



# 2010 / 2011 ANNUAL REPORT

Physical Address: Stand No.1, Next to Jane Furse Plaza, Jane Furse

Postal Address: Private Bag x434, Jane Furse, 1085

website [www.makhuduthamaga.gov.za](http://www.makhuduthamaga.gov.za)

Telephone Number: (03) 265 8600

Fax Number: (013) 265 1975

## GLOSSARY

<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 "what we do".
<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>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>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</p> <p>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</p>

## ABBREVIATIONS

AG	Auditor General
ARV	Anti-Retro Viral
BEE	Black Economic Empowerment
CDW	Community Development Worker
CFO	Chief Financial Officer
CMC	Core Management Competencies
CTO	Community Tourism Organization
DAEA	Department of Agriculture and Environmental Affairs
DBSA	Development Bank of Southern Africa
DIS	District Information Systems
DLA	Department of Land Affairs
DLGH	Department of Local Government and Housing
DM	District Municipality
DME	Department of Minerals and Energy
DSR	Department of Sports and Recreation
DWAF	Department of Water Affairs
EEP	Employment Equity Plan
EIA	Environmental Impact Assessment
EPWP	Extended Public Works Programme
ESDP	Electricity Supply Development Plan
EXCO	Executive Committee
GCIS	Government Communications and Information Systems
GVA	Gross Value Added
HR	Human Resource
IDP	Integrated Development Planning
IDP RF	Integrated Development Planning Representative Forum
KPA	Key Performance Area
KPI	Key Performance Indicator
LA	Local Agenda
LED	Local Economic Development
LGSETA	Local Government Sector of Education & Training Authorities
LM	Local Municipality
LUMS	Land Use Management System
MFMA	Municipal Financial Management Act
MII	Municipal Infrastructure Investment
MIG	Municipal Infrastructure Grant
MIPA	Man In Partnership Against AIDS
MLM	Makhuduthamaga Local Municipality
MM	Municipal Manager
MSA	Municipal Systems Act
MSA	Municipal Structures Act
NQF	National Qualification Framework

<b>PMS</b>	<b>Performance Management Systems</b>
<b>PMU</b>	<b>Project Management Unit</b>
<b>PPP</b>	<b>Public Private Partnership</b>
<b>SCM</b>	<b>Supply Chain Management</b>
<b>SDBIP</b>	<b>Service Delivery and Budget Implementation Plan</b>
<b>SDM</b>	<b>Sekhukhune District Municipality</b>
<b>SEDA</b>	<b>Small Enterprise Development Agency</b>
<b>SLA</b>	<b>Service Level Agreement</b>
<b>SMME</b>	<b>Small Medium and Micro Enterprise</b>
<b>UAP</b>	<b>Universal Access Plan</b>
<b>WSA</b>	<b>Water Service Authority</b>
<b>WSDP</b>	<b>Water Service Development Plan</b>

## TABLE OF CONTENTS

Preface.....	10
CHAPTER 1.....	11
Mayor's Foreword.....	11
1.1 Municipal Manager's Overview.....	14
1.2 Municipal Functions, Population & Environmental Overview.....	15
1.2.2 About Makhuduthamaga.....	16-38
1.3 Service Delivery Overview.....	39-42
CHAPTER 2: GOVERNANCE.....	43
2.1 Political Governance.....	43
2.2 Administrative Governance.....	46
2.3 IDP Participation & Alignment.....	47
2.4 Risk Management.....	48
2.5 Supply Chain Management.....	48
CHAPTER 3: SERVICED ELIVERY PERFORMANCE	
3.1 Introduction.....	49
3.2 Service Delivery Highlights.....	49
3.2.1 Priorities.....	49
3.2.2 Institutional Development.....	49

3.3 Annual Departmental Performance.....	50
--	----

See Annexure 1

## CHAPTER 4: ORGANISATIONAL DEVELOPMENT PERFORMANCE

4.1 Introduction.....	50
4.2 Functions of HRD.....	50
4.3 Functions of HRM.....	51
4.4 Integrated Human Resource System.....	51
4.5 Employment Equity.....	52
4.5.1 Legislature Mandate.....	52
4.5.2 Stakeholder Participation.....	52
4.5.3 Goals of Employment Equity.....	52
4.6 Objectives of Employment Equity.....	53
4.6.1 Objectives of the Employment Equity Plan of the Municipality.....	53
4.7 Overall Municipality.....	55
4.8 Employees per Directorate Breakdown by Gender.....	
4.9 Organisational Strengths and Challenges.....	57
4.10 Organisational Benefits.....	58



CHAPTER 5: ANNUAL FINANCIAL STATEMENT.....	59
--	----

See annexure 2

CHAPTER 6: Auditor General's Audit Findings.....	59
--	----

See full report on annexure 3

## PREFACE

In order to comply with the requirements of *section 46* of the *Municipal Systems Act No. 32 of 2000* and *section 121* of the *Municipal Finance Management Act No. 56 of 2003*, which are hereto referred as MSA and MFMA, Makhuduthamaga Local Municipality has compiled this annual report as a way to establish whether the municipality's performance adheres to the key performance areas set out by Department of Local Government, namely:

- Service delivery and infrastructure development;
- Local economic development (LED);
- Spatial Rational
- Municipal financial viability;
- Municipal transformation and institutional development; and
- Community participation and Good governance.

In accordance with section 121 (2) of the MFMA, the purpose of an annual report is:

- To provide a record of the activities of the Municipality during the 2010/11 financial year.
- To provide a report on performance against the budget of the Municipality for the 2010/11 financial year; and
- To promote accountability to the Makhuduthamaga community for the decisions made throughout the 2010/11 financial year by the Municipality.

# CHAPTER 1

## Mayor's Foreword



### 1.9 Vision

A development Municipality that provides needs satisfying, sustainable services.

### 1.1.10 Mission

To strive for a people centred Municipality that delivers sustainable services underpinned by the following principles:

- Efficiency;
- Effectiveness;
- Economy;
- Integration and
- Accountability

### 1.1.11 Our Values

We believe: That councillors should stand united, trust each other and be trustworthy and at all times be approachable and honest in order to achieve a cohesive, transparent relationship of mutual understanding and tolerance amongst themselves.

We believe: In building a partnership based on trust and fidelity aimed at continued acknowledgement and respect for the respective roles of councillors and staff in order to achieve complementary Municipality building and an amicable resolution of differences through agreed procedures.

We believe: In adherence to the Batho Pele Principles, we councillors and officials, strive to respect and be responsive to our community by being humble, courteous, accountable, transparent, fair and honest while, by being members of the community ourselves, report the service delivery problems we encounter.

We believe: That officials should mutually respect the different roles that each member of staff plays and resolve differences according to agreed procedures to achieve a complementary Municipality building partnership based on trust and fidelity.,

### **1.1.12 Priorities**

The priorities are embroicated within the Local Government Strategic Agenda to instil compliance and acceleration of service delivery. As such the Municipality's main strategic priorities are:

- Service delivery and infrastructure development
- Good governance and intergovernmental relations
- Municipal transformation and institutional development
- Local economic development
- Municipal financial viability and sustainability

The Municipality has a five year strategy in the form of an IDP, which has been adopted by council. The council IDP outlines the priorities and objectives of council on eradicating the legacies of under development and poverty facing the residents of the Municipality.

## 1.1 Municipal Manager's Overview



Our local Municipality has got mandate of ensuring the developmental and transformational local government. We are also duty bound to ensure we partner with strategic governmental institution in making a service delivery a success. We are looking forward to see the Municipality as the centre for strategic implementation of services to our citizens. In realizing this dream we have capacitated our workforce through workshops and training in order to equip them with the relevant skills, competencies and values.

The Municipality has realized service delivery excellence requires integration of world best practices, together with legislative and policy requirements. Our Municipality has done well during its public consultative process of IDPs, SDBIPs, Project management budget and public participation to generate an outcome bearing service delivery.

We have committed ourselves as the Municipality to ensure that we employ enough workforces to accelerate service delivery to the communities in our Municipality. This is dedicated personnel that will from time to time interact with the stakeholders to build a credible image of the municipality.

As the institution we are doing well in terms of working relationship with other NGO, Business and our strategic partners in service delivery. Makhuduthamaga has done well in electrification of villages and majority benefited from free basic electricity, grading of community access roads and bridges. This was the snapshot of the commitment made during 2010/2011 measuring challenges, performance and achievements.

**Acting Municipal Manager: Mr Mogobadi Moropa**

## 1.2 Municipal Functions, Population and Environmental Overview

### 1.2.1 Powers and Functions

Makhuduthamaga Municipality is a **category B** Municipality established in terms of section 12 of the Municipal Structures Act (117 of 1998). The Municipality established to perform the following functions as bestowed upon it by the Constitution in terms of section 156 (1) and the division of powers:

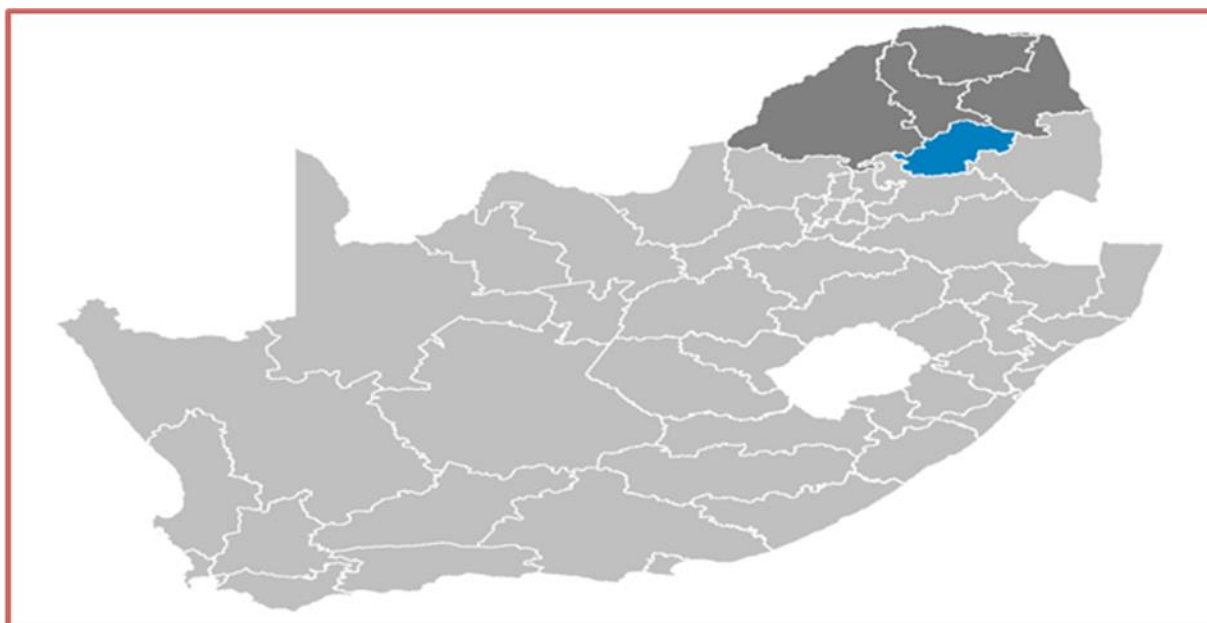
Authorization of functions to the Municipality

<b>FUNCTIONS</b>	<b>MAKHUDUTHAMAGA MUNICIPALITY</b>	<b>LOCAL</b>
1.Air pollution	No	
2.Building regulations	Yes	
3.Child care facilities	Yes	
4.Electricity reticulation	No	
5.Fire fighting	No	
6.Local tourism	Yes	
7.Municipal Airport	No	
8.Municipal Planning	Yes	
9.Municipal health Services	No	
10.Municipal Public transport	Yes	
11.Pontoons and ferries	No	
12.Storm water	Yes	
13.Trading regulations	Yes	
14.Water	No	
15.Beaches and amusement facilities	No	
16.Billboards and the display of advertisements in public places	Yes	
17.Cemeteries,funeral parlours and crematoria	Yes	
18.Cleansing	Yes	
19.Control of public nuisance	Yes	
20.Control of undertakings that sell liquor to the public	No	
21. Facilities for the accommodation, care and burial of animals	Yes	
22. Fencing and fences	Yes	
23.Licencing of dogs	Yes	
24.Licencing and control of undertakings that sell food to the public	Yes	
25. Local amenities	Yes	
26. Local sports facilities	Yes	
27. Markets	Yes	
28. Municipal abattoirs	Yes	
29. Municipal parks and recreation	Yes	
30.Municipal roads	Yes	
31.Noise pollution	Yes	
32.Pounds	Yes	
33. Public places	Yes	
34. Refuse removal, refuse dumps and Solid waste disposal	Yes	

35. Street trading	Yes
36. Street lighting	Yes
37. Vehicle licensing and registration	Yes
38. Learners and Drivers licensing	Yes

### 1.2.2 About Makhuduthamaga

Makhuduthamaga Local Municipality is one of the five local municipalities within the Sekhukhune District Municipality in the Limpopo Province. The municipality spans a total area of 2096, 55 km<sup>2</sup> (Makhuduthamaga Spatial Development Framework). According to Census 2001 Makhuduthamaga had a population of **262,904** and a population density of 113 km<sup>2</sup>, and a population of **285,879** and a density of 123 per km<sup>2</sup> in 2007. The projected population for the current year of **2010** is **287,598** and **300,206** for 2011 at a density of 129/km<sup>2</sup>.



**Figure 1: Location of Sekhukhune District in Municipality in the Limpopo Province**

The diagram above shows the location of Sekhukhune district Municipality within the Limpopo Province. Makhuduthamaga is located in the Sekhukhune district Municipality. The Municipality is also surrounded by four other local municipalities within the Sekhukhune districts.

