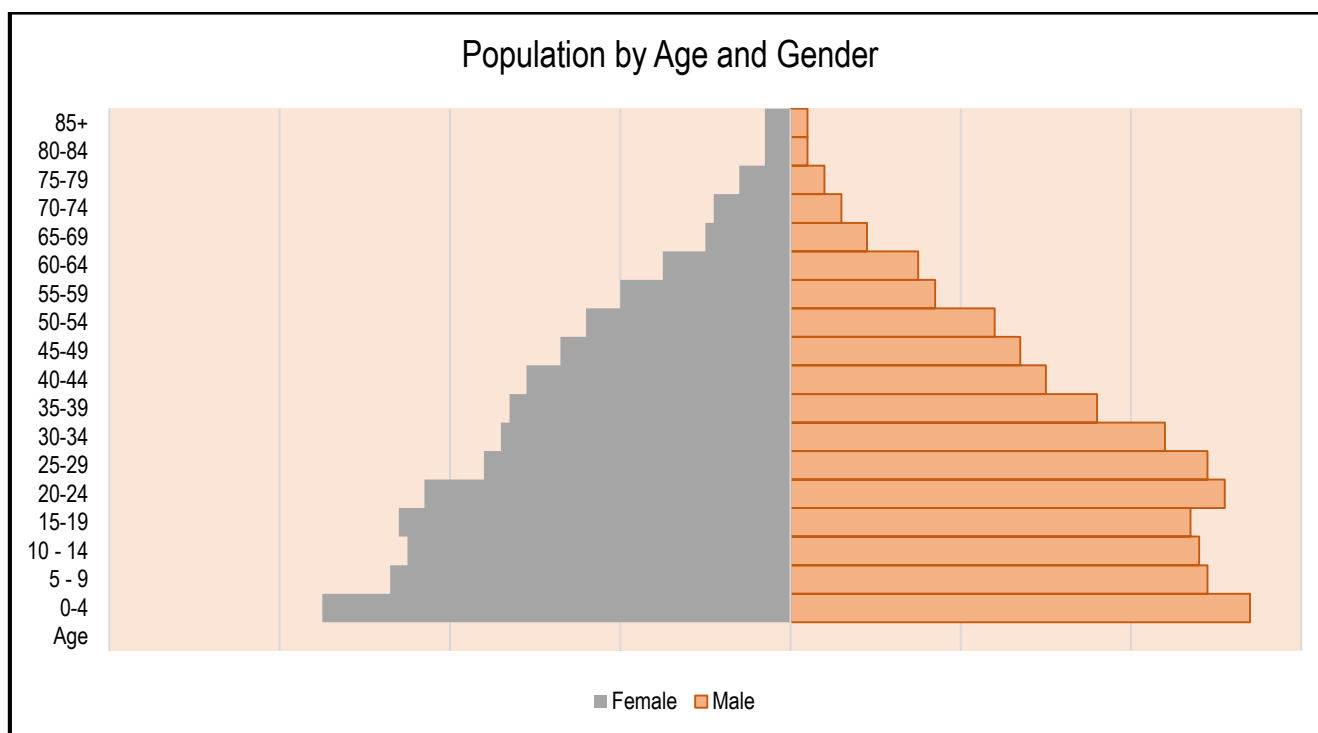
According to the 2016 survey, there is a positive growth in Letsemeng. It is an indication that more and more people are moving to Letsemeng municipality for various reasons. The population in Letsemeng currently stands at 40 044 This is according to the latest STATSSA figures.

Unemployment has marginally increased from 22.8% to 22.30%. Suffice to say the effect of drought and decreasing job opportunities might have a direct effect on migration out of the Letsemeng jurisdiction. Youth unemployment stands at 27.7%, which poses another challenge to the municipality and all Sector Departments to pay special attention to the youth in terms of both employment and economic empowerment.

#### 2.1.2 Table 2: Census Key Statistics

Census Key Statistics	
<b>Population</b>	38 628
<b>Age Structure</b>	
Population under 15	29.70%
Population 15 to 64	64.80%
Population over 65	5.40%
<b>Dependency Ratio</b>	
Per 100 (15-64)	54.20
<b>Sex Ratio</b>	
Males per 100 females	105.70
<b>Population Growth</b>	
Per annum	-1.04%

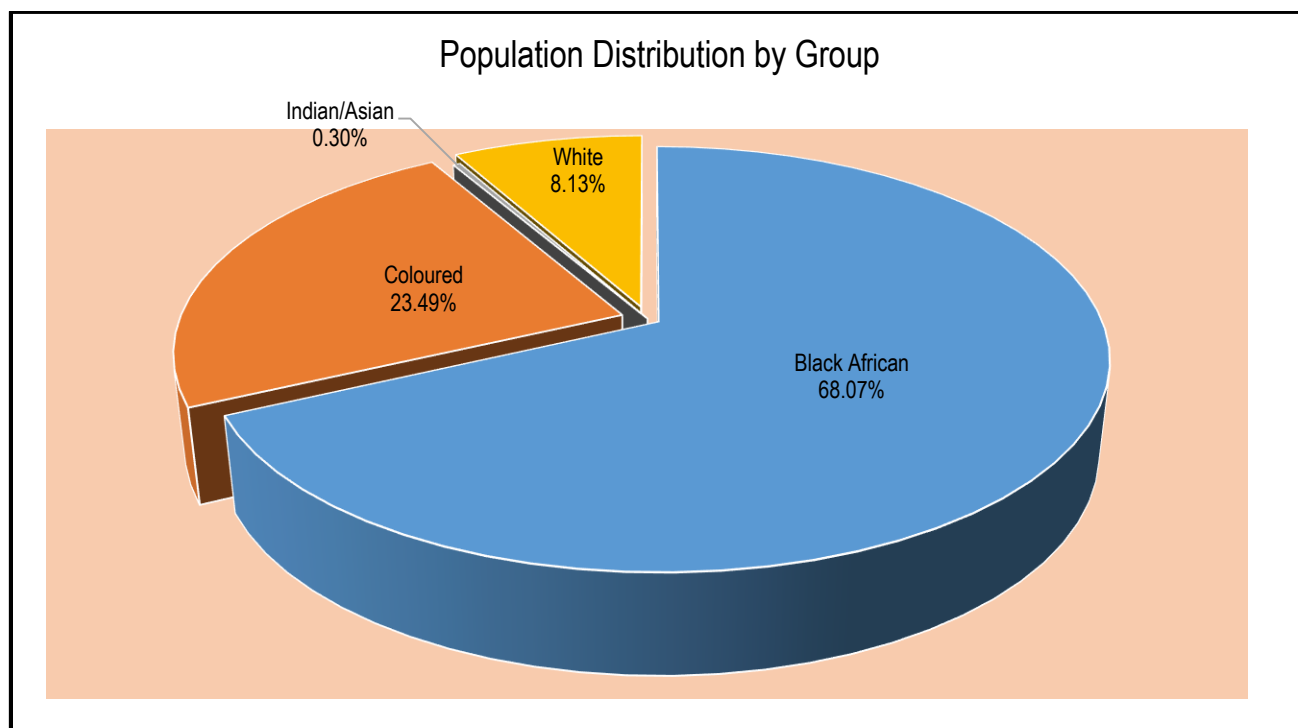
Census Key Statistics	
<b>Labour Market</b>	
Unemployment rate (official)	22.30%
Youth unemployment rate (official) 15-34	27.70%
<b>Education (aged 20 +)</b>	
No schooling	17.70%
Higher education	4.80%
Matric	18.70%
<b>Household Dynamics</b>	
Households	11 242
Average household size	3.30
Female headed households	33.50%
Formal dwellings	83.20%
Housing owned	54.00%
<b>Household Services</b>	
Flush toilet connected to sewerage	72.80%
Weekly refuse removal	68.00%
Piped water inside dwelling	49.80%
Electricity for lighting	92.80%



**Figure 2: Population by Age and Gender**

**Table 3: Distribution of Population by Population Group**

	Census 2011
Black African	67.80%
Coloured	23.40%
Indian/Asian	0.30%
White	8.10%



**Figure 3: Distribution of Population by Population Group**

#### **Households**

There are 11 242 households in the municipality according to Stats SA. The technical department conducted a physical count of households at all five towns and found that there are 8 369 houses with an average household size of 3, 3 persons per household. 90, 8% of households have access to piped water either in their dwelling or in the yard. Only 2, 2% of households do not have access to piped water.

The figures above are according to the 2011 census, and they are still official statistics. The view might slightly change following the physical count done by the municipality.

**Table 4: Settlement Type**

Area	Percentage
Urban	83,3%
Tribal/Traditional	0%
Farm	16,7%

### **2.1.3 Housing and dwellings**

All urban areas are composed of various residential components varying from formal housing units to informal dwellings units as indicated in the table below. Within the Local Municipality, 83.2% of the population live in formal housing, 16.1% in informal housing and only 0.5% in traditional housing. This reflects that the housing backlog is not that huge but will increase with the new development patterns in the municipality.

The following issues were highlighted regarding the housing delivery:

- ❖ Lack of funding for housing development;
- ❖ Access to land for sustainable human development;
- ❖ Construction of more RDP houses;
- ❖ Provision of services to new residential sites;
- ❖ Fast tracking land availability and transfer of land;
- ❖ Slow delivery of housing development;
- ❖ Lack of capacity at local municipal level;

### **2.1.4 Socio- economic Status**

The socio-economic growth of the municipality is centred on agriculture. The municipality area also has mining activities that are taking place with diamond minerals being the major natural resource which helps with employment creation. The municipality's effort is to create an environment that will be conducive for investment and entrepreneurs to do business.

The LED division at the municipality is making effort to empower local small business and individuals to take advantage of local procurement, organize workshops business skills and making comply with relevant pieces of legislation.

However, the challenge is the sustainability thereof due to limited financial resources and lack of skills by various people to run their own projects. Whilst the trend is worldwide in that about 96% of businesses / projects fail within the first five years, the municipality will make an effort to reduce the failure rate.

Letsemeng Municipals economy is characterized by the following:

- ❖ Mining and agricultural sector are the largest contributor to the local economy;

- ❖ The decline in the agricultural sector over the recent years has had an adverse effect on the employment potential of the rural areas;
- ❖ Luckhoff has the highest unemployment rate;
- ❖ De Beers Mines contributed a major part to the local economy before it was closed;

By virtue of its geographic location the Municipality prides itself as a natural transportation route for people travelling to destinations such as Bloemfontein since one of the major national roads, namely N8 passes through the municipal area.

## 2.1.5 INCOME DISTRIBUTION

In order to determine the people's living standards, as well as their ability to pay for basic services, such as water and sanitation, the income levels of the local population are analysed.

### Household Income

Household income is a parameter which is, amongst others, also indicative of poverty levels within a community. A financially healthy community's household income usually displays a so-called "normal" income distribution pattern where the income is spread over a fairly wide range of income categories, and the income of the bulk of the community is situated more or less within the first half to two thirds of the income category range.

Females are more likely to be unemployed and looking for work than males. Poor communities are sometimes highly dependent on the environment for survival and, in this regard, almost always over-exploit the environment.

Only 10.2% of households in the Letsemeng Municipal fall within the "No income" category. Of concern is that 7.4% of the households in Letsemeng have an annual income of less than R 10 000 and 23.9% of the households have an annual income of less than R19 601.00.

**Table 5: Income profile**

Income	Percentage
None income	10,2%
R1 - R4,800	4,2%
R4,801 - R9,600	7,4%
R9,601 - R19,600	23,9%
R19,601 - R38,200	24,6%
R38,201 - R76,4000	14,1%
R76,401 - R153,800	8%
R153,801 - R307,600	4,5%
R307,601 - R614,400	2,3%
R614,001 - R1,228,800	0,5%
R1,228,801 - R2,457,600	0,2%

R2,457,601+	0,1%
-------------	------

## 2.1.6 EDUCATION AND SKILLS

11 788 people are economically active (employed or unemployed but looking for work), and of these 22, 3% are unemployed. Of the 6 058 economically active youth (15 – 34 years) in the area, 27, 7% are unemployed. The level of skills within an area is important to determine the level of potential employment.

Using the expanded definition, on average 22.3% of the population in Letsemeng is unemployed, with the highest rate of unemployment being in rural areas.

This high unemployment rate has serious repercussions on the ability of the residents of Letsemeng to pay for their daily needs. Unemployment is more than 21% in all of the areas and the highest is in Luckhoff at 32%.

**Table 6: Employment Status:**

Employment Status	Number
Employed	9164
Unemployed	2624
Discouraged Work Seeker	1745
Not Economically Active	11518

**Table 7: Educations and skills profile**

Group	Percentage
No Schooling	4,4%
Some Primary	45,4%
Completed Primary	8%
Some Secondary	29,9%
Completed Secondary	8,6%
Higher Education	0,6%
Not Applicable	3,1%

**Table 8: Distribution of population aged 20 years and older by level of education attained**

Group	%
No Schooling	4,4%
Some Primary	45,4%
Completed Primary	8%
Some Secondary	29,9%
Completed Secondary	8,6%
Higher Education	0,6%
Not Applicable	3,1%

### 3 SERVICE DELIVERY OVERVIEW

#### 3.1 WATER

The Municipality's objective remains that of ensuring at least 100% of its inhabitants have access to portable water. Measures are being implemented on a regular and on-going basis to ensure that this objective is achieved. We will continue to ensure that this is met, and clean water is delivered to our communities. Where necessary and required, the municipality will engage the Provincial/National Government as well as other key stakeholders. Projects such as the Petrusburg one undertaken in the previous year is an example of such coordinated and joint efforts.

90, 8% of households have access to piped water either in their dwelling or in the yard. Only 2, 2% of households do not have access to piped water.

Table 9: Distribution of households with access to piped (tap) water by geography

Geography	Households				Percentages			
	Piped (tap) inside dwelling /yard	Piped (tap) water on community stand	No access to piped (tap) water	Total	Piped (tap) inside dwelling /yard	Piped (tap) water on community stand	No access to piped (tap) water	Total
FS161: Letsemeng	10211	788	243	11242	90.8	7.0	2.2	100.0
Koffiefontein	3180	8	15	3203	99.3	0.3	0.5	100.0
Ratanang	1105	1	6	1112	99.3	0.1	0.5	100.0
Jacobsdal	646	354	3	1003	64.4	35.3	0.3	100.0
Riet River	224	78	30	332	67.6	23.5	8.9	100.0
Petrusburg	2400	154	85	2639	91.0	5.8	3.2	100.0
Oppermans	230	-	-	230	100.0	-	-	100.0
Luckhoff	987	17	3	1007	98.0	1.6	0.3	100.0

#### 3.2 SANITATION

The Municipality's continues to provide proper sanitation facilities to all communities. The municipality managed to reduce the number of bucket toilets. To date there are two hundred households who are still using a bucket system. Plans are afoot to totally eradicate the system.



**Table 10: Toilet Facility**

<b>Toilet Facility</b>	<b>Percentage</b>
None	5%
Flush toilet (connected to sewerage system)	72,8%
Flush toilet (with septic tank)	2,7%
Chemical toilet	0,5%
Pit toilet with ventilation	10,5%
Pit toilet without ventilation	5,3%
Bucket toilet	2,3%
Other	0,8%

### 3.3 ELECTRICITY

Electricity provision in the Municipality is jointly supplied by ESKOM and the Municipality. The Municipality is servicing four of the five towns under its jurisdiction, which are Koffiefontein, Petrusburg, Oppermansgronde and Luckhoff. The municipality also sells prepaid electricity to some Koffiefontein and Luckhoff residents. In Jacobsdal, Ratanang and Bolokanang distribution is done by ESKOM.

**Table 11: Distribution of households with access to electricity for lighting by geography**

<b>Geography</b>	<b>Households</b>				<b>Percentages</b>			
	<b>Electricity</b>	<b>Other</b>	<b>None</b>	<b>Total</b>	<b>Electricity</b>	<b>Other</b>	<b>None</b>	<b>Total</b>
FS161: Letsemeng	10430	796	17	11242	92.8	7.1	0.1	100.0
Koffiefontein	3157	41	5	3203	98.6	1.3	0.2	100.0
Ratanang	1068	44	-	1112	96.0	4.0	-	100.0
Jacobsdal	809	187	7	1003	80.6	18.7	0.7	100.0
Riet River	258	74	-	332	77.7	22.3	-	100.0
Petrusburg	2524	112	2	2639	95.7	4.3	0.1	100.0
Oppermans	227	2	-	230	98.9	1.1	-	100.0
Luckhoff	919	88	-	1007	91.3	8.7	-	100.0

### 3.4 REFUSE REMOVAL

Waste Removal Services are provided to all the towns Koffiefontein, Petrusburg, Luckhoff, Oppermansgronde and Jacobsdal. These land fill sites with the exception of Jacobsdal and Petrusburg, are currently used as transfer stations and will be registered accordingly and be used fully as land fill sites.

Table 12: Distribution of households by type of refuse removal and geography

Geography	Households					Percentages				
	Formal Dwelling	Informal	Traditional	Other	Total	Formal Dwelling	Informal	Traditional	Other	Total
FS161: Letsemeng	9358	1812	17	55	11242	83.2	16.1	0.1	0.5	100.0
Koffiefontein	2659	538	1	5	3203	83.0	16.8	0.0	0.2	100.0
Ratanang	861	240	2	10	1112	77.4	21.6	0.2	0.9	100.0
Jacobsdal	598	395	-	10	1003	59.6	39.4	-	1.0	100.0
Riet River	251	76	5	-	332	75.6	23.0	1.4	-	100.0
Petrusburg	2181	450	1	7	2639	82.6	17.1	0.0	0.3	100.0
Oppermans	229	1	-	-	230	99.5	0.5	0	0	100.0
Luckhoff	937	60	1	8	1007	93.1	6.0	0.1	0.8	100.0

### 3.5 HOUSING

The objective of the Municipality is to facilitate provision of adequate and affordable housing structures to the communities in its area of jurisdiction. Provision for houses is not the core competency of the Municipality; this objective is undertaken in partnership with the Provincial Department of Human Settlement which continues to allocate houses to residents on an on-going basis. This is mainly due to the fact that demand for housing remains a big challenge but we remain committed to facilitate the provision of shelter to the communities we serve.

### 3.6 ROADS AND STORM WATER

Another aim of the municipality is to facilitate the adequate and constant maintenance of access roads and to ensure regular maintenance of all internal roads. Every year, a lot more kilometres of internal roads have been repaired. Furthermore, there is an annual allocation to ensure that roads are maintained. The proportion of households with access to the minimum level of services is shown in the table below:

Table 13: Proportion of Households with minimum level of Basic Services

Proportion of Households with minimum level of Basic services				
		2015/16	2016/17	2017/18
Electricity service connections		100%	100%	
Water - available within 200 m from dwelling		99%	99%	
Sanitation - Households with at least VIP service		99%	99%	
Waste collection - Kerbside collection once a week		100%	100%	

### 3.7 FINANCIAL OVERVIEW

This overview sets out highlights of the municipality's financial performance in the past year. Full details appear in the annual financial statements. .

Table 14: Financial Overview – 2018/19

2017/18				2018/19		
Details	Original budget	Adjustment Budget	Actual	Original Budget	Adjustment Budget	Actual
<b>Income:</b>						
Grants	98 966 000	95 136 000	79 495 430	111 001 000	101 570 000	96 766 698
Taxes, Levies and tariffs	68 980 208	67 271 091	60 798 570	70 223 160	70 467 890	70 086 062
Other	12 261 278	10 644 374	20 891 815	7 310 141	5 744 461	20 329 490
Sub Total	<b>180 207 486</b>	<b>173 051 465</b>	<b>161 185 815</b>	<b>188 534 301</b>	<b>177 782 351</b>	<b>187 182 250</b>
<b>Less: Expenditure</b>	164 390 977	170 051 878	164 314 097	180 146 754	166 071 759	<b>259 026 205</b>
<b>Net Total*</b>	<b>15 816 509</b>	<b>2 999 587</b>	<b>(3 128 282)</b>	<b>8 387 547</b>	<b>11 710 592</b>	<b>(71 843 955)</b>
<i>*Note: surplus/(deficit)</i>						

Table 15: Operating Ratios

Operating Ratios			
Detail	2016/17	2017/18	2018/19
	%	%	%
Employee Cost	26%	32%	26%
Repairs & Maintenance	1%	1%	1%
Finance Charges	1%	1%	0.7%

Table 16: Total Capital Expenditure

Total Capital Expenditure: '2017/18 - to '2018/19		
Detail	2017/18	2018/19
Original Budget	46 877 000	49 949 000
Adjustment Budget	43 047 000	49 949 000

Actual	26 507 620	33 274 000
		<i>T 1.4.4</i>

### 3.8 COMMENT ON CAPITAL EXPENDITURE

The municipality's property, plant and equipment for the financial year under review amounted to R 724 539 410 compared to R 738 606 479 for the previous year. Capital commitments as at 30 June 2019 amounted to R 18 483 078 (2018: R 30 753 122). The fixed assets were financed from government grants..

### 3.9 ORGANISATIONAL DEVELOPMENT OVERVIEW

#### Staffing

There are still some key posts at lower levels of the organogram that need to be filled with urgency. The challenge the institution will forever battle with is the retention of skilled personnel. The geographical location and the financial position of the municipality are major deterrents to potential candidates.

### 3.10 AUDITOR GENERAL REPORT

#### 3.10.1 AUDITOR-GENERAL REPORT: 2018/19

##### 3.10.1.1 The Municipality Received A Qualified Opinion For Financial Year Under Review 2018/19 Statutory Annual Report Process

According to legislation the Annual Report of a municipality must be tabled in the municipal council on or before 31 January each year. In order to enhance Councils oversight function the municipality should submit their Annual Reports as soon as possible after the financial year end, ideally this ought to be the end of August. The Annual Financial Statements and Annual Performance Report were submitted on 31 August 2019 to the Auditor-General. Management is currently developing processes and systems in order to ensure that the remaining sections be in place for the 2018/19 Annual Report process. It is expected that the entire process should be concluded by the end of January. The legislative process for the creation, submission, review and approval of the 2018/19. Annual Report is set out in the table below.

## 4 STATUTORY ANNUAL REPORT PROCESS

No.	Activity	Timeframe
1	Consideration of next financial year's Budget and IDP process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the Annual Report process at the end of the Budget/IDP implementation period	July 2020
2	Implementation and monitoring of approved Budget and IDP commences (In-year financial reporting).	
3	Finalise the 4th quarter Report for previous financial year	
4	Submit draft 2018/19 Annual Report to Internal Audit and Auditor-General	
5	Municipal entities submit draft annual reports to MM	
6	Audit/Performance committee considers draft Annual Report of municipality and entities (where relevant)	August 2021
8	Mayor tables the unaudited Annual Report	
9	Municipality submits draft Annual Report including consolidated annual financial statements and performance report to Auditor General	
10	Annual Performance Report as submitted to Auditor General to be provided as input to the IDP Analysis Phase	
11	Auditor General audits Annual Report including consolidated Annual Financial Statements and Performance data	September – October 2021
12	Municipalities receive and start to address the Auditor General's comments	January 2021
13	Mayor tables Annual Report and audited Financial Statements to Council complete with the Auditor- General's Report	
14	Audited Annual Report is made public and representation is invited	
15	Oversight Committee assesses Annual Report	February 2021
16	Council adopts Oversight report	March 2021
17	Oversight report is made public	
18	Oversight report is submitted to relevant provincial councils	April 2021
19	Commencement of draft Budget/ IDP finalisation for next financial year. Annual Report and Oversight Reports to be used as input	March 2021

## **5 CHAPTER 2 – GOVERNANCE**

### **5.1 INTRODUCTION TO GOVERNANCE**

The Letsemeng Local Municipality is an organ of state within the local sphere of government. It was established by means of Provincial Notice No 181, published in the Free State Provincial Gazette of 28 September 2000. The Municipality is a municipality with plenary executive system determined by the Determination of Types of Municipality Act, 2000 (Act No. of 2000.

In terms of section 151(3) of the Constitution of the Republic of South Africa the municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to the national and provincial legislation, as provided for in the Constitution.

### **5.2 COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE**

#### **5.2.1 INTRODUCTION TO POLITICAL GOVERNANCE**

Section 151 of the Constitution, 1996 states that, the executive and legislative authority of a municipality is vested in its municipal council. This is complemented by the Municipal Structures Act and Municipal Systems Act. In terms of section 160(2) of the Constitution, 1996, the following powers may not be delegated by a municipal council and must therefore be exercised by council: passing of by-laws, approval of budgets, imposition of rates and taxes, levies and duties and the raising of loans. The Speaker is appointed by Council and performs her/his functions in terms of section 37 of the Municipal Structures Act, such as presiding at council meetings and overseeing the work of council committees.

The Municipal Council uses a governance system that applies plenary executive type system. It is consisted of eleven (11) Councillors with a Speaker/Mayor being a member who has been designated as full time councillor. In terms of section 36(5) of the Local Government: Municipal Structures Act, No. 117 of 1998, the speaker must be called mayor as the Letsemeng Municipal Council is plenary executive type system.

The main obligations of the Municipal Council is to formulate and endorse or pass by – laws, policies, most importantly the Integrated Development Plan and the Medium term revenue and expenditure framework (Budget)

The Speaker presides over Ordinary as well as Special Council meetings. The administration dispatch notices and agendas to Councillors forty eight (48) hours before the commencement of the council meetings as determined in the Standard Rule and Orders.

The Mayor as a political head of the Municipal Council attends to day to day obligations of the Municipal Council by playing oversight role over the administration and represents the meeting at the district and provincial intergovernmental relation forums as well as at the, South African Local Government Association. The Mayor provides general guidance over the fiscal and financial affairs of the municipality as well as the Integrated Development Plan.

The Council has established four (4) Section 79 Committees in terms of the Municipal Structures Act and the Municipal Finance Management Act to process items before they could be forwarded to the Municipal Council i.e. Finance, Local Economic Development and Planning and Development, Corporate Services committee and Local Labour Forum, Technical Services and Infrastructure Committee, and Community Services. These Committees process items before they could be forwarded to the Council.

The different Departments of the Municipality prepare reports that are then submitted to the Council for consideration and approval. Important to note is that the Section 79 Committees and Municipal Council sit as per schedule of Council meetings that was adopted by the Council.

The Municipal Council has established an MPAC, which is composed of four members and the Council is playing an Oversight role in the activities that are performed by the Municipality.

The Annual Report is prepared by the Performance Management Unit in collaboration with other departments. When the management is satisfied with this report it is then submitted to the Council for noting before the 25<sup>th</sup> of January of each year. Subsequent to this process it is forwarded to the Oversight Committee before the 31<sup>st</sup> March of each year for assessment and thereafter it is presented before the Council with the Committee comments and recommendations. The Annual Report and the Oversight Committee report are submitted to Departments of Treasury, Cooperative Governance and Traditional Affairs for comments. Furthermore, these reports are separately published to the community for comments.

The Internal Audit Unit conducts audit throughout the year in terms of their audit plan and prepares Audit packs/reports that are then submitted to the Internal Audit Committee. After consideration of these reports the Audit Committee forwards its recommendations to Council for considerations and approval

The Municipality has appointed the Municipal Manager who is the head of the administration. He is responsible for day to day operations of the organization and accounts to the Mayor in between Council meetings. Other senior managers who have been appointed in terms of section 56 of the Local Government: Municipal Systems Act, 2000 reports directly to the Municipal Manager. It is important to highlight that the Municipality is composed of four (4) departments that are headed by departmental heads, section 56 managers, excluding the office of the Municipal Manager i.e. Corporate Services, Budget and Treasury, Community Services and Technical Services.

## A) POLITICAL GOVERNANCE

POLITICAL STRUCTURE	Function
<b>Acting MAYOR</b> Cllr S Bahumi	<i>Preside over Municipal Council meetings and attend to day to day obligations of the Council by playing oversight role over the administration.</i>
<b>Section 79 Committee Chairpersons</b> Cllr XW Nqelani Cllr AM Lebaka Cllr N November Cllr MJ Phaliso	Chairperson for Planning and Development, LED and Finance Committee Chairperson for Corporate Services Committee and Local Labour Forum Chairperson for Community Services Committee Chairperson for Technical and Infrastructure Committee

### COUNCILLORS

The Municipal Council of Letsemeng Local Municipality comprises of eleven (11) Councillors. Six of them were elected to represent wards and five (5) were proportional representative. The Council was represented of three political parties as follows:

African National Congress (ANC) : Eight (8)

Democratic Alliance (DA) : Two (2)

Economic Freedom Fighter (EFF) : One (1)

Four (4) members of Council, were designated as Chairpersons of Section 79 Committees. Each Committee is composed of three members which includes the Chairperson of the Committee. Furthermore, it has established an oversight committee which is composed of two Council members **and one Community member**, The Ward Councillors are Chairpersons of Ward Committees, and the Ward Committee serves as an advisory committee to the wards councillors.



## B) ADMINISTRATIVE GOVERNANCE

### 5.2.2 INTRODUCTION TO ADMINISTRATIVE GOVERNANCE

The Municipal Manager is the accounting officer of the municipality and the head of the administration and reports directly to the Mayor and Council. Directors (section 56 managers) report directly to the Municipal Manager and their performance is managed by the Municipal Managers in terms of the annually signed performance agreements and plans.

Directors are responsible for the management of their respective functions/departments, which include the management of service delivery programs and targets, personnel and budgets.

The Municipal Manager ensures accountability by departments through weekly and monthly management meetings and quarterly performance reviews of Directors.

#### TOP ADMINISTRATIVE STRUCTURE

POST DESIGNATION		FUNCTION	PERFORMANCE AGREEMENT SIGNED YES/NO
1.	<b>MUNICIPAL MANAGER</b> Mr TL Mkhwane	Accounting Officer/Head of Administration	Yes
2.	<b>DIRECTOR: CORPORATE SERVICES</b> Mr. T Deeuw	<i>Human Resources, Auxiliary and Legal Services, Council Support</i>	Yes
3.	<b>CHIEF FINANCIAL OFFICER</b> Mr CFO/SJ Tooi	<i>Expenditure, Revenue, Assets &amp; Liability Management, Budgeting &amp; Reporting</i>	Yes
4.	<b>DIRECTOR: COMMUNITY SERVICES</b> Mr. CJ Makhoba	<i>Waste Management, Sport &amp; Recreation, Arts &amp; Culture, Public Safety and Parks</i>	Yes
5.	<b>DIRECTOR: TECHNICAL SERVICES</b> Mrs DG Tsikang	<i>Water, Sanitation, Electricity, Roads &amp; Storm water, Urban Planning and PMU</i>	Yes

## **5.3 COMPONENT B: INTERGOVERNMENTAL RELATIONS**

### **5.3.1 INTRODUCTION TO COOPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS**

Letsemeng Municipality through the 2018/19 financial year participated in a number of intergovernmental forums. This ensures that the Municipality is kept up to date on key developments in strategic areas of its responsibilities.

Through active participation in these forums and the available platform created, the Municipality exchanges ideas and interact with other spheres of government to improve mutual relations between government institutions.

## **5.4 INTERGOVERNMENTAL RELATIONS**

### **5.4.1 NATIONAL INTERGOVERNMENTAL STRUCTURES**

The Municipality participate in the National South African Local Government Association Members Assembly which is held once annually. The municipalities converge annually at the assembly to discuss matters that affects the municipality and resolved how to tackle the challenges faced by the municipalities

### **5.4.2 PROVINCIAL INTERGOVERNMENTAL STRUCTURES**

The Municipality is part of the Provincial Coordinating Forum which is used to facilitate intergovernmental relations between the province and local government in the province. The Municipality also participates in Provincial Forums which include Provincial IDP Forum, Provincial Energy Forum, Provincial AIDS Forum as well as South African Local Government Association (SALGA).

### **5.4.3 DISTRICT INTERGOVERNMENTAL STRUCTURES**

Meetings are been held once in a quarter, whereby the District Municipality is responsible for ensuring the co-ordination of intergovernmental relations within the district municipality with local municipalities in the district. District Coordinating Forum consists of the Executive Mayor of the District and three other local municipalities' Mayors who are primary members of this structure.

### **5.4.5 TECHNICAL SUPPORT COMMITTEE**

This Committee consists of the District Municipal Manager and other three Local Municipal Manager who are primary members of the structure. The Committee must meet at least once per quarter with other stakeholders to process issues in preparation of the political District Forum.

## **5.5 COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION**

### **5.5.1 OVERVIEW OF PUBLIC ACCOUNTABILITY AND PARTICIPATION**

The municipality improved on the responsibilities mentioned above as indicated in the 2018/19 IDP by:

- Providing feedback to different communities on issues people raised during the first round of public engagements.
- Providing progress report on funded projects implemented in the different Wards.
- Providing opportunity for communities to making input to the 2018/2019 IDP process.
- Providing Ward Committee an opportunity to prioritise inputs received from the different wards.
- Encouraging Ward Councillors and Ward Committees to do further consultation about communities service delivery priorities.
- Encouraging communities, Stakeholders and individual members of society to make use of the opportunity to do submission regarding the IDP review and budget of the municipality.

The staff is allocated wards to work with and report on their activities. There are also members of ward committees responsible for different sections in their wards. These measures have helped as members of community reports issues related to service delivery at their earliest occurrence.

## **5.6 PUBLIC MEETINGS**

### **5.6.1 KEY PURPOSES OF WARD COMMITTEES**

- Create formal unbiased communication channels and co-operative partnerships between the Municipality and the community within a ward.
- Ensure contact between the Municipality and the community through the relevant feedback mechanisms.
- Act as an advisory body on council policies and matters affecting communities in the ward as requested.
- Make recommendations on matters affecting the ward to the ward councillor.
- Serve as a constructive mobilizing agent for positive community action.

### 5.6.2 COMMUNICATION, PARTICIPATION AND FORUMS

The municipality uses loud hailing, print media, posters, as well as physical delivery of invitation such as IDP/budget which are on semester interval. These meetings are inclusive of representative from Safety, Business and CBO's.

Table 17: Public Meetings

Public Meetings						
Nature and purpose of meeting	Date of events	Number of Participating Municipal Councillors	Number of Participating Municipal Administrators	Number of Community members attending	Issue addressed (Yes/No)	Dates and manner of feedback given to community
IDP, Budget Consultation meeting at Oppermansgronde	16/05/2019	3	4	84	Yes	Agreed on projects to be implemented.
IDP and Budget Consultation at Petrusburg	24/04/2019	2	8	168	Yes	Agreed on projects to be implemented.
IDP and Budget Consultation at Koffiefontein (Ward 5)	16/04/2019	3	8	84	Yes	Agreed on projects to be implemented.
IDP and Budget Consultation at Luckhoff	15/05/19	2	7	107	Yes	Agreed on projects to be implemented
IDP and Budget Consultation at Phambili	14/05/19	2	4	65	Yes	Agreed on projects to be implemented

### 5.6.3 COMMENT ON THE EFFECTIVENESS OF PUBLIC MEETINGS HELD

Meetings have succeeded and the community have reported improvement as can be seen on infrastructure requested by communities.

## 5.7 IDP PARTICIPATION AND ALIGNMENT

Table 18: IDP Participation and Alignment Criteria

IDP Participation and Alignment Criteria*	Yes/No
Does the municipality have impact, outcome, input, output indicators?	Yes
Does the IDP have priorities, objectives, KPIs, development strategies?	Yes
Does the IDP have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	Yes
Do the IDP KPIs align directly to the Section 57 Managers	Yes
Do the IDP KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the IDP KPIs align with the provincial KPIs on the 12 Outcomes	Yes
Were the indicators communicated to the public?	Yes
*Section 26 Municipal Systems Act 2000	

## 5.8 COMPONENT D: CORPORATE GOVERNANCE

### 5.8.1 OVERVIEW OF CORPORATE GOVERNANCE

The municipality endeavours to comply with the regulatory frameworks and best practices regarding corporate governance. This includes the establishment of a risk management function, internal audit unit and independent audit committee and the implementation of fraud and anti-corruption policies and measures.

In addition, Letsemeng Municipality follows a comprehensive system of rules and processes that are designed to sustain and enhance optimal end to effective organizational management.