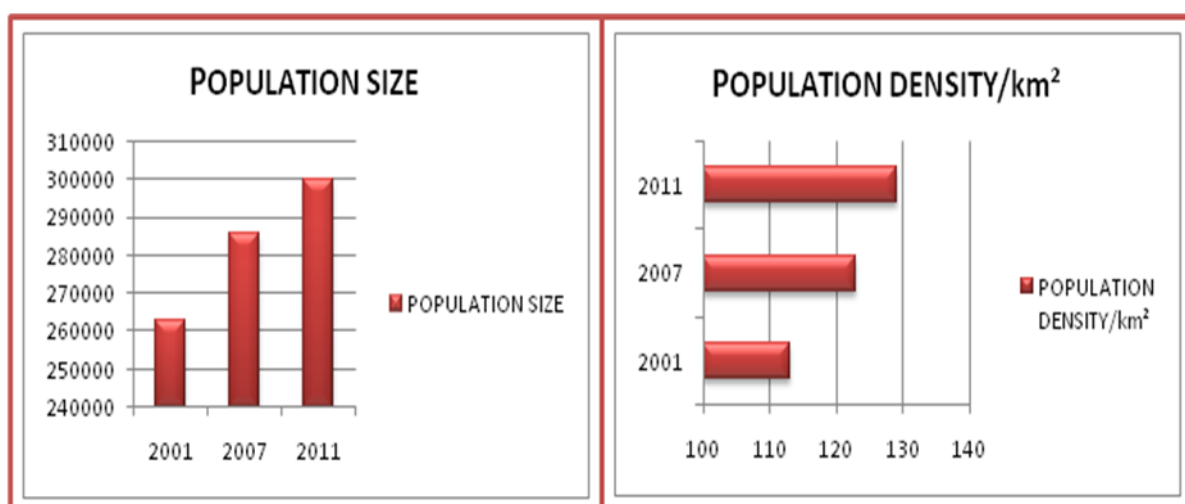


**Figure 2: Location of Makhuduthamaga Local Municipality Sekhukhune District in the Limpopo Province**

### 1.2.2.1 Makhuduthamaga Population Dynamics

The population of the Municipality is estimated to approximately **262 912** according to Census 2001 and is projected to grow to **300,206 by 2011**. This Municipality has a predominantly African population.

The expected population growth and population density, based on the Census 2001 population, is indicated below in table 4:



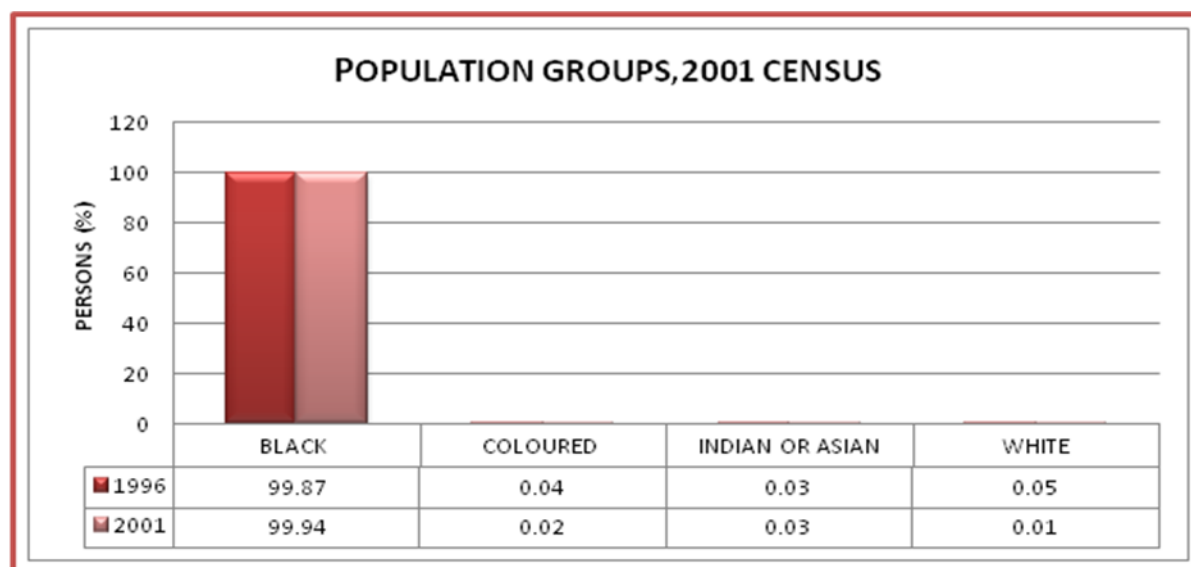
**Figure 3: Population Growth and Density Estimates- the Bureau for Market Research**

**Figure 3** above shows that the municipality has a steady increase in the population over the years. An escalation in the population increases the need for basic services such as



housing, electricity, water and roads to leverage economic growth and improve the standards of living.

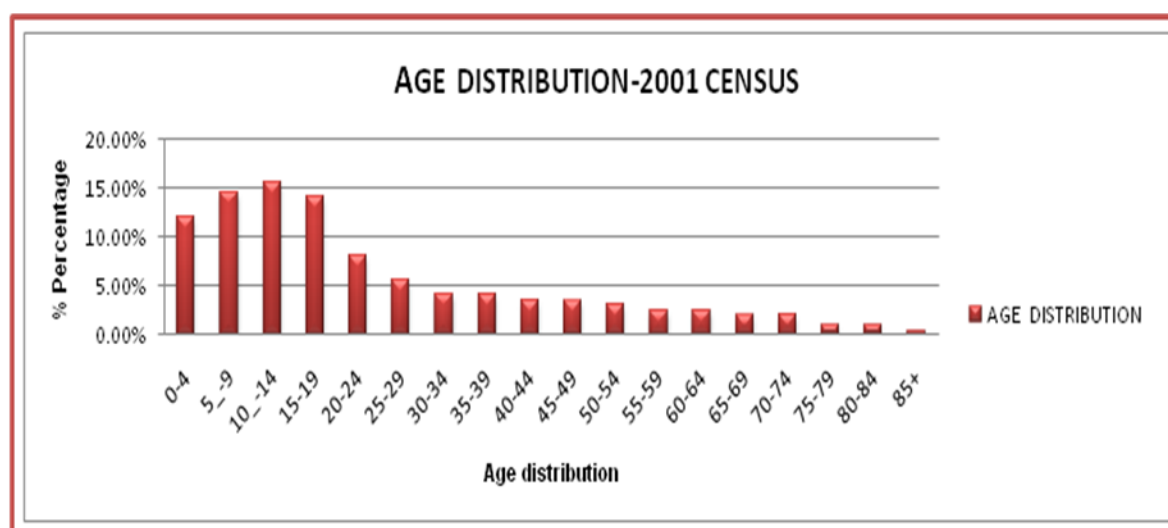
### 1.2.2.2 Population Groups



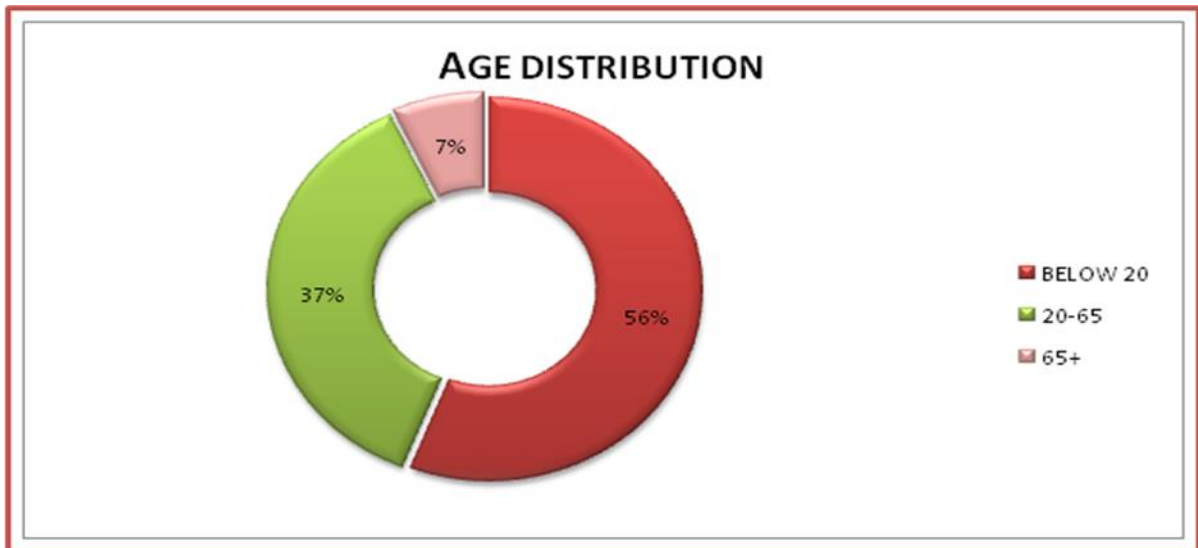
**Figure 4: Population Groups within the Municipality (community survey 2007)**

### 1.2.2.3 Age Distribution

The age structure of the Municipality's population is typical of that of other developing areas with the trademark characteristic of a pyramid shape. In **figure 5**, the population is classified into following three age groups from the age of 4 years to above 85 years:



**Figure 5: Age and Gender Distribution**



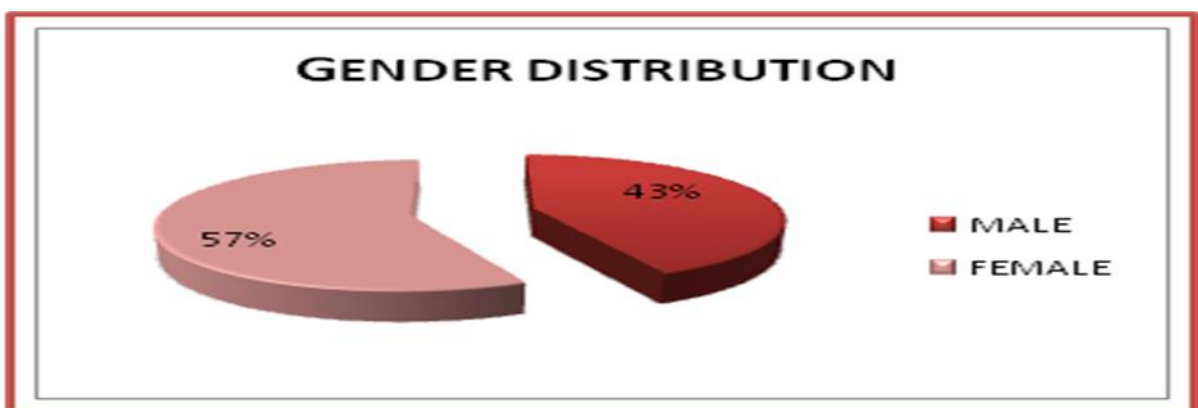
**Figure 6: Age Distribution**

The majority of the population falls in the 5- 19 years age bracket, which is also a reflection of the general national trend. The proportion of male population is higher in the 0-24 year's category. The age composition is an indicator that the Municipality will in the future experience increased demand in services supplying enough services for its population. This is largely due to the large number of the population in the ages of below 39, **figure 5**.

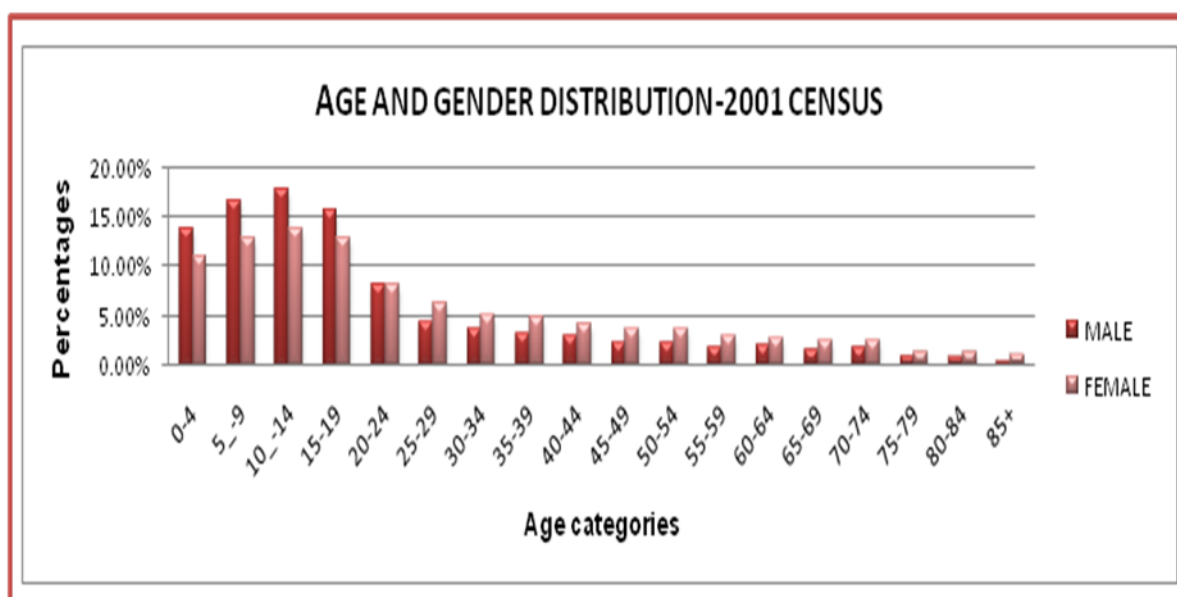
#### 1.2.2.4 Gender Distribution

Although much of the labour force is represented by males, the female population in the municipality is still higher than the male at 56.6% and 43.3% respectively, in the gender distribution. The main reason this, as is prevalent in most rural areas in the province, e.g. Gauteng is the migration of men to other provinces of higher economic activity in search of employment. The effect of the migration can be attributed to the high level of single parent households and ability to afford the provision of services.

The municipal proportion of females (+/- 52%) is marginally higher than that of males but significantly lower than the national average. Figure 7 compares the municipal gender ratio with the provincial and national ratios.