## 5.9 RISK MANAGEMENT

Risk Management provides a clear and structured approach to identifying risks. Having a clear understanding of all risks allows the municipality to measure and prioritise them and take the appropriate actions to reduce possible losses.

The Municipality implements and maintains effective, efficient and transparent systems of risk management and internal control. The risk management will assist the municipality to achieve its service delivery outcomes and enhance organisational performance. The risks are managed formally and periodically by means of a factual and realistic approach. This promotes the achievement of objectives and further avoids these risks from impacting negatively on the organizational efficiency

The average risks in developing the Internal Audit Coverage Plan was extracted from the risk assessment report, considering the impact and likelihood of critical issues/risks within each of the identified activities.

## 5.10 ANTI-CORRUPTION AND FRAUD

The actions that constitute corruption can be classified as follows:

- Any dishonest, fraudulent or corrupt act,
- Theft of funds, supplies and other assets,
- Maladministration or financial misconduct in handling or reporting of money,
- Making profit from insider knowledge,
- Disclosing confidential information to outside parties,
- Deliberately refusing or omitting to report or act upon reports of irregular or dishonest conduct

The strategies in place to prevent corruption, fraud and theft are the application of policies approved by council such as the supply chain management policy, the cashiers' policy and the segregation of duties to approval of transactions within the municipality.

Key risk areas susceptible to corruption and fraud are the procurement, cash collection and payments as well as unauthorized distribution of information from the institution. Policies such the cashiers' policy was approved by council. The code of conduct in terms of the Municipal Systems Act was communicated to all employees to highlight the importance of proper employee behaviour and conduct.

A previous challenge that is now overcome was the lack of important structures to effectively deal with the occurrence of corruption and fraud within the municipality. A lack of capacity at the Internal Audit and Supply Chain and the ineffective functioning of the Audit Committee were some of the challenges the municipality faced to effectively eliminate the occurrence of fraud and corruption. These challenges have now been resolved and a functional internal audit, supply chain management. The Municipality established an Audit Committee that serve only the Letsemeng Local Municipality.

## 5.11 SUPPLY CHAIN MANAGEMENT

Supply Chain Management is centralised and attached to Budget and Treasury Office which is mainly responsible for the administration and procurement of goods and services. The municipality is currently utilizing *Sage Evolution* which its implementation commenced during 2018/19 financial year. All the

procurements are transacted through sage evolution system to avoid irregular and fruitless expenditure. Supply Chain processes are regulated by supply chain policy which is in line with relevant regulations.

## 5.12 BY-LAWS LITIGATION

Table 19: By-laws introduced

By-laws Introduced during 2018/19					
Newly Developed	Revised	Public Participation Conducted Prior to Adoption of By-Laws (Yes/No)	Dates of Public Participation	By-Laws Gazetted* (Yes/No)	Date of Publication
None	-	-	-	-	-
<i>*Note: See MSA section 13.</i>					

### 5.12.1 COMMENT ON BY-LAWS

For the financial year under review the municipality did not have any new By-Laws to be promulgated.

## 5.13 WEBSITE

A municipal website <http://www.letsemeng.gov.za> is a key communication mechanism in terms of service offering, information sharing and public participation and should be an integral part of a municipality's communication infrastructure and strategy. It serves as a tool for community participation, improves stakeholder involvement and facilitates stakeholder monitoring and evaluation of municipal performance. Section 75 of the MFMA requires that the municipalities place key documents and information on their website, including the IDP, the annual budget, adjustments budgets, budget related documents and policies.

Below is a website checklist to indicate the compliance to Section 75 of the MFMA:

Table 20: Municipal Website: Content and Currency of Material

Municipal Website: Content and Currency of Material	
Documents published on the Municipality's Website	Yes / No
Current annual and adjustments budgets and all budget-related documents	Yes
All current budget-related policies	Yes
The previous annual report (2017/18)	Yes
The annual report (2018/19) to be published	Yes
All current performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act (2018/19) and resulting scorecards	Yes
All service delivery agreements (2018/19)	No

<b>Municipal Website: Content and Currency of Material</b>	
<b>Documents published on the Municipality's Website</b>	<b>Yes / No</b>
All long-term borrowing contracts (2018/19)	No
All supply chain management contracts above a prescribed value (give value) for 2018/19	Yes
An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during Year 1	No
Contracts agreed in 2018/19 to which subsection (1) of section 33 apply, subject to subsection (3) of that section	No
Public-private partnership agreements referred to in section 120 made in 2018/19	No
All quarterly reports tabled in the council in terms of section 52 (d) during 2018/19	No
<i>T 2.10.1</i>	

#### **5.14 COMMENT ON MUNICIPAL WEBSITE CONTENT AND ACCESS**

The municipality's website is managed and maintained by the ICT section. ICT has greatly improved in terms of managing and compliance of the municipality's website.



## **6 CHAPTER 3 – SERVICE DELIVERY PERFORMANCE (PERFORMANCE REPORT PART I)**

### **6.1 INTRODUCTION**

The municipality as a Service Authority within its area of jurisdiction has a legislative mandate to provide services in a safe and healthy environment. The Technical Department is responsible for operation and maintenance of infrastructure which include electricity, water services, roads and storm water. The Technical Department also provides support services such as the mechanical workshop.

The Technical Department plays a pivotal role in terms of facilitation and coordination of services provided by Provincial and National Departments. The municipality has adopted a five-year IDP Plan which is a strategic document aiding in the developments within the municipality. Sector plans are also included which gives effect to the strategies and objectives in the IDP. The IDP is further informed by both the National and Provincial development strategies.

The purpose of the report is to provide information in respect of the core responsibilities, objectives, achievements as well as challenges faced by the Technical Department during the 2017/18 financial year.

### **6.2 COMPONENT A: BASIC SERVICES - WATER**

This component includes: water; waste water (sanitation); electricity; waste management; and housing services; and a summary of free basic services. The municipality accepted that the number of households within the municipal area is 40 044 as provided by Statistics South Africa for 2016.

#### **INTRODUCTION TO BASIC SERVICES**

Technical Services Department is responsible for the following services:

- Provision of new infrastructure in terms of planning and implementation.
- Operating, maintenance and refurbishing/rehabilitation of existing infrastructure.
- Provision of basic services such as water, electricity and roads.

This is done as a basic service delivery aspect in the following areas:

A. Water and waste water services

- Water purification
- Sewerage treatment
- Storage dams
- Water reservoirs
- Water and sewage reticulation networks

B. Roads, storm water, railways and public works

- Roads design, construction and maintenance
- Storm water drainage system
- Bridges and culverts
- Landfill site management

C. Electricity

- Electricity Distribution
- Electricity network maintenance and upgrading
- Electricity Consumption Care
- Public lighting

D. Buildings survey

- Approval of building plans, construction and inspections thereof

**Objectives and Achievements**

Strategic objectives are set out in planning and budgeting tools such as IDP and SDBIP in order to properly plan and achieve targets. Priority areas regarding basic service delivery are as follows:

- Access to water,
- Water loss,

- Water quality,
- Access to sanitation,
- Access to electricity,
- Energy efficiency,
- Access to municipal surfaced roads

### **Departmental Challenges**

- Institutional and organizational development:
  - Inadequate attraction and retention of skilled competent personnel,
  - Prolonged recruitment processes,
  - Inadequate training and development of staff
- Infrastructure maintenance and development:
  - Outdated technology and aged infrastructure,
  - Lack of infrastructure master plans and maintenance plans,
  - Inadequate infrastructure capacity to meet supply demand,
  - Increasing theft and vandalism of infrastructure,
  - Limited preventative maintenance,
  - Decaying infrastructure,
  - Heavy motor vehicular movement through and around CBD,
  - High distribution losses (water and electricity)
- Machinery, equipment and fleet:
  - Shortage of machinery, equipment and fleet,
  - High average age of municipal fleet,
  - Most fleet out of useful lifespan,
  - Prolonged turnaround time in terms of repairs and continued breakages,
  - Limited maintenance equipment,
  - Delayed processing time of purchase request in terms of maintenance and repairs,

- Shortage of vehicles and machinery causing low productivity and low morale of staff cascading into serious delays in service delivery.
- Financial Constraints:
  - Insufficient maintenance budget,
  - Insufficient capital budget appropriated (own funding),
  - Lack of consumables and sundry items,
  - Supplier / municipal relations dented,
  - Long processing period of purchase orders.
- Natural Hazards:
  - rainfall and flooding causes delay in project implementation and flooding of residential areas,
  - Drought, leading to inadequate raw water supply and thereby negatively affecting the Municipality's mandate of providing basic water service to its communities.
  - Extensive damage to infrastructure (decaying roads surfaces and potholes) and facilities / property.
- Compliance to Regulations:
  - Inadequate monitoring and measuring equipment and processes to facilitate compliance.
- Bulk Supply Services:
  - Inadequate bulk raw water supply in Petrusburg and Koffiefontein.
  - Rapidly deteriorating condition of roads network including main roads.

## **WATER PROVISION**

Water needs are determined via the consumer base on the ground. Figures used to determine this includes provision for registered indigents according to the municipal policy. Supply and disruptions are monitored and future needs are based on results. Further inputs from the community and political offices are compared with departmentally identified issues and included in the IDP as needed. National government targets are also included in future planning.

For blue drop purposes the water quality is monitored continuously and uploaded on the IRIS site and water provision to the community is done in accordance with the Water Services Act 1997.

The top four priorities are:

1. Sufficient water supply for communities.
2. Connections to individual stands with provision for indigents.
3. Provision of water within legal requirements (Water within Blue drop and SANS 241 standards)
4. Monitoring of water supply through proper installation of water meters

The challenge in water supply remains the balance between the available raw water and demand from the community.

The blue drop status have increased to 48% and it is expected to improve with a bigger percentage the next financial year due to the appointment of process controllers that are in line with regulation 813 of the national standards for process controllers and water services works. There is currently construction of a Water Treatment Works in progress at the Jacobsdal water treatment plant. This will improve the quality of water supply and capacity in general and also contribute to an increase in the blue drop status.

All formal areas of Letsemeng available for occupation are provided with water networks with pre installed connections and consumers moving onto unconnected stands are connected on application.

Letsemeng Local Municipality (LLM) is a Water Service Provider (WSP) and a Water Service Authority (WSA), all this functions are currently operated by the Municipality. Letsemeng Local Municipality has through the Department of Cooperative Governance and Traditional Affairs (Cogta) prepared a Water and Sanitation Master Plan and Maintenance and Operations which focused on the 2015 water and sanitation prospects.

LLM is struggling to meet the water demand from three towns namely Jacobsdal and Petrusburg. This is due to the low capacity of the Water treatment Works (WTW) and availability of surface water, the demand is higher than the available supply, this is in some cases compromising the quality of water since the plans would be pushed to the maximum capacity or even be exceeded resulting in turbidity increasing. LLM has through the Department of Water & Sanitation (DWS) been upgrading Jacobsdal, Luckhoff and Koffiefontein the WTW to bigger capacities to be able to meet the demand, this project will be visible under the capital project table. Due to the availability of funds, all the projects are multi-phased projects which run in different financial

years. The biggest project recorded in LLM is the Construction of 4.15Ml Jacobsdal Conventional WTW with a budget of R66 million.

Unavailability of surface water poses a high risk to the community of Petrusburg because they rely on ground water, most of the boreholes have already started showing reduced capacity while there is no alternative sources. However, the municipality compiled technical report on the existing 24 boreholes, 12 boreholes are connected to the water supply scheme. The municipality identified 4 boreholes that need the installation of new pumps. The other 12 boreholes have been identified as not functional. Therefore, the municipality has solicited funds from the relevant sector department in order to equip those which are not functional to improve the supply of water in Petrusburg.

Improvement of water supply in Ratanang 202 sites has been completed with water reticulation and yard connections.

### 6.3 COMMENT ON WATER USE BY SECTOR:

As indicated earlier, LLM did not have enough metering points to be able to gather the water balancing statistics, it is only recently when Oppermansgronde has been declared ready for water balancing. The below graph will not be able to show different categories and their usage.

Table 21: Water Service Delivery Levels

Water Service Delivery Levels					
Description	Ref	Households			
				2017/18 Actual 0-Jan-00	2018/19 Actual No.
<b><u>Water: (above min level)</u></b>					
Piped water inside dwelling				8 134	8 336
Piped water inside yard (but not in dwelling)				0	0
Using public tap (within 200m from dwelling )	2			693	693
Other water supply (within 200m)	4			493	493
<i>Minimum Service Level and Above sub-total</i>				9 320	9 522
<i>Minimum Service Level and Above Percentage</i>				100%	100%
<b><u>Water: (below min level)</u></b>					
Using public tap (more than 200m from dwelling)	3	490	490	0	0
Other water supply (more than 200m from dwelling)	4	0	0	0	0
No water supply		0	0	0	0
<i>Below Minimum Service Level sub-total</i>		490	490	0	0
<i>Below Minimum Service Level Percentage</i>		5%	5%	0%	0%
<b>Total number of households*</b>	5	<b>9 319</b>	<b>9 319</b>	<b>9 320</b>	<b>9 522</b>

Table 22: Households - Water Service Delivery Levels

Description		2017/18	2018/19
		Actual No.	Actual No.
<b>Formal Settlements</b>			
Total households		8 134	8 336
Households below minimum service level		0	0
Proportion of households below minimum service level		0%	0%
<b>Informal Settlements</b>			
Total households		493	493
Households below minimum service level		0	0
Proportion of households below minimum service level		0%	0%

## Actual performance against the predetermined objectives and targets

### Technical Services

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL1	Basic Service delivery	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Km of access road paved in Luckhoff	Km	Completion certificates / close out report	7km	0.9 km Access road completed	100% complete	Achieved	N/A	N/A	Completion Certificate submitted
TL2		Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Construction of 1Km razor fencing around the WWT in Jacobsdal	Km	Completion certificate / close out report	0	1km of razor fence constructed	1km razor fence completed	Achieved	N/A	N/A	Completion Certificate submitted
TL3		Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	400m Outfall line constructed in Jacobsdal	Meters	Completion Certificate/ Close out report	N/A	400m Outfall line completed by 30 June 2019	Project completed	Achieved	N/A	N/A	Completion Certificate Submitted



Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL4		Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Number of sites connected to water borne sanitation in Jacobsdal	Number	Completion certificate.		202 households provided with basic sanitation at Ratanang (Jacobsdal)	78% progress	Not achieved	N/A	N/A	Quality control site visit report submitted
TL5			Percentage construction of WWT in Jacobsdal	Percentage	Progress report	N/A	75% Completion of 4.2 ml capacity per day Water Works Completed at Jacobsdal as at 30 June 2019	75% Completion of 4.2 ml capacity per day water works	90%	N/A	N/A	Progress report submitted
TL6	Basic Service delivery	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Number of laboratory tests conducted for SANS 241 compliance on average for Portable Water quality in all towns	Number	Laboratory Test Results	12	12 test results	10 test results	Partially Achieved	N/A	N/A	Laboratory Test results submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL7	Basic Service delivery	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Number electricity meter audits conducted on all business	Number	Meter audit report	0	100 electricity meter audits conducted on all business	77 electricity meter audits conducted on all business	Partially Achieved	N/A	N/A	Meter audit report submitted
TL8			Number of water meter audits conducted on all business	Number	Meter audit report	0	100 water meter audits conducted on all business	196 meter audits	Achieved	N/A	N/A	Meter audit report submitted
TL9		Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	<i>Upgrade of Sports Facility in Ditlhake</i>	Percentage	Progress report	1	60% complete by 30 June 2019, Upgrading of Ditlhake Sports Facility upgraded	60% Completed	65% Achieved	N/A	N/A	Progress report submitted
TL10		Eradicate backlogs in order to	<i>Upgrade of Sports Facility in Sonwabile</i>	Percentage	Appointment letter of	1	100% Contractor Appointed	100% Contractor Appointed	Achieved	N/A	N/A	Appointment letter submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
		improve access to services and ensure proper operations and maintenance			the Contractor							

#### COMMUNITY SERVICES

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Annual Target	Baseline	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL11	Basic Service delivery	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Number of SDF policy approved by Council	Number	Council Resolution	Approved SDF and Council Resolution	1	Approved SDF	Achieved	N/A	N/A	SDF submitted
TL12	Basic Service delivery	Eradicate backlogs in order to improve access to services and ensure proper operations and maintenance	Number of Approved Disaster management plan (Local)	Number	Council Resolution	Approved Disaster Management Plan and Council Resolution	N/A	Approved disaster management plan	Achieved	N/A	N/A	Disaster Management Plan submitted

## LOCAL ECONOMIC DEVELOPMENT

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL13	Local Economic development		Percentage implementation of LED policies	Percentage	Council Resolution	0	50% Implementation of LED policies	0	Not Achieved	No information submitted	No information submitted	N/A
TL14	Local Economic development	Local Economic development	Number of LED forums established	Number	Attendance registers and minutes when the forum was appointed and Quarterly Performance Reports	0	6 LED Forums	0	Not Achieved	No information submitted	No information submitted	N/A
TL15	Local Economic development	Local Economic development	Percentage implementation of LED Strategy	Percentage	Council Resolution	0	50% implementation of LED Strategy	0	Not Achieved	Public participation was conduct, strategy to be approved in the new financial year	To be Completed in the new Financial Year	Inputs and draft LED strategy
TL16	Local Economic development	Local Economic development	Percentage implementation of commonage Policy	Percentage	Council Resolution	0	50% implementation of Commonage Policy	0	Not Achieved	No information submitted	No information submitted	N/A
TL17	Local Economic development	Local Economic development	Percentage implementation of Business Licensing Policy	Percentage	Council Resolution	0	100% implementation of Business Licensing Policy	0	Not Achieved	No information submitted	No information submitted	N/A

TL18	Local Economic development	Local Economic development	Number of SMME entities supported	Number	Handing over certificates and Acknowledgement Letters	0	6 SMME entities supported	0	Not Achieved	No information submitted	No information submitted	N/A	
TL19	Local Economic development	Local Economic development	Number of SMME training programmes conducted	Number	Attendance registers for the trainings conducted	0	-2 SMME training programmes conducted	1	Partially Achieved	Partially Achieved	N/A	Attendance register submitted	
TL20	Local Economic development	Local Economic development	Number of Supplier Database updated	Number	Updated supplier database	0	1 Supplier Database updated	1	Achieved	N/A	N/A	Supplier Database submitted	
TL21	Local Economic development	Local Economic development	Number of LED Forum meetings facilitated in all towns	Number	Attendance registers and reports	0	20 LED Forum meetings to be held	0	Not Achieved	No information submitted	No information submitted	N/A	
TL22	Local Economic development	Local Economic development	Number of emerging/commonage farmers meetings facilitated	Number	Attendance registers and reports	0	16 Emerging/Commonage farmers meetings to be held	1	Not achieved	No information submitted	No information submitted	No information submitted	
TL23	Local Economic development	Local Economic development	Number of Commonage Contracts renewed	Number	Council Resolution	0	Number of Commonage Contracts renewed	0	Not achieved	N/A	N/A	N/A	
TL24	Local Economic development	Local Economic development	Number of commonages and animal handling facilities fenced	Number	Fenced Commonages	0	2 commonages and handling facilities fenced in Luckhoff	0	Not achieved	N/A	N/A	N/A	

TL25	Local Economic development	Local Economic development	No of Jobs created through EPWP	Number	EPWP contracts		68 EPWP Job Created	68	Achieved	N/A	N/A	EPWP contracts submitted
TL26	Local Economic development	Local Economic development	An amount of grant funding / monies raised	Amount	Monthly Reports	0	R5 million raised	0	Not achieved	No information submitted	No information submitted	N/A
TL27	Local Economic development	Local Economic development	Number of strategic partnership forged	Number	Monthly Reports	0	4 strategic partnership s forged	0	Not achieved	No information submitted	No information submitted	N/A

## FINANCIAL SERVICES

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL28	Municipal financial viability and management	To improve overall financial management	Number of approved Supplementary Roll	Number	Supplementary roll certified by the Accounting Officer	1	Develop Valuation Roll	Certified supplementary Valuation Roll	Achieved	N/A	N/A	N/A
TL29	Municipal financial viability and management	To improve overall financial management	Number of indigent households registered for the financial year 2018/19 in all 6 Wards.	Number	Signed off Indigent Register	1	2000 indigent households to be registered	2001	Achieved	N/A	N/A	Indigent register submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL30	Municipal financial viability and management	To improve overall financial management	Number of bid committee members appointed.	Number	Appointment Letters	0	Appointment of Bid committee members at the beginning of financial year	15 AP Letters	Achieved	N/A	N/A	AP Letters submitted
TL31	Municipal financial viability and management	To improve overall financial management	Number of approved procurement plans submitted by the start of financial year 2018/19 to Provincial Treasury	Number	Approved Procurement Plan and proof of submission to PT	1	Approved procurement plan by the start of financial year 2018/19	Procurement Plan 18/19	Achieved	N/A	N/A	Procurement letter submitted
TL32	Municipal financial viability and management	To improve overall financial management	Number of reviewed Asset Register and ensure compliance with GRAP	Number	Asset Management Report	4	4 Reviewed Asset Register and ensure compliance with GRAP	3 Quarterly asset management reports	Partially	N/A	N/A	Asset registers submitted
TL33	Municipal financial viability and management	To improve overall financial management	Number of Budget related policies for the financial year 2019/20 and present to	Number	Council resolution	1	Budget related policies for the financial year 2019/20 and present	Approved policies	Achieved	N/A	N/A	Resolution submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
			Council for approval				to Council for approval					
TL34	Municipal financial viability and management	To improve overall financial management	Number of Financial Management Plan for Financial year 2019/2020 and submit to Council for approval	Number	Council Resolution	1	Develop Financial Management Plan for Financial year 2019/2020 and submit to Council for approval	1	Achieved	N/A	N/A	Financial management plan submitted is part of the IDP sector plans
TL35	Municipal financial viability and management	To improve overall financial management	Number of SCM implementation reports submitted to treasury	Number	Proof of submission	4	4 Quarterly SCM reports	4 SCM report	Achieved	N/A	N/A	Quarterly report submitted
TL36	Municipal financial viability and management	To improve overall financial management	Number of Compliant 2017/2018 GRAP AFS	Number	Proof of submission	1	2017/2018 GRAP AFS submitted to AGSA (Acknowledgement of receipt from AGSA)	AFS 2017-18	Achieved	NA	NA	N/A
TL37	Municipal financial viability and management	To improve overall financial management	Number of MFMA s52 reports prepared and	Number	Quarterly MFMA s52 and Council resolution	0	3 Quarterly MFMA s52 reports submitted to Council	0	Not achieved	No information submitted	No information submitted	No information submitted



Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
			submitted to Council									
TL38	Municipal financial viability and management	To improve overall financial management	Percentage improvement in the collection rate for 2018/2019 FY	Percentage	Quarterly Report on revenue collection per service	72%	70% collection rate	34%	Not achieved	No information submitted	No information submitted	Sec 71 report submitted
TL39	Municipal financial viability and management	To improve overall financial management	Number of S66 summary reports submitted to Accounting Officer	Number	Summary of S66 Report submitted to Accounting officer and proof of submission	12	12 Reports submitted to Accounting officer	12 Reports submitted to accounting officer	Achieved	NA	NA	Summary of S66 reports submitted
TL40	Municipal financial viability and management	To improve overall financial management	Number of bank reconciliations performed on a monthly basis	Number	Signed Monthly bank reconciliation	0	12 Signed Bank reconciliation	12 Bank reconciliations signed by the CFO	Achieved	N/A	N/A	Bank reconciliations submitted

**OFFICE OF THE MUNICIPAL MANAGER**

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL41	Good Governance and Public Participation		Number of approved SDBIP 2018/19 signed by the Mayor within 28 days after approval of IDP/Budget for 2018/19	Number	Signed SDBIP by Mayor	1	SDBIP 18/19 developed and approved within 28days	1 SDBIP 2018-19	Achieved	N/A	N/A	SDBIP Submitted
TL42	Good Governance and Public Participation		Publishing of SDBIP 18/19 on the website, all units and libraries within 14days after approval by the Mayor	Number	screen dump for publication on website	1	2018/19 SDBIP Published	1	Achieved	N/A	N/A	Screen dump submitted
TL43	Good Governance and Public Participation		Developed draft Performance Agreements of Section 54 and Sec 56 Managers and submit for signature to Mayor	Number	Acknowledgement of receipt and draft Performance Agreements of Section 54 and Sec 56 Managers	1	5 Performance agreements of Sec 54 and 56 managers	5 Performance Agreements	Achieved	N/A	N/A	Performance Agreements submitted in arch file

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL44	Good Governance and Public Participation		Submitting of Final Signed Performance Agreements of Section 54 (a) and Sec 56 Managers to COGTA	Number	Acknowledgement of receipt from COGTA	1	Submitted signed Performance Agreements of Section 54 (a) and Sec 56 Managers	1 acknowledgement LETTER	Achieved	N/A	N/A	Acknowledgement letter submitted
TL45	Good Governance and Public Participation		Submitting of signed Performance Agreements of Section 54 (a) and Sec 56 Managers.	Number	Signed Performance Agreements	1	Submitted signed Performance Agreements of Section 54 (a) and Sec 56 Managers	None	Achieved	NA	NA	Performance Agreements submitted
TL46	Good Governance and Public Participation		Publishing of signed Performance agreements on the website	Number	Screen dump of municipal website	1	Published signed Performance agreements on the website	1	Achieved	NA	NA	Screen dump submitted
TL47	Good Governance		Number of Quarterly Performance	Number	Acknowledgement of Receipts of	1	4 Quarterly Performance Reports	4 PMS Report	Achieved	NA	NA	Acknowledgement

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
	and Public Participation		Reports Developed and submitted to Internal Audit for review.		Performance Reports from IA.		developed and submit to Internal Audit for review.					Letters submitted
TL48	Good Governance and Public Participation		Submitted Mid-year Budget and Performance assessment reports to Council (Sec 72 report) for July-Dec 2017 to Council by 25 January 2018	Number	Copy of Mid-Year Assessment Report	1	Submitted Mid-year Budget and Performance assessment reports to PT and NT (Sec 72 report) for July-Dec 2018 to Council by 25 January 2019	1	Achieved	N/A	NA	Soft copy available
TL49	Good Governance and Public Participation		Submitted Draft Annual Report and Annual Performance Report for 2017/18 to the Auditor General by 31 <sup>st</sup> August 2018	Number	Acknowledgement of receipt from office of the Auditor General	1	Submitted Draft Annual Report and Annual Performance Report for 2017/18 to the Auditor General by 31 <sup>st</sup> August 2018	1 acknowledgement	Achieved	NA	NA	Proof of acknowledgment submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL50	Good Governance and Public Participation		Submission of Oversight report and final annual report 18/19	Number	Council resolution/ copy of oversight report	1	Submission of Oversight report and final annual report 17/18	0	Not achieved	The municipality's Annual Report was only tabled to Council in the new financial year due to community unrests, of which affected the audit.	N/A	NA
TL51	Good Governance and Public Participation		Number of Risk assessments conducted	Number	Attendance Registers	0	2 Risk assessments conducted	2 Risk assessments conducted	Achieved	NA	N/A	Attendance registers submitted
TL52	Good Governance and Public Participation		Developed Risk Management Strategy and Fraud Prevention Plan	Number	Signed Risk Management Strategy and Signed Fraud prevention plan by MM	1	Develop a Risk Management Strategy and a Fraud Prevention Plan	1 Signed Risk Management Strategy and Signed Fraud prevention plan by MM	Achieved	Reported in Q1	N/A	Strategy document submitted
TL53	Good Governance and Public Participation		Number of Quarterly Risk Committee meetings conducted	Number	Minutes of meeting and attendance register	2	4 Quarterly Risk Management meetings	3 meetings	Partially Achieved	NA	N/A	Minutes and attendance registers submitted
TL54	Good Governance and Public Participation		Number of Risk Management reports developed and submitted to	Number	Signed reports	3	4 Risk Management reports developed and submitted to RMC, and	3 reports	Partially Achieved	Due to community unrests	N/A	Risk report submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
			RMC and Audit Committee for approval				Audit Committee for approval					
TL55	Good Governance and Public Participation		Number of Fraud Prevention Workshops conducted	Number	Attendance Register	0	Conduct Fraud Prevention Workshops	0	Not achieved	No information submitted	No information submitted	N/A
TL56	Good Governance and Public Participation		Number of audit assignments conducted	Number	Internal Audit reports	0	10 audits reports	10 audit reports	Achieved	NA	NA	Audit reports submitted
TL57	Good Governance and Public Participation		Number of audit committee meetings held	Number	Minutes / attendance registers	3	4 audit committee meetings	4 meeting	Achieved	N/A	N/A	Minutes and attendance register submitted
TL58	Good Governance and Public Participation		Number of Audit Strategic documents developed 1. Develop a risk based audit plan (RBAP) (MFMA - Section 165(2) (a)) 2. Internal Audit Charter 3. Audit Committee	Number	Approved and signed strategic documents	4	4 Audit Strategic documents: developed	4 Audit Strategic document	Achieved	N/A	N/A	Audit strategic documents submitted (Soft copy)

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Baseline	Annual Target	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
			Charter 4. Developing Audit Methodology									
TL59	Good Governance and Public Participation		Monitor and follow- up on Management comments on Internal audits performed	Number	Progress Reports	0	Monitor and follow- up on Management comments on Internal audits performed	Monitor Management Comments on Internal Audits performed	Not achieved	No information submitted	No information submitted	No information submitted
TL60	Good Governance and Public Participation		Conduct Ad-hoc Audits as well consulting services	Number	Audit report	0	Conduct Ad-hoc Audits as well consulting services	Conduct Ad – hoc Audits as well as consulting services	N/A	N/A	N/A	N/A
TL61	Good Governance and Public Participation		Submission of Internal Audit Reports on Performance Information to Performance Audit Committee	Number	Audit report	3	Submission of Internal Audit Reports on Performance Information to Performance Audit Committee	2	Achieved	N/A	N/A	Audit Report on performance submitted

**DEPARTMENT CORPORATE SERVICES**

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Annual Target	Baseline	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL62	Municipal institutional development and transformation	Efficient administration and good governance	Review Organizational Structure and ensure sign off by the Council	Number	Council Resolution	Review Organizational Structure and ensure sign off by the Council	1	0	Not achieved	Structure only to be approved in the new financial year	N/A	N/A
TL63	Municipal institutional development and transformation	Efficient administration and good governance	Develop and Table the WSP before Council for approval	Number	Council Resolution	Develop and Table the WSP before Council for approval	1	0	Partially Achieved	WSP has been developed but was not submitted to Council		N/A
TL64	Municipal institutional development and transformation	Efficient administration and good governance	Submit WSP to LGSETA	Number	Acknowledgement letter from LGSETA	1	1	1	Achieved	N/A	N/A	
TL65	Municipal institutional development and transformation	Efficient administration and good governance	Number of leave reconciliations conducted for 2018/19 FY)	Number	Leave Report	12	12	12	Achieved	NA	NA	Leave reports submitted
TL66	Municipal institutional development and transformation	Efficient administration and good governance	Approved HR Policy	Number	Council Resolution Approving the Policy	HR Policy Review and tabled before Council for Approval	1	0	Not achieved	Not tabled to Council	N/A	N/A



Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Annual Target	Baseline	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL67	Municipal institutional development and transformation	Efficient administration and good governance	Number of LLF meetings scheduled	Number	Attendance Register and Minutes	4 LLF Meetings	1	1 LLF meeting convened	Not achieved	Committees was disbanded	NA	NA
TL68	Municipal institutional development and transformation	Efficient administration and good governance	Approved and Reviewed the PMS Policy to include employees at all levels and submit it to the MM for approval	Number	PMS Policy	Approved and Reviewed the PMS Policy to include employees at all levels and submit it to the MM for approval	1	None	Not achieved	Policy to be revised for the new financial year	NA	NA
TL69	Municipal institutional development and transformation	Efficient administration and good governance	Reviewed EE Plan and ensure Compliance with the EE Act and all relevant legislation	Number	Compliance letter from Department of Labour.	Reviewed EE Plan and ensure Compliance with the EE Act and all relevant legislation	1	1	Achieved	NA	NA	N/A
TL70	Municipal institutional development and	Efficient administration and good governance	Vetting of BTO staff and <b>SCM / Bid Committee</b>	Number	Vetting Report	Vetting of BTO and <b>SCM / Bid Committee</b>	0	None	Not Achieved	NA	NA	NA

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Annual Target	Baseline	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
	transformation		members/staff			members/staff						
TL71	Municipal institutional development and transformation	Efficient administration and good governance	Developed Customer Care Policy and submit to Council for approval.	Number	Council Resolution	Developed Customer Care Policy and submit to Council for approval.	0	None	Not achieved	NA	NA	NA
TL72	Municipal institutional development and transformation	Efficient administration and good governance	4 Ordinary Council meetings be held per annum in terms of schedule of Council meetings.	Number	Minutes	4 Ordinary Council meetings be held per annum in terms of schedule of Council meetings.	4	3 Ordinary Council meetings	Achieved	N/A	N/A	Minutes submitted
TL73	Municipal institutional development and transformation	Efficient administration and good governance	Community Satisfaction Survey report approved by Council	Number	Community satisfaction survey Report	Community Satisfaction Survey report approved by Council	0	0	Not achieved	No information submitted	No corrective measures submitted	NA
TL74	Municipal institutional development and transformation	Efficient administration and good governance	Implement Council Resolutions and keep an updated Council Resolution Register	Number	Signed Councils Resolution Register / Execution list by Directors and MM.	4 Resolution registers	4	4	Achieved	NA	NA	Registers submitted

Ref	KPA	Strategic Objective	KPI	Unit of Measurement	Evidence	Annual Target	Baseline	Annual Results	Actual Performance	Reason for non-achievement	Corrective measures	PMS Comment
TL75	Municipal institutional development and transformation	Efficient administration and good governance	Reviewed ICT Security Policy and submit to Council for approval	Number	Signed IT Security Policy and Council resolution	Reviewed ICT security policy submitted to council for consideration	0	1	Not Achieved	Policy available	Still to be tabled to Council	NA
TL76	Municipal institutional development and transformation	Efficient administration and good governance	Completed ICT Infrastructure Assessment and Capability for all 5 Towns	Number	ICT Infrastructure Assessment Report	Complete ICT infrastructure assessment and capability for all 5 towns	0	0	Not Achieved	N/A	NA	Report attached
TL77	Municipal institutional development and transformation	Efficient administration and good governance	Renovated & Upgraded the server room	Number	Appointment of a service provider	Renovated & Upgraded the server room	0	1	Achieved	NA	NA	Service Provider Appointed



Table 23: Employees Water Service

Employees: Water Services					
Job Level	2017/18	2018/19			
	Employees No.	Posts No.	Employees No.	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
0 – 3	0	0	0	0	0%
4 – 6	11	20	11	9	45%
7 – 9	2	0	2	0	0%
10 – 12	0	0	0	0	0%
<b>Total</b>	<b>13</b>	<b>20</b>	<b>13</b>	<b>2</b>	<b>40%</b>

Table 24: Financial Performance Water Service

Financial Performance : Water Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	15 748	8 865	8 865	4 417	4 448
Expenditure:					
Employees	7 729	549	399	729	-180
Repairs and Maintenance	9	-	-	-	-
Other	4 3202 049	2 653	2 703	1 552	1 101
<b>Total Operational Expenditure</b>	9 775	3 202	3 102	2 281	921
Net Operational Expenditure	6 153	5 663	5 763	2 136	3 527

Table 25: Capital Expenditure Water Service

Capital Expenditure 2018/19 Water Services					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All				0	
Project A: Upgrading of Jacobsdal Water Treatment Works	25 000 000	16 231 000	12 374 806.6	28 856 193.4	75 000 000
T 3.1.9					

### 6.3.1 COMMENT ON WATER SERVICES PERFORMANCE OVERALL:

The Department of Water & Sanitation has been the main source of upgrading the WTW's, however, progress has been made and yet no immediate impact to communities has been identified due to projects being implemented in phases and not fully funded in one financial year. Furthermore, DWS conducted feasibility study for water supply in Petrusburg during the financial year under review.