**Figure 7: Gender Distribution**



**Figure 8: Age and Gender Distribution**

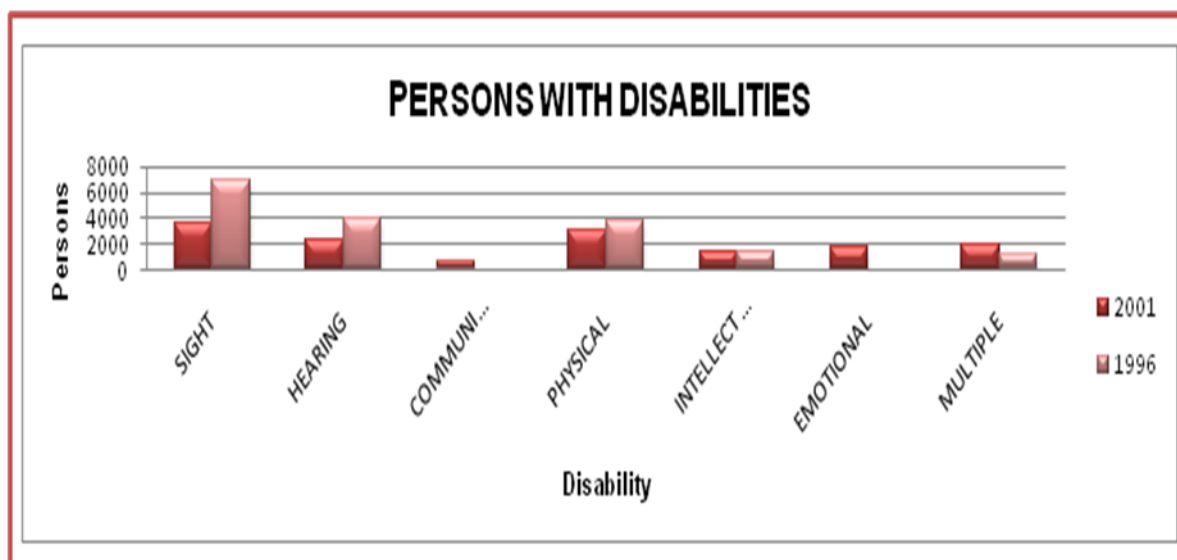
#### 1.2.2.5 Persons with Disabilities

The table below depicts the Persons with disability in the Municipality.

Persons	2001	1996
<b>Sight</b>	3609	6945
<b>Hearing</b>	2234	3940
<b>Communication</b>	562	-
<b>Physical</b>	3148	3852
<b>Intellectual</b>	1353	1359
<b>Emotional</b>	1702	-
<b>Multiple</b>	1898	1122

**Table 1: Persons with Disabilities in the Municipality- Statistics South Africa, 2001 (Updated 2007)**

Table 6 above demonstrate that there has been a significant decline in the numbers of cases of sight and hearing disabilities. The physical and intellectual disabilities have not shown any significant decrease since 1996. The reduction in the number of disability cases are normally attributed to effective implementation of primary health awareness programmes by provincial health department and other social services stakeholders.



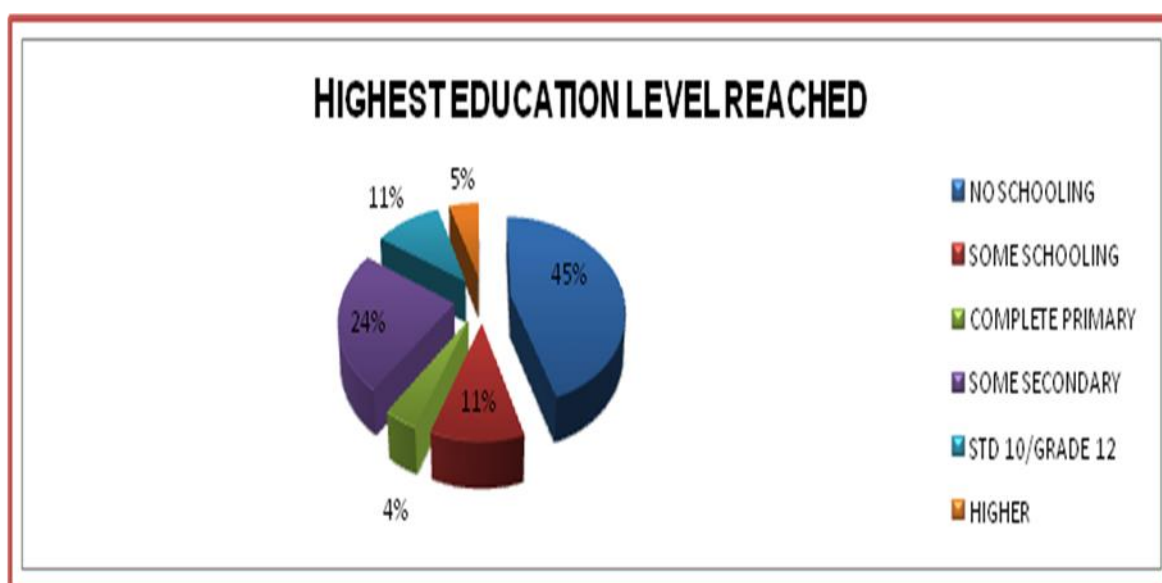
**Figure 9: Graphic Profile of Disabilities**

Some of the strategic implications of the municipal disabilities profile are the following;

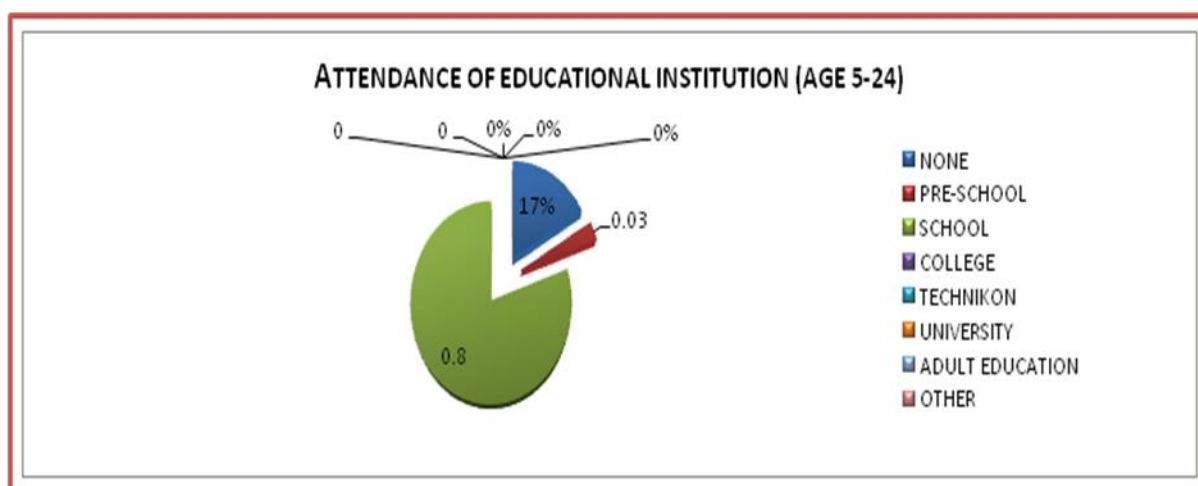
- Improvement and co-ordination of access to primary health care for all communities,
- Improvement and co-ordination of access to health education for all communities.

#### 1.2.2.6 Levels of Education

It is obvious from the pie chart below that the levels of education within the Municipality is generally low when a comparison is made between the numbers of persons with various categories of education and the total municipal population. Only 11% of the population has grade 12 schooling. This highlights the pressure on delivery of educational services, ranging from pre-school level to improvement of opportunities for tertiary education.



**Figure 10: Level of Education**



**Figure 11: Educational Institution**

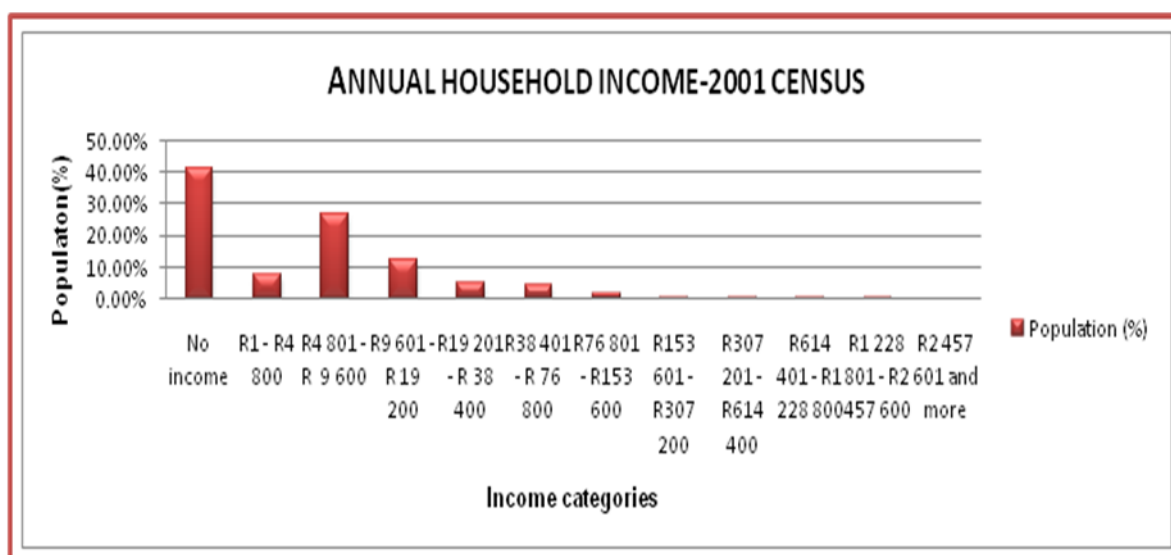
Figure 11 above highlights the need to give more attention to early childhood development and higher education.

#### 1.2.2.7 Income Distribution

The majority of households are very poor due to their low income which is constrained by the rural economy which is unable to provide individuals with remunerative jobs or self employment opportunities. An estimated 42% in persons in Makhuduthamaga have no income. The majority of the economically active people are employed in the service sector. This sector is dominated by the civil services in terms of the various departments that render services such as health, justice, local government, education, etc. **Table 6 and figure 12** below indicates the income categories within the Municipality.

ANNUAL HOUSEHOLD INCOME		
Income Categories	No.	Population (%)
No income	22525	41.56
R1 - R4 800	4197	7.74
R4 801 - R 9 600	14546	26.84
R9 601 - R 19 200	6781	12.51
R19 201 - R 38 400	2687	4.96
R38 401 - R 76 800	2346	4.33
R76 801 - R153 600	815	1.50
R153 601 - R307 200	186	0.34
R307 201 - R614 400	57	0.11
R614 401 - R1 228 800	18	0.03
R1 228 801 - R2 457 600	27	0.05
R2 457 601 and more	12	0.02
Total	54198	

**Table 2: Annual Household Income, Statistics South Africa, 2001 (Updated 2007)**



**Figure 12: Household Income**

The income profile of households within the Municipality has not shown a marked improvement since 1996. This situation can be explained in terms of broader national economic situation which has generally been characterized by high interest rates, high fuel price increases, etc. The number of households with no income has increased since 1996. It should be noted that most of the households with some form of income rely on social grants (pensions and disability grants).

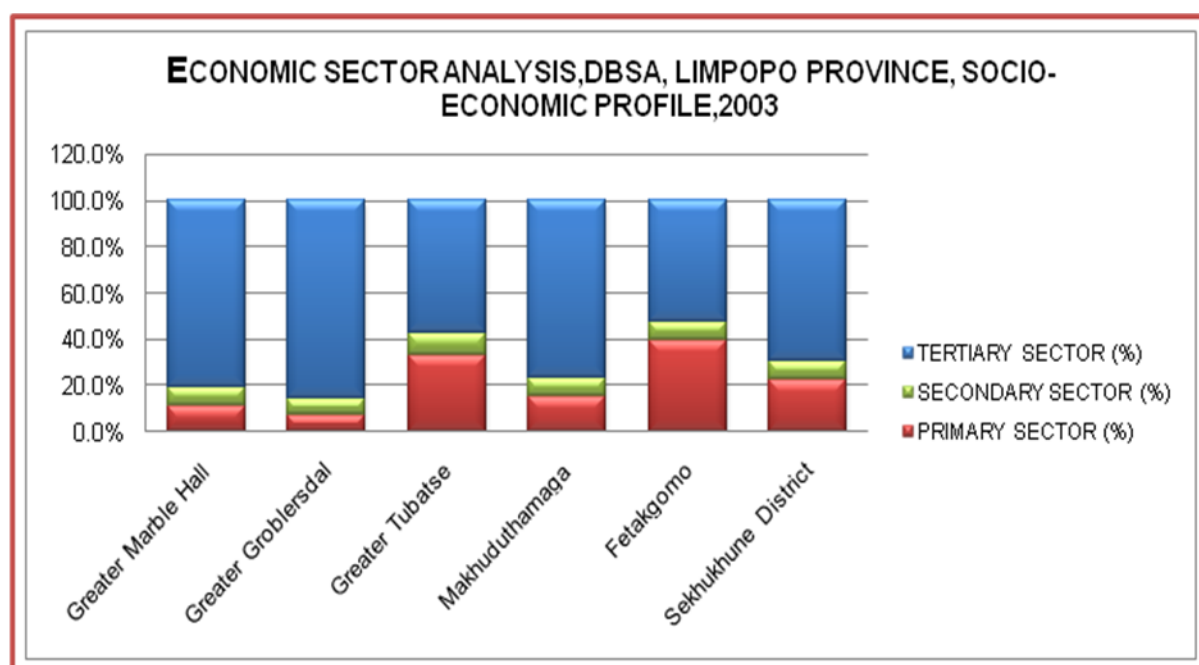
### 1.2.2.8 Economic Analysis

#### Regional and Sub regional Context

**Figure 13** below compares the various economic sectors in terms of economic production between the five local municipalities and district. **Table 8** provides an indication of economic indicators by comparing the five local municipalities. The primary and tertiary sectors are the main dominant sectors in the MLM which implies that MLM has a comparative advantage over Groblersdal and Marble Hall in terms of the share contribution of the primary sector (15%) and over Fetakgomo and Tubatse in the tertiary sector (76%).

	PRIMARY SECTOR (%)	SECONDARY SECTOR (%)	TERTIARY SECTOR (%)
Greater Marble Hall	10.9	8.0	81.1
Greater Groblersdal	7.2	6.8	86.0
Greater Tubatse	33.1	9.5	57.4
Makhuduthamaga	15.4	7.8	76.7
Fetakgomo	39.5	8.0	52.6
<b>Sekhukhune District</b>	<b>22.2</b>	<b>8.1</b>	<b>69.7</b>

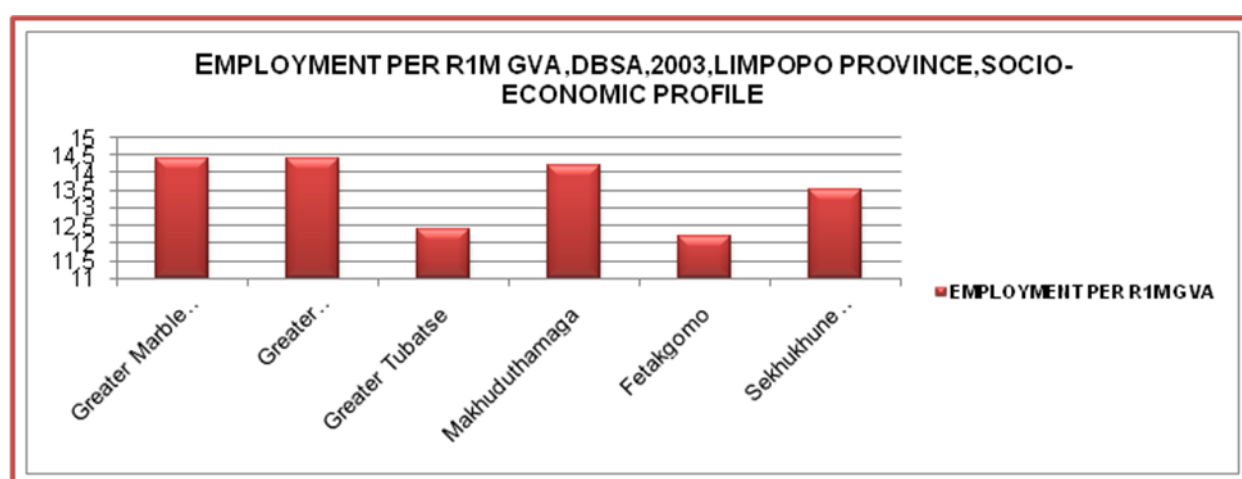
*Table 3: Source: DBSA, Limpopo Province Socio-Economic Profile, 2003*



*Figure 13: Economic analysis*

MUNICIPALITY	NOMINAL GROSS VALUE ADDED (R1000)	PRIMARY SECTOR AS % OF TOTAL	SECONDARY SECTOR AS % OF TOTAL	TERTIARY SECTOR AS % OF TOTAL	CONTRIBUTION OF MUNICIPALITY TO PROVINCIAL GVA (%)	AVERAGE ANNUAL GROWTH, 2000-2003 (%)	EMPLOYMENT PER R1M GVA
Greater Marble Hall	213,317	10.9	8.0	81.1	0.5	0.1	14.4
Greater Groblersdal	343,123	7.2	6.8	86.0	0.7	0.2	14.4
Greater Tubatse	612,080	33.1	9.5	57.4	1.3	5.4	12.4
Makhuduthamaga	943,469	15.4	7.8	76.7	2.1	1.8	14.2
Fetakgomo	417,521	39.5	8.0	52.6	0.9	6.6	12.2
<b>Sekhukhune District</b>	<b>2,529,510</b>	<b>46.5</b>	<b>8.1</b>	<b>69.7</b>	<b>5.5</b>	<b>3.0</b>	<b>13.5</b>

Employment per R1 million GVA is an indicator of the relative labour intensity of the production process involved. From **table 8** and **figure 14** above it is clear that MLM has the largest employment per R1 million Gross Value Added (GVA) in the tertiary sector. On average 17 people are employed in the Municipality to produce R1 million of gross value added, which puts MLM as the highest in the district.



**Figure 14: Employment per R1m GVA**

### 1.2.2.9 Employment Status

Employment status is a critical factor which gives an indication of the economic stability and financial well-being of the population within a Municipality. The main features in describing



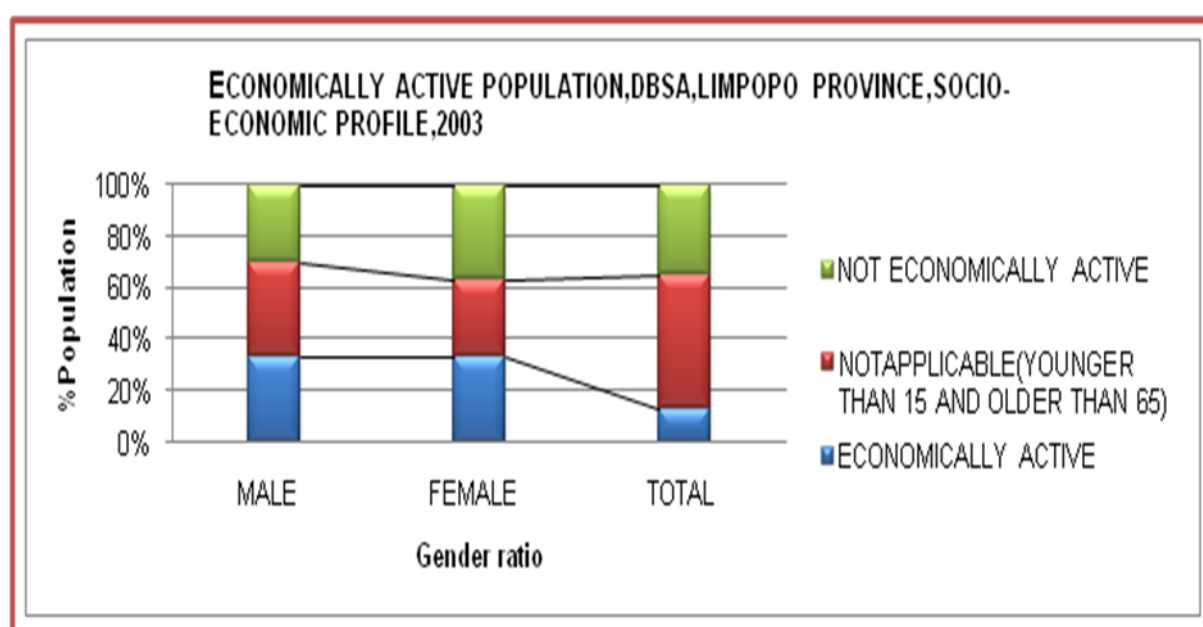
the employment status of the population are economic active population (employed and unemployed persons) and not economic active population. Statistics South Africa defines economically active population as all persons between the ages of 15 and 65 years who are working or are unemployed. The definition excludes people of working age who are not available for work due to age as pupils, aged or are unable to work due to their health status. An estimated 16% of the population in MLM is economically active with only 35% being uneconomically active. The majority (56%) of the economically active population are female.

Unemployed people are defined as those people who during the week prior to Census night did not have a job but were actively looking for work (either full time or part time) and were available to start work.

As at the 2001 Census, MLM had an unemployment rate of 75% and employment rate of 25% Figures 15 and figure 16 illustrate the level of unemployment and employment.

	MALE	MALE	FEMALE	FEMALE	TOTAL	TOTAL
Employed	5655	52.67	5080	47.32	10736	24.93
Unemployed	13121	40.59	19207	59.41	32329	75.07
Economically Active	18776	43.60	24287	56.40	43065	16.38
Not applicable (younger than 15 and older than 65)	60054	47.42	66575	52.57	126630	48.17
Not Economically Active	35155	37.72	58053	62.28	93208	35.45
Total	113985		148915		262903	

*Table 4: Economically Active Population by Gender*



*Figure 15: Gender Ratio*

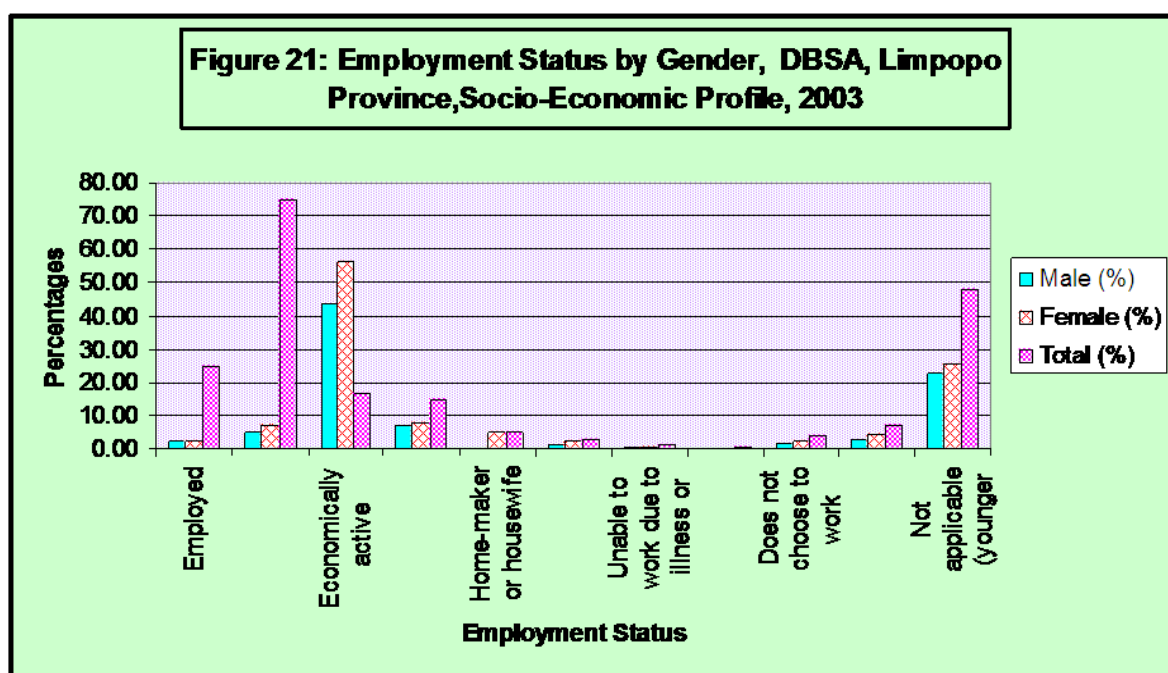


Figure 16: Employment Status

#### 1.2.2.10 Economic Sector Analysis

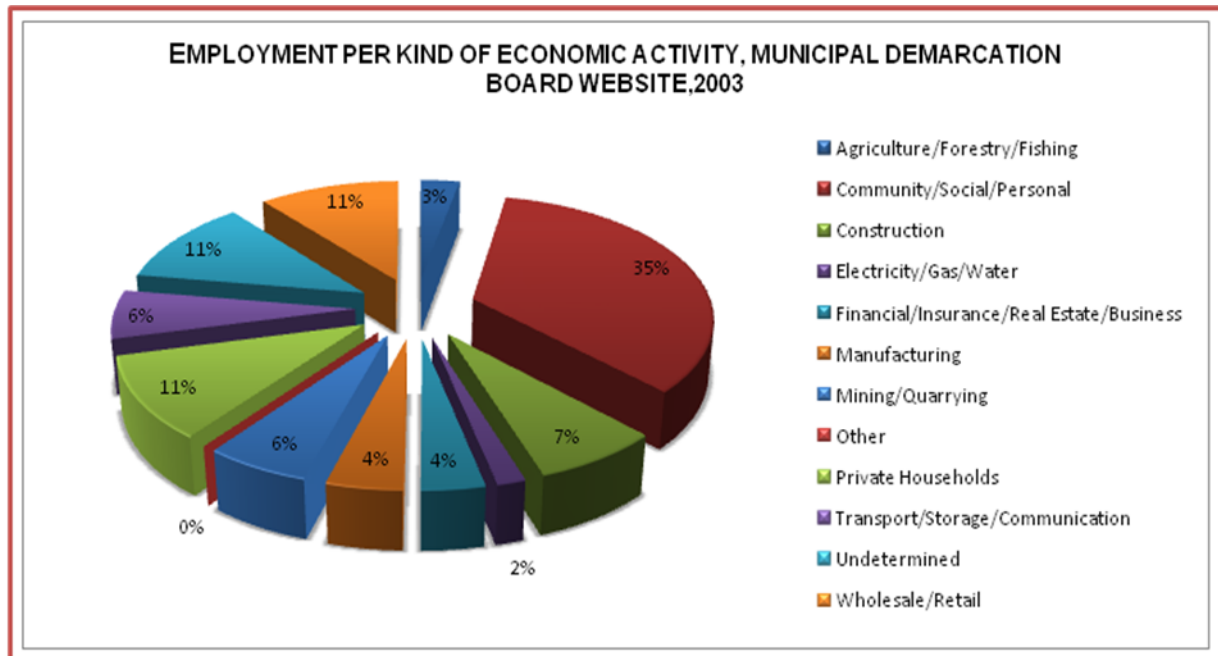
##### Economic Contribution and Job Creation

**Table 10** and **figure 17** indicates the total labour force of formally employed people per economic activity in the study area. It is clear that most people (35%) in 2001 were employed in the community, social and personal services. The ensuing sections provide an outline of each economic sector.

ACTIVITY	POPULATION	POPULATION (%)	POPULATION	POPULATION (%)
	2001	2001	1996	1996
Agriculture/Forestry/Fishing	235	2.19	423	3.07
Community/Social/Personal	4987	46.42	4749	34.51
Construction	563	5.24	1008	7.32
Electricity/Gas/Water	148	1.38	224	1.63
Financial/Insurance/Real Estate/Business	356	3.31	495	3.60
Manufacturing	394	3.67	593	4.31
Mining/Quarrying	147	1.37	819	5.95
Other	0	0.00	0	
Private Households	958	8.92	1476	10.73
Transport/Storage/Communication	502	4.67	879	6.39

Undetermined	896	8.34	1580	11.48
Wholesale/Retail	1558	14.50	1516	11.02
<b>Total</b>	<b>10744</b>	<b>100.00</b>	<b>13762</b>	<b>100.00</b>

*Table 5: Source: Municipal Demarcation Board Website, 2003*



*Figure 17: Employment per Economic Activity*

#### 1.2.2.11 Agriculture, Forestry and Fishing

The sector represents only 2% of all formal sector employment opportunities throughout the Municipality, which is a little less than expected what with the municipality being largely rural. Forestry and fishing activities are not practised in the municipality, and therefore the main contributing activity in this sector is agriculture. Agriculture is the main formal contributor to the economy of the Municipality albeit at very limited scale. There was a slight decline in terms of the contribution of this sector from 1986 to 2001.