## 6.4 WASTE WATER (SANITATION) PROVISION

### 6.4.1 INTRODUCTION TO SANITATION PROVISION

LLM is a Water Service Authority (WSA) and a Water Service Provider, this means that LLM has a responsibility to authorise water & sanitation usage and also provide the services, it is the role of the Municipality to provide acceptable form of sanitation. Through programmes like Accelerated Community Infrastructure Programme (ACIP), Municipal Infrastructure Grant (MIG) and Municipal Water Infrastructure Grant (MWIG), LLM has been engaged in a number of projects upgrading and refurbishing the WWTW and the Sewer pump stations.

LLM managed to refurbish pumpstation within Koffiefontein area, namely; Roselove, Rooirand, Alfa and Donkerhoek pumpstations for the reduction of sewer spillages. These pumpstations were malfunctioning as a result of theft and vandalism. However, the municipality is exploring other means to secure these facilities.

LLM solicited assistance from MISA to improve and install main pipeline which supply sewer to the Jacobsdal, WWTW and the project was successfully completed during the financial year under review.

LLM has embarked on the bucket eradication project in Jacobsdal 202 sites and the project is under construction.

The Koffiefontein WWTW has not been fully operational due to lack of maintenance, theft and vandalism. As a result, the WWTW is not fully functional and discharge of effluent impact negatively on the environment.

One of the major challenges as outlined in the WSDP is the location of the plant. It is indicated that the plant requires 80% of the sewer to be pumped upstream where the current plant is. A new conventional plant should be located at an area lower than the existing and the future planned settlements, which will eliminate all the current pump stations from the system.

Table 26: Sanitation Service Delivery

<b>*Households</b>				
Description			2017/18	2018/19
			Outcome No.	Actual No.
<b><u>Sanitation/sewerage: (above minimum level)</u></b>				
Flush toilet (connected to sewerage)			8 021	8021
Flush toilet (with septic tank)			250	250
Chemical toilet			0	0
Pit toilet (ventilated)			354	354
Other toilet provisions (above min. service level)				
<i>Minimum Service Level and Above sub-total</i>			8 625	8 625
<i>Minimum Service Level and Above Percentage</i>			90.6%	90.6%
<b><u>Sanitation/sewerage: (below minimum level)</u></b>				
Bucket toilet			452	452
Other toilet provisions (below min. service level)			443	443
No toilet provisions				
<i>Below Minimum Service Level sub-total</i>			895	895
<i>Below Minimum Service Level Percentage</i>			9.4%	9.4%
<b>Total households</b>			<b>9 520</b>	<b>9 520</b>
<b><i>*Total number of households including informal settlements</i></b>				<b><i>T 3.2.3</i></b>

Table 27: Sanitation Service Delivery Levels below the minimum

<b>Households - Sanitation Service Delivery Levels below the minimum</b>				
Description			Households	
			2017/18 Actual No.	2018/19 Actual No.
<b>Formal Settlements</b>				
Total households			8 625	8 625
Households below minimum service level			202	202
Proportion of households below minimum service level			2%	2%
<b>Informal Settlements</b>				
Total households			480	493
Households below minimum service level			480	493
Proportion of households below minimum service level			100%	100%
				<b><i>T 3.2.4</i></b>

Table 28: Employees: Sanitation Service

Employees: Sanitation Services					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 – 3	0	0	0	0	0%
4 – 6	1	1	1	0	0%
7 – 9	0	0	0	0	0%
10 - 12	16	16	16	0	0%
Total	17	17	17	0	0%
T 3.2.7					

Table 29: Financial Performance 2018/19: Sanitation Service

Financial Performance : Sanitation Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	8 637	8 486	10 013	-	8 486
Expenditure:					
Employees	459	4 571	4 401	7 367	-2 796
Repairs and Maintenance	-	100	300	259	-159
Other	-	-	-	286	-286
Total Operational Expenditure	459	4 671	4 701	7 912	-3 241
Net Operational Expenditure	0	3 815	5 312	-7 912	11 727
T 3.2.8					

Table 30: Capital Expenditure 2018/19: Sanitation Service

Capital Expenditure 2018/19: Sanitation Services					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
Project A: Upgrading of internal sewer network in Bolokanang	1 900 000	0	1 900 000	0	1 900 000
Project B: Ratanang sanitation of 202 stands	7 263 727	0	5 660 360.35	0	7 263 727
T 3.2.9					



#### **6.4.2 COMMENT ON SANITATION SERVICES PERFORMANCE OVERALL:**

LLM has not being compliant with the required legislative Water Acts in various reasons, continuous spillages into the river, in-compliant final effluent from plants and many other more areas. Ensuring availability of Security at all the WWTW will at least guarantee a continued reliable sanitation to the LLM constituencies and also ensure compliance to the required laws and acts.

Inadequate operation and maintenance budget also impact on the poor service experience, this result in pump stations not having attendants at all times, shortage of process controllers at WWTW. If this aspect can be addressed or prioritized, then the municipality can experience change in attitude by the consumers in terms of revenue collection and other positive outcomes.

### **6.5 ELECTRICITY**

#### **6.5.1 INTRODUCTION TO ELECTRICITY**

LLM is sharing the supply of electricity with Eskom within the municipality, there is about 50% for LLM and 50% for Eskom, LLM has secured and retained three electrical personnel. LLM does have strategic documents like the Electrical Master Plan, Operatinos and Maintanace plan is developed and yet to be approved by council.

One biggest challenge in the LLM supply area is the aged infrastructure which require maintenance from time to time. A request for funding was sent to the Department of Energy for the upgrading of the main substation and feeder lines, the application was approved with a budget of R 5.2 Million. There were shutdowns that were experienced during this year, however they were attended to immediately.

Challenges are experienced with meters that are being tampered with or unavailability of meters. The shortage of vehicles is also a challenge in this regard. The frequent theft and vandalism of equipment and cables also impacted negatively on the financial and operational effectiveness of the section due to the fact that materials and equipment stolen must be replaced as soon as possible.

In addition, the damage to the network extends much further than only the piece of cable or equipment that was damaged and in some cases requires specialized repairs. In addition vandalism and cable theft further poses a danger to the community as well as the culprits stealing the equipment due to exposed live conductor and consequent dangerous situations created.

The above mentioned constraints all impacted negatively on service delivery due to additional work load, unproductive standing time, long waiting period for spares and equipment, limited preventative maintenance hence unnecessary and avoidable damage to the infrastructure.

Table 31: Electricity Service Delivery Levels

Electricity Service Delivery Levels					Households
Description			2016/17 Actual No.	2017/18 Actual No.	2018/19 Actual No.
<b>Energy: (above minimum level)</b>					
Electricity (at least min.service level)			8 040	8369	8369
Electricity - prepaid (min.service level)					
<i>Minimum Service Level and Above sub-total</i>			8 040	8369	8369
<i>Minimum Service Level and Above Percentage</i>			100.0%	100.0%	100.0%
<b>Energy: (below minimum level)</b>					
Electricity (< min.service level)			–	–	–
Electricity - prepaid (< min. service level)					
Other energy sources					
<i>Below Minimum Service Level sub-total</i>			–	–	–
<i>Below Minimum Service Level Percentage</i>			0.0%	0.0%	0.0%
<b>Total number of households</b>			8 040	8369	8369
					<i>T 3.3.3</i>

Table 32: Households - Electricity Service Delivery Levels below the minimum

Households - Electricity Service Delivery Levels below the minimum					Households
Description			2017/18	2018/19	
			Actual	Actual	
			No.	No.	
<b>Formal Settlements</b>					
Total households			8 040	8369	
Households below minimum service level			0	0	
Proportion of households below minimum service level			0%	0%	
<b>Informal Settlements</b>					
Total households			0	0	
Households below minimum service level			0	0	
Proportion of households below minimum service level			0%	0%	
					<i>T 3.3.4</i>

Table 33: Employees: Electricity Services

Employees: Electricity Services					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 - 3	5	6	5	1	16.67%
4 - 6	0	0	0	0	0%
7 - 9	3	3	3	0	0%
10 - 12	0	0	0	0	0%
Total	8	9	8	1	11.11%
					<i>T 3.3.6</i>

Table 34: Financial Performance: Electricity Services

Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	15 106	22 967	21 280	4 154	18 813
Expenditure:					
Employees	-	3 988	3 894	4 997	-1 009
Repairs and Maintenance	1 575	100	50	29	71
Other	730	300	110	137	163
<b>Total Operational Expenditure</b>	2 305	4 388	4 054	5 163	-1 196
<b>Net Operational Expenditure</b>	12 801	18 579	17 226	-1 009	19 588
					<i>T 3.3.7</i>

Table 35: Capital Expenditure: Electricity Services

Capital Expenditure 2018/19					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
Project A: Upgrading of Koffiefonteing substation and bulk feeder lines	670 000	0	300 947.4	369 052.6	670 000
					<i>T 3.3.8</i>

### **6.5.2 COMMENT ON ELECTRICITY SERVICES PERFORMANCE OVERALL**

LLM have prioritized the Upgrading of Koffiefontein Substation, training of skilled personnel and appointed three electrician. Long term plans will be included in the next IDP for the implementation of these projects. An application for the electrification of new developments and upgrading of substation has been approved and the project is ongoing.

The projects intended for the next FY are:

- ❖ Electrification of 252 sites in Koffiefontein
- ❖ Electrify the new developments and avoid baglogs
- ❖ Completion of the substation & Replace delapidated existing bulk power lines
- ❖ Enhance power supply and increase capacity
- ❖ Replacement of existing meters with smart meters revenue enhancement and reduction of loses

## **6.6 WASTE MANAGEMENT**

### **6.6.1 INTRODUCTION TO WASTE MANAGEMENT**

Waste Management is a core function of local government and a basic service delivered by Letsemeng Municipality. It is also a major generator of revenue for the municipality and therefor the Municipality has to put mechanisms in place to deliver this service on a sustainable basis in the most cost-effective way. Section 11.4 of the Waste Act (59 of 2008) requires local municipalities to Develop Integrated Waste Management Plans. The IWMP of Letsemeng Municipality was adopted in 2015 and serves as an effective institutional framework for the following purpose:

- Pollution and waste minimization;
- Impact management and remediation;
- Holistic and integrated planning with the intention to develop mechanisms to ensure that integrated pollution and waste management considerations are integrated into the development of government policies, strategies and programmes; and

Table 36: Solid Waste Service Delivery Levels

Solid Waste Service Delivery Levels				
Description		2016/17	2017/18	Households 2018/19
		Actual No.	Actual No.	Actual No.
<b><u>Solid Waste Removal:</u> (Minimum level)</b>				
Removed at least once a week		9 319	8369	
<i>Minimum Service Level and Above sub-total</i>		9 319	8369	
<i>Minimum Service Level and Above percentage</i>		100.0%	100.0%	
<b><u>Solid Waste Removal:</u> (Below minimum level)</b>				
Removed less frequently than once a week		0	0	
Using communal refuse dump		0	0	
Using own refuse dump		0	0	
Other rubbish disposal		0	0	
No rubbish disposal		0	0	
<i>Below Minimum Service Level sub-total</i>		0	0	
<i>Below Minimum Service Level percentage</i>		0.0%	0.0%	
<b>Total number of households</b>		<b>9 319</b>	<b>8369</b>	
T 3.4.2				

Table 37: Households - Solid Waste Service Delivery Levels

Households - Solid Waste Service Delivery Levels below the minimum				
Description		2015/16	2016/2017	Households 2017/18
		Actual No.	Actual No.	Actual No.
<b>Formal Settlements</b>				
Total households		9319	8369	8369
Households below minimum service level		0	0	0
Proportion of households below minimum service level		0%	0%	0%
<b>Informal Settlements</b>				
Total households		0	0	0
Households below minimum service level		0	0	0
Proportion of households below minimum service level		0%	0%	0%
T 3.4.3				

Table 38: Employee: Waste Management Services

Employees: Waste Management Services					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
7 - 9	0	1	0	1	100%
10 - 12	6	7	6	1	%
13 - 15	5	5	5	0	0%
Total	11	13	11	2	15%
T 3.4.5					

Table 39: Employee: Waste Disposal and other services

Employees: Waste Management Services					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 - 3	0	0	0	0	0%
4 - 6	0	1	0	1	100%
13 - 15	34	34	34	0	0%
Total	34	35	34	1	2.9%
T 3.4.5					

Table 40: Financial Performance 2018/19: Waste Management Services

Financial Performance 2018/19: Waste Management Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	9 485	10 108	10 512	10 852	-744
Expenditure:					
Employees	2 267	0	0	0	0
Repairs and Maintenance	294	0	0	0	0
Other	443	0	0	0	0
Total Operational Expenditure	3 004	0	0	0	0
Net Operational Expenditure	6 481	10 108	10 512	10 852	-744
T 3.4.7					

Table 41: Capital Expenditure: Waste Management Services

Capital Expenditure 2018/19: Waste Management Services					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All	0	0	0	0	0
No projects for the financial year					

## 6.6.2 COMMENT ON THE OVERALL PERFORMANCE OF WASTE MANAGEMENT SERVICES

The municipality is having a shortage of waste management personnel and equipment

## 6.7 HOUSING

### 6.7.1 INTRODUCTION TO HOUSING

The biggest challenge is that the demand for housing grows annually out of proportion in correlation with the funding resources that are available. With budgetary constraints it is difficult to install bulk services and infrastructure for housing development and the construction of top structures.

Some of the other fundamental challenges that influence housing delivery in Letsemeng Municipality include:

- Inadequate funding allocations for human settlement development;
- Limited availability of suitable land;
- Inadequate capacity of existing bulk infrastructure;
- Lengthy environmental and other statutory approval processes; and
- Alignment of identified pipeline projects

Table 42: Households - Access to basic housing

Percentage of households with access to basic housing			
Year end	Total households (including in formal and informal settlements)	Households in formal settlements	Percentage of HHs in formal settlements
2018/19	8917	8369	93.9%
<i>T 3.5.2</i>			

Table 43: Employees: Housing

Employees: Housing					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 – 3	0	0	0	0	100%
4 – 6	1	1	1	0	0%
7 – 9	1	1	1	0	0%
10 – 12	0	0	0	0	0%
Total	2	2	0	0	0%
<i>T 3.5.4</i>					

Table 44: Financial Performance: Housing

Financial Performance 2018/19: Housing					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	0	0	0	0	0%
Expenditure:					
Employees	0	0	0	0	0%
Repairs and Maintenance	0	0	0	0	0%
Other	0	1000	1000	508	0%
<b>Total Operational Expenditure</b>	0	1000	1000	508	492%
<b>Net Operational Expenditure</b>	0	-1000	-1000	-508	-492%
T 3.5.5					

Table 45: Capital Expenditure: Housing

Capital Expenditure 2018/19: Housing					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
No capital projects for the financial year.					

## 6.8 COMPONENT B: FREE BASIC SERVICES AND INDIGENT SUPPORT

### 6.8.1 INTRODUCTION TO FREE BASIC SERVICES AND INDIGENT SUPPORT

Section 97(1)(c) of the Municipal Systems Act requires municipalities to formulate an Indigent Policy that is consistent with Council's rate and tariff policies and also meets the requirements of S152 of the Constitution. The policy on indigent support and social rebates means that many households who would normally struggle to pay their accounts receive free or subsidised basic services thereby keeping them free of the burden of municipal debt. Adequate provision has to be made in the budget for provision of bad debts based on assumptions on collection rates. The municipality has an indigent register with 1 approved indigent households at the end of 2018/2019 financial year. The municipality provides indigent households with free 6kl of water per month, free sanitation and refuse removal per month, 50 units of electricity per indigent household per month and exemption on Property Rates for properties valued at R70 000.

Table 46: Free Basic Services

Free Basic Services To Low Income Households										
	Number of households									
	Households earning less than R1,100 per month									
	Total	Free Basic Water		Free Basic Sanitation		Free Basic Electricity		Free Basic Refuse		
		Total	Access	%	Access	%	Access	%	Access	%
2017/18	10 024	1 693	1 693	17%	1 693	17%	1 693	17%	1 693	17%



2018/19	10 024	2 001	2 001	20%	2 001	20%	2 001	20%	2 001	20%
<i>T 3.6.3</i>										

Table 47: Financial Performance: Free Basic Services

Financial Performance 2018/19: Cost to Municipality of Free Basic Services Delivered					
Services Delivered	2017/18	2018/19			
	Actual	Budget	Adjustment Budget	Actual	Variance to Budget
Water	2 101	3 988	3 988	2 101	1 887
Waste Water (Sanitation)	1 899	2 008	2 008	1 899	109
Electricity	3 117	2 508	2 508	3 117	-609
Waste Management (Solid Waste)	1 764	4 008	4 008	1 764	2 244
Total	8 881	12 512	12 512	8 881	3 631
<i>T 3.6.4</i>					

### 6.8.1 COMMENT ON FREE BASIC SERVICES AND INDIGENT SUPPORT

The municipality allocates free basic water to all households including indigents households only in terms of the national norms.

The objective of Indigent Support is to ensure the following:

- The provision of basic services to the community in a sustainable manner, within the financial and administrative capacity of the Council;
- To provide procedures and guidelines for the subsidisation of rates and basic service charges to its indigent households, using the Council's budgetary provisions received from National Government, according to prescribed policy guidelines;
- That Council recognises that many of the residents can simply not afford the cost of full provision and for this reason Council will endeavour to ensure affordability through:
- To set rates and tariffs in terms of the Council's Rates and Tariff Policy, which will balance the economic viability of continued service delivery; and
- To determine appropriate service levels.

## 6.9 COMPONENT C: ROAD AND TRANSPORT

### 6.9.1 INTRODUCTION TO ROADS

Letsemeng Local Municipality has about 189km of roads or streets in five (5) towns. The table below shows the length of the existing roads per Town. Out of the 58km paved roads, 70% of them are in a poor condition if not very poor. This is as a result of poor or no maintenance at all. The condition is deteriorating in a fast pace since the existing potholes and cracks are not being attended as soon as they surfaces.

TOWN	PAVED ROADS (KM'S)	GRAVEL ROADS (KM'S)
Jacobsdal	9.539	22.6
Luckhoff	3.536	20.6
Petrusburg	10.942	47,249
Oppermans	4.306	16.2
Koffiefontein	24.365	24.1
<b>TOTALS</b>	<b>52.688</b>	<b>130.7</b>
Koffiefontein	23.7	24.1

## 6.10 ROADS

Table 48: Gravel Road Infrastructure

Gravel Road Infrastructure				
	Total gravel roads	New gravel roads constructed	Gravel roads upgraded to pave	Kilometres Gravel roads graded/maintained
2017/18	130	0	0	0
2018/19	130	0	1	0
T 3.7.2				

Table 49: Paved Road Infrastructure

Paved Road Infrastructure					Kilometres
	Total paved roads	New paved roads	Existing paved roads re-paved	Existing pave roads re-sheeted	Pave roads maintained
2017/18	52.6	1	0	0	3
2018/19	54.8	2.2	0	0	0
					<i>T 3.7.3</i>

Table 50: Employees: Road Services

Employees: Road Services					
Job Level	2017/18	2018/19			
	Employees No.	Posts No.	Employees No.	Vacancies (fulltime equivalents) No.	Vacancies (as a % of total posts) %
10 - 12	0	1	0	1	100%
13 - 15	0	5	0	5	100%
Total	0	6	0	6	100%

Table 51: Financial Performance: Road Services

Financial Performance 2018/19: Road Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	0	-	-	-	-
Expenditure:					
Employees	0	3 731	2 548	1 961	-
Repairs and Maintenance	122	100	-	-	100
Other	603	-	-	64	-64
<b>Total Operational Expenditure</b>	2 318	3 831	2 548	2 020	36
<b>Net Operational Expenditure</b>	2 318	-3 831	-2 548	-2 025	-36
T 3.7.8					

Table 422: Capital Expenditure: Road Services

Capital Expenditure 2018/19: Road Services					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
Project A: Koffiefontein upgrading of 2.2km paved road and storm water	12 380 666	0	11 770 028.06	610 637.94	12 380 666
Project B: Luckhoff upgrading of 0.9km paved road and storm water	8 500 000	0	836 628.18	7 663 371.82	8 500 000
T 3.7.9					

### 6.10.1 COMMENT ON THE PERFORMANCE OF ROADS OVERALL

A rehabilitation of the roads in Koffiefontein is planned for the next financial year with a value of **R12million** this project will rehabilitate 2.2km of the existing tarred roads which were in a very poor condition. Koffiefontein has been prioritised for this first phase of rehabilitation; this is due to the amount of roads that were collapsing due to poor or non-maintenance. This project will be replacing the tarred roads with a block paving that is durable and has a low maintenance.

LLM does not have any dedicated roads maintenance teams in place, a new organogram clearly indicates that there must be a maintenance team, no additional employees were appointed to address this matter. LLM has little road maintenance equipment available, this will assist the new team to **Start and Go**; the only obstacle will be their Vehicle, PPE and minor tools.

## 6.11 TRANSPORT

The municipality does not perform this function.

## 6.12 COMPONENT D: WASTE WATER (STORMWATER DRAINAGE)

### 6.12.1 INTRODUCTION TO STORMWATER DRAINAGE

The storm water of LLM is also one of the infrastructure that is neglected. This is due to the unavailability of staff, the above team mentioned in Roads section will also be tasked with maintaining the storm water drainage and unblocking them. Currently most of the storm water V-drains and canals are filled with debris if not blocked, this is a challenge during heavy rains because people housed get flooded where as they are not supposed to.

LLM is faced with a paramount challenge of controlling storm water in the entire municipality, areas like Petrusburg, Jacobsdal and Koffiefontein get flooded by occasional floods which affects the streets in Bolokanang. There is also historical records of floods in these areas, and the matter has been neglected for years. A Storm Water Wasterplan, O&M manuals and plans are the highest priority in this case. As LLM is likely a flat area, a full study must be made to control this storm water, all the aforesaid flags require budget which can be able to address them one at a time for a period of 5 years.

Table 53: Storm water Infrastructure

Storm water Infrastructure				
	Total Storm water measures	New storm water measures	Storm water measures upgraded	Kilometres Storm water measures maintained
2017/18				
2018/19				
T 3.9.2				

Table 54: Employees: Storm water Services

Employees: Road Services					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
10 - 12	7	7	7	0	0%
13 - 15	3	6	3	3	50%
Total	10	13	10	3	23%
T3.7.7					

Table 55: Financial Performance: Storm water Services

Financial Performance 2018/19: Storm water Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	Included in roads table above				
Expenditure:					
Employees					
Repairs and Maintenance					
Other					
Total Operational Expenditure					
Net Operational Expenditure					
T 3.9.7					

### 6.12.2 COMMENT ON PERFORMANCE OF STORMWATER DRAINAGE OVERALL

LLM currently does not have any sector plans for Storm water, it is however part of the procurement plan to appoint service providers to develop a Master plan for the entire municipality. The priorities of Storm water projects are as the list below:

- ❖ Petrusburg Bolokanang – the entire Bolokanang require an urgent attention with regards to storm water flooding from the N8 National Road to the Bolokanang area, the road is collecting water from downstream ( Bloemfontein), acting as a barrier, it channels water to the Bolokanang houses and streets.
- ❖ Jacobsdal – Occasional floods has been recorded, this Storm water does not have any channelling, internal streets get flooded as and when it rains heavy.
- ❖ Koffiefontein – no proper Storm water channels, the elevation of Koffiefontein is close to a flat surface, some of the houses in Khayelitsha get flooded as and when it heavily rains.



## 6.13 COMPONENT E: PLANNING AND DEVELOPMENT

### 6.13.1 INTRODUCTION TO PLANNING AND DEVELOPMENT

This component includes planning and local economic development.

## 6.14 PLANNING

### 6.14.1 INTRODUCTION TO PLANNING

Table 56: Applications for Land Use Development

Applications for Land Use Development						
Detail	Formalisation of Townships		Rezoning		Built Environment	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
Planning application received	0	4	0	7	0	0
Determination made in year of receipt	0	0	0	0	0	0
Determination made in following year	0	0	0	0	0	0
Applications withdrawn	0	0	0	0	0	0
Applications outstanding at year end	0	0	0	0	0	0
						<i>T</i> <i>3.10.2</i>

Table 57: Employees: Urban Planning &amp; Property Management

Employees: Urban Planning & Property Management					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
10 - 12	0	0	0	0	0
13 - 15	0	0	0	0	0
Total	0	0	0	0	0
					<i>T 3.10.4</i>

Table 58: Financial Performance: Urban Planning &amp; Property Management

Financial Performance 2018/19: Urban Planning & Property Management					
					R'000
Details	17/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	1000	19 797	19 797	4 320	15 477
Expenditure:					
Employees	525	1 079	1 062	174	905
Repairs and Maintenance	475	0	0	0	0
Other	0	0	0	0	0
<b>Total Operational Expenditure</b>	1 000	18 718	18 735	4 149	14 569
<b>Net Operational Expenditure</b>					
					<i>T 3.10.5</i>

Table 59: Capital Expenditure 2018/19: Urban Planning &amp; Property Management

Capital Expenditure 2018/19: Urban Planning					
					R' 000
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
No projects for the financial year					

## 6.15 LOCAL ECONOMIC DEVELOPMENT

### 6.15.1 INTRODUCTION TO ECONOMIC DEVELOPMENT

The growth of our local economy remains key priority to unlocking the employment opportunities for our people, thereby fighting head-on the socio-economic challenges facing our communities. The municipality is duty bound to create an environment that promotes the development of the local economy and create jobs.

In this regard, we should continue to strive to maximise our natural resources with the aim of attracting investors that will unlock employment opportunities for our community and thereby helping to tackle the socio-economic challenges faced by our communities.

We remain positive and hopeful that due to our stable political environment and our rich natural resources we will attract positive investment which will benefit our community in the long term.

The development of local SMME's also remains our responsibility to ensure that they are developed and assisted to grow into self-sustainable businesses that will continue to invest and contribute to the local economic growth.

Expanded Public Works Programme and Community Works Programme have contributed positively in keeping our towns clean and also created jobs.

#### 6.15.1.1 COMMENT ON LOCAL JOB OPPORTUNITIES:

Creation of long-term sustainable jobs remains a key challenge, majority of jobs created are short term and only in the main alleviate key challenges such as unemployment for a short period. There is a much broader need to identify and source funding for bigger projects with the aim of creating long term sustainable employment opportunities for our people.

The majority of our youth are unemployed due to shortage of skills in order to qualify for some of the identified opportunities that end up being sourced elsewhere. To curb this, the municipality has partnered with the key local stakeholders such as Motheo and Petra Mine to ensure that some of the youth are given opportunities to be skilled in order to access better employment opportunities as they become available.

Table60: Jobs Created during 2018/19 by LED Initiatives

Jobs Created during 2018/19 by LED Initiatives (Excluding EPWP projects)				
Total Jobs created / Top 3 initiatives	Jobs created	Jobs lost/displaced by other initiatives	Net total jobs created in year	Method of validating jobs created/lost
	No.	No.	No.	
Total (all initiatives)				
Top initiatives				
Contractor Development through subcontracting In projects implemented	85		85	MIG non-financial report.

Table61: Jobs Created through EPWP projects

Job creation through EPWP* projects		
Details	EPWP Projects	Jobs created through EPWP projects
	No.	No.
2017/18	3	50
2018/19	3	68

\* - Extended Public Works Programme

Table 62: Employees: LED Services

Employees: Local Economic Development Services					
Job Level	2018/19	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 - 3	0	0	0	0	0%
4 - 6	1	1	1	0	0%
Total	1	1	1	0	0%
					T 3.11.8

Table 63: Financial Performance 2018/19: LED Services

Financial Performance 2018/19: Local Economic Development Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	1000	0	0	0	0
Expenditure:					
Employees	804	484	478	1 205	-721
Repairs and Maintenance	0	0	0	0	0
Other	196	830	304	89	741
Total Operational Expenditure	1000	1 314	782	1 294	20

<b>Net Operational Expenditure</b>	1000	-1 314	-782	-1 294	-20
<i>T 3.11.9</i>					

Table 64: Capital Expenditure 2018/19: LED Services

<b>Capital Expenditure 2018/19 Economic Development Services</b>					
<b>R' 000</b>					
<b>Capital Projects</b>	<b>2018/19</b>				
	<b>Budget</b>	<b>Adjustment Budget</b>	<b>Actual Expenditure</b>	<b>Variance from original budget</b>	<b>Total Project Value</b>
Total All					
No capital projects					
<i>T 3.11.10</i>					

#### **6.15.1.2 COMMENT ON LOCAL ECONOMIC DEVELOPMENT PERFORMANCE OVERALL:**

High unemployment and poverty remain huge challenges that affect the growth of the local economy. As such it is incumbent upon the municipality to make a conducive environment in which people may find it easier to become entrepreneurs in order to create job opportunities for the unemployed and also as a way to escape poverty.

As a municipality we remain committed to assisting our local SMMEs, formal and informal businesses to can conduct their business in a way that is sustainable and efficient for the local economy to can grow.

For the year under review, the LED unit has implemented the following successfully:

- Facilitated development of 3 Business Plans in partnership with Small Enterprise Development Agency (SEDA) for our local SMMEs.
- Assisted Reaiteka Sewing Cooperative to obtain a sewing machine, business training, business Plan and marketing materials in collaboration with Department of Rural Development Land Reform and SEDA.
- Conducted Training on basic Business Management for 90 entrepreneurs in Jacobsdal, Petrusburg, Koffiefontein and Luckhoff.
- Facilitated the Registration of companies and 9 cooperatives in collaboration through National Development Agency
- Organised one day workshop for emerging farmers, the workshop focused on Animal Health and the business of farming.
- in partnership with National Development Agency organised a Civil Society Capacity building trainings workshops Jacobsdal/Oppermans 15/08/2018, Koffiefontein/Luckhoff 14/08/2018, Petrusburg 18-19/09/2018

- In partnership with Petra Diamonds organised a Project Management Training 30 July 2018 until 03 August 2018 (5days), 25 participants Petrusburg that are running their small businesses.

As the municipality was having financial constraints to can fund some of our activities we leveraged on our good partnerships with various stakeholders including other government departments and agencies as well as the private sector particularly Petra Diamonds Mine who came on board and ensured that our activities could take place without any hindrance.

Some of the planned activities could not be done due to the community unrests that affected municipal operations.

The municipality is in the process of finalising the key policies which will assist with the direction the municipality should take in tackling the economic development challenges. These policies are;

- Comprehensive LED Strategy
- Commonage Management Policy
- Business Licence Policy

These policies are expected to be finalised during the coming financial year.

## **6.16 COMPONENT F: COMMUNITY & SOCIAL SERVICES**

.This component includes: libraries and archives; museums arts and galleries; community halls; cemeteries and crematoria; child care; aged care; social programmes, theatres.

### **6.16.1 NTRODUCTION TO COMMUNITY AND SOCIAL SERVICES**

The libraries function has been transferred to the Provincial Government.

## **6.17 LIBRARIES, ARTS AND CULTURE**

### **6.17.1.1 INTRODUCTION TO CIVIC THEATRE, ARTS AND CULTURE**

The municipality does not perform this function.

## 6.18 PARKS AND CEMETERIES

### 6.18.1.1 INTRODUCTION TO PARKS AND CEMETERIES

#### OVERVIEW

It is the responsibility of the Community services division to provide a healthy and a conducive environment to the public, to upgrade the current developed parks and to develop new parks for informal recreation. It is of paramount importance to maintain cemeteries and to provide graves for funerals.

#### CORE AREAS OF RESPONSIBILITY

- Public Parks and open spaces
- Cemeteries

#### LOCAL JOB OPPORTUNITIES

The municipality is making use of EPWP and CWP employees for the cleaning of the cemeteries

Table 65: Employees: Parks and Cemeteries

Employees: Parks and Cemeteries					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 - 3	0	0	0	0	0%
Total	0	0	0	0	0
T 3.13.4					

Table 66: Financial Performance: Parks and Cemeteries

Financial Performance 2018/19: Parks and Cemeteries					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue	0	0	0	0	0
Expenditure:					
Employees	0	0	0	0	0
Repairs and Maintenance	277	0	0	0	0
Other	7	0	0	0	0
Total Operational Expenditure	284	0	0	0	0
Net Operational Expenditure	284	0	0	0	0
T 3.13.5					

Table 67: Capital Expenditure: Parks and Cemeteries

Capital Expenditure 2018/19: Parks and Cemeteries					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
T 3.13.6					

## 6.18.2 SPECIAL PROGRAMMES

### 6.18.2.1 INTRODUCTION TO SPECIAL PROGRAMMES

Special programmes are located in the Office of the Mayor and include the youth, women, disabled, aged, children and HIV/AIDS. The majority of the programmes and projects are implemented in partnership with other government departments, NGOs, CBO's and other external stakeholders.

#### 6.18.2.1.1 COMMENT ON THE PERFORMANCE OF SPECIAL PROGRAMMES OVERALL

The majority of the programmes and projects are implemented in partnership with other government departments, NGOs, CBO's and other external stakeholders.



## **6.19 COMPONENT G: ENVIRONMENTAL PROTECTION**

### **6.19.1 INTRODUCTION TO ENVIRONMENTAL PROTECTION**

Top priority of the municipality is to formulate policies and procedures aimed at conserving the natural resources, preserving the current state of natural environment and where possible, reversing its degradation.

#### **6.19.1.1 SERVICE STATISTICS FOR ENVIRONMENTAL PROTECTION**

Environmental master plan to be designed with the assistance of the Department of Economic, Small Business Development, Tourism and Environmental Affairs.

## **6.20 OTHER (DISASTER MANAGEMENT & OTHER)**

### **6.20.1.1 INTRODUCTION TO DISASTER MANAGEMENT**

As per Section 53 (1) of the Disaster Management Act, 57 of 2005 each municipality must:

- prepare a disaster management plan for its area according to the circumstances prevailing in the area;
- co-ordinate and align the implementation of its plan with those of other organs of state and institutional role-players; and
- regularly review and update its plan; and through appropriate mechanisms, processes and procedures established in terms of Chapter 4 of the Local Government Systems Act, 2000 (Act No. 32 of 2000), consult the local community on the preparation or amendment of its plan.

Letsemeng Municipality has mostly partnered with the Xhariep District Municipality to develop a disaster management plan for its area of jurisdiction since. Disaster management function is not functional due lack of equipment. LLM has developed a Disaster Management Plan locally and it was approved by Council for the year under review.

## **6.21 SPORT AND RECREATION**

### **6.21.1.1 INTRODUCTION TO SPORT AND RECREATION**

The Municipality's core function is to maintain all sport and recreation facilities within its jurisdiction. The municipality also supports sports programmes such as the O.R Tambo regional games by assisting with transport through the office of Mayor.

Table 68: Employees: Sport and Recreation

Employees: Sport and Recreation					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 - 3	0	0	0	0	
Total	0	0	0	0	
T 3.23.3					

Table 69: Financial Performance: Sport and Recreation

Financial Performance 2018/19: Sport and Recreation R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	0	0	0	0	0
Expenditure:					
Employees	830	0	0	0	0
Repairs and Maintenance	0	0	0	0	0
Other	0	0	0	0	0
<b>Total Operational Expenditure</b>	0	0	0	0	0
<b>Net Operational Expenditure</b>	0	0	0	0	0

Table 70: Capital Expenditure: Sport and Recreation

Capital Expenditure 2018/19: Sport and Recreation R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
No project for sports and recreation	0	0	0	0%	0
2018/19					
T 3.23.5					

## 7 CHAPTER 4 – ORGANISATIONAL DEVELOPMENT PERFORMANCE (PERFORMANCE REPORT PART II)

### 7.1 INTRODUCTION TO THE OFFICE OF THE MUNICIPAL MANAGER

The Municipal Manager is the Accounting Officer of the Municipality. As Accounting Officer he/she may delegate certain duties to the Chief Financial Officer, who will be accountable to him. The Municipal Manager is therefore accountable for all transactions entered into by his designates.