#### 1.2.2.12 Construction

The construction sector plays a very limited role in the Municipality's economy. The number of formal sector opportunities in this sector within the Municipality declined from about 7% to 5% between 1986 and 2001.

#### 1.2.2.13 Electricity, Gas and Water

The electricity, gas and water sector plays a very limited role in the economy of the Municipality including the percentage of formal employment opportunities which declined from about 2% in 1986 to less than 1% in 2001.

#### **1.2.2.14 Transportation, Storage and Communication**

As with other many other sectors, the transportation, storage and communication sector plays a limited role towards the GGP of the Municipality. The number of formal sector employment opportunities in this sector within the Municipality declined from about 6% to 5% between 1986 and 2001.

#### **1.2.2.15 Manufacturing**

The manufacturing sector contributes a relatively higher percentage of the total economic production in the Municipality. The number of formal sector employment opportunities in this sector within the Municipality declined from about 4.3% to 3.6% between 1986 and 2001.

#### **1.2.2.16 Wholesale and Retail**

The wholesale and retail sector contributes relatively higher percentage of the total economic production in the Municipality. There has been an improvement between 1986 and 2001 with about 11% employment opportunities to about 15% respectively.

#### **1.2.2.17 Private Households**

The private households play some role in the economy of the Municipality. This sector experienced a significant decline in terms of employment formal employment opportunities which declined from about 11% in 1986 to less than 9% in 2001.

#### **1.2.2.18 Financial, Insurance, Real Estate and Business**

The financial, insurance, real estate and business sector contributes very little towards the total economic production in the Municipality. There has been an improvement between 1986 and 2001 with about 4% employment opportunities to about 3% respectively.

#### **1.2.2.19 Community, Social and Personal**

The community, social and personal sector is the largest contributor towards the total economic production of the Municipality. This sector experienced a significant increase in terms of employment opportunities between 1986 and 2001 with about 35% employment opportunities to about 46% respectively.

#### **1.2.2.20 Key Economic Sector Conditions**

The GSDM is in the process of formulating a 20 year development strategy and has conducted some research into the key economic sectors of the municipal area, namely agriculture, mining and tourism. The outcome of this research is contained in a Synthesis

Report of which the following is extract of issues that may be relevant to Makhuduthamaga Municipality.

#### **1.2.2.21 Agriculture**

**Water** – Despite potential for agricultural production, not all this potential can be realized due a general lack of water. Ecological reserves from dammed rivers have become affected and the non maintenance of annual flow of the Olifants River is impacting negatively on small scale irrigation farming along the banks of the river. Rainfall is variable/unpredictable which makes the cultivation of dryland crops highly risky.

**Land** – There is good arable land throughout the district but with restricting factors such as lack of full ownership of land which has an effect on ability to raise capital for farming purposes. It also has a negative impact on conservation due to over utilization and unsustainable practices.

**Support Services** – This is a major problem for developing agriculture. Many government assisted schemes from the previous dispensation has come to a standstill when support was withdrawn.

**Infrastructure and enabling environment** – The District generally has adequate infrastructure to support agriculture, although water remains a huge challenge to fully maximise agricultural potential. Makhuduthamaga is however not exceptional in this regard. The creation of a suitable environment to attract industrialists, especially for processing and value adding of primary agricultural products will be required to help realize the full potential of the resources in the area.

**Disparity in agriculture** – An inherited legacy is the disparity in agriculture with a huge gap between commercial and subsistence/small scale farming. Attention needs to be given to institutional restructuring and incentives.

**Commercial farming** - Large scale commercial agricultural production mostly occurs in the southern and eastern areas of the GSDM and occurs mostly on privately owned land. Agriculture has generally been under pressure the past five to ten years. However the economic contribution and job creation Municipality of agriculture in the District is significant. There is trend towards an increase in establishing permanent crops.

**Developing agriculture** – The majority of farmers (70%) in Sekhukhune are subsistence farmers (mostly extensive cropping and live stock). The potential of the area can be illustrated by the extent of production that was maintained by the Farmer Support Programmes of the mid 90's (40,000ha cultivated). Makhuduthamaga has a higher livestock potential if commercial can be given a focused attention.

**Competitive advantage** – The District has a competitive advantage in a number of crops such a table grapes, citrus and vegetable processing. An effective method of maintaining this competitive advantage is to create a market for products locally, especially primary

products, for processing or value-adding. This forms the basis for cluster development and value chains.

#### **General agricultural trends –**

- ❖ Agriculture is under increasing financial pressure
- ❖ Farm management and productivity has had to increase significantly
- ❖ The youth is not keen to become involved in the industry
- ❖ Movement away from labour intensive production
- ❖ Movement to perennial crops
- ❖ Production for niche markets
- ❖ Here is still a serious lack of access to support services due to Municipality problems in the public sector and historical constraints linked with the private sector.

#### **1.2.2.22 Irrigation schemes to be revitalized in the Makhuduthamaga Area:**

<b>NO</b>	<b>SCHEME</b>	<b>NO OF FARMERS</b>	<b>SIZE (HA)</b>
1	De Paarl	54	66
2	Gataan	129	155
3	Goedverwacht	75	90
4	Hakdoorndraai	84	102
5	Hindustan	43	52
6	Nooitgesien	91	110
7	Veeplaas	385	463
8	Vlakplaas	62	74
	<b>Total</b>	<b>923</b>	<b>1112</b>

*Table 6: Irrigation Schemes in the Makhuduthamaga Area*

#### **1.2.2.23 Projects with potential**

##### **Bio-fuels**

- Local government is linked into initiatives underway to develop the biofuel industry in the district. A major programme by Limpopo Department of Agriculture, funded by LIBSA, is being established at Tompi Seleka. This creates opportunities in

backwards linkages in the industry, especially the production of raw materials by emerging farmers through farmer support and other development programmes.

### **Dryland FSP**

- Indications are that, at this stage, a dryland support programme for emerging farmers would be a viable option and welcomed by the broader Sekhukhune Community
- Local government commitment towards this, in terms of personnel, but especially resources would be a cornerstone in this revival. Pilot FSP's in Polokwane in Makhuduthamaga and Atok/Mecklenburg in Fetakgomo would be low risk but attract enough attention after the first season or two to justify the expansion of the initiative.
- Dependant on the success of the initiative, Local Government could also expand this programme and extend support services to the hundreds of community projects throughout the district which are in various stages of implementation and operation. Most of these projects have collapsed or are operating below expectation. Project support services which would have an impact on these projects would typically be along the following:
  - Address infrastructure and physical scheme constraints
  - Facilitate access to inputs – advice, production inputs, mechanization, private sector support etc.
  - Improve Municipality – build on skills in institutional structuring, technical and managerial ability, together with Department of Agriculture
  - Address marketing problems – improve access to markets, better co-ordination of production (timing and volumes), transport and logistics, production contracts etc.

### **Livestock FSP – Cattle**

- Indications are that, at this stage, a livestock support programme for emerging farmers would be a viable option, and welcomed by the broader Sekhukhune Community. Makhuduthamaga stands a shoulder higher than other municipalities in the district.
- With sufficient start up funding one or two initiatives could be launched immediately in progressive communities in Makhuduthamaga, Fetakgomo, or Tubatse. At least one initiative should be in a communal area on communal land.

### **Livestock FSP – Goats**

- Indications are that, at this stage, a goat production programme for commercial and emerging farmers would be a viable option, and welcomed by the broader Sekhukhune Community.
- A number of initiatives are already underway to establish pilot projects which could lead to the roll out of a broader goat programme.
- Makhuduthamaga could make a meaningful contribution to ensure the success of the current goat production initiatives underway. The allocation of additional resources

would lower the risk of failure and accelerate the outcomes which could then be replicated in similar circumstances.

### **Feed Manufacture**

- There is enough evidence at this stage to suggest that a feed production facility warrants further investigation. The scale of demand in the district suggests that some investigation take place into taking advantage of the value chain upstream of livestock production, along the value chain. This would not only be in line with BEE and cluster development strategies, but it could also serve to bring the communal/small-scale and commercial livestock sectors closer together through creation of common interest and support.

### **Feedlots**

- There is enough evidence at this stage to suggest that additional feedlot facilities would be a viable option. The involvement of the communal and small-scale farmers is a challenge with undisputed rewards if successful. It falls directly within the cluster development approach and is assumed to have the acceptance of the broader Sekhukhune Community.

### **Abattoir**

- There is enough evidence at this stage to suggest that additional red meat processing facilities would be a viable option. The involvement for the communal and small-scale farmers is a challenge with undisputed rewards if successful. The initiative has both an important BEE component and falls directly within the cluster development approach and is therefore assumed to have the acceptance of the broader Sekhukhune Community.

## **1.2.2.24 Tourism Sector**

### **Cultural villages**

The Gamamo cultural resort located near the Piet Gous Dam offers tourist insight into the Bapedi culture complete with the traditional clay huts, revamped regularly with cattle dung and thatched roofs.

The Mabhedla cultural village is a sight to behold for any tourist on the Swazi culture. It features the huts structured like bird nests and the fascination of different soil types and their uses by the locals, more especially the white soil used as paint for clay huts.



## **Heritage**

Thlako Tisane nature reserve is a must see location that attract many nature lovers with its botanical sites and Bushmen rock art.

Manche Masemola gravesite is another site that brings an influx of tourists on their annual commemoration pilgrimage on the first Sunday of August.

The rain making pots are the tourist wonders of Makhuduthamaga, attracting the curios and non-believers locally and internationally. The virgins fetch water from the sacred pools and the sands to the elders who put it in special pots with muti to form condensation, which will result in rain.

Also of attraction to both locals and other close communities are the cultural dances that feature the Kiba music and the various archaeological sites and caves that were used as fortification sites, a reflection of the lengths a man would go to protect his rights.

### **1.2.2.25 Cross-Cutting Issues**

Cross-Cutting Issues refer to those issues, which require a multi-sectoral, mainstreaming response and thus need to be integrated and entrenched into all Municipality's core functions both internally as an employer and externally as a service provider/and income generator. The issues are called crosscutting because they can't be taken as isolated issues, because they affect all other sectors. If these issues are not tackled, the successes in other sectors will be very limited. Supporting these activities is essential for poverty reduction. The Municipality has identified the following "cross-cutting issues".

- HIV/AIDS
- Local Agenda 21
- Health
- Poverty
- Gender
- Disability
- Older Persons
- Youth & Children

### **Local Agenda 21**

At the Rio Earth Summit in 1992, the United Nations agreed that the best starting point for the achievement of sustainable development is at the local level. In fact, two thirds of the 2500 action items of Agenda 21 relate to local councils. Each local authority has had to draw up its own Local Agenda 21 (LA21) strategy following discussion with its citizens about what they think is important for the area. The principle of sustainable development must form a central part of the strategy. LA21 regards sustainable development as a community issue, involving all sections of society, including community groups, businesses and ethnic

minorities. Involvement of the whole society will give everyone the opportunity to participate and will generate a resource of enthusiasm, talent and expertise, which is vital to achieve sustainable development. Many local authorities have begun schemes of co-operation to allow them to exchange ideas about sustainable development. Groups of local authorities can join together to give themselves a louder voice to influence large companies.

LA21 follows the principles of sustainable development and the goal of ensuring a better quality of life for everyone, both now and in the future. Like Agenda 21, it focuses on an economic, social and environmental agenda, and develops solutions to problems through encouraging better, more efficient practices. It realizes that sustainable development is achievable, without sacrificing the quality of our lives. However, sustainable development can only be achieved if we learn to think more sustainably and adopt more sustainable behavior.

## **HIV/AIDS**

The HIV and AIDS epidemic in South Africa is one of the most severe in the world. There are currently approximately 6 million people living with HIV and AIDS in Southern Africa. It is expected that HIV/AIDS will have a significant impact on the South African society. Approximately 34% of the South African population is already infected with the HI Virus which causes AIDS, implying that approximately 4 million people are currently affected. This number is expected to grow to 6 million in less than ten (10) years (DBSA, 2000). HIV has also lead to an explosion of HIV related diseases, such as tuberculoses and malaria.

The following projected impacts of AIDS are particularly noteworthy:

- ❖ Life expectancy is expected to decline from approximately 60 years average to about 40 years average within the next eight (8) years;
- ❖ Women are more vulnerable to infection than men;
- ❖ Most of the people who die from the disease are in the age group between 25 and 40. This is also the economically active age bracket, implying that the market loses trained people with experience who are able to work. It is expected that South Africa could lose 20% of its workforce in the next seven (7) years;
- ❖ HIV/AIDS has a significant impact on productivity, especially in the second phase of infection where people suffer from AIDS related diseases, reducing productivity to between 80% and 50% of the normal level for mine workers. The loss of productivity will have a negative impact on the entire economy, with some sectors such as mining and transport being among the worst affected;
- ❖ The loss of physical and mental Municipality to perform work, particularly physically straining work such as cane or timber cutting would have a severe impact on performance, productivity and on the entire economy;
- ❖ One anticipated impact on the building industry is the decline in demand for affordable housing by as much as 55% over the next five (5) years;
- ❖ The cost of health care is expected to rise dramatically, with a severe strain on health resources;

- ❖ HIV/AIDS affects the breadwinners in the family (one or both), resulting in a society with a large number of orphans. As many as 2 million people are expected to be orphaned by 2010 because of AIDS;
- ❖ The cost of funerals would have a high bearing on household expenditure, particularly in poor families;
- ❖ An increase in the number of dependants (children and the aged) in a household with a decrease in the number of breadwinners, resulting in an increase in dependency, poverty, crime, street children and orphans;
- ❖ Polarization at both ends of the income spectrum;

AIDS therefore has a direct bearing on planning and allocation of resources. Although the imminent need for basic services and housing is not denied, AIDS necessitates a shift towards Social Development and expenditure on health and welfare. It also requires a proactive approach in terms of AIDS education, training and skills development programmes for the youth, nutritional programmes and basic health care. This shift in focus should also be reflected in the Municipality's allocation of financial and human resources as well as projects and programmes. No specific HIV/AIDS figures are available for Makhuduthamaga Local Municipality.