The Office of the Municipal Manager consists of the following administrative units:

- Internal Audit and Risk Management
- Integrated Development Planning and Performance Management
- ICT

The Municipality as a Service Authority within its area of jurisdiction has a legislative mandate to provide services in a safe and healthy environment. The top three service delivery priorities are as follows:

- Provision of new infrastructure in terms of planning and implementation.
- Operating, maintenance and refurbishment/rehabilitation of existing infrastructure.
- Provision of basic services such as water, electricity and roads

#### SERVICE STATISTICS FOR THE OFFICE OF THE MUNICIPAL MANAGER

Table 71: Service Statistics: Office of the Municipal Manager

Service Activity	Service Results
Number of senior management meetings held:	9
Number of management meetings held:	5
Number of quarterly stakeholder meetings convened:	4

Table 72: Employees: Office of the Municipal Manager

Employees: Executive and Council					
Job Level	2017/18	2018/19			
	Employees	Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
0 – 3	0	0	0	0	0%
4 – 6	0	1	0	1	100%
7 – 9	3	4	3	1	25%
10 - 12	2	2	2	0	0%

13-15	0	0	0	0	
Total	5	7	5	2	
T 3.24.4					

Table 433: Financial performance: Office of the MM

Financial Performance 2018/19: Office of the MM					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	0	0	0	0	0
Expenditure:					
Employees	3 420	4 878	4 665	4 072	806
Repairs and Maintenance					
Other	3 457	3 348	7 596	12 389	-4 041
<b>Total Operational Expenditure</b>	6 877	13 226	12 261	16 461	-3 235
<b>Net Operational Expenditure</b>	-6 877	-13 226	-12 261	-16 461	-3 235
T 3.24.5					

Table 444: Capital Expenditure: Office of the MM

Capital Expenditure 2018/19: Office of the MM					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All	0	0	0	0%	
No capital expenditure for the financial year					

## 7.2 FINANCIAL SERVICES

### 7.2.1 INTRODUCTION TO FINANCIAL SERVICES

Debt recovery has been a serious concern over the past years. The municipality struggles to collect 100% of what is billed on monthly basis. The arrears are not really serviced. Write-offs have been implemented on irrecoverable inactive accounts older than 3 years and cut offs are performed regularly. However, the municipality experience some difficulties in some of the areas within Letsemeng jurisdiction especially when a need arise for the electricity cut-offs, for instance, it was established that there are illegal connections of 1 750 households and the municipality encounters complexities when executing cut-off lists as the community threatens to go on community unrest. The municipality has put its focus on debt collection supporting Revenue Division under those circumstances.

There is a challenge of low revenue collection due to non-payment of accounts. . Cut-off processes are performed on regular basis to address revenue losses from electricity, water services and other services. Faulty meters both water and electrical are being replaced as much as the supply of manpower allows to improve the collection rate.

Table 75: Employees: Financial Services

Employees: Financial Services					
Job Level	2017/18	2018/19			
	Employees No.	Posts No.	Employees No.	Vacancies (fulltime equivalents) No.	Vacancies (as a % of total posts) %
0 – 3	15	19	15	4	21.05%
4 – 6	16	24	16	8	33.33%
7 – 9	4	6	4	2	33.33%
10 - 12	3	3	3	3	0%
13 - 15	0	0	0	0	0
Total	38	52	38	17	27%
					T 3.25.4

Table 456: Financial Performance: Financial Services

Financial Performance 2018/19: Financial Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	161 185	7 310	5 744	15 681	-8 371
Expenditure:					
Employees	52 819	10 802	11 245	12 489	-1 687
Repairs and Maintenance	420	100	70	15	85
Other	114 944	36 625	25 689	42 200	-5 575
<b>Total Operational Expenditure</b>	168 183	47 427	37 004	54 704	-7 177
<b>Net Operational Expenditure</b>	(6 998)	-40 217	-31 260	-39 023	-1 194
					T 3.25.5

Table 77: Capital expenditure: Financial Services

Capital Expenditure 2018/19: Financial Services					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All	0	0	0	0%	
No capital expenditure for the financial year					

## 7.3 HUMAN RESOURCE SERVICES

### 7.3.1 INTRODUCTION TO HUMAN RESOURCE SERVICES

Human Resources is one of the supporting function in Corporate Services Department, its main functions are as follows: Leave Administration, Recruitment, Benefits and Terminations.

**Priority: Institutional Performance Capacity and staff provision**

To improve performance the Council approved Performance Management Policy and the Institutional Performance Management Framework that will provide guidance in measuring, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role-players.

### 7.3.2 SERVICE STATISTICS FOR HUMAN RESOURCE SERVICES

The Municipality is currently standing with a total staff component of 200 employees as at end June 2019. The Municipality filled a total number of 17 positions, during the financial year 2018/2019. A total of 17 terminations were recorded due to different types of terminations e.g. Death, retirement, ill health and resignations.

A total number of 5 training interventions were implemented with 75 employees being trained. Other main service statistics are included in Chapter 4 of the Annual Report.

Table 78: Employees: Human Resource Services

Employees: Human Resource Services					
Job Level	2017/18	2018/19			
	Employees No.	Posts No.	Employees No.	Vacancies (fulltime equivalents) No.	Vacancies (as a % of total posts) %
0 – 3	8	10	8	2	20%
4 – 6	8	9	8	1	11.11%
7 – 9	1	5	1	4	80%
10 - 12	2	2	2	0	0%
Total	19	26	19	7	111.11%
T3.26.4					

Table 469: Financial Performance: Human Resource Services

Financial Performance 2018/19: Human Resource Services					
R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	1 194	-	-	-	-
Expenditure:	0	0	0	0	0
0	203	5 156	5 122	5 188	-32
Repairs and Maintenance	1 397	-	-	-	-
Other	1 397	5 984	5 395	1 586	4 398
<b>Total Operational Expenditure</b>	1 194	11 140	10 517	6 774	4 366
<b>Net Operational Expenditure</b>	0	-11 140	-10 517	-6 774	-4 366
T 3.26.5					

Table 80: Capital Expenditure: Human Resource Services

Capital Expenditure 2018/19: Human Resource Services					
R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All	0	0	0	0%	
No projects for the financial year					



## 7.4 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

This component includes: Information and Communication Technology (ICT) services.

### 7.4.1 INTRODUCTION TO INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

Our 3 primary objectives in ICT are:

- To minimize IT downtime;
- To ensure that our financial system data is backed-up on a regular basis; and
- To ensure all IT queries are addressed within 48 hours depending on the nature of the query and availability of resources .

Table 471: Employees: ICT Services

Employees: ICT Services					
Job Level	2017/18	2018/19			
	Employees No.	Posts No.	Employees No.	Vacancies (fulltime equivalents) No.	Vacancies (as a % of total posts) %
0 - 3	0		0	0	0%
7 - 9	1	2	1	1	50%
Total	1	2	1	1	50%
					T3.27.4

Table 482: Financial Performance: ICT Services

Financial Performance 2018/19: ICT Services R'000					
Details	2017/18	2018/19			
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Operational Revenue</b>	0	0	0		0
Expenditure:					
Employees	14	365	365		351
Repairs and Maintenance	0	100	100		725
Other	0	725	725		725
<b>Total Operational Expenditure</b>	23	1 190	1 190		1 167
<b>Net Operational Expenditure</b>	23	1 190	1 190		1 167
					T 3.27.5

Table 493: Capital Expenditure: ICT Services

Capital Expenditure 2018/19: ICT Services R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					0
No capital project for this year					

## 7.5 LEGAL AND COUNCIL SUPPORT SERVICES

### 7.5.1 INTRODUCTION TO LEGAL AND COUNCIL SUPPORT SERVICES

The primary function of this division is to:

- Provide administrative support to Council.
- To attend to all legal related matters on behalf of the Municipality.
- To provide auxiliary services to the administration.
- To spearhead Batho Pele Principles and Back to Basics.
- To attend to all customer care related issues.

Table 84: Employees: Legal and Council Support Services

Employees: Legal and Council Support Services					
Job Level	2017/18	2018/19			
	Employees No.	Posts No.	Employees No.	Vacancies (fulltime equivalents) No.	Vacancies (as a % of total posts) %
0 - 3	0			0	0%
4 - 6	0	0	0	0	0%
10 - 12	0	0	0	0	0%
19 - 20	0	0	0	0	0%
Total	0	0	0	0	0%
					T 3.28.4

Table 505: Financial Performance: Legal and Council Support Services

Financial Performance 2018/19: Legal and Council Support Services R'000					
Details	2018/19				
	Actual	Original Budget	Adjustment Budget	Actual	Variance to Budget
Total Operational Revenue					
Expenditure:					
Employees		0	0		
Repairs and Maintenance					
Other					
Total Operational Expenditure		0	0		
Net Operational Expenditure					
					T 3.28.5

Table 516: Capital Expenditure: Legal and Council Support Services

Capital Expenditure 2018/19: Legal and Council Support Services R' 000					
Capital Projects	2018/19				
	Budget	Adjustment Budget	Actual Expenditure	Variance from original budget	Total Project Value
Total All					
No capital project for this year					
Polishers					
Space saving cabinets					
					T 3.28.6

## 7.5.2 COMMENT ON LEGAL AND COUNCIL SUPPORT SERVICE PERFORMANCE OVERALL

The Legal and Support Services Division perform exceptionally well for the period in review. It ensured that the Municipal Council sits as required by the Municipal Systems Act and the Standard Rules and Orders and make necessary preparations for community consultation. It further provided administrative support to the entire institution.

### INTRODUCTION

## 7.6 COMPONENT A: INTRODUCTION TO THE MUNICIPAL PERSONNEL

### EMPLOYEE TOTALS, TURNOVER AND VACANCIES

Table 87: Total Number of Employees

Description	Employees				
	2017/18	2018/19			
	Employees No.	Approved Posts No.	Employees No.	Vacancies No.	Vacancies %
Water	11	20	11	9	45%
Waste Water (Sanitation)	6	12	6	6	50%
Electricity	8	9	8	1	11.11%
Waste Management	24	30	24	6	20%
Housing	2	2	2	0	0%
Waste Water (Storm water Drainage)	0	0	0	0	0.0%
Roads	0	0	0	0	0.0%
Transport	0	0	0	0	0.0%
Planning	0	0	0	0	0.0%
Local Economic Development	1	1	1	0	0.0%
Planning (Strategic & Regulatory)	0	0	0	0	0.0%
Community & Social Services	0	0	0	0	0.0%
Environmental Protection	0	0	0	0	0.0%
Health	0	0	0	0	0.0%
Security and Safety	0	0	0	0	0.0%
Sport and Recreation	0	0	0	0	0.0%
Corporate Policy Offices and Other	0	0	0	0	0.0%
<b>Totals</b>	<b>51</b>	<b>73</b>	<b>51</b>	<b>22</b>	<b>126.11%</b>
<i>T 4.1.1</i>					

Table 88: Vacancy Rate

Vacancy Rate: 2018/19			
Designations	*Total Approved Posts No.	*Vacancies (Total time that vacancies exist using fulltime equivalents) No.	*Vacancies (as a proportion of total posts in each category) %
Municipal Manager	1	0	100%
CFO	1	0	100%
Other S57 Managers (excluding Finance Posts)	3	0	100%
Other S57 Managers (Finance posts)	0	0	0%
Police officers	0	0	0%
Fire fighters	0	0	0%
Senior management: Levels 13-15 (excluding Finance Posts)	5	0	57,14
Senior management: Levels 13-15 (Finance posts)	3	0	100%
Highly skilled supervision: levels 9-12 (excluding Finance posts)	4	3	25%
Highly skilled supervision: levels 9-12 (Finance posts)	2	2	100%
<b>Total</b>	<b>19</b>	<b>5</b>	
T 4.1.2			

A high turnover rate may be costly to a Municipality and might negatively affect productivity, service delivery and institutional memory/Organizational knowledge. Below is a table that shows the turnover rate within the Municipality.

The table below indicates the turn-over rate over the last three years:

Table 89: Turn-over rate

Turn-over Rate			
Details	Total Appointments as of beginning of Financial Year No.	Terminations during the Financial Year No.	Turn-over Rate*
2017/18	17	11	14%
2018/19	11	13	
T 4.1.3			

#### 7.6.1 COMMENT ON VACANCIES AND TURNOVER:

Since Council approved the organizational structure in May 2015 and the review of the structure is still underway. Some critical and compliance positions that needed to be filled have been filled and recruitment is in process for other crucial position.

During the 2018/19 financial year a total number of 2 positions were advertised both internally and externally. The two positions of Section 57 Managers (Director: Technical Services and the Chief Financial Officer) were advertised and filled.

Council also embarked on the process of reviewing HR Policies which will be submitted to the relevant committees for consultation. Turnover is mainly as a result of terminations e.g. death, resignation, retirements and ending of fixed term contracts.

## 7.7 COMPONENT B: MANAGING THE MUNICIPAL WORKFORCE

### 7.7.1 INTRODUCTION TO MUNICIPAL WORKFORCE MANAGEMENT

The Municipality is constituted of five departments, Office of the Municipal Manager, Department of Corporate Services, Department of Finance, Department of Community Services and the Department of Technical Services of which each head of department is responsible for the management of the workforce in its department. Furthermore, each department is divided into divisions that are headed by managers who responsible for the discipline and work of employees in their divisions.

### 7.7.2 COMMENT ON WORKFORCE POLICY DEVELOPMENT:

During the financial year 2018/19, the Human Resource Policies Manual was reviewed and employees workshopped on it. It was tabled before the Council but unfortunately referred back to the relevant Section 79 Committee for further refinement.

## 7.8 POLICIES

Table 90: HR Policies and Plans

HR Policies and Plans				
	Name of Policy	Completed %	Reviewed %	Date adopted by council or comment on failure to adopt
1	Affirmative Action		95.0%	Not available
2	Attraction and Retention	100%		Part of HR Policy Manual/ 29 August 2019
3	Code of Conduct for employees		100%	Collective Bargaining Council matter
4	Delegations, Authorisation & Responsibility		95.0%	Avail, needs to be reviewed
5	Disciplinary Code and Procedures	100%		Collective Bargaining Council
6	Essential Services		95.0%	Discussed at the level of the Local Labour Forum
7	Employee Assistance / Wellness	100%		Part of HR policy Manual/ 29 August 2019
8	Employment Equity		95.0%	Not available
9	Exit Management		00.0%	Policy not yet developed
10	Grievance Procedures		100.0%	Collective Bargaining Council matter
11	HIV/Aids		95.0%	Part of HR Policy Manual/ 29 August 2019
12	Human Resource and Development	100%		Part of HR Policy Manual/ 29 August 2019
13	Information Technology	100%		In the process of developing IT policies
14	Job Evaluation		95.0%	In the process of conducting job evaluation
15	Leave	100%		Part of HR Policy manual/ 29 August 2019
16	Occupational Health and Safety	100%		Part of HR Policy Manual/ 29 August 2019
17	Official Housing	100%		Part of HR Policy Manual/ 29 August 2019

HR Policies and Plans				
	Name of Policy	Completed %	Reviewed %	Date adopted by council or comment on failure to adopt
18	Official Journeys		95.0%	Available
19	Official transport to attend Funerals		95.0%	A draft has been developed, still to be tabled before the LLF.
20	Official Working Hours and Overtime	100%		Part of HR Policy Manual/29 August 2019
21	Organisational Rights		95.0%	Collective Bargaining Council matter
22	Payroll Deductions		95.0%	Referred back to the section 79 Committee to further refinement.
23	Performance Management and Development			
24	Recruitment, Selection and Appointments	100%		Part of HR Policy Manual/29 August 2019
25	Remuneration Scales and Allowances		95.0%	Available
26	Resettlement		95.0%	Available
27	Sexual Harassment	100%		Part of HR Policy Manual/29 August 2019
28	Skills Development	100%		Part of HR Policy Manual/ 29 August 2019

T 4.2.1

## 7.9 INJURIES, SICKNESS AND SUSPENSIONS

Table 91: Number and Cost of Injuries on Duty

Number and Cost of Injuries on Duty					
Type of injury	Injury Leave Taken Days	Employees using injury leave No.	Proportion employees using sick leave %	Average Injury Leave per employee Days	Total Estimated Cost R'000
Required basic medical attention only	0	0	0	0	0
Temporary total disablement	-				
Permanent disablement	-				
Fatal	-				
Total	0	0	0	0	0

T 4.3.1

### 7.9.1 COMMENT ON INJURY AND SICK LEAVE:

The Municipality has put necessary precautions in place to mitigate the injuries from happening. The rate of employees who take sick leave is very minimal and it does not affect the smooth running of the operations.

Table 92: Number and Period of Suspensions

Number and Period of Suspensions				
Position	Nature of Alleged Misconduct	Date of Suspension	Details of Disciplinary Action taken or Status of Case and Reasons why not Finalised	Date Finalised
NONE				
T 4.3.5				

Table 523: Disciplinary Action Taken on Cases of Financial Misconduct

Disciplinary Action Taken on Cases of Financial Misconduct			
Position	Nature of Alleged Misconduct and Rand value of any loss to the municipality	Disciplinary action taken	Date Finalised
NONE			
T 4.3.6			

## 7.9.2 COMMENT ON SUSPENSIONS AND CASES OF FINANCIAL MISCONDUCT

No employee was suspended for negligent of responsibilities under period in review and no cases of financial misconducted were reported or discovered.

## 7.10 PERFORMANCE REWARDS

In terms of regulation 8 of the Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006 R.805 a bonus may only be paid after the municipal council has adopted the annual report of the year under review.

The majority of Managers (Directors) appointed in terms of Section 56 of the MSA are on fixed-term performance contracts. The Individual Performance Management System has not yet been cascaded down to the second reporting line of managers. Currently no performance bonus system or policy exists to pay bonus to non-section 57 employees. This will be put in place once the organisation achieves the necessary performance management maturity level.

The table below sets out the total number and cost of annual bonuses paid out to senior managers and fixed term contract employees for the 2018/19 financial year:

### 7.10.1 COMMENT ON PERFORMANCE REWARDS

There were no performances rewards issued to employees during the period under review.



## 7.11 ORGANISATIONAL PERFORMANCE SCORECARD

Performance Management is a process, which measures the implementation of the organisation's strategy. It is also a management tool to plan, monitor, and measure and review performance indicators to ensure efficiency, effectiveness and the impact of service delivery by the municipality.

At local government level performance management is institutionalized through the legislative requirements on the performance management process for Local Government. Performance management provides the mechanism to measure whether targets meet its strategic goals, set by the organisation and its employees, are met.

The constitution of S.A (1996) section 152 states that, dealing with the objectives of local government paves the way for performance management with the requirements for an "accountable government" The democratic values and principles in terms of section 195 (1) are also linked with the concept of Performance management, with reference to the principles of inter alia:

- the promotion of efficient, economic and effective use of resources,
- accountable public administration
- to be transparent by providing information,
- to be responsive to the needs of the community,
- and to facilitate a culture of public service and accountability amongst staff.

The Municipal Systems Act (MSA), 2000 requires municipalities to establish a performance management system. Further, the MSA and the Municipal Finance Management Act (MFMA) requires the Integrated Development Plan (IDP) to be aligned to the municipal budget and to be monitored for the performance of the budget against the IDP via the Service Delivery and the Budget Implementation Plan (SDBIP).

In addition, Regulation 7(1) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 states that "A Municipality's Performance Management System entails a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players."

Section 57 makes the employment of the Municipal Manager and Managers directly accountable to him subject to a separate performance agreement concluded annually before the end of July each year. Section 67 regards the monitoring, measuring and evaluating of performance of staff as a platform to develop human resources and to hold municipal staff accountable to serve the public efficiently and effectively. Performance Management, therefore, is not only relevant to the organisation as a whole, but also to the individuals employed in the organization as well as the external service providers and the Municipal Entities.

## 7.12 COMPONENT C: CAPACITATING THE MUNICIPAL WORKFORCE

Section 68(1) of the MSA states, that a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way. For this purpose the human resource capacity of a Municipality must comply with the Skills Development Act (SDA), 1998 (Act No. 81 of 1998), and the Skills Development Levies Act, 20 1999 (Act No. 28 of 1999).

### **7.12.1.1 INTRODUCTION TO WORKFORCE CAPACITY DEVELOPMENT**

The local sphere of government falls under Local Government Sector Education and Training Authority and is required to conduct skill audit and thereafter develop Workplace Skill Plan (WSP) which is accompanied by Training Plan. This Training Plan outlines the trainings that would be undertaken in a particular financial year. The employees are being sent to different training courses based on the skills identified in the WSP.

## 7.13 SKILLS DEVELOPMENT AND TRAINING

Table 94: Skills Matrix

Skills Matrix														
Management level	Gender	Employees in post as at 30 June 2018/19	Number of skilled employees required and actual as at 30 June 2018/19											
			Learnerships			Skills programmes & other short courses			Other forms of training			Total		
		No.	Actual: End of 2018/19	Actual: End of 2018/19	2018/19 Target	Actual: End of 2018/19	Actual: End of 2018/19	2018/19 Target	Actual: End of 2018/19	Actual: End of 2018/19	2018/19 Target	Actual: End of 2018/19	Actual: End of 2018/19	2018/19 Target
MM and s57	Male	1	0	0	0	0	0	0	0	0	0	0	0	0
	Male	4	0	0	0	0	4	4	0	4	0	0	4	
Councillors, senior officials and managers	Female	2	0	0	0	0	0	0	0	2	2	2	2	2
	Male	9	0	0	0	0	0	0	0	9	9	9	9	9
Technicians and associate professionals*	Female	0	0	0	0	0	0	0	0	0	0	0	0	0
	Male	0	0	0	0	0	0	0	0	0	0	0	0	0
Professionals	Female	0	0	0	0	0	0	0	0	0	0	0	0	0
	Male	0	0	0	0	0	0	0	0	0	0	0	0	0
Sub total	Female	0	0	0	0	0	0	0	0	0	0	0	0	0
	Male	0	0	0	0	0	0	0	0	0	0	0	0	0
Total		16	0	0	0	0	4	4	0	15	11	11	15	11
*Registered with professional Associate Body e.g CA (SA)														T 4.5.1

Table 95: Financial Competency Development: Progress Report

Financial Competency Development: Progress Report*						
Description	A. Total number of officials employed by municipality (Regulation 14(4)(a) and (c))	B. Total number of officials employed by municipal entities (Regulation 14(4)(a) and (c))	Consolidated: Total of A and B	Consolidated: Competency assessments completed for A and B (Regulation 14(4)(b) and (d))	Consolidated: Total number of officials whose performance agreements comply with Regulation 16 (Regulation 14(4)(f))	Consolidated: Total number of officials that meet prescribed competency levels (Regulation 14(4)(e))
<b>Financial Officials</b>	0	0	0		0	0
<i>Accounting officer</i>	1	0	1	1	1	1
<i>Chief financial officer</i>	1	0	1	1	1	1
<i>Senior managers</i>	3	0	3	3	3	3
<i>Any other financial officials</i>	10	0	10	7	0	7
<b>Supply Chain Management Officials</b>	0	0	0	0	0	0
<i>Heads of supply chain management units</i>	1	0	1	1	0	1
<i>Supply chain management senior managers</i>	0	0	0	0	0	0
<b>TOTAL</b>	16	0	16	13	5	13

## 7.14 COMPONENT D: MANAGING THE WORKFORCE EXPENDITURE

### 7.14.1 INTRODUCTION TO WORKFORCE EXPENDITURE

Section 66 of the MFMA states that the Accounting Officer of a Municipality must report to the Council on all expenditure incurred by the Municipality on staff salaries, wages, allowances and benefits. This is in line with the requirements of the Public Service Regulations, (2002), as well as National Treasury Budget and Reporting Regulations SA22 and SA23.

## 7.15 EMPLOYEE EXPENDITURE

The success or failure of a municipality depends on the quality of its political leadership, sound governance of its finances, the strength of its institutions and the caliber of staff working for the municipality.

Although sound financial governance is perceived to be most important, without proper personnel management, municipalities are likely to experience difficulty. This has become increasingly evident in a number of large municipalities that have recently found themselves in precarious financial situations, and is certainly true of many smaller municipalities. An analysis of municipal finances suggests that personnel issues lie at the heart of many of the financial problems experienced by municipalities.

At an aggregate level, about 33 per cent of the total municipal operating budget gets spent on the remuneration of personnel.

Municipalities are required to carry out quality services in an effective, efficient and financially sound manner by supporting the principles of ensuring cost-effective and affordable service delivery. Accountability and transparency are, therefore, important when managing workforce expenditure. If the Municipality wants to be effective, it is important to ensure that the Municipality plan properly. To ensure that the Municipality adhere to legislation, only approved and budgeted posts on the structure are advertised. The training and development of internal staff are aimed at ensuring that they are able to perform their duties better.

As can be seen from the graph below the workforce expenditure is on an upward curve since 2011. Demands by Labour have led to a steady increase in workforce expenditure despite a very slow economy. If the trend below continues in the future further pressure will be placed on the municipality's limited resources and will necessitate increases in tariffs that will place a greater burden on the rate payers.

### 7.15.1 COMMENT ON WORKFORCE EXPENDITURE:

The Municipal workforce expenditure is on an upward curve since 2011. Demands by Labour have led to a steady increase in workforce expenditure despite a very slow economy. If the trend below continues in the future further pressure will be placed on the municipality's limited resources and will necessitate increases in tariffs that will place a greater burden on the rate payers.

Table 536: Number of Employees Whose Salaries Were Increased Due to Their Positions Being Upgraded

Number Of Employees Whose Salaries Were Increased Due To Their Positions Being Upgraded		
Beneficiaries	Gender	Total
There were no salary increases due to upgrading of employee's position on the period under review.		
Those with disability are shown in brackets '(x)' in the 'Number of beneficiaries' column as well as in the numbers at the right hand side of the column (as illustrated above).		

Table 97: Employees Whose Salary Levels Exceed the Grade Determined by Job Evaluation

Employees Whose Salary Levels Exceed The Grade Determined By Job Evaluation				
Occupation	Number of employees	Job evaluation level	Remuneration level	Reason for deviation
None.				

Table 98: Employees appointed to posts not approved

Employees appointed to posts not approved				
Department	Level	Date of appointment	No. appointed	Reason for appointment when no established post exist
No appointments were made to posts not approved on the structure.				

## 7.15.2 COMMENT ON UPGRADED POSTS AND THOSE THAT ARE AT VARIANCE WITH NORMAL PRACTICE:

There was no upgrade of positions due to job evaluation for the financial year 2018/19. Some variances are legacy issues that occurred as a result of previous amalgamation.

## 8 CHAPTER 5 – FINANCIAL PERFORMANCE

### INTRODUCTION

Chapter 5 contains information regarding financial performance and highlights specific accomplishments. The chapter comprises of the following three components:

- Component A: Statement of Financial Performance
- Component B: Spending Against Capital Budget
- Component C: Other Financial Matters

## 8.1 COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

### INTRODUCTION TO FINANCIAL STATEMENTS

The municipality's performance during the year under review has been unsatisfactory, due to financial constraints, municipality experienced decline in revenue.

With the GRAP 24 (Presentation of Budget Information in Financial Statements) now effective, detailed analysis and comments for comparatives of Actual against Budgeted Amounts are shown in the financial statement, which forms part of this report.

## STATEMENTS OF FINANCIAL PERFORMANCE

### 8.1.1 INTRODUCTION TO FINANCIAL STATEMENTS

The following sections provide an overview of the financial results of the Municipality for the year under review per economic classification compared to the prior year audited results, the original and final adjustments budget.

Table 99: Financial summary

Financial, Summary										
R'000										
Description	2017/18		Current:2018/19			2018/19, Variance				
	Actual		Original, Budget	Adjusted, Budget	Actual	Original, Budget	Adjustments, Budget			
<b>Financial, Performance</b>										
Property, rates	R	14,917	R	19,797	R	19,826	0%	0%		
Service, charges		48,932,	R	50,426	R	50,671	R	50,259	0%	1%
Investment, revenue	R	579	R	842	R	421	R	594	29%	-41%
Transfers, recognized-operational	R	47,402	R	61,052	R	53,052	R	60,052	2%	-13%
Other, own, revenue	R	13,288	R	1,954	R	977	R	19,737	-910%	-1920%
<b>Total, Revenue, (excluding, capital, transfers, and, contributions)</b>	R	125,943	R	138,585	R	(9,321)	R	150,468	-879%	-1974%
Employee, costs	R	46,643	R	51,715	R	49,934	R	55,579	-7%	-11%
Remuneration, of, Councilor's	R	3,348	R	3,859	R	4,127	R	3,991	-3%	3%
Depreciation, &, asset, impairment	R	32	R	33,739	R	33,739	R	128,513	-281%	-281%
Finance, charges	R	866	R	347	R	400	R	1,815	-423%	-354%
Materials, and, bulk, purchases		3,010							5%	-74%
	R	26,844	R	37,181	R	20,190	R	35,161	0%	0%
Transfers, and, grants	R	-	R	-	R	-	R	-	0%	0%
Other, expenditure	R	(31,374)	R	12,519	R	15,412	R	33,967	-171%	-120%
<b>Total, Expenditure</b>	R	(183,937)	R	180,147	R	(14,075)	R	259,026	-881%	-837%
<b>Surplus / (Deficit)</b>	R	(3,650)	R	(41,561)	R	(36,807)	R	(71,844)	-73%	-95%
Transfers, recognised, -, capital	R	56,529	R	49,949	R	-	R	36,714	26%	0%
Contributions, recognised, -, capital, &, contributed, assets			R	-	R	-	R	-	0%	0%
<b>Surplus / (Deficit), after, capital, transfers, &amp;, contributions</b>	R	(465)	R	8,388	R	4,754	R	-	100%	0%
Share, of, surplus / -(deficit), of, associate			R	-	R	-	R	-	0%	0%
<b>Surplus / (Deficit), for, the, year</b>	R	(465)	R	8,388	R	4,754			100%	0%
									0%	0%
<b>Capital, expenditure, &amp;, funds, sources</b>										
Capital, expenditure			R	49,949	R	53,332	R	36,856	0%	0%
Transfers, recognised, -, capital	R	56,994	R	49,949	R	48,518	R	36,714	26%	0%
Public, contributions, &, donations	R	-	R	-	R	-	R	134	0%	0%
Borrowing	R	-	R	-	R	-	R	-	0%	0%
Internally, generated, funds	R	-	R	-	R	4,814	R	8	0%	0%
<b>Total, sources, of, capital, funds</b>	R	-	R	49,949	R	53,332	R	36,856	26%	0%
									0%	0%
<b>Financial, position</b>										
Total, current, assets	R	69,904	R	210,329	R	210,329		87,780	0%	0%
Total, non-current, assets	R	594,936	R	694,873	R	748,205	R	802,955	-16%	0%
Total, current, liabilities		55,705	R	13,316	R	13,316	R	120,397	0%	0%
Total, non-current, liabilities	R	21,850	R	12,167	R	12,167	R	12,285	-1%	0%
Community, wealth / Equity	R	590,934	R	695,042	R	933,051	R	758,052	0%	0%
									0%	0%
<b>Cash, flows</b>										
Net, cash, from, (used), operating		55,450,	R	19,489	R	46,827	R	34,224	-76%	0%
Net, cash, from, (used), investing	R	55,424	R	49,949	R	48,518	R	(31,783)	0%	0%
Net, cash, from, (used), financing	R	(293)	R	-	R	-	R	(861)	0%	0%
<b>Cash / cash, equivalents, at, the, year, end</b>	R	513	R	68,546	R	(1,991)	R	3,703	0%	0%
									0%	0%
<b>Cash, backing / surplus, reconciliation</b>										
Cash, and, investments, available			R	892	R	892	R	3,703	-315%	0%
Application, of, cash, and, investments			R	(159,980)	R	(181)	R	-	0%	0%
<b>Balance, -, surplus, (shortfall)</b>			R	160,872	R	182	R	3,703	98%	0%
									0%	0%
<b>Asset, management</b>										
Asset, register, summary, (WDV)	R	593,525	R	694,873	R	748,205	R	724,539	0%	0%
Depreciation, &, asset, impairment	R	32,866	R	33,739	R	33,739	R	46,071	-37%	0%
Renewal, of, Existing, Assets			R	3,834	R	-	R	25,139	0%	0%
Repairs, and, Maintenance	R	2,651	R	5,181	R	2,468	R	552	89%	0%
									0%	0%
<b>Free, services</b>										
Cost, of, Free, Basic, Services, provided	R	18,534	R	12,480	R	12,480	R	7,945	0%	0%
Revenue, cost, of, free, services, provided	R	15	R	-	R	-	R	-	0%	0%
<b>Households, below, minimum, service, level</b>										
Water:			R	-	R	-	R	-	0%	0%
Sanitation / sewerage:			R	-	R	-	R	-	0%	0%
Energy:			R	-	R	-	R	-	0%	0%
Refuse:			R	-	R	-	R	-	0%	0%
									T, 5, 1, 1	



Table 100: Financial Performance of Operational Services

Financial Performance of Operational Services R,'000					
Description	2017/18	2018/19			2018/19, Variance
	Actual	Original, Budget	Adjustments, Budget	Actual	Original, Budget
<b>Operating, Cost</b>					
Water	15,947.00	15,701.00	12,190.00	R 1,572	90%
Waste, Water, (Sanitation)	8,312.00	5,928.00	5,738.00	R 331	94%
Electricity	13,876.00	29,277.00	21,112.00	R 37,367	-28%
Waste, Management	7,984.00	7,186.00	2,538.00	R 4,898	32%
Housing		3,022.00	2,488.00	R 507	83%
Component, A:, sub-total	46,119,,	61,114,,	44,066.00	R 44,675	272%
Waste, Water, (Storm, water, Drainage)				R 331	0%
Roads					99%
Transport		6,431.00	2,548.00	R 84	
Component, B:, sub-total		6,431.00	2,548.00	R 415	99%
Planning	1,000.00	4,312.00	3,427.00	R 507	88%
Local, Economic, Development					
Component, B:, sub-total	1,000.00	4,312.00	3,427.00	R 507	88%
Planning, (Strategic, &, Regulatory)					
Local, Economic, Development					
Component, C:, sub-total					
Community, &, Social, Services		1,612.00	3,356.00	R 2,038	-26%
Environmental, Protection		-	-	R -	0%
Health		53.00	-	R -	100%
Security, and, Safety		-	-	R -	0%
Sport, and, Recreation		74.00	155.00		100%
Corporate, Policy, Offices, and, Other		93,607.00	93,577.00	R 168,587	-80%
Component, D:, sub-total		95,346.00	97,088.00	R 170,625	93%
					, T, 5.1.2,

Total recognised revenue was R 187 182 250, the amount is just under the budgeted figure of R 188 534 301

The highlights of income recognised are as follows:

- Actual service charges amounts to **R 50 359 000** against a budget amount of **R 50 671 000**. Part of the variance was due to free basic services being budgeted for in service charges while the funding of these services is from equitable share.
- Treasury withheld funds to repay unspent grants on MIG and WSIG.
- Total expenditure incurred amounted to **R183 937 430** and the budgeted expenditure was **R185 016 000**.

## GRANTS

Table 101: Grant Performance

Grant,Performance R',000					
Description	2017/18	2018/19			2018/19,Variance
	Actual	Budget	Adjustments ,Budget	Actual	Original,Budget(%)
<b>Operating,Transfers,and,Grants</b>					
<b>National,Government:</b>	76,294,	R 61,052			
„Equitable,share	R 49,189	R 61,052	R 53,052	R 53,052	13%
„Municipal,Systems,Improvement	R -	R -			
„Department,of,Water,Affairs	R 17,260	R 1,970	R 20,000	R 30,000	-1423%
„Levy,replacement	R -	R -	R -		
„Other,transfers / grants,[insert,des	,9,845,	R 32,919	R 32,919	R 39,764	-21%
<b>Provincial,Government:</b>					0.00%
„Health,subsidy		0	0	0	0.00%
„Housing		0	0	0	0.00%
„Ambulance,subsidy		0	0	0	0.00%
„Sports,and,Recreation		0	0	0	0.00%
„Other,transfers / grants,[insert,description]		0	0	0	0.00%
<b>District,Municipality:</b>					0.00%
„,[insert,description]					0.00%
					0.00%
<b>Other,grant,providers:</b>					0.00%
„,[insert,description]					0.00%
					0.00%
<b>Total,Operating,Transfers,and,Grat</b>	-		,	-	
					T,5.2.1

Table 102: Grants received from sources other than Division of Revenue Act (DoRA)

Grants Received From Sources Other Than Division of Revenue Act (DoRA)						
Details of Donor	Actual Grant 2016/17	Actual Grant 2017/18	2017/18 Municipal Contribution	Date Grant terminates	Date Municipal contribution terminates	Nature and benefit from the grant received, include description of any contributions in kind
<b>Parastatals</b> – No grants received						
<b>Foreign Governments/Development Aid Agencies</b> – No grants received						
<b>Private Sector / Organisations</b> – No grants received						
						T 5.2.3

**8.1.2 COMMENT ON CONDITIONAL GRANTS AND GRANT RECEIVED FROM OTHER SOURCES:**

The municipality did not receive any conditional grants from sources other than the DoRA.