## **Health Services**

Provision of health services within Makhuduthamaga is not satisfactory. This view derives from generally low levels of services combined with poor health infrastructure. Makhuduthamaga is not authorised to provide health services. The municipality relies primarily on the district health services and the sector departments.

## **Poverty**

The high levels of poverty are apparent in the statistics from Census 2001 where approximately 7.74% of households have an income of less than R1500 per month (the household subsistence level) and 28% of all households have R0 income. Poverty alleviation is a central issue for Makhuduthamaga Local Municipality and is addressed, within the available resources, through various IDP programmes and projects. Examples of these include the Municipality LED programme, the provision of free basic services to qualifying households.

## **Gender**

The Employment Equity Act (55 of 1998) addresses the legacy of discrimination in relation to race, gender and disability. The Act is intended to ensure that workplaces are free of discrimination and that employers take active steps to promote employment equity. The municipality has developed a 2007-2012 Employment Equity Plan.

Gender inequalities still exist in the social, economic, physical and institutional environment of Makhuduthamaga Municipality. The negative impact of these inequalities is chiefly borne by women whereby women constitute 53% of the population (Census 2001), yet there is poor representation of women in community structures;

- Violence against women;
- Women are more vulnerable to HIV/AIDS;
- Women are generally poorer with less access to resources.

In response to the challenges of gender mainstreaming, Makhuduthamaga has developed gender empowerment policy to target the vulnerable rural women and other aspirant women entrepreneurs in order to bring them in the main streams of the economy.

## **Disability**

The Municipality has, According to Census 2001; approximately 5.5% of population is living with disabilities. There is a lack of sensitivity to the needs of those living with disabilities due to the fact that there is a lack of care facilities for persons living with disabilities, especially children, access to public buildings and education facilities is limited, as is the general access in streets.

In terms of Employment Equity Act (55 of 1998) Chapter 3, employers are mandated to take certain affirmative action measures to achieve employment equity. Such equity also includes the needs of People Living with Disabilities. To address this, the Municipality will through the Employment Equity Plan make sure that we achieve equity in the workplace, making the municipal workforce more representative and ensuring fair and equitable employment practices for all employees.

Makhuduthamaga has developed a policy for disabled persons in order to place their needs and aspirations on par.

## **Older Persons**

Approximately 7% of Makhuduthamaga Municipality's population is 60 years and older (Census 2001). There is generally insufficient sensitivity and awareness of the needs of older persons. The Municipality aims to monitor the development and implementation of its policies so as to, where appropriate, support sensitivity to the needs of older persons.

## **Youth & Children**

According to Census 2001, approximately 72% of Makhuduthamaga Municipality's population can be categorized as either children 41% (0-14 yrs) or youth 31% (15-34 yrs). This group is the most vulnerable and is greatly affected by the social ills ravaging our society. Many children in Municipality are subject to child abuse and foetal alcohol syndrome

(5% of children in the country are affected, which is the highest rate in the world). There is at present a lack of child-care facilities, especially for handicapped and disabled children, and the standard of some day-care centers, especially in disadvantaged areas, is poor.

Makhuduthamaga is experiencing a number of youth-related problems, namely HIV and AIDS; gangsterism, vandalism and crime; teenage pregnancy; alcohol and substance abuse; and the non-completion of schooling.

Makhuduthamaga has developed a youth development policy in order to respond adequately to the needs of the young women and men who form larger segment of the population.

## 1.3 Service Delivery Overview

### 5. INFRASTRUCTURE AND BASIC SERVICES ANALYSIS

#### 5.1 Housing

Whereas the delivery of housing is the prerogative of the Department of Local Government and Housing, the municipality performs a central role in identifying the beneficiaries. All the housing stock is located within a rural setting made up of traditional authority settlements. The character of the area is viewed as rural even where some form of settlement formalisation processes has been implemented.

Makhuduthamaga Local municipality housing backlog is 13,258 which is 22% of the population.

Source: Municipal IDP Housing Chapter

#### 5.2. Water

*The municipality is neither a WSA nor WSP thus we are not responsible for water issues. An estimated 72 % (59128 households) of the population of Makhuduthamaga Municipality does not meet the RDP level of water supply. An estimated 28% (11760 households) of the population meets the minimum RDP standard or better.*

An estimated 16% of the population is within 0 - 200 meters from a water supply point. There have been significant improvements in the provision of basic water in the last four years where the proportion of the population relying on natural sources for water has declined significantly in contrast with the figures on table and figure below. The situation still requires intensive intervention.

According to the 2007 Sekhukhune Profile Makhuduthamaga has 683 households having water in house, 8441 in the yard and 8713 communal taps.

Makhuduthamaga Local municipality water supply breakdown:

Makhuduthamaga	Households	Backlog	% Backlog
	59 428	38 034	64%

#### MAIN LEVELS OF WATER SUPPLY

Water Supply Type	No.	%
Piped water inside dwelling	495	1%
Piped water inside yard	5,218	10%
Piped water on community stand: distance less than 200m from dwelling	8,703	16%

<i>Piped water on community stand: distance greater than 200m from dwelling</i>	9,952	19%
<i>Borehole</i>	4,006	8%
<i>Spring</i>	1,925	4%
<i>Rain-water tank</i>	428	1%
<i>Dam/pool/stagnant water</i>	4,220	8%
<i>River/stream</i>	15,894	30%
<i>Water vendor</i>	327	1%
<i>Other</i>	1,989	4%
<i>Total</i>	53,157	100%

Source: Statistics South Africa, 2001 (Updated)

*Makhuduthamaga Local Municipality receives water from the following water supply schemes:*

*Household Services 2007*

<i>Water Supply Type</i>	<i>No.</i>	<i>%</i>
<i>Piped water inside the dwelling</i>	2,578	4.8%
<i>Piped water inside the yard</i>	4,004	7.5%
<i>Piped water from access point outside the yard</i>	26,509	49.4%
<i>Borehole</i>	2,986	5.6%
<i>Spring</i>	1,402	2.6%
<i>Dam/pool</i>	2,030	3.8%
<i>River/stream</i>	11,933	22.2%
<i>Water vendor</i>	897	1.7%
<i>Rain water tank</i>	843	1.6%
<i>Other</i>	473	0.8%

<i>Total</i>	<i>53, 654</i>	<i>100%</i>
--------------	----------------	-------------

- *Arabie / Flag Boshielo RWS Central*
- *Arabie / Flag Boshielo RWS East Group 1*
- *Arabie / Flag Boshielo RWS East Group 2*
- *De Hoop Group 2 Upper Ngwaritsi*
- *De Hoop Group 3 Vergelegen Dam – Jane Furse*
- *De Hoop Group 4 Middle Ngwaritsi*
- *De Hoop Group 6 Nkadimeng*
- *De Hoop Group 7 Schonoord Ratau*
- *De Hoop Group 8 Mampuru*
- *De Hoop Group 9 Spitskop Ngwaritsi*
- *De Hoop Group 10 Mahlangu*
- *Leolo Local Sources and*
- *Piet Gouws*

### **5.3 Sanitation**

An estimated 70% (2001 Census) of the population within the municipality make use of pit latrines for sanitation as compared to 78% in 1996 (table and figure below). Since 1996 there has been an increase in the use of better forms of sanitation like VIPs, flush toilets and chemical toilets. The use of pit latrines pose serious health hazard especially in areas where people depend on underground water. The percentage of the population with no access to sanitation has declined from 19% to 16%. (Census, 2001)

The backlog on sanitation is at 39 457 for Makhuduthamaga according to Sekhukhune District Municipality.

### **5.4. Electricity**

*The municipality is not licensed to supply electricity. All electrification projects that are implemented by the municipality are ceded to Eskom for operation and maintenance. The municipality with the assistance of Eskom and GSDM has managed to electrify a total of 46 266 households. At present the municipality is having a backlog of 7387 households excluding post connections.*

### **5.6 Roads and Storm water Drainage**

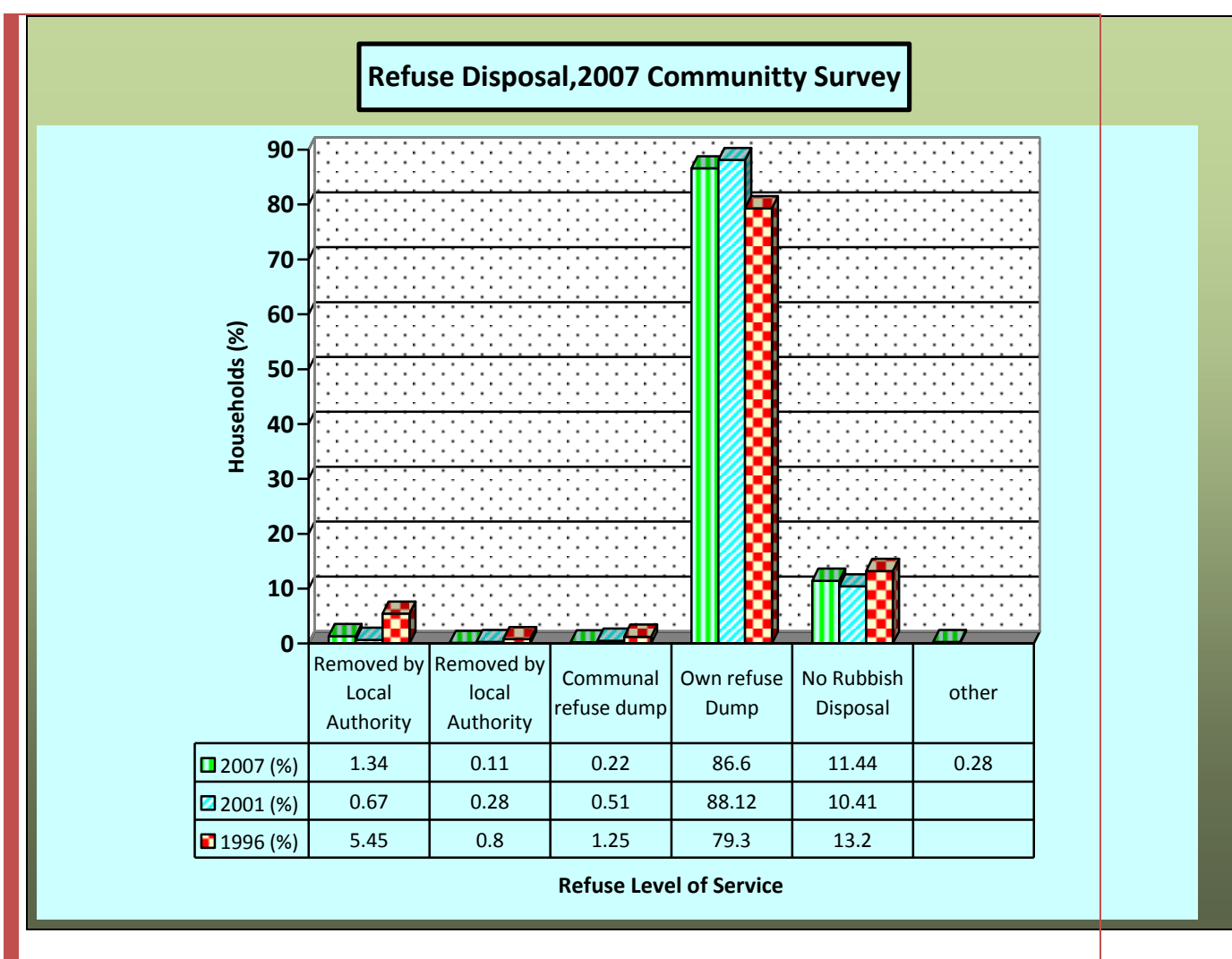
There are several Provincial and District Roads in the MLM. The local access roads are gravel and predominantly utilised by buses and taxis. The condition of these roads is below standard. They require upgrading and improved storm water management. The Local Municipality identifies road maintenance and upgrade projects at random in consultation with the communities and Ward Councillors.



Makhuduthamaga Local Municipality as local municipality is responsible for the maintenance of all the internal roads in the residential areas and villages. These internal roads do not have specific road numbers, and must be addressed in future by the Road Master Plan (District or Municipal).

### 5.7 Waste and Refuse Removal

There is partial formal refuse removal service rendered by Provincial Government on behalf of the municipality. The majority (88%) of the population utilize their own dumps for this purpose. These dumps are usually located within the individual household property (see table and figure below).



Source: Refuse Disposal, Community Survey 2007

## CHAPTER 2 - GOVERNANCE

### POLITICAL AND ADMINISTRATIVE GOVERNANCE

Makhuduthamaga Municipality as established under the Municipal Structures Act has adopted a collective Mayoral System with the Mayor being the head of the Executive Committee. The Council has a Speaker who chairs Council. The Executive Committee is constituted by 10 members. The Council comprises of **61 councillors** composed of 31 ward councillors and 30 proportional representative councillors. In terms of Section 151(3) of the Constitution, the council of a municipality has the right to govern on its own initiative, the local government affairs of the local municipality. The traditional leaders within the municipality are also represented by **12 traditional leaders** who were elected by the traditional leaders themselves.

#### 2.1 POLITICAL GOVERNANCE

In terms of Section 52(a) of the Municipal Finance Management Act, the Mayor must provide general guidance over the fiscal and financial affairs of the municipality.