**ASSET MANAGEMENT****INTRODUCTION TO ASSET MANAGEMENT**

Table 103: Treatment of the three largest assets acquired

TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED '2018/19				
Asset 1				
Name	Koffiefontein 4 ml Water Treatment Works			
Description	Water Treatment Works Project in Jacobsdal			
Asset Type	Infrastructure asset			
Key Staff Involved	Mpho Tsoene			
Staff Responsibilities	Project Management			
Asset Value (Spent in 2018/19)			2018/2019	
			R 12.7 million	
Capital Implications	Service Delivery Asset			
Future Purpose of Asset	Improved Service Delivery			
Describe Key Issues				
Policies in Place to Manage Asset	Yes			
Asset 2				
Name	Construction of 8 speed humps at 0.9 km paved road and storm water in Luckhoff			
Description	Construction of 8 speed humps at 0.9 km paved road and storm water in Luckhoff			
Asset Type	Infrastructure asset (Roads)			
Key Staff Involved	Mpho Tsoene			
Staff Responsibilities	Project Management			
Asset Value (Spent in 2018/19)			2018/2019	
			R 6.9 million	
Capital Implications	Service Delivery Asset			
Future Purpose of Asset	Service delivery ( roads)			
Describe Key Issues				
Policies in Place to Manage Asset	Yes			
Asset 3				
Name	Construction of Sport Fields in Dithlake - Koffiefontein			
Description	Construction of Sport Fields in Dithlake - Koffiefontein			
Asset Type	Infrastructure Asset			
Key Staff Involved	Mpho Tsoene			
Staff Responsibilities	Project management			
Asset Value (Spent in 2018/19)			2018/2019	
			8 million	
Capital Implications	Service Delivery Asset			
Future Purpose of Asset	Sports and Recreation			

TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED '2018/19	
Describe Key Issues	
Policies in Place to Manage Asset	Yes

#### COMMENT ON ASSET MANAGEMENT:

Majority of Assets are procured through Grants, the Municipality has an asset management unit, which deals with all asset management issues.

Table 544: Repairs and Maintenance Expenditure

Repair and Maintenance Expenditure: 2018/19				
R' 000				
	Original Budget	Adjustment Budget	Actual	Budget variance
Repairs and Maintenance Expenditure	6 469	3 469	3200	8%
				T 5.3.4

### 8.1.2 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

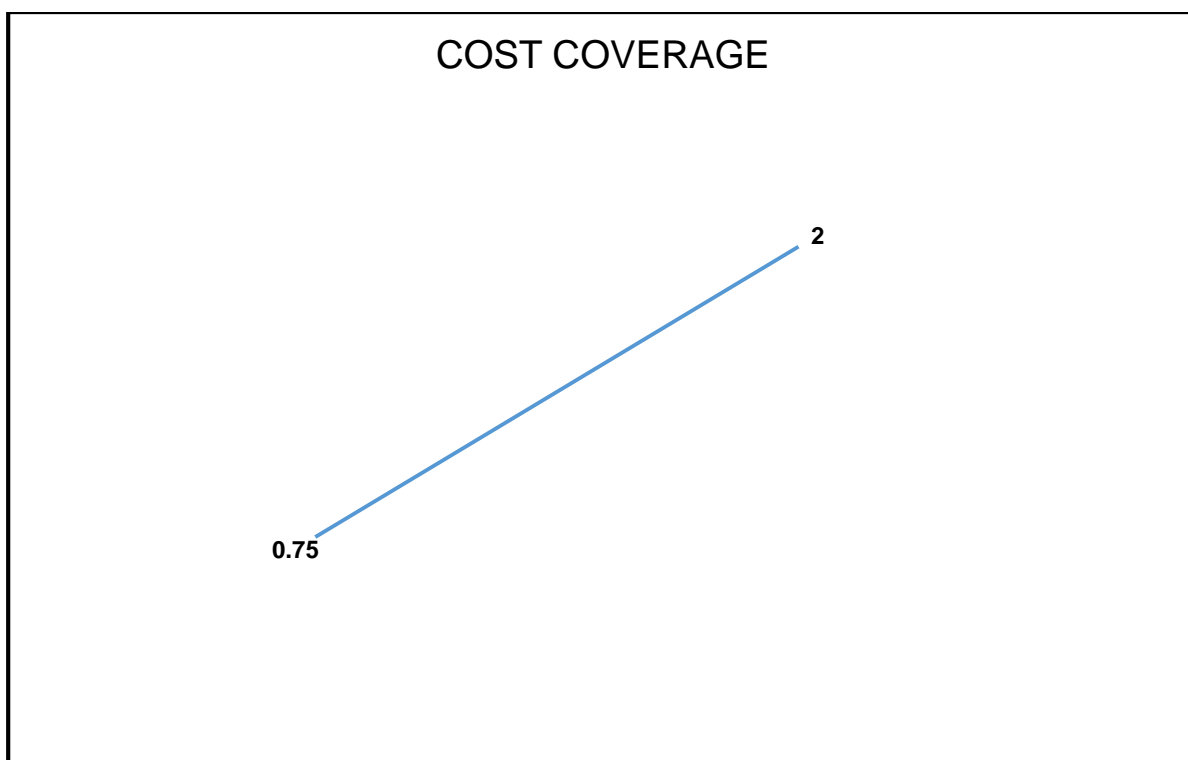


Figure 4: Ratio Cost Coverage

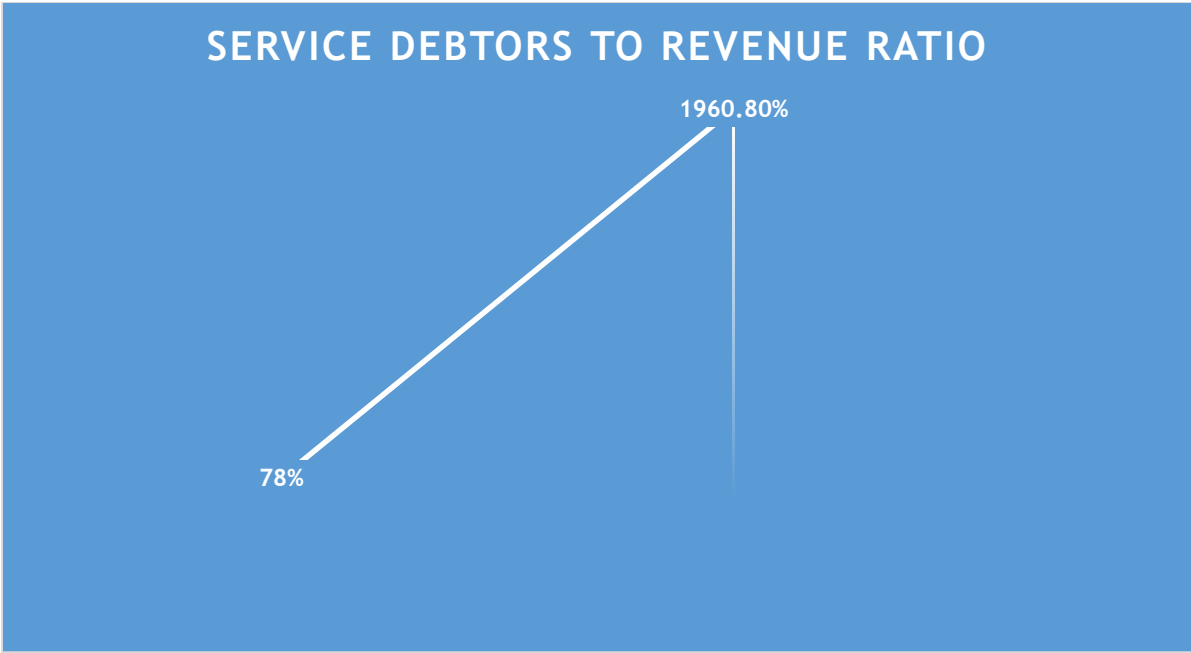


Figure 5: Service Debtors to Revenue Ratio

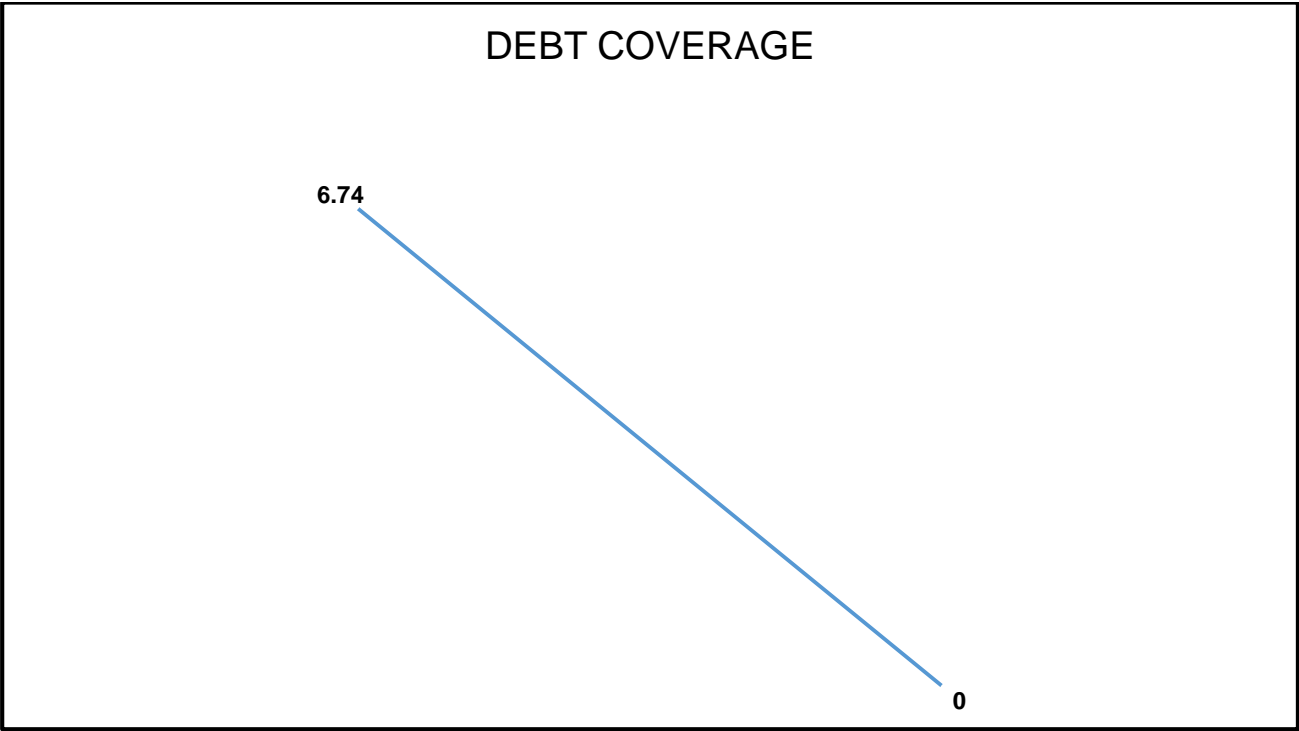


Figure 6: Debt Coverage Ratio

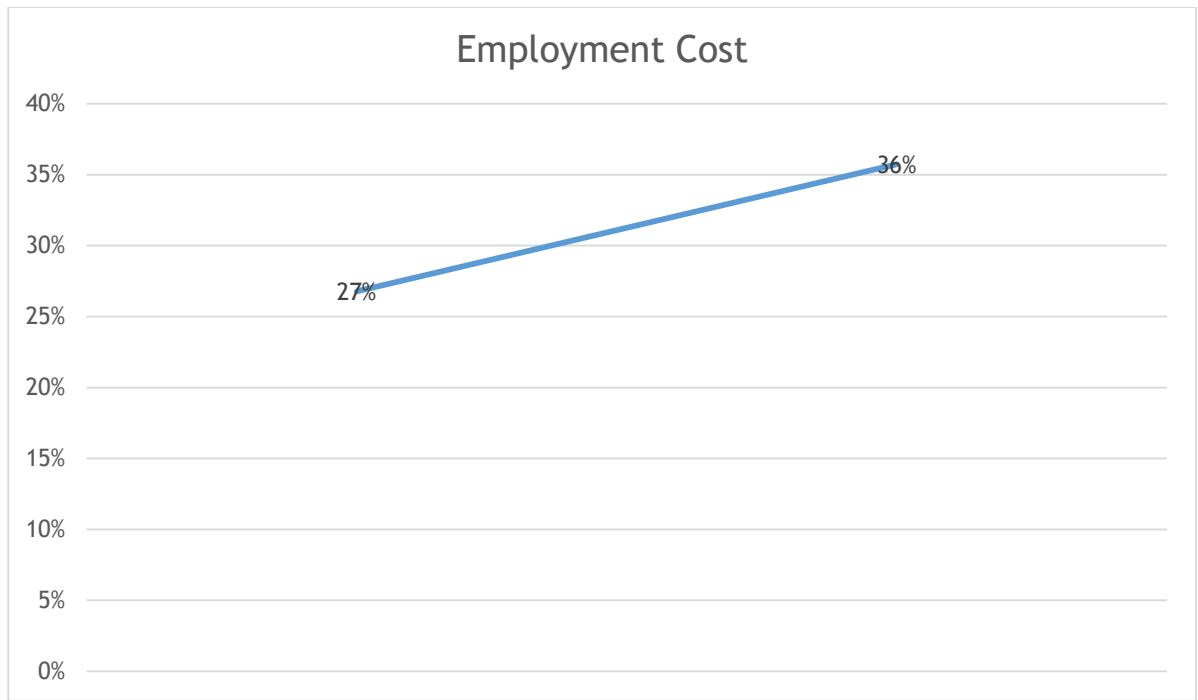


Figure 7: Employee Cost

## 8.2 COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

### INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

Capital expenditure relates mainly to construction projects that will have value lasting over many years. Capital expenditure is funded from grants, borrowings and operating expenditures and surpluses. Component B deals with capital spending indicating where the funding comes from and whether Municipalities are able to spend the available funding as planned. In this component it is important to indicate the different sources of funding as well as how these funds are spend.

#### 8.2.1 CAPITAL EXPENDITURE

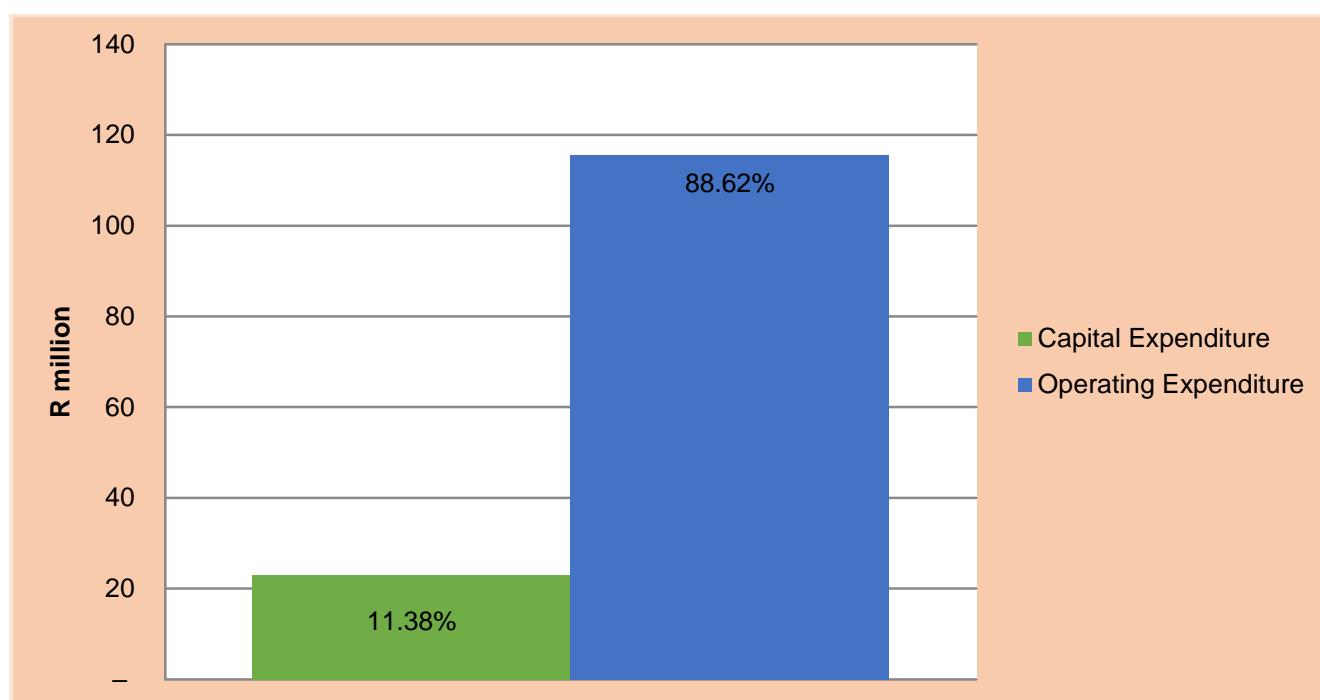


Figure 8: Capital Expenditure

## SOURCES OF FINANCE

Table 105: Capital Expenditure

Capital Expenditure - Funding Sources: '2017/18 to '2018/19							R' 000
Details		2017/18	2018/19				
		Actual	Original Budget (OB)	Adjustment Budget	Actual		
<b>Source of finance</b>							
	External loans						
	Public contributions and donations						
	Grants and subsidies	76 294	49 949	49 949	31600		
	Other	0					
<b>Total</b>		76 294					
<i>Percentage of finance</i>							
	External loans	0%					
	Public contributions and donations	0%					
	Grants and subsidies	93.5%	100%	100%	100%		
	Other						
<b>Capital expenditure</b>							
	Water and sanitation	35 557	30000	30000	12 700		
	Electricity	890	-		-		
	Housing	-					
	Roads and storm water	9 806	6900	6900	6900		
	Other	3 923	23049	23049	12 000		
							T5.6 .1

### 8.2.1 INDIGENTS HOUSEHOLDS

The municipality embarked on an indigent registration for the period under review. At the end of June 2019 the number was standing at 2001

### 8.2.2 DEBTORS AGE ANALYSIS

The debtors of the municipality arise from the households, government, business and other. These debtors arise from the following services, water, electricity, sewerage and refuse removal.

### DEBTORS PER SERVICE

The information below shows the total outstanding debtors of the municipality as at 30 June 2019 which was standing at R 215 million



Table 556: Debtors Age Analysis by Income Source (Exchange Transactions)

**Gross balances**

Electricity	6 243 411	5 699 312
Water	52 175 686	52 775 368
Sewerage	44 410 879	42 352 188
Refuse	42 819 423	41 209 244
Housing rental	2 851 208	3 372 468
Other - interest	26 061 008	142 611
	<b>174 561 615</b>	<b>145 551 191</b>

Table 107: Debtors Age Analysis by Income Source (Non- Exchange Transactions)

Assessment rates	40 921 523	45 180 769
------------------	------------	------------

**8.2.3 OPERATING EXPENDITURE**

The municipality approved an operating expenditure budget of R 139 million which was adjusted to R 123 million after mid-year assessment was done in January 2019.

Expenditure Management					
R'000					
Description	2017/18	Current:2018/19			2018/19,Variance
	Actual	Original, Budget	Adjusted, Budget	Actual	Original, Budget
Employee, costs	46,643	51,715	49,934	55,579	-7%
Remuneration, of, Councilor's	3,348	3,859	4,127	3,991	-3%
Depreciation, &, asset, impairment	74,862	33,739	33,739	128,513	-281%
Finance charges	866	347	400	1,815	-423%
Materials, and, bulk, purchases	26,844	37,181	20,190	35,161	5%
Transfers, and, grants	-	-	-	-	0%
Other, expenditure	33,559	12,519	15,412	33,967	-171%
<b>Total, Expenditure</b>	<b>186,122</b>	<b>139 360</b>	<b>123,802</b>	<b>259,026</b>	<b>-881%</b>

## BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

### 8.2.4 INTRODUCTION TO BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

Table 108: Service Backlogs

Service Backlogs as at 30 June 2019				
	*Service level above minimum standard		**Service level below minimum standard	
	No. HHs	% HHs	No. HHs	% HHs
Water	9814	100%	0	0
Sanitation	9558	100%	0	0
Electricity	5720	100%	0	0
Waste management	9414	100%	0	0
Housing				
				<i>T 5.8.2</i>

### 8.2.5 COMMENT ON BACKLOGS:

As can be seen the basic services backlogs are a huge problem for Letsemeng Local Municipality, only few projects were implemented in the last financial year and this were fully funded by MIG and WSIG.

## 8.3 COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

### INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

The proper management of cash resources is paramount in ensuring viability and sustainable growth and development. The municipality did not maintain significant investments due to pressing operational requirements and an effort to maintain creditors' payment within 30 days and addressing the long term liabilities.

### Cash Flow Statement

	Note(s)	2019 R	2018 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		14 036 818	15 484 379
Grants and subsidies received		110 579 061	93 649 000
Interest income		594 158	512 557
Dividends received		-	3 569
		<u>125 210 037</u>	<u>109 649 505</u>
<b>Payments</b>			
Employee costs		(56 640 529)	(51 316 468)
Suppliers and other payments		(34 344 699)	(29 432 517)
		<u>(90 985 228)</u>	<u>(80 748 985)</u>
<b>Net cash flows from operating activities</b>	<b>41</b>	<b>34 224 809</b>	<b>28 900 520</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(31 783 382)	(24 126 839)
Purchase of investment property	9	-	(417 795)
Proceeds from sale of financial assets		-	1 391
<b>Net cash flows from investing activities</b>		<b>(31 783 382)</b>	<b>(24 543 265)</b>

**Cash flows from financing activities**

Finance lease payments		<u>(861 418)</u>	<u>(2 746 306)</u>
Net increase/(decrease) in cash and cash equivalents		1 580 009	1 610 949
Cash and cash equivalents at the beginning of the year		2 123 768	512 819
Cash and cash equivalents at the end of the year	8	<u>3 703 777</u>	<u>2 123 768</u>

## **8.4 COMPONENT D: OTHER FINANCIAL MATTERS**

### **8.4.1 SUPPLY CHAIN MANAGEMENT**

#### **COMMENTS ON SUPPLY CHAIN MANAGEMENT**

Organogram for Supply Chain Management Unit has been amended to include an extra Demand Acquisition vacant position which will be filled in 2019/2020 financial year.

### **8.4.2 GRAP COMPLIANCE**

#### **COMMENTS ON GRAP COMPLIANCE**

Letsemeng Local Municipal compiles its Annual Financial Statements in line with General Recognised Accounting Practise.

## 9. CHAPTER 6 – AUDITOR GENERAL AUDIT REPORT

### 9. Report of the auditor-general to the Free State Legislature and the council on the Letsemeng Local Municipality

#### 9 Report on the audit of the financial statements

##### Qualified opinion

I have audited the financial statements of the Letsemeng Local Municipality set out on pages 139 to 224, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Letsemeng Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

##### Basis for qualified opinion

##### Payables from exchange transactions

I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions as statements from suppliers could not be provided. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to payables from exchange transactions stated at R63 927 181 (2018: R37 183 072) in note 15 to the financial statements. In addition, the municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*, as the municipality did not maintain adequate records for goods and services received, but not yet paid at year-end. A material difference exists between the trade payables' listing and the financial statements that could not be explained, and the leave accrual was incorrectly calculated. Consequently, payables from exchange transactions was understated by R23 897 005 (Overstated 2018: R13 043 784). There was also a resultant impact on expenditure, employee costs, the deficit for the period and the accumulated surplus.

## Receivables from exchange transactions

I was unable to obtain sufficient appropriate audit evidence that all receivables from exchange transactions were correctly accounted for due to an incorrect age analysis that was used by the municipality. As a result, I could also not confirm the debt impairment amount. I was unable to confirm receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to receivables from exchange transactions stated at R47 385 666 in note 5 to the financial statements. In addition, the municipality did not correctly account for debt impairment in accordance with GRAP 104, *Financial Instruments*, as debt not older than 30 days was incorrectly included when calculating the debt impairment in the current and prior year. I was unable to determine the full extent of the misstatement of receivables from exchange transactions, as it was impracticable to do so. There was also a resultant impact on debt impairment, the deficit for the period and the accumulated surplus.

## Service charges

I was unable to obtain sufficient appropriate audit evidence for service charges as it could not be confirmed that the reports used by management for recording the sales of prepaid electricity were reliable. I could also not confirm the estimates made where actual meter readings were not taken, due to lack of information to support the estimate calculations. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to service charges stated at R50 259 851 in note 20 to the financial statements. In addition, the municipality did not recognise revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. Service charges were levied at incorrect tariffs or incorrectly recorded, monthly services for water consumption were not consistently metered and correctly billed, and value-added tax (VAT) refund amounts were included in service charges, resulting in service charges as well as receivables from exchange transactions being understated by R1 215 049 (overstated 2018: R40 450 809). There was also a resultant impact on the deficit for the period and the accumulated surplus.

## VAT receivable

I was unable to obtain sufficient appropriate audit evidence for journal adjustments that were recorded against the VAT receivable, due to inappropriate record keeping and monthly VAT reconciliations that were not being performed by the municipality. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the VAT receivable stated at R11 014 379 in note 7 to the financial statements. In addition, the municipality did not claim input VAT on all qualifying expenses, did not declare output VAT on prepaid electricity sales and direct bank deposits, and did not record any VAT relating to the provision for impairment of receivables. I was unable to determine the full extent of the misstatement of the VAT receivable for the current year as it was impracticable to do so.

## **Irregular expenditure**

The municipality did not disclose all instances of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the understatement of irregular expenditure stated at R310 442 449 in note 47 to the financial statements as it was impracticable to do so.

## **10 Commitments**

I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain complete and accurate records of contractual information and payment documentation. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R18 483 078 (2018: R30 753 122) in note 42 to the financial statements. In addition, the municipality did not have adequate systems in place to account for commitments in terms of GRAP 17, *Property, plant and equipment*. This resulted in commitments being understated by R18 235 080 (overstated 2018: R1 138 455).

## **Bulk purchases**

The municipality did not recognise bulk purchases in terms of GRAP 1, *Presentation of financial statements*. A difference was identified between the supplier statements and the accounting records, resulting in bulk purchases and payables from exchange transactions being overstated by R7 005 934. There was also a resultant impact on the deficit for the period and the accumulated surplus.

## **11 Interest received – outstanding debtors from exchange and non-exchange transactions**

I was unable to obtain sufficient appropriate audit evidence for interest received – outstanding debtors from exchange and non-exchange transactions – as I could not confirm the principal debt amounts to be used in the calculation due to a lack of adequate systems. I was unable to confirm the interest received – outstanding debtors from exchange and non-exchange transactions – by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to interest on outstanding debtors from exchange transactions of R13 932 141 (2018: R14 861 585) and non-exchange transactions of R4 803 463 (2018: R4 493 959) as stated in note 22 to the financial statements. In addition, the municipality incorrectly calculated interest received on outstanding debtors from exchange and non-exchange transactions in the current year due to incorrect interest rates used and interest levied only after 90 days instead of 30 days when the debt became due and in the prior year, the municipality incorrectly calculated interest charges on outstanding accounts on a monthly basis instead of on a daily basis as per the council credit control policy. I was unable to determine the full extent of the misstatement of interest received – outstanding debtors from exchange and non-exchange transactions – for the current and prior year as it was impracticable to do so. There was also a resultant impact on receivables from exchange and non-exchange transactions, the deficit for the year and the accumulated surplus.



## Professional and consulting fees

During 2018, I was unable to obtain sufficient appropriate audit evidence for consulting and professional fees due to the unavailability of supporting documentation to confirm that goods and services had actually been received and correctly accounted for. I was unable to confirm the consulting and professional fees by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consulting and professional fees for the prior year stated at R13 901 912 in note 37 to the financial statements. In addition, the municipality did not recognise all its professional and consulting fees in terms of GRAP 1, *Presentation of financial statements*. Professional and consulting fees was recorded in the incorrect categories in the general ledger, resulting in professional and consulting fees being overstated by R3 268 860 for the current year. There was a resultant impact on the VAT receivable, the deficit for the year and the accumulated surplus.

## 12 Inventory

I was unable to obtain sufficient appropriate audit evidence for inventory, as the municipality did not have adequate systems in place to account for inventory based on the weighted average method of valuation. Furthermore, the municipality did not have adequate internal controls in place to maintain records of inventory. Consequently, I was unable to determine whether any adjustments were necessary to inventory stated at R2 681 149 (2018: R2 666 564) in note 3 to the financial statements.

## 13 General expenses

The municipality did not recognise all expenditure in accordance with GRAP 1, *Presentation of financial statements*, as general expenses was not accounted for in the correct financial year. Consequently, general expenses is understated by R2 054 262; trade payables is understated by R2 487 184; property, plant and equipment is understated by R609 149; bulk purchases is understated by R176 074; professional and consulting fees is understated by R42 099; finance costs is understated by R1 945; repairs and maintenance is overstated by R295 245; and the VAT receivable is overstated by R101 100. There was also a resultant impact on the deficit for the period and the accumulated surplus.

## Material losses

During 2018, I was unable to obtain sufficient appropriate audit evidence for material water and electricity losses and to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to water losses stated at R2 025 001 and electricity losses stated at R10 812 979 in note 50 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the water and electricity losses for the current period.

## Context for the opinion

I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Material uncertainty relating to going concern

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Note 55 to the financial statements indicates that the municipality incurred a net loss of R76 956 926 during the year ended 30 June 2019 and, as of that date, the municipality's current liabilities exceeded its current assets by R32 616 964. In addition, as disclosed in note 15 to the financial statements, the municipality owed Eskom R24 796 353 (2018: R12 200 916) and the water boards R6 054 034 (2018: R2 950 859) as at 30 June 2019 – these amounts were long overdue. These events or conditions, along with other matters as set forth in note 55, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### 14 Unauthorised expenditure

As disclosed in note 49 to the financial statements, the municipality incurred unauthorised expenditure of R119 091 292 (2018: R64 871 038) due to overspending the approved budget.

### 15 Fruitless and wasteful expenditure

As disclosed in note 48 to the financial statements, fruitless and wasteful expenditure of R2 046 204 (2018: R1 375 621) was incurred, mainly due to interest on arrear payments to creditors.

## **16 Restatement of corresponding figures**

As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

## **17 Underspending of conditional grants**

As disclosed in note 26 to the financial statements, the municipality materially underspent the municipal infrastructure grant by R14 521 311 (2018: R6 031 554) and the water services infrastructure grant by R33 227 661 (2018: R32 998 842).

## **18 Material losses**

As disclosed in note 50 to the financial statements, material water distribution losses of R4 223 691 (2018: R2 025 001) and electricity distribution losses of R10 691 429 (2018: R10 812 979) were incurred by the municipality mainly due to leakages, burst water pipes, line losses, tampering and theft.

## **Other matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **19 Unaudited disclosure notes**

In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## **Responsibilities of the accounting officer for the financial statements**

The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the accounting officer is responsible for assessing the Letsemeng Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of

assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **20 Report on the audit of the annual performance report**

### **Introduction and scope**

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPAs) presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.

I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2019:

<b>KPA</b>	<b>Pages in the annual performance report</b>
KPA 1 – basic service delivery and infrastructure	39 – 42

The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

### **21 KPA 1 – basic service delivery and infrastructure development**

I was unable to obtain sufficient appropriate audit evidence to confirm the usefulness and reliability of the reported performance information because the annual performance report was presented without evidence of the correct approved service delivery and budget implementation plans for the year under review, as required by section 25 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and sections 1, 21 and 53 of the MFMA, I was provided with two different service delivery and budget implementation plans but could not confirm which of the two plans was the correct version, as the municipality could not provide me with reliable evidence as to which of the two plans was indeed approved by the council. I was unable to audit the usefulness and reliability of the reported performance information by alternative means.

## **Other matter**

I draw attention to the matter below.

### **22 Achievement of planned targets**

Refer to the annual performance report on pages 39 to 58 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 34 of this report.

## **23 Report on the audit of compliance with legislation**

### **Introduction and scope**

In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

The material findings on compliance with specific matters in key legislation are as follows:

#### **Utilisation of conditional grants**

The municipal infrastructure grant was not spent on its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated, as required by section 12(5) of Dora.

The water services infrastructure grant was not spent on its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of Dora.

Performance in respect of programmes funded by the water services infrastructure grant was not evaluated, as required by section 12(5) of Dora.

#### **Human resource management**

Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

#### **Procurement and contract management**

Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that some quotations were accepted only from prospective providers who were on the list of accredited prospective

providers and met the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).

Quotations and some contracts were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that quotations and contracts were accepted only from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.

Some of the goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for the required minimum period, as required by SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the upgrading and refurbishment of the sports facility in Koffiefontein/Dithlake and the new sports facility in Koffiefontein/Sonwabile.

Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the upgrading and refurbishment of the sports facility in Koffiefontein/Dithlake and the new sports facility in Koffiefontein/Sonwabile.

Some of the contracts and quotations were awarded to bidders based on pre-qualification criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of preferential procurement regulation 4(1) and 4(2) of 2017. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the new sports facility in Koffiefontein/Sonwabile.

Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the new sports facility in Koffiefontein/Sonwabile.

Bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). This non-compliance was

identified in the procurement processes for the supply and installation of electrical meters, frames, steel doors, windows and door locks.

Sufficient appropriate audit evidence could not be obtained that the performance of some of the contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the contract management processes for the upgrading of the Koffiefontein electricity sub-station and the Luckhoff wastewater treatment plan.

Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5. Similar non-compliance was also reported in the prior year.

Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures and methods were sufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA. Similar non-compliance was also reported in the prior year.

### **Annual financial statements and annual reports**

The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets current liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

The 2017-18 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

### **Expenditure management**

Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Reasonable steps were not taken to ensure that the municipality implemented and maintained an effective system of expenditure control, as required by section 65(2)(a) of the MFMA.

Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred, as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by unspent conditional grants that were not cash-backed at the end of the financial year.

Reasonable steps were not taken to prevent unauthorised expenditure amounting to R119 091 292, as disclosed in note 49 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash items that were not adequately budgeted for.

Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R2 046 204, as disclosed in note 48 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest levied on overdue payables due to cash-flow constraints experienced by the municipality.

### **Revenue management**

Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.

An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Asset management**

An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.

### **Consequence management**

Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Strategic planning and performance management**

Sufficient appropriate audit evidence could not be obtained that the service delivery and budget implementation plan was revised during the year with council approval following the approval of an adjustments budget, contrary to section 54(1)(c) of the MFMA.

The performance management system and related controls were not maintained or were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting and improvement processes should be conducted and organised or managed, as required by municipal planning and performance management regulation 7(1).

<h2><b>24 Other information</b></h2>
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The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not



include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported on in this auditor's report.

My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## **25 Internal control deficiencies**

I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

The municipality continued to rely on consultants to resolve the prior year audit findings, but the internal controls within the municipality did not improve as repeat findings were again reported in the current year. It was evident that there was an inadequate transfer of skills as the municipality relied on consultants every year.

There was no accountability or oversight by management to ensure that internal controls were improved and that a better audit outcome was achieved.

Leadership's lack of accountability for sound financial management had a negative impact on the municipality's financial sustainability and resulted in overspending of the budget and irregular expenditure not being prevented.

There was no consequence management at the municipality and officials were not held accountable for irregular, unauthorised and fruitless and wasteful expenditure incurred in the current and previous financial years.