##### Ward Committees

The Municipality comprises of **31 demarcated wards**. To give effect to the democratic tenets for governance, Council has established 31 ward committees in terms of section 72-78 of the Municipal Structures Act (117 of 1998). These committees are chaired by their respective ward councillors and each has ten elected members represented on the committee. Although Ward Committees have no formal powers, they are consultative community structures. This means that they are meant to broaden participation in the democratic process of Council and to assist the Ward Councillor with organizing public meetings, disseminating information, and encouraging participation from residents in the ward. Ward Committees meet on a monthly basis to discuss ward issues.

##### Standing Committees

Section 79 and 80 of the Municipal Structures Act (117 of 1998) and Section 160 of the Constitution of the Republic of South Africa (1996)

In terms of section 79 and 80 of the Municipal Structures Act (117 of 1998), as well as Section 160 of the Constitution of the Republic of South Africa (1996), standing municipal committees have been established to assist the work of the Mayor. Council aligned the political and administrative structures of Makhuduthamaga Municipality by aligning the standing committees with the new organizational structures and creating both operational and strategic standing committees. The following operational and strategic committees were created for Makhuduthamaga Municipality:

## OPERATIONAL STANDING COMMITTEES

<b>Corporate Services</b> <b>LED</b> <b>Infrastructure</b>	<b>Planning</b> <b>Finance and Budget</b> <b>Community Services</b>
--	---

*Table 7: Operational standing committees*

### Oversight Committee

Makhuduthamaga Municipality Council established an Oversight Committee in terms of section 129 of the Municipal Finance Management Act (56 of 2003). The Council established the Committee under section 33 and section 79 of the Municipal Structures Act (117 of 1998) to consider the Makhuduthamaga Municipality Annual Reports for the financial year 2010/2011. Councillor Chabedi PP was the inaugural chairperson of the Oversight Committee. The membership of the committee is as follows:

NAME	DESIGNATION
<b>Councillor Chabedi PP</b>	Chairperson
<b>Councillor Bahula M</b>	Member
<b>Councillor Malaka MS</b>	Member
<b>Councillor Mashifane</b>	Member
<b>Moropa ME</b>	Resigned in 2009

*Table 8: Oversight Committee*

### Audit Committee Members

NAME	DESIGNATION
<b>Rantobeng George Ntwampe</b>	Chairperson
<b>Kolobe Ephraim Mashala</b>	Member
<b>Rachel Modishi Phasha</b>	Member
<b>Shonisani Bridget Nekhavhambe</b>	Member

## POLITICAL STRUCTURE



**The Mayor**  
***Cllr. Queen Mokhabela***  
**Cell: 082 493 9285**



**Head: Community Services**  
***Cllr. Hilda Makgoga***  
**Cell: 082 857 3173**



**Head: Finance Services**  
***Cllr. Abel Mampana***  
**Cell: 082 852 4800**



**Head: LED**  
***Cllr. Mokgampe Lentswane***  
**Cell: 082 857 3154**



**Head: Infrastructure**  
***Cllr. Alfred Matlala***  
**Cell: 082 434 0142**



**Exco Member**  
***Cllr. Rinah Maisela***  
**Cell: 082 858 0115**



**Head: Corporate Services**  
***Cllr. Rodgers Monama***  
**Cell: 082 857 3182**



**Head: Technical Services**  
***Cllr. Judy Mphelane Nkgadima***  
**Cell: 082 857 3178**



**Exco Member**  
***Cllr. M.E Mankwana***  
**Cell: 082 857 3144**



**Exco Member**  
***Cllr. Philip Vilakazi***  
**Cell: 082 938 4590**

## 2.2 ADMINISTRATIVE GOVERNANCE

### INTRODUCTION

In terms of Section 60(b) of the MFMA, the Municipal Manager of a municipality is the accounting officer of the municipality and must provide guidance on compliance with the provisions of the MFMA to political structures; political office bearers, and officials of the municipality and any entity under the sole or shared control of the municipality.

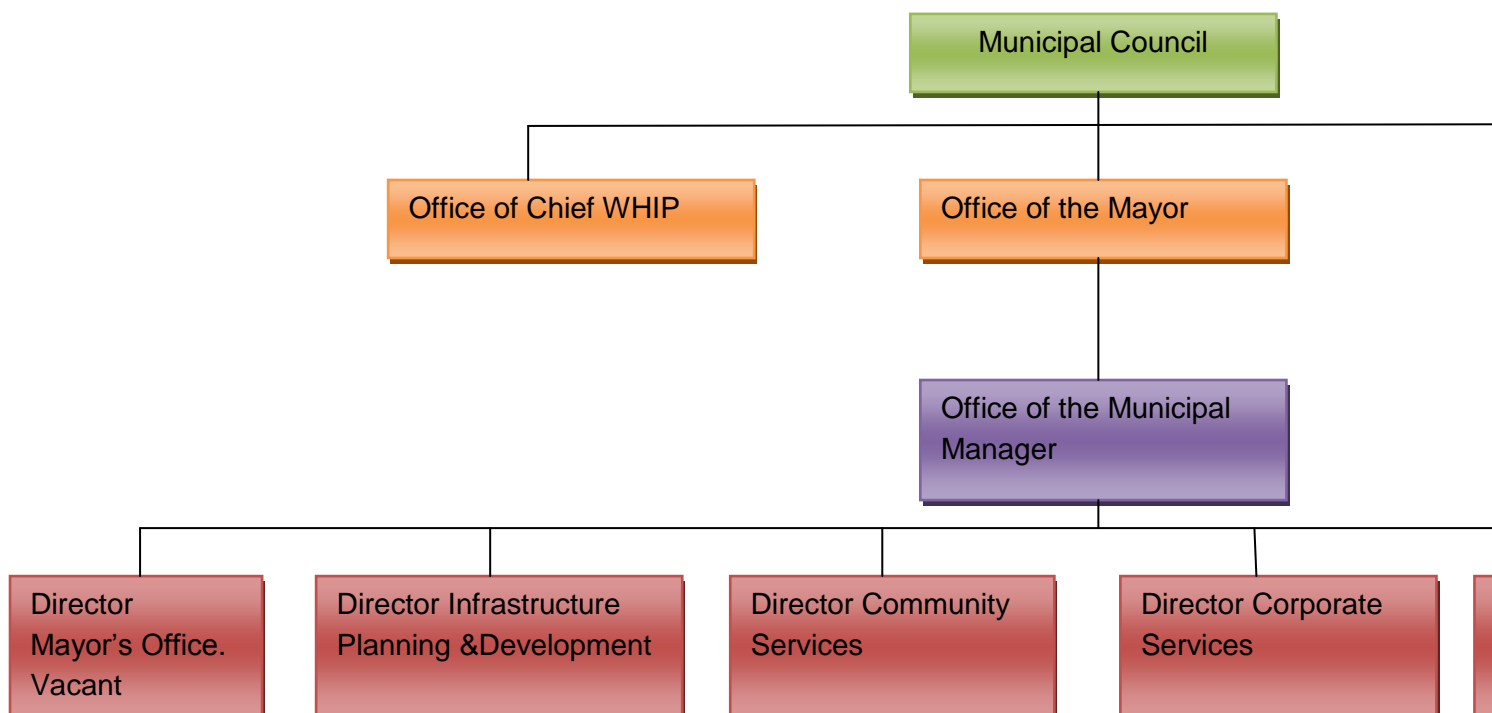
The administrative component of the Municipality is made up of the following four Departments:

- ❖ Infrastructure and Planning
- ❖ Community Services
- ❖ Budget and Treasury
- ❖ Corporate Services

### TOP ADMINISTRATIVE STRUCTURE

This section depicts the organogram of the Makhuduthamaga Local Municipality.

#### MAKHUDUTHAMAGA MUNICIPALITY



## PUBLIC CCOUNTABILITY AND PARTICIPATION

### OVERVIEW OF PUBLIC ACCOUNTABILITY AND PARTICIPATION

The Municipality has strived to accomplish number of targets within governance and public participation processes and systems objectives during the 2010/11 Financial Year. These include:

- 100 % functionality of ward committees, which includes conducting of regular meetings with about 90 % attendances.
- Adopted the Annual Budget Schedule in compliance with legislation.
- The IDP Process has been complied with and public participation was conducted at all planned areas of the Municipality. The process was accomplished by clustering of the 31 wards within the Municipality.
- All planned Council and Portfolio meetings were held. The council meetings were held in public to enhance transparency.
- The Mayoral Imbizos were successfully held and were instrumental session for public participation.
- Community based planning is undertaken to assess and analyse the community needs.

### 2.3 IDP PARTICIPATION AND ALIGNMENT

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

## CORPORATE GOVERNANCE

The purpose of proper corporate is to ensure a strong institutional efficiency and governance and governance so as to yield effective service delivery in the municipality. The municipality has adopted a communication strategy which aims to improve communication between the municipality and its residents. The strategy sets out communication channels the municipality should explore to engage more effectively with its residents.

## 2.4 RISK MANAGEMENT

**Section 62(1) (i)** of the Municipal Finance Management Act 56 of 2003 states that -The Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all responsible steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

**Treasury regulation 9.1.1** states that The Accounting Officer of an institution must exercise all reasonable care to prevent and detect unauthorized, irregular, fruitless and wasteful expenditure, and must for this purpose implement effective, efficient and transparent processes of financial and risk management.

**Treasury regulation 27.2.1** states that -The Accounting Officer must ensure that a risk assessment is conducted regularly so as to identify emerging risks of the institution. A risk management strategy, which must include a fraud prevention plan, must be used to direct internal audit effort and priority and to determine the skills required of managers and staff to improve controls and to manage these risks .The strategy must be clearly communicated to all employees to ensure that the risk management strategy is incorporated into the language and culture of the institution.

## 2.5 SUPPLY CHAIN MANAGEMENT (SCM)

Section 110-119 of the Municipal Financial Management Act outlines supply chain Regulations (2005), these Regulations together with other MFMA circulars sets out required processes and guidance manuals to help ensure that SCM arrangements provide appropriate goods and services, offer best value for money and minimize the opportunities for fraud and corruption. The municipality has adopted a Supply Chain Management Policy in 2008.

## **CHAPTER 3 SERVICE DELIVERY PERFORMANCE**

### **3.1 Introduction**

The chapter on performance highlights which is a condensed review of the main outstanding accomplishments of Makhuduthamaga Municipality in its quest to address the backlogs of underdevelopment and poverty. In order to ensure that the report reflects the true standing of events it has been compiled in accordance with the requirements of the Municipal Finance Management Act (MFMA).

Highlighted in this section of the report is the extent to which the municipality has managed to accomplish its objectives successfully in the delivery of services in the 2009/10 financial period. Also included is the municipality's service delivery backlogs and the predicted finances that will be essential to effectively tackle the backlogs in the future especially in the following functional areas of water, electricity, sanitation, refuse removal and roads.

### **3.2 Service Delivery Highlights**

#### **3.2.1 Priorities**

The priorities of Makhuduthamaga Municipality are embroicated within the Local Government Strategic Agenda to instil compliance and acceleration of service delivery. As such the Municipality's main strategic priorities are:

- Service delivery and infrastructure development
- Good governance and intergovernmental relations
- Municipal transformation and institutional development
- Local economic development
- Municipal financial viability and sustainability

#### **3.2.2 Institutional Development**

The Municipality has accomplished the following;

- The Performance Management System has been established (Contract and Performance Plans for all Section 57 employees).
- The municipality has embarked on the implementation of the revenue enhancement strategy through triggering of billing for Property rates and taxes.
- The financial system has been upgraded to enhance Sound Financial Management and Compliance with Financial Management regulations.
- The Process of IDP development was done internally without utilization external resources form constantans.
- Establishment of the Project Management Unit to do monitoring and evaluation of Capital Projects.



### **3.3 ANNUAL DEPARTMENTAL PERFORMANCE**

**See Annexure 1**

## **CHAPTER 4 ORGANISATIONAL DEVELOPMENT PERFORMANCE**

### **4.1 Introduction**

The Human Resource Development and Human Resource Management are essential for the operation of the municipality whereby the Human Resource Development is the framework to assist employees develop their personal and organizational skills, knowledge and abilities includes such opportunities as employee training, employee career development and on the other hand the Human Resource Management is the function within the municipality that focuses on recruitment of management and providing direction for the people who work in the municipality. It also deals with issue related to people such as compensation, hiring, performance management and others. Makhuduthamaga has a functioning Human Resources Development and Human Resource Management units within the Corporate Services department.

### **4.2 The functions of HRD**

- Preparing and implementing Workplace Skills Plan.
- Preparing for future responsibilities, while increasing the capacity to perform at a current job
- Management of training and development programs.
- Facilitation of personal development plans for management.
- Implements HRD policies and procedures.
- On-the-job training (OJT)
- Coaching/mentoring/counseling
- Career and employee development.
- Employee inductions and orientations.

Makhuduthamaga has put Human Resource Development at the centre of its development initiatives. In this regard 90 % of the employees have been trained on various courses including Certificate Programs in Municipal Finances (CPMD-MF) and many other capacity building courses for finance and technical personnel. More than 70 % of Councilors have undergone similar training.

### **4.3 The functions of HRM**

- Human resource planning.
- Equal employment opportunity
- Staffing (recruitment and selection)
- Compensation and benefits
- Employee and labor relations

- Health, safety, and security
- Human resource development
- Organization and job design
- Performance management/ performance appraisal systems.
- Monitoring and implementing conditions of employment for both employees and Councilors.
- Implementing remunerations and benefits for Councilors in terms of Upper Limits.

## **4.4 Integrated Human Resources System**

The Integrated Human Resource System has been designed to assist employers in the management of leave records. It allows for the setting of a company leave policy. As it is integrated with the payroll functions, employers can set categories for leave. This can for instance include:

- Paid or Unpaid Sick Leave.
- Long unpaid Leave.
- Unauthorized Leave.
- Study Leave.
- Maternity Leave.
- Annual Leave.
- Family Responsibility Leave.
- Paternity Leave.

The system automatically provides a warning if a person applies for more leave days than allowed. Adherence to statutory regulations is made possible through the ability to set-up the leave interface accordingly.