Management did not in all instances effectively review and monitor the municipality's compliance with laws and regulations, due to their slow response in addressing the drivers of the compliance findings identified in the prior year. As a result, material instances of non-compliance that could have been prevented were repeated by the municipality.

Management had a slow response to recommendations of external auditors given in the prior year, as a result, material misstatements on the financial statements and annual performance report that could have been prevented were identified in the current year which are repeat findings.

*Auditor - General*

Bloemfontein

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **26 Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected KPAs and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:

identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control

evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer

conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Letsemeng Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern

evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.



## **Letsemeng Local Municipality**

Annual Financial Statements  
for the year ended 30 June 2019  
Auditor-General of South Africa

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.
Mayoral committee	
Mayor	Mrs TI Reachable (resignation: 4 March 2019)
Councillors	Mr SJ Bahumi (acting Mayor: 4 March 2019) Mr JDJ Barnes Mr MA Lebaka Mr MJ Phaliso Mr TS Moqhoishi Miss AN November Mr XW Nqelani Mr MC Ntemane Mr TV Nthapo Mr PV Mlozana Miss PM Dibe
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr SJ Tooi
Accounting Officer	Mr TL Mkhwane
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA Bank
Auditors	Auditor-General of South Africa

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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AGSA	Auditor-General of South Africa
CRR	Capital Replacement Reserve
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
Mscoa	Municipal Standard Chart of Accounts
SA GAAP	South African Statements of Generally Accepted Accounting Practice

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 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 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:

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Mr TL Mkhwane  
Accounting Officer

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Report**

The accounting officer submits his report for the year ended 30 June 2019.

### **1. Review of activities Main**

business and operations

The Letsemeng Local Municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 76 956 926 (2018: deficit R 5 996 456).

### **2. Going concern**

Management experienced cash flow difficulties during the financial period. Management considered the following matters relating to the going concern:

The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements on the going concern basis. 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.

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 government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cashflow of the municipality and where necessary procure funding for the ongoing operations for the municipality.

### **3. Subsequent events**

The Accounting Officer is not aware of any matter or circumstances arising since the end of the financial year.

### **4. Accounting Officer's interest in contracts**

The Accounting Officer had no interest in any contracts.

### **5. Accounting policies**

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

### **6. Non-current assets**

There were no significant changes in the nature of the non-current assets of the municipality during the year.

### **7. Accounting Officer**

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

<b>Name</b>	<b>Nationality</b>
Mr TL Mkhwane	South African



# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Report**

### **8. Corporate governance**

#### **General**

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practice.

#### **Management meetings**

The Accounting Officer meets the section 56 managers at least on a monthly basis.

#### **Internal audit**

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### **9. Bankers**

The municipality's bankers did not change during the year.

### **10. Auditors**

Auditor-General of South Africa will continue in office for the next financial period.

### **11. Non-compliance with applicable legislation**

Significant non-compliance with various legislation have been properly disclosed in the notes to the financial statements.

### **12. Retirement benefit obligation**

Management performed an actuarial valuation of the council's liability arising from the post-retirement healthcare subsidy ("PHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

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Mr TL Mkhwane  
Accounting Officer

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

	Note(s)	2019 R	2018 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	2 681 149	2 666 564
Other receivables from exchange transactions	4	522 878	899 859
Receivables from exchange transactions	5	47 385 666	60 774 934
Receivables from non-exchange transactions	6	22 472 396	28 667 261
VAT receivable	7	11 014 379	14 186 848
Cash & cash equivalents	8	3 703 777	2 123 768
		<b>87 780 245</b>	<b>109 319 234</b>
<b>Non-Current Assets</b>			
Investment property	9	77 694 449	78 852 243
Property, plant and equipment	10	724 539 410	738 606 479
Intangible assets	11	579 909	781 304
Heritage assets	12	15 000	15 000
Other financial assets	13	126 471	119 855
		<b>802 955 239</b>	<b>818 374 881</b>
<b>Total Assets</b>		<b>890 735 484</b>	<b>927 694 115</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	14	233 374	776 814
Payables from exchange transactions	15	63 927 181	37 183 072
Consumer deposits	16	732 877	781 696
Employee benefit obligation	17	493 000	493 000
Unspent grants	18	55 010 777	40 930 853
		<b>120 397 209</b>	<b>80 165 435</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	14	104 812	304 485
Employee benefit obligation	17	4 235 000	3 962 000
Provisions	19	7 945 811	8 252 619
		<b>12 285 623</b>	<b>12 519 104</b>
<b>Total Liabilities</b>		<b>132 682 832</b>	<b>92 684 539</b>
<b>Net Assets</b>		<b>758 052 652</b>	<b>835 009 576</b>
<b>Accumulated surplus</b>		<b>758 052 655</b>	<b>835 009 583</b>

\* See Note 44

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

		2019	2018
	Note(s)	R	Restated* R
<b>Revenue</b>			
Revenue from exchange transactions			
Service charges	20	50 259 851	46 116 671
Dividends received	21	-	3 569
Interest received - outstanding debtors	22	13 932 141	14 861 585
Interest received - external investments	21	594 158	512 557
Rental of facilities and equipment	23	506 403	584 037
Other income	24	350 816	513 157
<b>Total revenue from exchange transactions</b>		<b>65 643 369</b>	<b>62 591 576</b>
<b>Revenue from non-exchange transactions</b>			
Taxation revenue			
Property rates	25	19 826 211	15 502 593
Interest earned - outstanding debtors	22	4 803 463	4 493 959
Transfer revenue			
Government grants and subsidies	26	96 766 698	79 495 430
Public contributions and donations	27	134 144	1 253 517
Fines, penalties and forfeits	28	8 365	1 970
<b>Total revenue from non-exchange transactions</b>		<b>121 538 881</b>	<b>100 747 469</b>
<b>Total revenue</b>		<b>187 182 250</b>	<b>163 339 045</b>
<b>Expenditure</b>			
Employee related costs	29	(55 579 424)	(49 818 669)
Remuneration of councillors	30	(3 991 114)	(3 745 791)
Depreciation and amortisation	31	(43 762 412)	(44 315 841)
Impairment loss	32	(2 309 157)	(10 913)
Finance costs	33	(1 815 700)	(2 530 835)
Debt impairment	34	(82 442 992)	(12 259 706)
Repairs and maintenance	35	(552 167)	(327 600)
Bulk purchases	36	(35 161 112)	(26 469 170)
Professional and consulting fees	37	(8 263 227)	(13 901 912)
General expenses	38	(25 148 900)	(18 369 157)
<b>Total expenditure</b>		<b>(259 026 205)</b>	<b>(171 749 594)</b>
<b>Operating deficit</b>		<b>(71 843 955)</b>	<b>(8 410 549)</b>
(Loss) gain on disposal of assets and liabilities		(2 939 162)	852 301
Fair value adjustments	39	6 616	673
Actuarial gains	17	14 000	2 695 073
Inventories loss reversals (losses)		(2 194 425)	(1 133 954)
		(5 112 971)	2 414 093
<b>Deficit for the year</b>		<b>(76 956 926)</b>	<b>(5 996 456)</b>

\* See Note 44

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

	Accumulated Surplus R	Total net assets R
Opening balance as previously reported	972 354 500	972 354 500
Adjustments		
Prior year adjustments (see note 42)	(131 348 461)	(131 348 461)
Balance at 01 July 2017 as restated*	841 006 039	841 006 039
Changes in net assets		
Surplus for the year	(5 996 456)	(5 996 456)
Total changes	(5 996 456)	(5 996 456)
Restated* Balance at 01 July 2018	835 009 581	835 009 581
Changes in net assets		
Surplus for the year	(76 956 926)	(76 956 926)
Total changes	(76 956 926)	(76 956 926)
Balance at 30 June 2019	758 052 655	758 052 655

\* See Note 44

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

	Note(s)	2019 R	2018 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		14 036 818	15 484 379
Grants and subsidies received		110 579 061	93 649 000
Interest income		594 158	512 557
Dividends received		-	3 569
		<u>125 210 037</u>	<u>109 649 505</u>
<b>Payments</b>			
Employee costs		(56 640 529)	(51 316 468)
Suppliers and other payments		(34 344 699)	(29 432 517)
		<u>(90 985 228)</u>	<u>(80 748 985)</u>
<b>Net cash flows from operating activities</b>	<b>41</b>	<u>34 224 809</u>	<u>28 900 520</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(31 783 382)	(24 126 839)
Purchase of investment property	9	-	(417 795)
Proceeds from sale of financial assets		-	1 391
<b>Net cash flows from investing activities</b>		<u>(31 783 382)</u>	<u>(24 543 265)</u>
<b>Cash flows from financing activities</b>			
Finance lease payments		<u>(861 418)</u>	<u>(2 746 306)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>1 580 009</u>	<u>1 610 949</u>
<b>Cash and cash equivalents at the beginning of the year</b>		<u>2 123 768</u>	<u>512 819</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<u>3 703 777</u>	<u>2 123 768</u>

\* See Note 44

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	50 426 000	244 730	50 670 730	50 259 851	(410 879)	
Rental of facility/equipment	570 780	(120 780)	450 000	506 403	56 403	Note 54
Interest on debtors	3 868 620	-	3 868 620	13 932 141	10 063 521	Note 54
Dividends received	33 824	(28 691)	5 133	-	(5 133)	Note 54
Licences and permits	4 499	-	4 499	-	(4 499)	Note 54
Other revenue	1 954 000	(977 000)	977 000	350 816	(626 184)	Note 54
Interest-external investment	842 429	(421 215)	421 214	594 158	172 944	
<b>Total revenue from exchange transactions</b>	<b>57 700 152</b>	<b>(1 302 956)</b>	<b>56 397 196</b>	<b>65 643 369</b>	<b>9 246 173</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	19 797 160	-	19 797 160	19 826 211	29 051	Note 54
Interest on debtors	-	-	-	4 803 463	4 803 463	Note 54
<b>Transfer revenue</b>						
Government grants	111 001 000	(9 431 000)	101 570 000	96 766 698	(4 803 302)	Note 54
Donations received	-	-	-	134 144	134 144	Note 54
Fines	35 989	(17 994)	17 995	8 365	(9 630)	Note 54
<b>Total revenue from non-exchange transactions</b>	<b>130 834 149</b>	<b>(9 448 994)</b>	<b>121 385 155</b>	<b>121 538 881</b>	<b>153 726</b>	
<b>Total revenue</b>	<b>188 534 301</b>	<b>(10 751 950)</b>	<b>177 782 351</b>	<b>187 182 250</b>	<b>9 399 899</b>	
<b>Expenditure</b>						
Employee costs	(51 715 358)	1 781 524	(49 933 834)	(55 579 424)	(5 645 590)	Note 54
Remuneration of councillors	(3 859 402)	(268 027)	(4 127 429)	(3 991 114)	136 315	
Depreciation / amortisation	(33 739 440)	-	(33 739 440)	(43 762 412)	(10 022 972)	Note 54
Impairment loss	-	-	-	(2 309 157)	(2 309 157)	Note 54
Finance costs	(52 850)	(347 000)	(399 850)	(1 815 700)	(1 415 850)	Note 54
Debt Impairment	(22 998 206)	-	(22 998 206)	(82 442 992)	(59 444 786)	Note 54
Repairs and maintenance	(5 181 000)	991 000	(4 190 000)	(552 167)	3 637 833	
Bulk purchases	(32 000 000)	16 000 000	(16 000 000)	(35 161 112)	(19 161 112)	Note 54
Contracted services	(18 081 500)	(1 189 500)	(19 271 000)	(8 263 227)	11 007 773	
General expenses	(12 518 998)	(2 893 002)	(15 412 000)	(25 148 900)	(9 736 900)	
<b>Total expenditure</b>	<b>(180 146 754)</b>	<b>14 074 995</b>	<b>(166 071 759)</b>	<b>(259 026 205)</b>	<b>(92 954 446)</b>	
<b>Operating deficit</b>	<b>8 387 547</b>	<b>3 323 045</b>	<b>11 710 592</b>	<b>(71 843 955)</b>	<b>(83 554 547)</b>	
Loss on disposal of assets	-	-	-	(2 939 162)	(2 939 162)	
Fair value adjustments	-	-	-	6 616	6 616	Note 54
Actuarial gains/losses	-	-	-	14 000	14 000	Note 54
Inventories losses	-	-	-	(2 194 425)	(2 194 425)	Note 54
	-	-	-	(5 112 971)	(5 112 971)	
<b>Surplus</b>	<b>8 387 547</b>	<b>3 323 045</b>	<b>11 710 592</b>	<b>(76 956 926)</b>	<b>(88 667 518)</b>	

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	4 991 154	-	4 991 154	2 681 149	(2 310 005)	Note 54
Other receivables from exchange transactions	-	-	-	522 878	522 878	Note 54
Receivables from non-exchange transactions	-	-	-	22 472 396	22 472 396	Note 54
VAT receivable	-	-	-	11 014 379	11 014 379	Note 54
Consumer debtors	204 445 880	-	204 445 880	47 385 666	(157 060 214)	Note 54
Cash & cash equivalents	892 000	-	892 000	3 703 777	2 811 777	Note 54
	<b>210 329 034</b>	<b>-</b>	<b>210 329 034</b>	<b>87 780 245</b>	<b>(122 548 789)</b>	
<b>Non-Current Assets</b>						
Investment property	21 987 714	-	21 987 714	77 694 449	55 706 735	Note 54
Property, plant and equipment	672 768 585	53 331 981	726 100 566	724 539 410	(1 561 156)	
Intangible assets	116 270	-	116 270	579 909	463 639	Note 54
Heritage assets	-	-	-	15 000	15 000	Note 54
Other financial assets	-	-	-	126 471	126 471	Note 54
	<b>694 872 569</b>	<b>53 331 981</b>	<b>748 204 550</b>	<b>802 955 239</b>	<b>54 750 689</b>	
<b>Total Assets</b>	<b>905 201 603</b>	<b>53 331 981</b>	<b>958 533 584</b>	<b>890 735 484</b>	<b>(67 798 100)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	-	-	-	233 374	233 374	Note 54
Payables from exchange transactions	12 517 634	-	12 517 634	63 927 181	51 409 547	Note 54
Consumer deposits	-	-	-	732 877	732 877	Note 54
Employee benefit obligation	798 035	-	798 035	493 000	(305 035)	Note 54
Unspent grants	-	-	-	55 010 777	55 010 777	Note 54
	<b>13 315 669</b>	<b>-</b>	<b>13 315 669</b>	<b>120 397 209</b>	<b>107 081 540</b>	
<b>Non-Current Liabilities</b>						
Finance lease obligation	-	-	-	104 812	104 812	Note 54
Employee benefit obligation	-	-	-	4 235 000	4 235 000	Note 54
Provisions	12 167 051	-	12 167 051	7 945 811	(4 221 240)	Note 54
	<b>12 167 051</b>	<b>-</b>	<b>12 167 051</b>	<b>12 285 623</b>	<b>118 572</b>	
<b>Total Liabilities</b>	<b>25 482 720</b>	<b>-</b>	<b>25 482 720</b>	<b>132 682 832</b>	<b>107 200 112</b>	
<b>Net Assets</b>	<b>879 718 883</b>	<b>53 331 981</b>	<b>933 050 864</b>	<b>758 052 652</b>	<b>(174 998 212)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	879 718 883	53 331 981	933 050 864	758 052 652	(174 998 212)	

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	62 113 585	8 353 415	70 467 000	14 036 818	(56 430 182)	
Grants	111 001 000	(8 000 000)	103 001 000	110 579 061	7 578 061	
Interest income	3 864 000	425 785	4 289 785	594 158	(3 695 627)	
Dividends received	39 000	(33 867)	5 133	-	(5 133)	
Other receipts	2 564 501	(1 116 000)	1 448 501	-	(1 448 501)	
	<b>179 582 086</b>	<b>(370 667)</b>	<b>179 211 419</b>	<b>125 210 037</b>	<b>(54 001 382)</b>	
<b>Payments</b>						
Employee costs	(199 017 885)	67 033 942	(131 983 943)	(56 640 529)	75 343 414	
Suppliers and other payments	-	-	-	(32 719 752)	(32 719 752)	
Finance costs	(53 000)	(347 000)	(400 000)	-	400 000	
	<b>(199 070 885)</b>	<b>66 686 942</b>	<b>(132 383 943)</b>	<b>(89 360 281)</b>	<b>43 023 662</b>	
<b>Net cash flows from operating activities</b>	<b>(19 488 799)</b>	<b>66 316 275</b>	<b>46 827 476</b>	<b>35 849 756</b>	<b>(10 977 720)</b>	
<b>Cash flows from investing activities</b>						
Capital assets	(49 949 000)	1 430 749	(48 518 251)	(33 408 329)	15 109 922	
<b>Cash flows from financing activities</b>						
Finance lease payments	-	-	-	(861 417)	(861 417)	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(69 437 799)</b>	<b>67 747 024</b>	<b>(1 690 775)</b>	<b>1 580 009</b>	<b>3 270 784</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>892 000</b>	<b>-</b>	<b>892 000</b>	<b>2 123 768</b>	<b>1 231 768</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>(68 545 799)</b>	<b>67 747 024</b>	<b>(798 775)</b>	<b>3 703 777</b>	<b>4 502 552</b>	



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 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, 2003 (Act No. 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.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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, unless specifically stated.

#### 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 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus and deficit for the year.

##### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

#### Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

This accounting policy has been changed from the previous period and the effect has been disclosed in the notes to the annual financial statements.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### GRAP 24: Presentation of budget information

The comparison of budget and actual amounts were presented separately for each level of legislative oversight:

the approved and final budget amounts;

the actual amounts on a comparable basis.

### 1.4 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.

#### 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 municipality 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.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.4 Investment property (continued)**

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.

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.

### **1.5 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.

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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
- Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure	Straight line	
- Electricity	Straight line	7 - 50 years
- Roads	Straight line	8 - 50 years
- Sewerage and solid waste	Straight line	5 - 50 years
- Stormwater	Straight line	30 - 50 years
- Water	Straight line	5 - 50 years
Community assets	Straight line	
- Buildings	Straight line	20 - 50 years
- Recreational facilities	Straight line	7 - 50 years
- Security measures	Straight line	3 - 5 years
Other property, plant and equipment	Straight line	
- Other equipment	Straight line	2 - 10 years
- Fences and gates	Straight line	15 - 25 years
- Paving	Straight line	3 - 10 years
Other equipment	Straight line	3 - 10 years
Leased assets (computer equipment, copies and cellphones)	Straight line	2 - 3 years

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.

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).

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.6 Intangible assets

An asset is identifiable if it either:

is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or

arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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

An intangible asset is recognised when:

it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and

the cost or fair value of the asset can be measured reliably.

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

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

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.

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

Item	Depreciation method	Average useful life
Computer software	Straight line	2 - 6 years

Intangible assets are derecognised:

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 intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Heritage assets

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

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

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.7 Heritage assets (continued)

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.

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.

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

#### 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.

#### 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.

### 1.8 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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.8 Financial instruments (continued)

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 in another entity; or

a contractual right to:

- receive cash or another financial asset from another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial 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.



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

equity instruments or similar forms of unitised capital;

a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

the entity designates at fair value at initial recognition; or

are held for trading.

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

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

derivatives;

combined instruments that are designated at fair value;

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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.8 Financial instruments (continued)

#### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

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

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

a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or

non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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

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

Financial instruments at fair value.

Financial instruments at amortised cost.

Financial instruments at cost.

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

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.8 Financial instruments (continued)

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

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

combined instrument that is required to be measured at fair value; or

an investment in a residual interest that meets the requirements for reclassification.

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

#### Financial assets measured at amortised cost:

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

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

#### Financial assets measured at cost:

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

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

the contractual rights to the cash flows from the financial asset expire, are settled or waived;

the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :

- derecognise the asset; and
- recognise separately any rights and obligations created or retained in the transfer.

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

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

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

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

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

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

#### Financial liabilities

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

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

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

#### Presentation

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

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

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

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

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

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

### 1.9 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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Leases (continued)

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.10 Inventories

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

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

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

distribution at no charge or for a nominal charge; or

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

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

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

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

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

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

## Accounting Policies

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### 1.10 Inventories (continued)

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.

### 1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

the period of time over which an asset is expected to be used by the municipality; or

the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

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

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

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

#### Value in use

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

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

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued 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 cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

### 1.12 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.

#### Identification

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

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

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



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### 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.

### 1.13 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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.13 Employee benefits (continued)

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.

#### 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 recognise 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 recognise 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 recognise 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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.13 Employee benefits (continued)

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

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

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount 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 obligation.

#### 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 recognise 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.

## Accounting Policies

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### 1.13 Employee benefits (continued)

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 recognise 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.

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

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.13 Employee benefits (continued)

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-measure 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.

#### 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.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.13 Employee benefits (continued)**

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.

#### **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.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.13 Employee benefits (continued)**

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.

### **1.14 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.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.14 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 52.

### **1.15 Commitments**

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

### **1.16 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.



# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.16 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 services performed to date as a percentage of total services to be performed.

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and

The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.17 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.

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

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

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

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

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

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

#### **Recognition**

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

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

#### **Measurement**

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

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.17 Revenue from non-exchange transactions (continued)**

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

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

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

There are two types of fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability regarding the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.

In respect of summonses the public prosecutor can decide whether to waive the revenue amount collected from the spot fines and summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

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

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

#### **Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;

The amount of the revenue can be measured reliably. and;

There has been compliance with the relevant legal requirement.

The municipality needs to assess the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transactions will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

### **1.17 Revenue from non-exchange transactions (continued)**

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Division of Revenue Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### **Other grants and donations**

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

#### **Assessment rates**

Revenue from rates, including collection charges and penalty interest, is recognised when:

It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;

The amount of the revenue can be measured reliably. and;

There has been compliance with the relevant legal requirement.

Changes to property values during a reporting period, which are referred to as "interims, are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### **1.18 Investment income**

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

### **1.19 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.

### **1.20 Comparative figures**

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

### **1.21 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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.21 Unauthorised expenditure (continued)

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

### 1.22 Fruitless and wasteful expenditure

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

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

### 1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

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

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

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

### 1.24 Use in estimate

The preparation of financial statements in conformity with the Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in the relevant section of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.25 Value added tax

The municipality is registered with the South African Revenue Services for VAT on the payment basis, in accordance with section 15(2) of the Value Added Tax Act, 1991 (Act No. 89 of 1991).

### 1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

# **Letsemeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.26 Budget information (continued)**

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### **1.27 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.28 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.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### 2. New standards and interpretations

#### 2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

##### IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality has early adopted the interpretation for the first time in the 2018/2019 annual financial statements.

The impact of the interpretation is not material.

#### 2.2 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 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Unlikely there will be a material impact
GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
GRAP 34: Seperate financial statement	01 April 2020	Not expected to impact results but may result in additional disclosure
GRAP 35: Consolidated Financial statements	01 April 2020	No impact
GRAP 36: Investments in associates and joint ventures	01 April 2020	No impact
GRAP 37: Joint arrangements	01 April 2020	No impact
GRAP 38: Disclosure of interest in other entities	01 April 2020	no impact
GRAP 108: Statutory Receivables	01 April 2019	Not expected to impact results but may result in additional disclosure
GRAP 109: Accounting by Principals and Agents	01 April 2019	no impact
GRAP 110: Living and non-living resources	01 April 2020	no impact
IGRAP 1: Applying the probability test on initial recognition revenue (amendments)	01 April 2020	Unlikely there will be a material impact
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019
IGRAP 19: Liabilities to Pay Levies	01 April 2019
IGRAP 20: Accounting for adjustments to revenue	01 April 2020
Guideline Accounting for arrangements undertaken in terms of the national housing programme	01 April 2019

Unlikely there will be a material impact  
Unlikely there will be a material impact  
Unlikely there will be a material impact  
Unlikely there will be a material impact

### 3. Inventories

Maintenance materials	2 291 895	2 280 755
Spare parts	376 536	376 536
Water	12 718	9 273
	<u>2 681 149</u>	<u>2 666 564</u>

Inventories are held for own use and measured at the lower of cost or current replacement value. Inventory amounting to R2 194 425 (2018: R1 133 853) was written off during the year.

The cost of water production for the year amounted to R0.67 (2018: R0.67) per kilolitre.

Inventory pledged as security

No inventories have been pledged as security for overdraft facilities of the municipality.

### 4. Other receivables from exchange transactions

Sundry deposits	<u>522 878</u>	<u>899 859</u>
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### 5. Receivables from exchange transactions

Gross balances		
Electricity	6 243 411	5 699 312
Water	52 175 686	52 775 368
Sewerage	44 410 879	42 352 188
Refuse	42 819 423	41 209 244
Housing rental	2 851 208	3 372 468
Other - interest	26 061 008	142 611
	<u>174 561 615</u>	<u>145 551 191</u>

#### Less: Allowance for impairment

Electricity	(3 690 992)	(3 136 945)
Water	(36 248 622)	(30 517 671)
Sewerage	(30 798 693)	(24 702 803)
Refuse	(29 787 144)	(24 043 893)
Housing rental	(1 621 190)	(2 293 822)
Other - interest	(25 029 308)	(81 123)
	<u>(127 175 949)</u>	<u>(84 776 257)</u>



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 5. Receivables from exchange transactions (continued)

	2019 R	2018 R
Net balance		
Electricity	2 552 419	2 562 367
Water	15 927 064	22 257 697
Sewerage	13 612 186	17 649 385
Refuse	13 032 279	17 165 351
Housing rental	1 230 018	1 078 646
Other (specify)	1 031 700	61 488
	<b>47 385 666</b>	<b>60 774 934</b>
Electricity		
Current (0 -30 days)	530 115	479 101
31 - 60 days	(223)	49 092
61 - 90 days	95 777	190 359
91 - 120 days	81 154	98 474
121 - 365 days	1 845 596	1 745 341
	<b>2 552 419</b>	<b>2 562 367</b>
Water		
Current (0 -30 days)	577 390	739 144
31 - 60 days	(642)	467 804
61 - 90 days	296 694	1 466 255
91 - 120 days	462 307	596 378
121 - 365 days	14 591 315	18 988 116
	<b>15 927 064</b>	<b>22 257 697</b>
Sewerage		
Current (0 -30 days)	719 203	813 982
31 - 60 days	(62)	365 981
61 - 90 days	333 197	454 490
91 - 120 days	325 283	442 057
121 - 365 days	12 234 565	15 572 875
	<b>13 612 186</b>	<b>17 649 385</b>
Refuse		
Current (0 -30 days)	653 065	760 305
31 - 60 days	(56)	356 660
61 - 90 days	318 055	506 033
91 - 120 days	310 315	424 838
121 - 365 days	11 750 900	15 117 515
	<b>13 032 279</b>	<b>17 165 351</b>
Housing rental		
Current (0 -30 days)	15 417	22 307
31 - 60 days	-	30 421
61 - 90 days	6 933	25 003
91 - 120 days	6 717	14 723
121 - 365 days	1 200 951	986 192
	<b>1 230 018</b>	<b>1 078 646</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 5. Receivables from exchange transactions (continued)

Other (specify)

Current (0 -30 days)

31 - 60 days

61 - 90 days

91 - 120 days

121 - 365 days

	2019 R	2018 R
	-	16 337
	-	-
	-	(5 409)
	-	13 930
	1 031 700	36 630
	<b>1 031 700</b>	<b>61 488</b>

Reconciliation of allowance for impairment

Balance at beginning of the year

Contributions to allowance

	84 776 257	68 922 555
	42 399 692	15 853 702
	<b>127 175 949</b>	<b>84 776 257</b>

Consumer debtors pledged as security

None of the receivable from exchange transaction debtors have been pledged as security for the municipality's financial liabilities.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R3 528 168 (2018: R5 426 944) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	(983)	1 239 537
2 months past due	1 702 861	2 611 730
3 months past due	1 826 290	1 575 677

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the receivables from exchange transactions have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

### 6. Receivables from non-exchange transactions

Assessment rates

Provision for impairment

	40 921 523	45 180 769
	(18 449 127)	(16 513 508)
	<b>22 472 396</b>	<b>28 667 261</b>

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions have been pledged as security for the municipality's financial liabilities.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 6. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R2 782 033 (2018: R 2 205 735) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	438 502	521 219
2 months past due	1 285 682	818 348
3 months past due	1 057 849	866 168

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	16 513 508	18 970 924
Provision for impairment	1 935 619	(2 457 416)
	18 449 127	16 513 508

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of the receivables from non-exchange transactions, the municipality considers any change in the credit quality of the assessment rate debtors from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

### 7. VAT receivable

VAT	11 014 379	14 186 848
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VAT is payable on a receipt basis. Once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if VAT is paid in time. Interest on late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>8. Cash &amp; cash equivalents</b>		
Cash and cash equivalents consist of:		
Bank balances	1 198 517	2 123 504
Short-term deposits	2 505 260	264
	<b>3 703 777</b>	<b>2 123 768</b>

The management of the municipality is of the opinion that the carrying value of the current investments and bank balances recorded at amortised cost in the financial statements approximate amortised cost.

Cash and cash equivalents pledged as collateral

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities. No restriction have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
First National Bank - Current account - 527115689918	900 236	1 785 287	386 546	900 236	1 785 287	414 124
ABSA Bank - Current account - 4078034774	298 281	338 218	98 515	298 281	338 218	98 515
First National Bank - Call account - 62711355132	66	83	-	66	83	-
First National Bank - Call account - 6269415415	-	180	180	-	180	180
ABSA Bank - Current account - 409262218	2 505 194	-	-	2 505 194	-	-
<b>Total</b>	<b>3 703 777</b>	<b>2 123 768</b>	<b>485 241</b>	<b>3 703 777</b>	<b>2 123 768</b>	<b>512 819</b>

## 9. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	77 694 449	-	77 694 449	78 852 243	-	78 852 243

Reconciliation of investment property - Change in nett assets

	Opening balance	Transfers	Total
Investment property	78 852 243	(1 157 794)	77 694 449

Reconciliation of investment property - 2018

	Opening balance	Additions	Total
Investment property	78 434 448	417 795	78 852 243

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### 9. Investment property

(continued) Pledged as security

None of the Investment properties were pledged as security or security maintenance of Investment properties.

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

#### Adjustment to fair value

The valuation was based on open market value for existing use. These assumptions are based on current market conditions.

The investment properties were valued in terms of the requirements of GRAP 16 and the details of the valuation is available for inspection at the registered office of the municipality. Properties were individually investigated to confirm classification as investment properties. Investment properties are identified under GRAP16.

The following criteria was used to determine whether a property should be classified as an investment property:

A building owned by the municipality and leased out to third parties under one or more operating leases.

Land held for a current undeterminable future use.

Property being constructed or developed for future use as investment property.

No restrictions exist unless the property is being leased out to third parties.

#### Under construction and Contractual commitments

No investment property was under construction or incurred towards contractual commitments during the financial year.

#### Repairs and maintenance

No repairs and maintenance was incurred in the running of these property for the financial year.

Maintenance by condition, nature and type of expenditure - corrective maintenance is in place. Maintenance is done as reported on.

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 447 218	-	13 447 218	13 387 218	-	13 387 218
Buildings	155 442 768	(65 955 419)	89 487 349	146 320 416	(61 843 224)	84 477 192
Other property, plant and equipment	11 567 163	(6 761 146)	4 806 017	11 530 395	(6 212 295)	5 318 100
Infrastructure	1 280 918 494	(664 373 962)	616 544 532	1 265 048 626	(631 207 030)	633 841 596
Leased assets	4 089 003	(3 834 709)	254 294	3 825 188	(2 242 815)	1 582 373
<b>Total</b>	<b>1 465 464 646</b>	<b>(740 925 236)</b>	<b>724 539 410</b>	<b>1 440 111 843</b>	<b>(701 505 364)</b>	<b>738 606 479</b>

### Reconciliation of property, plant and equipment - Change in nett assets

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13 387 218	-	-	60 000	-	-	13 447 218
Buildings	84 477 192	9 334 530	(190 206)	1 097 793	(3 732 893)	(1 499 067)	89 487 349
Other property, plant and equipment	5 318 100	450 145	(101 835)	-	(859 417)	(976)	4 806 017
Infrastructure	633 841 596	23 454 518	(2 647 120)	-	(37 605 642)	(498 820)	616 544 532
Leased assets	1 582 373	34 986	-	-	(1 363 065)	-	254 294
<b>Total</b>	<b>738 606 479</b>	<b>33 274 179</b>	<b>(2 939 161)</b>	<b>1 157 793</b>	<b>(43 561 017)</b>	<b>(1 998 863)</b>	<b>724 539 410</b>

**Letsemeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2019

**Notes to the Annual Financial Statements**

Figures in Rand

**10. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2018**

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	13 387 218	-	-	-	-	13 387 218
Buildings	88 100 244	93 837	-	(3 716 889)	-	84 477 192
Other property, plant and equipment	6 499 211	996 664	(874 221)	(1 292 644)	(10 910)	5 318 100
Infrastructure	646 433 156	25 139 581	-	(37 731 141)	-	633 841 596
Leased assets	2 678 475	277 538	(1 019)	(1 372 621)	-	1 582 373
	<b>757 098 304</b>	<b>26 507 620</b>	<b>(875 240)</b>	<b>(44 113 295)</b>	<b>(10 910)</b>	<b>738 606 479</b>

**Pledged as security**

None of the tangible assets were pledged as security during the current year and previous financial years.

2 019

2 018

Compensation received for losses on property, plant and equipment – included in operating profit.

Furniture and fixtures	-	1 875
IT equipment	-	256 887
Infrastructure	7 740	-
Other property, plant and equipment	52 894	-
	<b>60 634</b>	<b>258 762</b>

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

Computer equipment	<b>254 294</b>	<b>1 582 373</b>
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# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
10. Property, plant and equipment		
(continued) Other information		
Expenditure incurred on repairs and maintenance of property, plant and equipment		
Other property, plant and equipment	552 167	327 600

### Reconciliation of Work-in-Progress Change in nett assets

	Included within infrastructure	Included within buildings	Total
Opening balance	57 726 110	3 704 827	61 430 937
Additions/capital expenditure	24 031 962	9 067 381	33 099 343
Transferred to completed items	(8 854 672)	-	(8 854 672)
	72 903 400	12 772 208	85 675 608

### Reconciliation of Work-in-Progress 2018

	Included within infrastructure	Included within buildings	Total
Opening balance	48 571 358	3 704 827	52 276 185
Additions/capital expenditure	25 139 579	93 836	25 233 415
Transferred to completed items	(15 984 827)	(93 836)	(16 078 663)
	57 726 110	3 704 827	61 430 937

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

### Slow-moving projects

Koffiefontein: Upgrading of existing solid waste disposal site	842 352	842 352
Koffiefontein / Sonwabile: Construction of new sports facility	-	688 632
Jacobsdal: Upgrading of waste water treatment works	-	4 814 568
Koffiefontein: Upgrading of sports complex	3 016 194	3 016 194
Luckhoff: Construction of water treatment plan	6 112 602	6 112 602
Luckhoff: Construction of a new solid waste landfill site (phase 1)	431 450	-
Koffiefontein: Upgrading of sub-station	263 989	-

The aforementioned projects represent the slow-moving projects which are included in work-in-progress balance. These projects are slow-moving due to the fact that the contractors were not performing and these projects were therefore placed on hold and/or terminated.

### 11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 006 977	(427 068)	579 909	1 006 977	(225 673)	781 304



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 11. Intangible assets (continued)

#### Reconciliation of intangible assets - Change in nett assets

	Opening balance	Amortisation	Total
Computer software	781 304	(201 395)	579 909

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	982 700	(201 396)	781 304

#### Pledged as security

All of the municipality's intangible assets are held under freehold interests and no intangible assets had been pledged as security for any liabilities of the municipality.

### 12. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral chain	15 000	-	15 000	15 000	-	15 000

#### Reconciliation of heritage assets Change in nett assets

	Opening balance	Total
Mayoral chain	15 000	15 000

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral chain	15 000	15 000

### 13. Other financial assets

#### Designated at fair value

Unlisted shares	126 471	119 855
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The municipality holds the following non-controlling interests:

Senwes Limited:	3 600 (2018: 3 600) shares
Senwesbel Limited:	4 990 (2018: 4 990) shares
OVK:	4 000 (2018: 4 000) shares

#### Non-current assets Designated at fair value

126 471	119 855
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# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>13. Other financial assets (continued)</b>		
<b>Financial assets at fair value</b>		
<b>Fair values of financial assets measured or disclosed at fair value</b>		
Class 1: Senwes Limited These shares are valued as per the valuation obtained from the Senwes Limited Transfer Secretaries and represents the fair value as at 30 June.	39 420	37 800
Class 2: Senwesbel Limited These shares are valued as per the valuation obtained from the Senwesbel Limited Transfer Secretaries and represents the fair value as at 30 June.	24 451	22 455
Class 3: OVK These shares are valued as per the valuation obtained from the OVK Transfer Secretaries and represents the fair value as at 30 June.	62 600	59 600
	<b>126 471</b>	<b>119 855</b>
<b>Fair value hierarchy of financial assets at fair value</b>		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 2 applies inputs which are not based on observable market data.		
Level 3 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 1		
Class 1: Senwes Limited	39 420	37 800
Class 2: Senwesbel Limited	24 451	22 455
Class 3: OVK	62 600	59 600
	<b>126 471</b>	<b>119 855</b>
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	257 389	854 403
- in second to fifth year inclusive	110 691	330 522
	<b>368 080</b>	<b>1 184 925</b>
less: future finance charges	(29 894)	(103 626)
<b>Present value of minimum lease payments</b>	<b>338 186</b>	<b>1 081 299</b>
<b>Present value of minimum lease payments due</b>		
- within one year	233 374	776 814
- in second to fifth year inclusive	104 812	304 485
	<b>338 186</b>	<b>1 081 299</b>
<b>Non-current liabilities</b>	<b>104 812</b>	<b>304 485</b>
<b>Current liabilities</b>	<b>233 374</b>	<b>776 814</b>
	<b>338 186</b>	<b>1 081 299</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>14. Finance lease obligation (continued)</b>		
It is municipality policy to lease certain other property, plant and equipment (computer and cellphones) under finance leases.		
The average lease term was 3 years for copiers, 2 years for cellphones and the average effective borrowing rate was 10% (2018: 10%).		
Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.		
The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .		
<b>15. Payables from exchange transactions</b>		
Trade payables	11 228 159	6 253 532
Accrued bonus	1 038 515	942 941
Accrued leave pay	4 768 110	4 149 852
Retention monies	5 935 299	5 295 113
Employee related liabilities	3 641 611	1 712 434
Eskom	24 796 353	12 200 916
Sedibeng Water	428 464	-
Oranje-Riet	2 502 445	2 947 445
Kalkfontein	3 551 589	3 414
Payments received in advanced	6 036 636	3 677 425
	<b>63 927 181</b>	<b>37 183 072</b>
<b>16. Consumer deposits</b>		
Water and Electricity	732 877	781 696
<b>17. Employee benefit obligations</b>		
Defined benefit plan		
Post-employment medical aid benefit liability		
The municipality provides certain post-employment health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.		
The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health Medical Aid schemes.		
The members of the Post-employment medical aid (health care) benefit plan are made up as follows:		
In-service members (employees):	0 (2018: 0)	
In-service non-members (employees):	0 (2018: 0)	
Continuation members (retirees, widowers and orphans):	8 (2018: 8)	

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019 R	2018 R
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### 17. Employee benefit obligations

#### (continued) Long service award liability

The municipality operates an unfunded defined benefit liability for all its employees. Under the plan, a long service award is every 5 years of continuous service, from 5 to 45 years of service, inclusive. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees.

The most recent actuarial valuation of the present value of the defined benefit obligation were carried out at 30 June 2019. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The current service cost for the year ending 30 June 2019 is estimated to be R362 000, whereas the cost for ensuing year is estimated to be R275 000 (R250 000 and R238 000 respective).

#### Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the Post-employment medical aid benefit liability	(2 040 000)	(1 996 000)
Present value of the Long service award liability	(2 688 000)	(2 459 000)
	<b>(4 728 000)</b>	<b>(4 455 000)</b>
Non-current liabilities	(4 235 000)	(3 962 000)
Current liabilities	(493 000)	(493 000)
	<b>(4 728 000)</b>	<b>(4 455 000)</b>

The municipality expects to make a contribution of R271 000 (2018: R250 000) and R222 000 (2018: R243 000) in the next financial year to the post-employment medical aid benefit and long service award liabilities, respectively.

Changes in the present value of the post-employment medical aid benefit obligation are as follows:

Opening balance	1 996 000	4 293 667
Net expense recognised in the statement of financial performance	44 000	(2 297 667)
	<b>2 040 000</b>	<b>1 996 000</b>

Net expense recognised in the statement of financial performance: Post-employment medical aid benefit liability

Current service cost	-	1 720
Benefits paid	(265 000)	(245 000)
Interest cost	180 000	354 173
Actuarial (gains) losses	129 000	(2 408 560)
	<b>44 000</b>	<b>(2 297 667)</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>17. Employee benefit obligations (continued)</b>		
Changes in the present value of the long service award liability are as follows:		
Opening balance	2 459 000	2 451 414
Net expense recognised in the statement of financial performance	229 000	7 586
	<b>2 688 000</b>	<b>2 459 000</b>
Changes in the fair value of plan assets are as follows:		
Current service cost	356 000	414 792
Interest cost	238 000	193 307
Actuarial gains (losses)	(222 000)	(286 513)
Benefits paid	(143 000)	(314 000)
	<b>229 000</b>	<b>7 586</b>
The municipality expects to contribute R - to its defined benefit plans in the following financial year.		
Key assumptions used		
Assumptions used at the reporting date:		
Discount rate: Post-employment medical aid benefit liability	8,67 %	8,67 %
Discount rate: Long service award liability	8,47 %	8,47 %
Health care cost inflation rate	6,98 %	6,98 %
General salary inflation	6,29 %	6,29 %
Net discount rate: Post-employment medical aid benefit liability	1,59 %	1,59 %
Net discount rate: Long service award liability	2,05 %	2,05 %
Maximum subsidy inflation rate	4,86 %	4,86 %
Net discount rate: Maximum subsidy inflation rate	3,64 %	3,64 %
Other assumptions		
The effect of a 1% movement in the assumed rate of post-employment health care benefit inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	196 000	362 893
Effect on the defined benefit obligation	2 113 000	2 066 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	181 000	341 300
Effect on the defined benefit obligation	1 959 000	1 917 000
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	681 000	639 000
Effect on the defined benefit obligation	2 864 000	2 630 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	598 000	554 000
Effect on the defined benefit obligation	2 530 000	2 305 000

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### 17. Employee benefit obligations

(continued) Other assumptions

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Post-employment medical aid benefit liability	2 040 000	1 996 000	4 293 667	4 136 780	303 000
Long service award liability	2 688 000	2 459 000	2 451 414	2 010 937	1 644 482

#### Actuarial gains

Post-employment medical aid benefit liability	129 000	(2 408 560)
Long service award liability	(143 000)	(286 513)
	(14 000)	(2 695 073)

### 18. Unspent grants

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	14 521 311	6 031 554
Integrated National Electrification Programme (INEP)	369 053	369 053
Water Services Infrastructure Grant (WSIG)	33 227 661	32 998 842
Department of Health Grant	115 000	115 000
Department of Roads and Transport Grant	1 416 404	1 416 404
Free State Provincial Government	4 617 000	-
Free State Provincial Treasury	744 348	-
	55 010 777	40 930 853

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

Due to the adverse economic environment, a significant portion of amounts due to the municipality in respect of services rendered, property rates and taxes are tied up in receivables. This resulted in amounts earmarked for conditional projects being utilised to ensure smooth running of the municipality. Management is actively following up on outstanding receivables to ensure that projects are completed.

### 19. Provisions

Reconciliation of provisions - Change in nett assets

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	8 252 619	(306 808)	7 945 811

Reconciliation of provisions - 2018

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	7 428 100	824 519	8 252 619

The provision was based on 100% of the landfill site areas effected as this area is used for dumping of waste. Dumping is limited to a certain portion of landfill sites. The current area effected will have to be rehabilitated, therefore the provision was based on 100% of the current effected areas of the landfill sites.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>19. Provisions (continued)</b>		
Jacobsdal	2 474 988	2 483 143
Koffiefontein	2 904 606	2 699 614
Luckhoff	1 119 176	1 294 105
Oppermansgronde	512 265	502 091
Petrusburg	934 776	1 273 666
	<b>7 945 811</b>	<b>8 252 619</b>
<b>20. Service charges</b>		
Sale of electricity	16 946 259	13 871 784
Sale of water	10 490 006	15 947 984
Sewerage and sanitation charges	11 731 738	8 312 241
Refuse removal	11 076 548	7 984 662
Other service charges	15 300	-
	<b>50 259 851</b>	<b>46 116 671</b>
<b>21. Investment revenue</b>		
Dividend revenue		
Other financial assets	-	3 569
Interest revenue		
Interest earned - external investments	594 158	512 557
	<b>594 158</b>	<b>516 126</b>
<b>22. Interest earned on outstanding debtors</b>		
Interest - non-exchange transactions	4 803 463	4 493 959
Interest - exchange transactions	13 932 141	14 861 585
	<b>18 735 604</b>	<b>19 355 544</b>
<b>23. Rental of facilities and equipment</b>		
Premises		
Premises	262 364	331 295
Venue hire	244 039	252 742
	<b>506 403</b>	<b>584 037</b>
<b>24. Other income</b>		
Administration fees	75 650	110 540
Building plan fees	9 437	1 806
Connection and re-connection fees	122 247	55 898
Grave sales	44 638	25 369
Insurance refund	48 781	258 762
Photocopies	27 079	307
Tax certificates	5 834	57 825
Tender documents	17 150	2 650
	<b>350 816</b>	<b>513 157</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>25. Property rates</b>		
Rates received		
Property rates	19 826 211	15 502 593
Valuations		
Residential	836 845 000	810 718 877
Commercial	179 540 000	177 231 140
State	93 390 000	60 569 875
Municipal	22 330 000	23 457 915
Small holdings and farms	2 258 975 000	1 966 486 424
Other	219 348 000	97 407 041
	<b>3 610 428 000</b>	<b>3 135 871 272</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

## 26. Government grants and subsidies

Operating grants		
Equitable share	58 082 000	49 189 000
Financial Management Grant (FMG)	1 970 000	1 900 000
	<b>60 052 000</b>	<b>51 089 000</b>

Capital grants		
Water Services Infrastructure Grant (WSIG)	12 771 181	17 260 037
Municipal Infrastructure Grant (MIG)	21 459 243	9 845 446
Expanded Public Works Programme Grant (EPWP)	1 000 000	1 000 000
Integrated National Electrification Programme Grant (INEP)	-	300 947
Free State Provincial Treasury	1 484 274	-
	<b>36 714 698</b>	<b>28 406 430</b>
	<b>96 766 698</b>	<b>79 495 430</b>

## Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	37 200 424	30 306 430
Unconditional grants received	58 082 000	49 189 000
	<b>95 282 424</b>	<b>79 495 430</b>

## Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>26. Government grants and subsidies (continued)</b>		
<b>National: Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	6 031 554	4 564 885
Current-year receipts	29 949 000	15 877 000
Conditions met - transferred to revenue	(21 459 243)	(9 845 446)
Repayment of funds (withheld from the Equitable share allocation)	-	(4 564 885)
	<b>14 521 311</b>	<b>6 031 554</b>

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions, and to provide for new, rehabilitation and upgrading of municipal infrastructure.

As per the DoRA, the municipality was allocated a ring-fenced amount of R13 065 000 for the upgrading of the stadium at Sonwabile in Koffiefontein.

**National: Integrated National Electrification Programme (INEP)**

Balance unspent at beginning of year	369 053	-
Current-year receipts	-	670 000
Conditions met - transferred to revenue	-	(300 947)
	<b>369 053</b>	<b>369 053</b>

Conditions still to be met - remain liabilities (see note 18).

The grant is allocated to municipalities to improve and upgrade the electricity infrastructure and enhance the electricity capacity within the municipality.

**National: Water Services Infrastructure Grant (WSIG)**

Balance unspent at beginning of year	32 998 842	20 680 993
Current-year receipts	30 000 000	41 231 000
Conditions met - transferred to revenue	(12 771 181)	(17 260 037)
Repayment of funds (withheld from the Equitable share allocation)	(17 000 000)	(11 653 114)
	<b>33 227 661</b>	<b>32 998 842</b>

Conditions still to be met - remain liabilities (see note 18).

The grant is allocated and used to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service.

During the year National Treasury withheld R17 000 000 from the municipality's Equitable Share allocation as the repayment of the unspent portion of the previous financial years.

This grant was previously known as the Municipal Water Infrastructure Grant (MWIG).

**Provincial: Department of Health**

Balance unspent at beginning of year	115 000	115 000
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Conditions still to be met - remain liabilities (see note 18).

The grant was used to fund environmental health care services, which was transferred to the Provincial Department.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>26. Government grants and subsidies (continued)</b>		
<b>Provincial: Department of Roads and Transport</b>		
Balance unspent at beginning of year	1 416 404	1 416 404

Conditions still to be met - remain liabilities (see note 18).

The grant is used to finance the upgrading and construction of the street network within the municipal boundaries.

**National: Financial Management Grant (FMG)**

Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 970 000)	(1 900 000)
	-	-

The Financial Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). All conditions attached to the grant were met and no funds were withheld.

**National: Expanded Public Works Programme (EPWP)**

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

The Expanded Public Works Programme (EPWP) Grant is allocated to incentives municipalities to expand work creation efforts through the use of labour incentive delivery methods in the identified focus areas in compliance with the EPWP guidelines. All conditions attached to the grant were met and no funds were withheld.

**Provincial: Free State Provincial Government**

Current-year receipts	4 617 000	-
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Conditions still to be met - remain liabilities (see note 18).

Provide explanations of conditions still to be met and other relevant information.

**Free State Provincial Treasury**

Current-year receipts	2 228 621	-
Conditions met - transferred to revenue	(255 652)	-
Paid to The Auditor General South Africa	(1 228 621)	-
	744 348	-

Conditions still to be met - remain liabilities (see note 18).

Provide explanations of conditions still to be met and other relevant information.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019 R	2018 R
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### 26. Government grants and subsidies (continued)

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Bill, 2018 (Bill No. 2 of 2018), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

The municipality was allocated the following indirect grants:

Integrated National Electrification (INEP) Programme	R201 000
Municipal Systems Improvement Grant (MSIG)	R1 700 000

These grants are allocated to the specific departments, which then can enter into a service level agreement with the municipality in order to utilise the funds, but the accountability remains with the specific department until such services are rendered or goods received. No service level agreement(s) was entered into with any department and no funds were requested. Therefore, these allocations have not been accounted for in the financial records of the municipality.

### 27. Public contributions and donations

Public contributions and donations (movables)	134 144	1 253 517
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Approval has been granted by the Provincial Treasury to donate two vehicles to the municipality for service delivery interventions.

### 28. Fines, Penalties and Forfeits

Law enforcement fines	8 365	1 970
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### 29. Employee related costs

Basic salaries and wages	34 630 292	31 417 944
Bonus	2 445 423	1 700 685
Overtime payments	3 513 821	3 516 210
Housing benefits and allowances	105 192	112 597
Other allowance	5 582 052	4 999 823
Telephone allowance	840 881	84 485
Pension funds - council contributions	4 475 116	4 061 152
Medical aid funds - council contributions	1 718 273	1 928 521
Industrial council	19 609	18 263
UIF	312 586	302 972
Short term benefit	829 713	-
Workmens compensation contributions	-	439 701
Defined contribution plans	287 000	110 893
Long service awards	-	403 417
Leave pay provision charge	819 466	722 006
	55 579 424	49 818 669

#### Remuneration of Municipal Manager

Annual remuneration	853 307	815 696
Car allowance	257 520	252 611
Bonus	71 109	-
Contributions to UIF, medical aid and pension funds	65 450	24 929
Other allowances	49 602	27 286
	1 296 988	1 120 522

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of Chief Finance Officer</b>		
Annual remuneration	672 162	178 362
Car allowance	183 576	30 000
Bonus	52 598	-
Contributions to UIF, medical aid and pension funds	62 176	10 600
Other allowances	37 921	8 650
	<b>1 008 433</b>	<b>227 612</b>
<b>Remuneration of the Director: Community Services</b>		
Annual remuneration	909 991	925 979
Car allowance	102 000	129 312
Contributions to UIF, medical aid and pension funds	12 534	10 933
Other allowances	52 480	23 721
	<b>1 077 005</b>	<b>1 089 945</b>
<b>Remuneration of the Director: Technical Services</b>		
Annual remuneration	605 131	162 461
Car allowance	209 122	30 000
Bonus	46 812	-
Contributions to UIF, medical aid and pension funds	21 498	2 413
Other allowances	33 460	7 698
	<b>916 023</b>	<b>202 572</b>
<b>Remuneration of the Director: Corporate Services</b>		
Annual remuneration	891 991	768 781
Car allowance	120 000	120 000
Contributions to UIF, medical aid and pension funds	12 228	10 678
Other allowances	52 480	21 601
	<b>1 076 699</b>	<b>921 060</b>
<b>30. Remuneration of councillors</b>		
Mayor	525 338	789 653
Councillors	3 465 776	2 956 138
	<b>3 991 114</b>	<b>3 745 791</b>
<b>In-kind benefits</b>		
The executive mayor is full-time. The mayor is provided with an office, secretarial support and a full time driver at the cost of the Council.		
The salaries, allowances and benefits were paid within the upper limites of the framework envisaged in Section 219 of the Constitution.		
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	43 561 017	44 114 446
Intangible assets	201 395	201 395
	<b>43 762 412</b>	<b>44 315 841</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>32. Impairment of assets</b>		
Impairments		
Property, plant and equipment	2 309 157	10 913
Property, plant and equipment have been impaired due to the condition assessments that indicated a decrease in value in use since the last assessment.		
<b>33. Finance costs</b>		
Trade and other payables	2 046 204	1 367 260
Finance leases	76 305	339 056
Rehabilitation of landfill site	(306 809)	824 519
	<b>1 815 700</b>	<b>2 530 835</b>
<b>34. Debt impairment</b>		
Contributions to debt impairment provision	82 442 992	12 259 706
<b>35. Repairs and maintenance</b>		
Repairs and maintenance	552 167	327 600
<b>36. Bulk purchases</b>		
Electricity	33 638 591	22 755 733
Water	1 522 521	3 713 437
	<b>35 161 112</b>	<b>26 469 170</b>
<b>37. Professional and consulting fees</b>		
Professional fees		
Business and Financial management	2 592 394	8 394 665
Project management	2 815 215	2 649 505
Contractors		
Electrical	341 890	601 955
Maintenance of building and facilities	638 961	1 054 943
Maintenance of equipment	436 584	272 295
Maintenance of unspecified assets	193 045	674 914
Sewerage services	737 867	-
Town planner	507 270	253 635
	<b>8 263 226</b>	<b>13 901 912</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>38. General expenses</b>		
Accommodation	790 398	609 429
Advertising	68 920	84 886
Auditors remuneration	5 564 338	2 868 402
Bank charges	548 641	672 669
Chemicals	1 284 289	1 818 144
Commission paid	365 881	418 167
Conferences and seminars	60 797	247 028
Delivery expenses	3 328	-
Donations	-	3 128
Electricity	3 728 889	4 113 882
Entertainment	391 818	619 592
Fuel and oil	406 920	367 160
Funeral cost	7 104	11 582
Hire	369 163	392 001
Hostel charges	16 200	-
Insurance	1 516 438	1 392 755
License fees	174 319	240 643
Other expenses	73 250	675 087
Postage and courier	2 053	14 614
Security (Guarding of municipal property)	5 069 592	-
Software expenses	95 931	-
Special events and programs	-	146 359
Staff welfare	-	29 643
Subscriptions and membership fees	607 033	379 461
Telephone and fax	1 001 423	1 484 387
Title deed search fees	52	46 526
Training	524 109	247 187
Travel – local	1 222 264	964 191
Uniforms	418 354	5 015
Veterinary department	173 913	-
Ward committee expense	341 293	267 813
Water tests	322 190	249 406
	<b>25 148 900</b>	<b>18 369 157</b>

The amounts disclosed above for other expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental charges are charged to other trading and economic services for support services rendered.

### 39. Fair value adjustments

Investment property (Fair value model)	6 616	673
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### 40. Auditors' remuneration

Fees	5 564 338	2 868 402
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# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>41. Cash generated from operations</b>		
Deficit	(76 956 926)	(5 996 456)
Adjustments for:		
Depreciation and amortisation	43 762 412	44 315 841
Gain (loss) on sale of assets and liabilities	2 939 162	(852 301)
Fair value adjustments	(6 616)	(675)
Finance costs - Finance leases	76 305	339 056
Impairment loss	2 309 157	10 913
Movements in provisions	(306 808)	824 519
Donations received	(134 144)	(1 253 517)
Interest received - outstanding debtors	(18 700 235)	(19 355 544)
Changes in working capital:		
Inventories	(14 585)	126 027
Other receivables from exchange transactions	22 838 084	(27 759 219)
Receivables from non-exchange transactions	1 391 402	(14 739 591)
Other receivables from non-exchange transactions	(507 504)	(899 859)
Employee benefit obligation	273 000	(2 290 081)
Payables from exchange transactions	47 664 392	37 548 534
VAT receivable	(4 433 392)	4 746 901
Unspent grants	14 079 924	14 153 571
Consumer deposits	(48 819)	(17 599)
	<b>34 224 809</b>	<b>28 900 520</b>

## 42. Commitments

### Authorised capital expenditure

Already contracted for but not provided for Property, plant and equipment	18 483 078	30 753 122
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### Total capital commitments

Already contracted for but not provided for	18 483 078	30 753 122
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This committed expenditure relates to property, plant and equipment and will be financed from government grants.

## 43. Related parties

These include the total remuneration per councillor and key management, in aggregate for the entire financial year. For remuneration of key management refer to note 29, employee related costs.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>43. Related parties (continued)</b>		
<b>Remuneration of councillors</b>		
Mrs TI Reachable (resignation: 4 March 2018)	552 864	789 653
Mr SJ Bahumi (appointment acting Mayor: 4 March 2018)	512 605	347 368
Mr JDJ Barnes (appointment: 1 December 2017)	289 680	158 059
Miss C Burger (resignation: 30 November 2017)	-	102 902
Mr MA Lebaka	364 846	300 647
Mr TS Moqhoishi	289 680	280 246
Miss AN November	289 680	280 246
Mr XW Ngelani	359 176	347 068
Mr MC Ntemane	359 176	349 046
Mr TV Nthapo	289 680	280 246
Mr MJ Phaliso	289 680	280 246
Mr MT Rens (resignation: 28 February 2018)	-	231 379
Mr PV Mlozana (appointment: 1 June 2018)	321 627	-
Miss PM Dibe (appointment: 1 April 2018)	72 420	-
	<b>3 991 114</b>	<b>3 747 106</b>

### Related party transactions

<b>Compensation of councillors</b>		
Basic remuneration	3 171 366	3 161 629
Telephone allowance	485 055	464 736
Car allowance	93 600	109 500
Acting allowance	153 429	-
Travel and subsistence (re-imbursement)	87 664	11 241

No related party transactions were identified during the year.

### 44. Prior-year adjustments

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

#### Statement of financial position

2018

	As previously reported	Correction of Error	Restated
Inventories	2 677 159	(10 595)	2 666 564
Receivables from Exchange Transactions	60 779 193	(4 259)	60 774 934
Receivables from Non-exchange Transactions	27 849 374	817 887	28 667 261
Other receivables from exchange transaction	376 848	523 011	899 859
Vat receivable	14 749 646	(562 798)	14 186 848
Cash and Cash Equivalents	2 646 779	(523 011)	2 123 768
Investment Property	237 277 795	(158 425 552)	78 852 243
Property, Plant and Equipment	737 871 661	734 818	738 606 479
Finance lease obligation (Current)	(492 155)	(284 659)	(776 814)
Payables from Exchange Transactions	(52 893 322)	15 710 250	(37 183 072)
Finance lease obligation (Non-Current)	(590 466)	285 982	(304 484)
Accumulated Surplus / (Deficit)	(976 748 505)	141 738 926	(835 009 579)
	<b>53 504 007</b>	<b>-</b>	<b>53 504 007</b>



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R	
<hr/>			
44. Prior-year adjustments			
(continued) Statement of financial performance 2018			
	As previously reported	Correction of Error	Restated
Property rates	(14 677 646)	(824 947)	(15 502 593)
Service charges	(46 120 924)	4 254	(46 116 670)
Rental of Facilities and Equipment	(584 638)	602	(584 036)
Other income	(433 537)	(79 621)	(513 158)
Public contribution and donations	-	(1 253 517)	(1 253 517)
Employee Related Costs	49 073 459	745 210	49 818 669
Depreciation and Amortisation	44 090 400	225 441	44 315 841
Finance Costs	2 232 073	298 762	2 530 835
Repairs and Maintenance	420 847	(93 247)	327 600
Professional and consulting fees	12 201 268	1 700 644	13 901 912
General Expenses	17 679 823	689 334	18 369 157
Loss on Disposal of PPE	(451 538)	(400 763)	(852 301)
Fair value adjustment	(9 378 877)	9 378 204	(673)
Inventories losses/write-downs	1 133 853	101	1 133 954
Surplus for the year	55 184 563	10 390 457	65 575 020
<hr/>			
Change in nett assets			
	As previously reported	Correction of Error	Restated
Opening balance	590 934 861	381 419 639	972 354 500
Prior year adjustments	362 912 911	(494 261 372)	(131 348 461)
Restated Surplus for the year	18 506 728	(24 503 184)	(5 996 456)
Surplus for the year	972 354 500	(137 344 917)	835 009 583
<hr/>			
Cash flow statement			
2018			
	As previously reported	Correction of Error	Restated
Cash flow from operating activities			
Sale of goods and services	33 888 959	(18 404 580)	15 484 379
Employee costs	(51 297 621)	(18 847)	(51 316 468)
Suppliers and other payments	(48 248 474)	18 815 957	(29 432 517)
	(65 657 136)	392 530	(65 264 606)
<hr/>			
Cash flow from investing activities			
Purchase of property, plant and equipment	(25 376 911)	1 250 072	(24 126 839)
Proceeds from sale of financial assets	1 368	23	1 391
	(25 375 543)	1 250 095	(24 125 448)
<hr/>			
Cash flow from financing activities			
Finance lease payments	(1 781 491)	(964 815)	(2 746 306)
Net increase/(decrease) in Cash and cash equivalents	2 646 775	(523 005)	2 123 770
	865 284	(1 487 820)	(622 536)

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### 44. Prior-year adjustments

#### (continued) Errors

The following prior period error adjustments occurred:

#### Correction to bank balances

During the preparation of the 2018 financial statements, misallocations were made which was subsequently corrected by management.

The effect of the correction is as follows:

Increase (decrease) in Cash and cash equivalents	-	(523 011)
(Increase) decrease in Other receivables from exchange transactions	-	523 011
	-	-

#### Correction to Property, plant and equipment

During the preparation of the 2019 fixed asset register, certain adjustment had to be made to the cost price and accumulated depreciation due to physical verification, condition assessment , etc.

The effect of the correction is as follows:

Increase (decrease) in Property, plant and equipment	-	582 329
(Increase) decrease in Accumulated surplus	-	(560 877)
Increase (decrease) in Depreciation and amortisation expense	-	(18 594)
Increase (decrease) in Loss with disposal of assets and liabilities	-	(2 858)
	-	-

#### Finance lease adjustment

During the 2018 audit, findings were raised in respect to the finance lease liability (Nashua leases), based on the addendum. Management revisited the amortisation schedules and the adjustments were made retrospectively.

The effect of the correction is as follows:

Increase (decrease) in Property, Plant and Equipment	-	2 166 457
(Increase) decrease in Long-term liabilities (Non-current)	-	285 982
(Increase) decrease in Long-term liabilities (Current)	-	(284 659)
(Increase) decrease in Public contributions and donations	-	(2 187 136)
Increase (decrease) in Finance cost	-	298 762
Increase (decrease) in Loss with disposal of PPE	-	(279 406)
	-	-

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### 44. Prior-year adjustments (continued)

#### Investment property corrections

Management revisited their investment property and the accounting thereof, taking into consideration the guidance provided in IGRAP 18. The changes were made in accordance with the requirement of the aforementioned interpretation.

The effect of the correction is as follows:

Increase (decrease) in Investment property	- 155 192 000
(Increase) decrease in Accumulated surplus	- (155 192 000)
	- -

#### Salary control account reconciliation

Management revisited its salary control account and corrected the outstanding balance to ensure it is supported by valid documentation at yearend. The adjustment was made retrospectively.

The effect of the correction is as follows:

(Increase) decrease in Payables from exchange transactions	- (676 214)
(Increase) decrease in Other income	- (79 621)
Increase (decrease) in Employee related cost	- 755 835
	- -

#### Consulting and professional fees

During the prior year a number classification issues were identified. Management revisited these classification issues are subsequently corrected these.

The effect of the correction is as follows:

(Increase) decrease in Property rates	- 84 965
(Increase) decrease in Rental of Facilities and Equipment	- 602
Increase (decrease) in Employee related cost	- 63 320
Increase (decrease) in Repairs and Maintenance	- (420 847)
Increase (decrease) in Professional and consulting fees	- (664 184)
Increase (decrease) in General expenses	- 936 043
Increase (decrease) in Inventories losses/write-downs	- 101
	- -

#### Trade and other payables

During the prior year a number of creditors needed to be adjusted.

The effect of the correction is as follows:

(Increase) decrease in Inventories	- (10 595)
(Increase) decrease in VAT receivable	- (562 798)
Increase (decrease) in Trade and other payables	- 705 437
Increase (decrease) in Property rates	- (92 025)
Increase (decrease) in Bulk purchases	- 228 632
Increase (decrease) in General expenses	- 2 143 143
Increase (decrease) in Accumulated surplus / Deficit	- (2 411 794)
	- -

#### Project transferred of project correction

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
	R	R

### 44. Prior-year adjustments (continued)

During the prior year during fiscal verification we identified that we had to account for a project that needs to be transferred.

The effect of the correction is as follows:

Increase (decrease) in Inventory	-	376 536
Increase (decrease) in Property, plant and equipment	-	(376 536)
	-	-

### Leased assets

During the prior year a number classification issues were identified. Management revisited these classification issues are subsequently corrected these.

The effect of the correction is as follows:

Increase (decrease) in Property, plant and equipment	-	(1 475 964)
Increase (decrease) in Depreciation and amortisation expense	-	771 010
Increase (decrease) in Accumulated surplus / Deficit	-	704 954
	-	-

### Receivables from exchange transactions

During the prior year a number classification issues were identified. Management revisited these classification issues are subsequently corrected these.

The effect of the correction is as follows:

Increase (decrease) in Receivables from exchange transactions	-	(4 259)
Increase (decrease) in Receivables from non-exchange transactions	-	817 887
Increase (decrease) in Property rates	-	(817 887)
Increase (decrease) in Service charges	-	4 259
	-	-

### Leased assets

During the prior year a number classification issues were identified. Management revisited these classification issues are subsequently corrected these.

The effect of the correction is as follows:

Increase (decrease) in Property, plant and equipment	-	(161 473)
Increase (decrease) in Accumulated surplus / deficit	-	161 473
Increase (decrease) in Public contributions and donations	-	933 619
Increase (decrease) in Depreciation and amortization	-	(526 975)
Increase (decrease) in Loss on disposal of property, plant and equipment	-	(118 499)
Increase (decrease) in Nett gains / (losses not recognised in the Statement of Financial Position	-	(288 145)
	-	-

### Trade and other payables

During the prior year a number classification issues were identified. Management revisited these classification issues are subsequently corrected these.

The effect of the correction is as follows:

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>44. Prior-year adjustments (continued)</b>		
Increase (decrease) in Trade and other payables	-	(15 681 027)
Increase (decrease) in Accumulated surplus / deficit	-	15 681 027
	-	-

### Investment property

During the prior year the fair value adjustment was reversed.

The effect of the correction is as follows:

Increase (decrease) in Investment property	-	(2 832 480)
Increase (decrease) in Fair Value Adjustment	-	2 832 480
	-	-

### Contingent liabilities

During the prior year two cases were incorrectly classified as contingent liabilities as to date no information has been received from the claimants and the possibility of outflow of resources are very low:

**Machaka Attorneys:** The attorney is claiming R23 702 for work performed. Management is of the opinion that the services were rendered after the attorneys services were ended and therefore believe that no funds are owed. In order to save any additional costs (due to court proceedings), the municipality offered the claimant R5,000, but this was not accepted.

Management is of the opinion that the existence of present obligation is remote as evidence suggests that the services were indeed rendered after the attorney's services were ended.

**Omphi Nobuhle Trading and Ramathobo Enterprise CC JV (Construction of sports grounds):** The site was abandoned by the claimant due to cashflow constraints. In order to finalise the project, management wanted to readvertise the project, but the claimant claimed that they should be allowed to finalise the project and in order to do that, they requested funds to be paid. The municipality is of the opinion that all funds have been paid and have requested supporting documentation to corroborate their claim - to date no information has been received.

### Change in accounting policy

There was a change in accounting policy from First in First Out to the weighted average valuation method under inventory. There is no financial impact as the accounting system already accounted inventory per weighted average valuation method therefore, no adjustments were made to the opening balance of inventory and retrospectively.

### 45. Financial instruments disclosure

#### Categories of financial instruments

#### Change in nett assets

#### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	126 471	-	126 471
Receivables from exchange transactions	-	47 385 666	47 385 666
Receivables from non-exchange transactions	-	22 472 396	22 472 396
Other receivables from exchange transactions	-	522 878	522 878
Cash and cash equivalents	3 703 777	-	3 703 777
VAT receivables	-	11 014 379	11 014 379
	3 830 248	81 395 319	85 225 567

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

### 45. Financial instruments disclosure (continued)

#### Financial liabilities

	2019 R	2018 R
	At amortised cost	Total
Finance lease liability	338 186	338 186
Payables from exchange transactions	63 927 181	63 927 181
Consumer deposits	732 877	732 877
Unspent conditional grants and receipts	55 010 777	55 010 777
	<b>120 009 021</b>	<b>120 009 021</b>

#### 2018

#### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	119 855	-	119 855
Receivables from exchange transactions	-	60 774 934	60 774 934
Receivables from non-exchange transactions	-	28 667 261	28 667 261
Other receivables from exchange transactions	-	899 859	899 859
Cash and cash equivalents	2 123 768	-	2 123 768
	<b>2 243 623</b>	<b>90 342 054</b>	<b>92 585 677</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease liability	1 081 299	1 081 299
Payables from exchange transactions	37 183 072	37 183 072
Consumer deposits	781 696	781 696
Unspent conditional grants and receipts	40 930 853	40 930 853
	<b>79 976 920</b>	<b>79 976 920</b>

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019  
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2018  
R

### 46. Risk management

#### Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. Further quantitative disclosures are included throughout these annual financial statements.

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

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

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019  
R

2018  
R

### 46. Risk management (continued)

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

#### Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

#### Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions 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 electricity services rendered to them.

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

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

A new owner is advised, prior to the issue of a revenue 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.

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.

The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.

Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

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 in terms of the Credit Control and Debt Collection Policy.



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019	2018
	R	R

### 46. Risk management (continued)

Long-term receivables and other debtors are individually evaluated annually at reporting 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 credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

#### Market risk

##### Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors 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. Consumer deposits are increased accordingly.

Long-term receivables and other debtors are individually evaluated annually at the reporting 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 is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial assets and Financial liabilities are detailed in the Credit Risk Management section of this note.

#### Price risk

Although shares are held by the municipality, it is not exposed to equity price risks arising from equity investments as the municipality does not actively trade in these investments and the balance is immaterial to the municipality's operations.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
<b>47. Irregular expenditure</b>		
Opening balance	282 849 977	181 065 693
Add: Current year irregular expenditure	27 592 472	25 264 497
Add: Current year irregular expenditure (identified during the audit)	-	26 841 113
Add: Prior year expenditure identified in the current year	-	22 901 391
Add: Prior year expenditure identified in the current year (identified during the audit)	-	26 777 283
	<b>310 442 449</b>	<b>282 849 977</b>

### 48. Fruitless and wasteful expenditure

Opening balance	3 751 981	2 376 360
Add: current year fruitless and wasteful expenditure	2 046 204	1 375 621
	<b>5 798 185</b>	<b>3 751 981</b>

The fruitless and wasteful expenditure for the current year is represented by interest levied on overdue payables due to cash flow constraints experienced by the municipality.

### 49. Unauthorised expenditure

Opening balance	306 197 325	241 326 287
Add: Current year unauthorised operating expenditure	119 091 292	62 187 685
Add: Current year unauthorised capital expenditure	-	2 683 353
	<b>425 288 617</b>	<b>306 197 325</b>

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

#### Contributions to organised local government

Opening balance	(16 096)	(16 096)
Current year subscription / fee	557 250	516 110
Amount paid - current year	(557 250)	(516 110)
	<b>(16 096)</b>	<b>(16 096)</b>

#### Distribution losses

Electricity	Lost units	Tariff	Value
Unaccounted Electricity Losses for 2019	9 155 433	1,17	10 691 429
Unaccounted Electricity Losses for 2018	8 743 793	1,24	10 812 979

Electricity losses occur due to inter alia, technical and non-technical losses. Technical losses include inherent resistance of conductors, transformers and other electrical equipment, whilst Non-technical losses include the tampering of meters, incorrect ratio used on bulk meters, faulty meters and illegal connections. The problem with tampered meters and illegal connections is an ongoing basis, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Volumes in kWh per year	-	-
System input volume	21 172 427	21 024 341
Billed consumption	(12 016 994)	(12 280 548)
	<b>9 155 433</b>	<b>8 743 793</b>

Percentage distribution loss (%)	43,00 %	41,59 %
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# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R	
50. Additional disclosure in terms of Municipal Finance Management Act (continued)			
Water	Lost units	Tariff	Value
Unaccounted Water Losses for 2019	3 679 069	1,15	4 223 691
Unaccounted Water Losses for 2018	2 647 995	0,76	2 025 001
Water losses occur due to inter alia, tampering of meters, incorrect ratio used on bulk meters, faulty meters and illegal connections. The problem with tampered meters and illegal connections is an ongoing basis, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.			
Volumes in kWh per year		-	-
System input volume		4 583 377	5 521 170
Billed consumption		(904 308)	(2 873 175)
		3 679 069	2 647 995
Percentage distribution loss (%)		80,00 %	47,96 %
Audit fees			
Opening balance		313 288	11 852
Current year subscription / fee		5 564 338	3 186 932
Amount paid - current year		(2 908 828)	(2 885 496)
Credit notes - current year		(1 228 621)	-
Interest charges		98 662	-
		1 838 839	313 288
PAYE, UIF and SDL			
Opening balance		648 332	-
Current year subscription / fee		8 386 127	7 057 894
Amount paid - current year		(8 549 348)	(6 409 562)
		485 111	648 332
Pension and medical aid fund contributions			
Opening balance		(269 862)	-
Current year subscription / fee		9 398 635	7 490 748
Amount paid - current year		(9 208 451)	(7 220 886)
		460 046	269 862
The balance represents pension and medical aid fund contributions deducted from employees and councillors in June 2019 payroll, as well as the municipality's contribution to these funds.			
VAT			
VAT receivable		11 014 379	14 186 848

VAT output payables and VAT input receivables are based on the amounts due/payable to SARS and on outstanding debtors and creditors as at year end.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mrs TI Reachable	527	34	561
Mr SJ Bahumi	2 761	38 057	40 818
Mr JDJ Barnes	1 302	771	2 073
Mr MA Lebaka	791	145	936
Mr TS Moqhoisi	434	61	495
Miss AN November	1 464	5 825	7 289
Mr XW Nqelani	1 935	19 889	21 824
Mr MC Ntemane	(2 100)	93	(2 007)
Mr TV Nthapo	1 674	16 526	18 200
Mr MJ Phaliso	(363)	45	(318)
Mr PV Mlozana	1 888	18 452	20 340
Miss PM Dibe	3 358	59 439	62 797
	13 671	159 337	173 008

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mrs TI Reachable	79	-	79
Mr SJ Bahumi	968	31 542	32 510
Mr JDJ Barnes	224	-	224
Mr MA Lebaka	665	-	665
Mr TS Moqhoisi	893	568	1 461
Miss AN November	909	3 086	3 995
Mr XW Nqelani	2 702	15 082	17 784
Mr MC Ntemane	819	3 344	4 163
Mr TV Nthapo	784	12 108	12 892
Mr MJ Phaliso	806	1 197	2 003
	8 849	66 927	75 776

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

The municipality maintains a detailed register at its offices.

Incident		
Emergency procurement	722 788	355 438
Sole providers	7 204	10 918
Repairs	205 864	-
Impracticable - Other	13 625	-
	949 481	366 356

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

	2019 R	2018 R
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### 51. Non-compliance with the MFMA

Chapter	Section	Description
4	32	The municipality incurred costs during the year that meets the definition of unauthorised, fruitless and wasteful and irregular expenditure.
8	62	Not all general financial management function requirements were adhered to during the year, as not all controls operated effective and efficiently.
8	64	Not all revenue management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Not all expenditure management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Due to financial constraints, not all invoices were paid within the legislative 30-days deadline.
14	166	The MFMA requirements for the audit committees were not complied with throughout the financial year.

### 52. Contingencies

#### Contingent liabilities

The municipality had the following contingent liabilities at 30 June 2019:

Telkom SA Limited: The claimant is suing the municipality for outstanding fees. The possibility of a present obligation does exist, but due to the fact that the municipality has not been provided with any form of supporting documentation to support the claim, the probability of the obligation is remote. The matter is still pending with an amount of R54 271.82.	54 272	54 272
Ducharme Consulting (Pty) Ltd: The claimant was appointed by the municipality to prepare the 2017 annual financial statements. The amount billed exceeded the project amount and it is claimed that the additional costs incurred were due to requests from management. The matter is still pending with an amount of R208 568.39 and no resolution has been taken to date.	208 568	208 568
Nomano, Makamohelo and MBB JV: The claimant is claiming funds for work performed on the Waste Water Treatment Works in Jacobsdal. The supporting information has been requested to support the claim, but to date no information has been provided.	-	-
Vula Trust and Lucas Ramohlaba: The municipality paid the disputed invoices of R143 340 for the rental of machinery, but due to fraud on the side of the claimant, invoices with the incorrect bank account details were submitted. The municipality is of the opinion that as the fraud occurred on the side of the claimant, the matter should be handled by them and the municipality fulfilled its obligation.	143 340	143 340
Net 15: During an investigation it was found that the website hosting costs exceeded the allowed and agreed-upon project cost. The contract was cancelled based on irregularities identified. Net 15 is claiming the outstanding fees of R404 637.29.	404 637	404 637
	<b>810 817</b>	<b>810 817</b>

### 53. Events after the reporting date

No events occurred after the reporting date.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019  
R

2018  
R

### 54. Budget differences

#### Material differences between budget and actual amounts

Material difference between the adjusted budget and actual amounts are deemed material if it differs with more than 10%. The following is reasons for the material differences identified:

#### Statement of financial performance

**Dividends received:** In the prior year, dividends were received and based on this, an amount was budgeted for. The municipality however did not receive any dividends during the current year.

**Interest on outstanding receivables:** Although the municipality did provide / budget for interest on outstanding receivables, more revenue was generated that anticipated. This is due to the slow recovery of outstanding debtors. Furthermore, the concept to understand why, in unforeseen circumstances, debtors could not settle their accounts in a timeously manner was also a reason as to why the budgeted revenue was exceeded.

**Interest earned on external investments:** During the year management invested surplus fund on a regular basis in call deposit accounts. This resulted in more interest being generated on the external investments than was anticipated.

**Rental of facilities and equipment:** The municipality did not anticipate that rental income will be this high and needed to budget for more.

**Licences and permits:** Although budgeted for separately, the municipality received immaterial licence and permit fee revenue. For this reason, it was classified as Other income in the Statement of financial performance.

**Other income:** Management anticipated that more income will be generated through direct income, which did not materialise..

**Property rates:** The latest valuation roll came into effect on 1 July 2018. The increase is due to a combination of the increases in the value of the properties and the tariff increases.

**Donations received:** did not anticipate to receive any donations during the year, but received two motor vehicles under PPE.

**Fines and penalties:** The decrease is as a result of less fines that were issued during the year.

**Employee related cost:** Due to the movement in the defined benefit obligations (post-employment medical aid liability and long service awards) and the annual salary increases.

**Debt impairment:** The budgeted figure was based on the expectation that the same movement would be required as in the previous financial year. This was however not the case, resulting in the budget being overspent. Currently, due to the financial constraints within the community, the recoverability of debtors are not at the desired levels.

**Depreciation and amortisation:** During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current assets, and as a result thereof, an increase in the depreciation and amortisation expense.

**Impairment loss:** During the aforementioned verification, assets were identified which conditions deteriorated. These losses were unforeseen and therefore not budgeted for. The main contributor is the unrest by the community during the end of the 2018 fiscal year.

**Finance cost:** Although the municipality did not have overdraft facilities whereby interest were charged, the budget was exceeded due to interest being charged on overdue accounts as well as the unwinding of the interest applicable to the provision for the rehabilitation of the landfill sites.

**Repairs and maintenance:** Due to the municipality's financial difficulties and due to cost cutting measures, the expected budget was not achieved.

**Professional and consulting fees:** Due to the municipality's financial difficulties and due to cost cutting measures, the expected budget was not achieved.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019 R	2018 R
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### 54. Budget differences (continued)

**General expenses:** Although the budgeted expense was overspent as per the Statement of comparison of budget and actual amounts, the actual expense in respect to the contracted services are classified as general expenses. If this is taken into account, there is no material fluctuation between the budgeted and actual amounts.

**Bulk purchases:** Eskom made material adjustment to the account, which was not anticipated and budgeted for.

**Loss on disposal of assets:** Due to assets written-off in the current year as a result of damage caused by the community..

**Fair value adjustments:** The fair value adjustments are due to other financial assets being carried at fair value as the municipality did not budget for other financial assets, they also did not budget for the fair value on the other financial assets.

**Actuarial gains:** This represents the gains in employee benefit obligations. As this represents a "non-cashflow" movement, management did not provide / budget for it.

**Inventory losses / write-downs:** Due to lack of internal controls over maintenance materials and stationary, items were written off during the year. As these represent controls within the municipality, management did not provide / budget for it. Statement of financial position.

#### Statement of financial position

**Inventories:** The decrease is a result of more stock being consumed during the year than anticipated.

**Receivables from exchange and non-exchange transactions:** The provision for doubtful debt movement resulted in the closing balance being significantly lower than anticipated..

**Other receivables from exchange transactions:** Although not budgeted for, these debtor types are not within the municipality's normal business and therefore does not have control over it.

**VAT receivable:** The immaterial balance budgeted for at year-end was due to the expectation that the municipality would have received all outstanding VAT refunds from the South African Revenue Services. At yearend, a significant balance is still to be recovered.

**Cash and cash equivalents:** The increase in the cash and cash equivalents is directly attributed to the unspent conditional grants increase at yearend.

**Investment property:** During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current asset, including Investment property.

**Intangible assets:** During the previous financial year, the municipality purchased SAGE software amounting to R1 006 976. The expectation was that the system would have amortised quicker than it actually did.

**Heritage assets:** No balance was budgeted for, as it is immaterial to the municipality's operations.

**Other financial assets:** The municipality did not budgeted for the financial assets. The assets are valued at fair value, which means the municipality should've provided/budgeted for the 2018 disclosed amount with an fair value adjustment, to account for the movement.

**Finance lease obligations:** During the year the municipality entered into new finance lease agreements. Due to cashflow constraints and the need for the equipment, these were acquired although not budgeted for.

**Payables from exchange transactions:** Due to the municipality's financial difficulties, it is not able to meet its short term commitments and therefore the desired budgeted results cannot be achieved.

**Employee benefit obligations:** Due to the municipality's financial difficulties this was not provided / budgeted for.

**Unspent conditional grants and receipts:** The municipality anticipated that all grants received and paid will be utilised for the year, therefore no amount was budgeted for.

# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019 R	2018 R
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### 54. Budget differences (continued)

**Provisions:** The landfill sites operated by the municipality were physically inspected and a professional valuation was performed to estimate the future liability. This resulted in a material prior period adjustment.

**Accumulated surplus:** due to the fact that all prior year adjustments needs to be processed against accumulated surplus, the difference between the budget amount and actual amount is more than expected.

#### Cash Flow Statement:

**Sales of goods and services:** Goods and services were not as much as expected and budgeted for.

**Interest income:** Due to clients financial difficulties, the municipality did not receive as much interest as budgeted for.

**Dividends received:** Although budgeted for dividend, no dividends were received during the year.

**Other receipts:** Although budgeted for for other receipts, nothing was received during the year.

**Employee costs:** The actual costs were in line with the prior year, which means the municipality expected more wage workers.

**Suppliers and other payments:** the municipality should have budgeted for suppliers as the trade payables shows the municipality owes suppliers a material amount.

**Finance costs:** Although budgeted for finance costs, no cash flow incurred for finance costs during the year.

**Capital assets:** The municipality budgeted for R48 518 251 for the year, but could not use the total amounts due to protests during the financial year. Capital projects needed to be put on hold.

**Finance lease payments:** Although the municipality did not budget for finance lease payments, the expense incurred during the year.

### 55. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 758 052 655 and that the municipality's total assets exceed its total liabilities by R 758 052 655.

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.

Management considered the following matters relating to the going concern assumption:

The 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.

The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

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 procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:



# Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

2019	2018
R	R

### 55. Going concern (continued)

Deficit of R76 956 926 (2018: R5 996 456) was realised, Government grants and subsidies contributed R 96 766 698 (2018: R79 495 430).

The municipality's unspent conditional grants for the current year amounted to R55 010 777 (2018: R40 930 853). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.

The creditors are not paid within 30 days as required by the MFMA due to cash constraints.

Debt collection period has not improved during the current financial year.

The municipality signed an agreement with Eskom to pay off the outstanding debt of R24 796 353.

The municipality signed an agreement with The Auditor General of South Africa to pay off the outstanding debt of R1 838 839.

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A provision for doubtful debt amounting to R145 625 076 (2018: R101 289 765) has been disclosed in the financial statements.

As at 30 June 2019 the municipality's current liabilities amounted to R120 397 209 (2018: R80 165 435), whilst the current assets amounted to R87 780 245 (2018: R109 319 234).

The current and acid test ratios are below the required ratio of 2:1 and 1:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

The Letsemeng Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2020 financial year, the allocated Equitable Share allocation amounts to R63 091 000 and the Financial Management Improvement Grant to R2 435 000.

No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2018 furthermore disclosed government's proposed allocation of the 2020 and 2021 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.

The municipality has not been placed under administration for the 12 months ending 30 June 2019.

## GLOSSARY

<b>Accessibility indicators</b>	Explore whether the intended beneficiaries are able to access services or outputs.
<b>Accountability documents</b>	Documents used by executive authorities to give " <i>full and regular</i> " reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and Annual Reports.
<b>Activities</b>	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe " <i>what we do</i> ".
<b>Adequacy indicators</b>	The quantity of input or output relative to the need or demand.
<b>Annual Report</b>	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the Municipal Finance Management Act. Such a report must include annual financial statements as submitted to and approved by the Auditor-General.
<b>Approved Budget</b>	The annual financial statements of a municipality as audited by the Auditor General and approved by council or a provincial or national executive.
<b>Baseline</b>	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
<b>Basic municipal service</b>	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
<b>Budget year</b>	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
<b>Cost indicators</b>	The overall cost or expenditure of producing a specified quantity of outputs.
<b>Distribution indicators</b>	The distribution of capacity to deliver services.
<b>Financial Statements</b>	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
<b>General Key performance indicators</b>	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally.
<b>Impact</b>	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
<b>Inputs</b>	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
<b>Integrated Development Plan (IDP)</b>	Set out municipal goals and development plans.
<b>National Key performance areas</b>	<ul style="list-style-type: none"> <li>• Service delivery &amp; infrastructure</li> <li>• Economic development</li> <li>• Municipal transformation and institutional development</li> <li>• Financial viability and management</li> <li>• Good governance and community participation</li> </ul>
<b>Outcomes</b>	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
<b>Outputs</b>	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e. a product such as a passport, an action such as a presentation or immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.
<b>Performance Indicator</b>	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to

	which an output has been achieved (policy developed, presentation delivered, service rendered)
<b>Performance Information</b>	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
<b>Performance Standards:</b>	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
<b>Performance Targets:</b>	The level of performance that municipalities and its employees strive to achieve. Performance Targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
<b>Service Delivery Budget Implementation Plan</b>	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
<b>Vote:</b>	<p>One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The Vote specifies the total amount that is appropriated for the purpose of a specific department or functional area.</p> <p>Section 1 of the MFMA defines a "vote" as:</p> <p><i>a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i></p> <p><i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i></p>

## APPENDICES

### APPENDIX 'A' – COUNCILLORS; COMMITTEE ALLOCATION AND COUNCIL ATTENDANCE

Councillors, Committees Allocated and Council Attendance					
Council Members	Full Time / Part Time	Committees Allocated	*Ward and/ or Party Represented	Percentage Council Meetings Attendance	Percentage Apologies for non-attendance
	FT/PT			%	%
Cllr SJ Bahumi	FT	Oversight role	ANC – PR	98	2
Cllr XW Nqelani	P/T	Finance – Chairperson  Add members: <ul style="list-style-type: none"> <li>• Cllr PN Dibe</li> <li>• Cllr MJ Phaliso</li> <li>• Cllr JDJ Barnes</li> </ul>	ANC - Ward Councillor	95	5
Cllr PV Mlozana	P/T	Good Governance and Monitoring (MPAC) – Chairperson  Add members: -Cllr AN November -Cllr MJ Phaliso -Cllr JDJ Barnes -Cllr TS Moqhoishi	ANC – Ward Councillor	95	5
Cllr MA Lebaka	P/T	Corporate Services – Chairperson  Add members: - Cllr AN November - Cllr TV Nthapo	ANC – Ward Councillor	98	2
Cllr MC Ntemane	P/T			95	5

		Additional member – Technical Services	ANC – Ward Councillor		
Cllr MJ Phaliso	P/T	Technical Services – Chairperson  Add members: - Cllr MC Ntemane - Cllr TS Moqhoishi	ANC – Ward Councillor	98	2
Cllr AN November	P/T	Community Services, Planning and LED – Chairperson  Add members: - Cllr PM Dibe - Cllr MA Lebaka	ANC – PR Councillor	95	5
Cllr PM Dibe	P/T	Additional member – Community Services	ANC – PR Councillor	98	2
Cllr JDJ Barnes	P/T	Additional member – Finance Services	DA – PR Councillors	98	2
Cllr TV Nthapo	P/T	Additional member – Corporate Services	DA – PR Councillor	95	5
Cllr TS Moqhoishi	P/T	Additional member – Technical Services	EFF – PR Councillor	95	5
<b>Note: * Councillors appointed on a proportional basis do not have wards allocated to them</b>					<b>T A.1</b>

## APPENDIX B – COMMITTEES AND COMMITTEE PURPOSES

<b>Committees (other than Mayoral / Executive Committee) and Purposes of Committees</b>	
<b>Municipal Committees</b>	<b>Purpose of Committee</b>
Municipal Public Accounts Committee	Playing an oversight Role over the finances and the administration of the Municipality
Audit Committee	Performing duties as stipulated in Section 166 of the MFMA

## APPENDIX C –THIRD TIER ADMINISTRATIVE STRUCTURE

Third Tier Structure	
Directorate	Director/Manager (State title and name)
Office of the Municipal Manager	Municipal Manager – Mr TL Mkhwane
Financial Services	Chief Financial Officer – Mr SJ Tooï
Technical Services	Director: Technical Services – Mrs DG Tsikang
Corporate services	Director: Corporate Services – Mr TF Deeuw
Community Services	Director: Community Services – Mr CJ Makhoba

## APPENDIX D –FUNCTIONS OF MUNICIPALILTY/ENTITY

Municipal Functions	
Municipal Functions	Function Applicable to Municipality (Yes / No)*
<b>Constitution Schedule 4, Part B functions:</b>	
Air pollution	No
Building regulations	Yes
Child care facilities	No
Electricity and gas reticulation	Yes
Firefighting services	Yes
Local tourism	Yes
Municipal airports	No
Municipal planning	Yes
Municipal health services	No
Municipal public transport	No
Municipal public works only in respect of the needs of municipalities in the discharge of their responsibilities to administer functions specifically assigned to them under this Constitution or any other law	Yes
Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto	No
Storm water management systems in built-up areas	Yes
Trading regulations	No
Water and sanitation services limited to potable water supply systems and domestic waste-water and sewage disposal systems	Yes
Beaches and amusement facilities	No
Billboards and the display of advertisements in public places	Yes
Cemeteries, funeral parlours and crematoria	Yes
Cleansing	Yes
Control of public nuisances	Yes
Control of undertakings that sell liquor to the public	Yes
Facilities for the accommodation, care and burial of animals	Yes
Fencing and fences	Yes
Licensing of dogs	No
Licensing and control of undertakings that sell food to the public	Yes
Local amenities	Yes
Local sport facilities	Yes
Markets	No

Municipal Functions	
Municipal Functions	Function Applicable to Municipality (Yes / No)*
Constitution Schedule 4, Part B functions:	
Municipal abattoirs	No
Municipal parks and recreation	Yes
Municipal roads	Yes
Noise pollution	Yes
Pounds	No
Public places	Yes
Refuse removal, refuse dumps and solid waste disposal	Yes
Street trading	Yes
Street lighting	Yes
Traffic and parking	Yes
T D	

## APPENDIX E – WARD REPORTING

Functionality of Ward Committees					
Ward Name (Number)	Name of Ward Councillor and elected Ward committee members	Committee established (Yes / No)	Number of monthly Committee meetings held during the year	Number of monthly reports submitted to Speakers Office on time	Number of quarterly public ward meetings held during year
1	Cllr XW Nqelani	Yes	-	-	-
2	Cllr PV Mlozana	Yes	-	-	-
3	Cllr MA Lebaka	Yes	-	-	-
4	Cllr MC Ntemane	Yes	-	-	-
5	Cllr MJ Phaliso	Yes	-	-	-
6	Cllr SJ Bahumi	Yes	-	-	-

## APPENDIX F – WARD INFORMATION

Ward Title: Ward Name (Number)				
Capital Projects: Seven Largest in '2017/18 (Full List at Appendix O)				
No.	Project Name and detail	Start Date	End Date	R' 000 Total Value
4	Koffiefontein: Construction of new sports facility in Dithlake	2018	Not yet completed	R13 065 000
2	Jacobsdal: Construction of new water treatment works ( 4.2 ml/day)	2014	Not yet completed	R 24 000 000
5	Koffiefontein: Construction of new sports facility in Sonwabile	2019	Not yet completed	R2 551 452.00
4	Upgrading of Koffiefontein substation and bulk feeder lines	2018	Not yet completed	R 5.2 000 00
1	Luckhoff upgrading of 0.9km paved road and storm water	2018	Completed	R8.5 00 000
2	Ratanang sanitation of 202 stands	2018	Not yet completed	R 10 331 338.98

Basic Service Provision					
Detail	Water	Sanitation	Electricity	Refuse	Housing
Households with minimum service delivery	8916	8021	8040	8081	
Households without minimum service delivery		692	0	0	
Total Households*	8916	8713	8040	8081	
Houses completed in year					
Shortfall in Housing units					



*\*Including informal settlements*

Top Two Service Delivery Priorities for Ward (Highest Priority First)		
Ward No.	Priority Name and Detail	Progress During '2018/19
1 (Jacobsdal)	Jacobsdal: Construction of new water treatment works ( 4.2 ml/day)	The project is under construction at 80% progress
4 & 5 (Koffiefontein))	Koffiefontein/Dithlake: Upgrading of sport facility	The project is under construction at 85% progress

## APPENDIX G – RECOMMENDATIONS OF THE MUNICIPAL AUDIT COMMITTEE 2018/19

Municipal Audit Committee Recommendations		
Date of Committee	Committee recommendations during 2018/19	Recommendations adopted (enter Yes) If not adopted (provide explanation)
N/A		
		T G

## APPENDIX H – LONG TERM CONTRACTS AND PUBLIC PRIVATE PARTNERSHIPS

Long Term Contracts (Largest Contracts Entered into during 2018/19) R' 000					
Name of Service Provider (Entity or Municipal Department)	Description of Services Rendered by the Service Provider	Start Date of Contract	Expiry date of Contract	Project manager	Contract Value
Pan Solutions	Internet,Telephones and emails hosting services for 3 Years	03/06/2019	03/06/2021	IT Technician	695 000.00
BlaQ M Holdings	Short Term Insurance for 3 Years	03/06/2019	03/06/2021	SCM Manager	1500 289.00
					T H.1

Public Private Partnerships Entered into during 2017/18					R' 000
Name and Description of Project	Name of Partner(s)	Initiation Date	Expiry date	Project manager	Value 2015/16
None entered into.					
NONE					
T H.2					

## APPENDIX I – MUNICIPAL ENTITY/ SERVICE PROVIDER PERFORMANCE SCHEDULE

The municipality do not have a municipal entity.

## APPENDIX J – DISCLOSURES OF FINANCIAL INTERESTS

Disclosures of Financial Interests		
Period 1 July to 30 June of 2018/19 (Current Year)		
Position	Name	Description of Financial interests* (Nil / Or details)
(Executive) Mayor	Cllr TI Reachable	Nil
Member of MayCo / Exco		
Councillors		
	Cllr TS Moqhoishi	Nil
	Cllr AN November	Nil
	Cllr TV Nthapo	Nil
	Cllr JDJ Barnes	Nil
	Cllr XW Ngelani	Nil
	Cllr Cllr MA Lebaka	Nil
	Cllr MC Ntemane	Nil
	Cllr SJ Bahumi	Nil
	Cllr MJ Phaliso	Nil
	Cllr PV Mlozana	Nil
Municipal Manager	Mr TL Mkhwane	Nil
Chief Financial Officer	Mr SJ Tooi	Nil
Other S57 Officials	Mr T.F.Deeuw	Sabzenzele
	Ms DG Motlogelwa	Nil
	Mr CJ Makhoba	Nil
T J		

## APPENDIX K: REVENUE COLLECTION PERFORMANCE BY VOTE AND BY SOURCE

### APPENDIX K (i): REVENUE COLLECTION PERFORMANCE BY VOTE

Revenue Collection Performance by Vote						
R' 000						
Vote Description		Current: 2017/18			2018/19 Variance	
		Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
Councillors - Vote 1		0	0	0	0%	0%
Municipal Manager - Vote 2		0	0	0	0%	0%
Corporate Services - Vote 3		0	0	0	0%	0%
Finance Services - Vote 4		7 720	7 720	134 929	-58%	-58%
Technical Services - Vote 5		7 129	4	-	-	-
Community Services - Vote 6		-	-	373	0%	0%
<b>Total Revenue by Vote</b>		<b>14 849</b>	<b>7 724</b>	<b>135 302</b>		
T K.1						

## APPENDIX K (ii): REVENUE COLLECTION PERFORMANCE BY SOURCE

Revenue Collection Performance by Source						
R '000						
Description	2017/18	2018/19			2018/19 Variance	
	Actual	Original Budget	Adjustments Budget	Actual	Original Budget	Adjustments Budget
Property rates	R 15,502	R 19,797	R 19,797	R 19,826	0%	0%
Property rates - penalties & collection charges	R 4,493	R -	R -	R 4,803	-	-
Service Charges - electricity revenue	R 13,817	R 19,797	R 21,280	R 16,946	14%	20%
Service Charges - water revenue	R 15,947	R 22,967	R 8,865	R 10,490	54%	-18%
Service Charges - sanitation revenue	R 8,312	R 8,865	R 10,013	R 11,731	-32%	-17%
Service Charges - refuse revenue	R 7,984	R 8,486	R 10,512	R 11,076	-31%	-5%
Service Charges - other	R -	R -	R -	R 15	0%	0%
Rentals of facilities and equipment	R 584	R 571	R 450	R 506	11%	-12%
Interest earned - external investments	R 512	R 842	R 421	R 594	29%	-41%
Interest earned - outstanding debtors	R 14,861	R 3,869	R 3,869	R 13,932	-260%	-260%
Dividends received	R 3	R 34	R 5	R -	100%	100%
Fines	R 1	R 36	R 18	R 8	78%	56%
Licenses and permits	-	R 4	R 4	R -	100%	100%
Agency services	-	-	-	-	0%	0%
Transfers recognised - operational	R 47,402	R 61,052	R 53,052	R 60,052	2%	-13%
Other revenue	R 513	R 1,954	R 977	R 350	82%	64%
Gains on disposal of PPE	R -	R -	R -	R -	0%	0%
Environmental Protection	R -	R -	R -	R -	0%	0%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>R 129,931</b>	<b>R 148,274</b>	<b>R 129,263</b>	<b>R 150,329</b>	<b>-1%</b>	<b>-16%</b>

## APPENDIX L: CONDITIONAL GRANTS RECEIVED

APPENDIX L: GOVERNMENT GRANTS AND SUBSIDIES						
						R' 000
Details	Budget	Adjustments	Actual	Variance		Major conditions applied by donor (continue below if necessary)
		Budget		Budget	Adjustments Budget	
Neighbourhood Development Partnership Grant	-	-	-	-	-	-
Public Transport Infrastructure and Systems Grant	-	-	-	-	-	-
<i>Other Specify:</i>						
FMG	R 1,970	R 1,970	R 1,970	0%	0%	
WSIG	R 20,000	R 20,000	R 12,771	36%	36%	
EPWP	R 1,000	R 1,000	R 1,000	0%	0%	
<b>Total</b>	<b>R 22,970</b>	<b>R 22,970</b>	<b>R 15,741</b>	<b>31%</b>	<b>31%</b>	
						<i>TL</i>

# APPENDIX M: CAPITAL EXPENDITURE – NEW & UPGRADE/RENEWAL PROGRAMMES

## APPENDIX M (i): CAPITAL EXPENDITURE - NEW ASSETS PROGRAMME

Capital Expenditure - New Assets Programme*							
Description	2015/16	2017/18			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	FY + 1	FY + 2	FY + 3
<b><u>Capital expenditure by Asset Class</u></b>							
<b><u>Infrastructure - Total</u></b>	–			–	–	–	–
<b>Infrastructure: Road transport - Total</b>	–	12 585	10 652	7 438	–	–	–
Roads, Pavements & Bridges		12 585	10 652	7 438			
Storm water							
<b>Infrastructure: Electricity - Total</b>	–	–	860	4 660	–	–	–
Generation		–	860	4 660			
Transmission & Reticulation							
Street Lighting							
<b>Infrastructure: Water - Total</b>	–	–	57 892	27 832	–	–	–
Dams & Reservoirs		–	57 892	27 832			
Water purification							
Reticulation							
<b>Infrastructure: Sanitation - Total</b>	–		3 117	1 819	–	–	–
Reticulation		–	3 117	1 819			
Sewerage purification							
<b>Infrastructure: Other - Total</b>	–	55 000	–	–	–	–	–
Waste Management		55 000	–				
Transportation							
Gas							
<b><u>Community - Total</u></b>	–	–	1 394	–	–	–	–
Parks & gardens							
Sports fields & stadia							
Swimming pools							
Community halls		–	1 394				
Libraries							
Recreational facilities							
Fire, safety & emergency							
Security and policing							
Buses							
Clinics							
Museums & Art Galleries							
Cemeteries							
Social rental housing							
Other							

Table continued next page

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Capital Expenditure - New Assets Programme*							
	R '000						
Description	2017/18	2018/19			Planned Capital expenditure		
	Actual	Original Budget	Adjustment Budget	Actual Expenditure	FY + 1	FY + 2	FY + 3
<b><u>Capital expenditure by Asset Class</u></b>							
<b><u>Heritage assets - Total</u></b>	–	–		–	–	–	–
Buildings							
Other							
<b><u>Investment properties - Total</u></b>	–	–		–	–	–	–
Housing development							
Other							
-							
<b><u>Other assets</u></b>	–	4 050	225		–	–	–
General vehicles							
Specialised vehicles							
Plant & equipment							
Computers - hardware/equipment							
Furniture and other office equipment							
Abattoirs							
Markets							
Civic Land and Buildings							
Other Buildings							
Other Land							
Surplus Assets - (Investment or Inventory)							
Other		4 050	225				
<b><u>Agricultural assets</u></b>	–				–	–	–
List sub-class							
<b><u>Biological assets</u></b>	–				–	–	–
List sub-class							
<b><u>Intangibles</u></b>	–				–	–	–
Computers - software & programming							
Other (list sub-class)							
<b>Total Capital Expenditure on new assets</b>	–				–	–	–



## APPENDIX N – CAPITAL PROGRAMME BY PROJECT 2018/19

Capital Programme by Project: '2018/19					
					R' 000
Capital Project	Original Budget	Adjust ment Budget	Actual	Variance (Act - Adj) %	Variance (Act - OB) %
<b>Water</b>					
Upgrading of Jacobsdal Water Treatment Works	24 000 000	0	12 374 806.6		
<b>Sanitation/Sewerage</b>					
Ratanang sanitation of 202 stands	7 263 727	0	5 660 360.35		
<b>Electricity</b>					
Upgrading of Koffiefonteing substation and bulk feeder lines	670 000	0	300 947.4		
<b>Other</b>					
Koffiefonteing upgrading of 2.2km paved road and storm water	12 380 666	0	12 380 666		
Luckhoff upgrading of 0.9km paved road and storm water	8 500 000	0	8 460 863.25		
					T N

## APPENDIX O – CAPITAL PROGRAMME BY PROJECT BY WARD 2018/19

Capital Programme by Project by Ward: 2018/19 R' 000		
Capital Project	Ward(s) affected	Works completed (Yes/No)
<b>Water</b>		
Jacobsdal Construction of 4.15Ml WTW	2	No
<b>Sanitation/Sewerage</b>		
Bolokanang: Upgrading of internal sewer network in Bolokanang	6	Yes
Jacobsdal: Ratanang sanitation of 202 stands	2	No
<b>Electricity</b>		
Koffiefontein: Upgrading of Koffiefonteing substation and bulk feeder lines	(4 & 5)	No
<b>ICT and Other</b>		
Koffiefontein/Dithlake: Upgrading of sport facility	4 & 5	Yes
T O		

## APPENDIX P – SERVICE CONNECTION BACKLOGS AT SCHOOLS AND CLINICS

Service Backlogs: Schools and Clinics				
Establishments lacking basic services	Water	Sanitation	Electricity	Solid Waste Collection
Schools (NAMES, LOCATIONS)				
None that the municipality is aware of.				
<b>Clinics (NAMES, LOCATIONS)</b>				
None that the municipality is aware of.				
T P				

## APPENDIX Q – SERVICE BACKLOGS EXPERIENCED BY THE COMMUNITY WHERE ANOTHER SPHERE OF GOVERNMENT IS RESPONSIBLE FOR SERVICE PROVISION

Service Backlogs Experienced by the Community where another Sphere of Government is the Service Provider (where the municipality whether or not act on agency basis)		
Services and Locations	Scale of backlogs	Impact of backlogs
Clinics:	None that the municipality is aware of.	
Housing:		
Licensing and Testing Centre:		
Reservoirs		
Schools (Primary and High):		
Sports Fields:		

*TQ*

## APPENDIX R – DECLARATION OF LOANS AND GRANTS MADE BY THE MUNICIPALITY

Declaration of Loans and Grants made by the municipality: 2018/19				
All Organisation or Person in receipt of Loans */Grants* provided by the municipality	Nature of project	Conditions attached to funding	Value 2018/19 R' 000	Total Amount committed over previous and future years
No grants or loans were made.				

*\* Loans/Grants - whether in cash or in kind*

*TR*