The establishment of Key Human Resource Management Policies, VIP electronic System and HR Procedures in the Municipality including the Performance Management (PMS) policies has helped to improve the accuracy of human resources administration and add to the municipal capacity to meet its obligations relating to the basic conditions of the Employment Act, Labor Relations Act, Employment Equity Act, Skills Development Act, Occupational Health and Safety Act, etc.

## **4.5 Employment Equity**

### **4.5.1 Legislative Mandate**

The Municipality is mandated by section 9 of the Constitution and section 20 of the Employment Equity Act No. 55 of 1998. In terms of the Employment Equity Act the Municipality must prepare and implement an Employment Equity Plan, which will achieve a reasonable progress towards achieving employment equity targets within the employer's workforce. The Municipality has developed an Employment Equity Plan and the plan has been submitted to the Department of Local Government and Housing.

### **4.5.2 Stakeholder Participation**

The Municipality has endorsed the stakeholder participation, which included the following: management, union and employees and those from designated groups and all categories & levels of employees met to think over and plan the EEP.

### **4.5.3 Goals of Employment Equity**

The plan will leverage the Municipality to achieve within the employment process. The Employment Equity Plan, was developed for application in the period between 2007 and 2012, intends to achieve equity at the workplace, promoting an organizational culture within the municipal workforce that is non-discriminatory, and closes the historic imbalances by giving employment opportunities to historically disadvantaged individuals. The plan was developed in a participatory way, with representatives drawn from the Unions and the Employment Equity and Training Steering Committee. Furthermore, an organizational audit has been undertaken to assess the Municipality's employment policies, practices, procedures and the working environment. The success and competitive standing of Council's core activities and service delivery hinges critically upon the quality of its human capital and continual development of a competent and motivated workforce. The 5- year Employment Equity Plan was adopted by Council and it guides municipal human resource practices in promoting: employment equity, the recruitment of employees from designated groups, and the advancement of appropriate gender representation in the municipality. Municipal equity targets were set out in the Employment Equity Plan, which simultaneously ensures compliance with the requirements of the Department of Labor and Department of Cooperative Governance & Traditional Affairs.

## **4.6 Objectives of the Employment Equity**

### **4.6.1 Objective of the Employment Equity Plan of the Municipality**

- To ensure the workplace is free of unfair discrimination (direct and indirect) against anyone on one or more grounds of being designated group and others in terms of Section 5 & 6 (1) of the Employment Equity of Act No. 55 of 1998.
- To achieve equity in the workplace by complying with Section 20 of the Employment Equity Act.
- Promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination and
- Implementing affirmative action measures to redress the disadvantages of the past.
- To maintain the target of 50/50 ratio in gender and 2% for disability as the organization develop and grow.

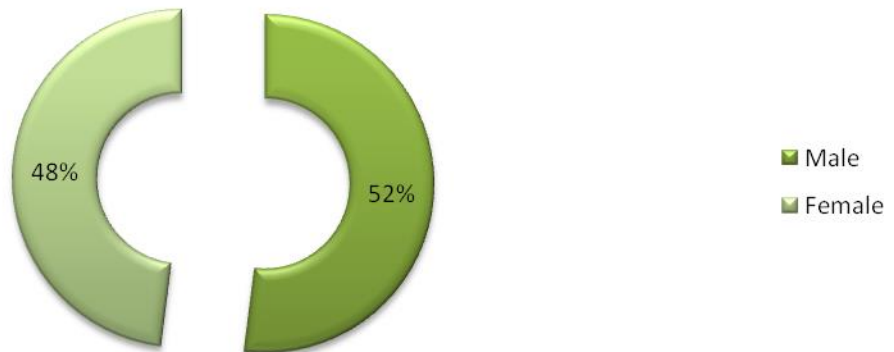
### **4.6.2 Employment Equity Status Quo**

The above figure depicts the employment equity status quo of the overall municipality, whereby employees are categorized according to their gender and physical ability. This also shows the municipality workforce with organizational culture that is non-discriminatory, and values diversity and legitimizes the input of all employees.

### **4.6.3 Gender Equality**

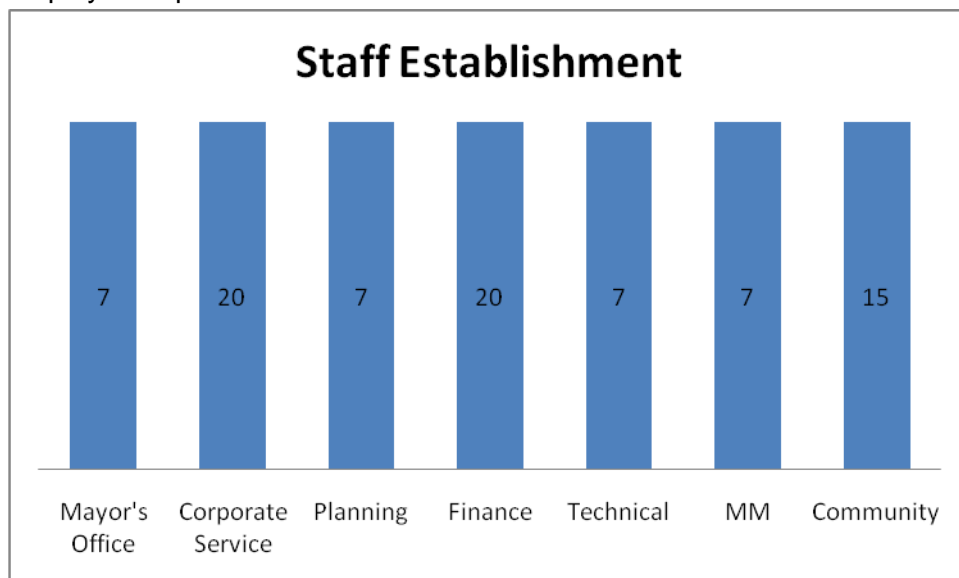
The below figure depict the municipality gender breakdown and this will assist the municipality to ensure compliance with the requirements of the Department of Labour in terms of Gender Equality.

### Gender Break- Down



#### 4.6.4 Number of Employees per directorate.

The figure below depicts the number of employees per directorate and it also assists the municipality to plan for the capacitation and future budget allocation which will leverage the employment process.



## 4.7 Overall Municipality Employee

The below figure depicts the overall employees in the municipality, whereby employees are categorized according to Employment Equity Status Quo and Gender Equality. This will also assist the municipality plan and monitor employment process for filled and vacant positions.

Occupational Category	Level	Males				Females				Disabled	Total Filled	Total Vacant	Grand Total
		African	White	Coloured	Indian	African	White	Coloured	Indian				
1	16												
	15												
	14												
	13												
2	12	3				1					4		
	11	1									1		
3	10	3				6					9		
	9	3				5					8		
4	8									2			
	7	1				1					2		
	6	2				3					5		
	5												
	4	2				2					4		
	3												
9	2	3				1					4		
	1	1									1		
Total		32				30				2	62		

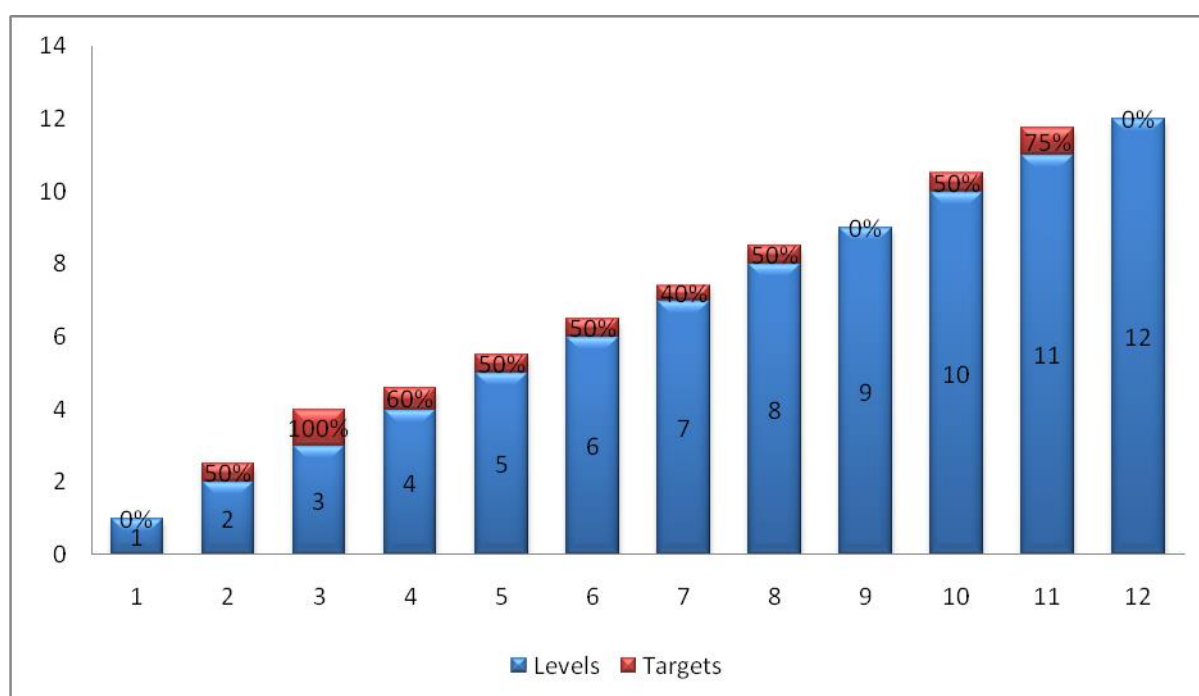
## 4.8 Employees per directorate break-down by gender

This section shows the gender equality per directorate and number of vacant positions in the municipality.

	Males	Females	Vacant	Total
<b>Mayor &amp; Council</b>	3	1	4	8
<b>Municipal Manager</b>	1	1	3	5
<b>Finance</b>	7	9	3	19
<b>Corporate Services</b>	5	4	1	10
<b>Community &amp; Social Services</b>	2	4	5	11
<b>Technical Services</b>	3	1	7	11
<b>Planning</b>	10	11	3	24
<b>Total</b>	48	36	26	88

### Employment Equity Targets by Employee Level

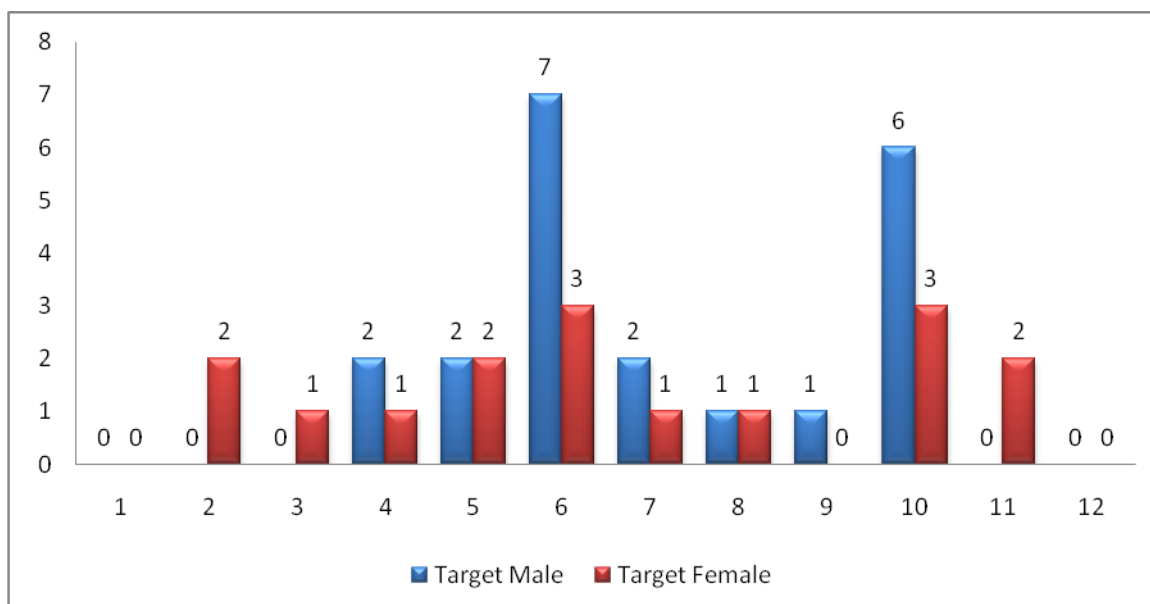
This section shows the level and the targets per directorate in the Municipality.





Note: The EE targets do not include the current staff establishment; they are based on the vacancies within the structure.

**EE Level Target by Gender**



## 4.9 Organizational Strength and Challenges

### Strength

- An approved organizational structure is in place.
- Vacant posts budgeted for.
- Workplace Skill development forum in place.
- Workplace skill plan in operation is reviewed annually.
- Bursary committee established which consists of locally prominent educated citizens.
- Bursary scheme offered by the Municipality to address skills shortage within the Municipality.
- Employment Equity Plan is developed and is implemented.
- Vacancy rate has been reduced by-----
- Municipal offices have been recently upgraded.

### Challenges/ weaknesses

- Salary packages are low as compared to other Municipalities that generate revenue.
- No retention strategy as result of uncompetitive salaries.
- High staff turnover caused by lack of competitive salaries.
- Inability to meet employment equity National targets as set by DPSA for 2009 which are 50% males, 50% females and 2% disabled, more especially in scarce skills, such as finance and technical skills.

- Inability to have an appropriate organizational representatives based on the demographics of the Municipality.
- To develop a multi-skilled, representative and flexible workplace which enables the Municipality to adapt rapidly to a changing environment in which it functions.
- The building is not user-friendly to people with disability in a way that it does not have elevators, no special facilities for bathrooms etc. This will be addressed in future due to budget constraints.
- Acquiring and accessing within the labour market the right staff with relevant skills to deliver quality services required.
- Lack of consistent and quality basic services that generates revenue

#### **Threats**

- High unemployment rate
- High illiteracy rate
- High poverty rate
- Undeveloped infrastructure
- No ownership of land by the Municipality
- Lack of skills and expertise locally.
- Rural and underdeveloped area.

#### **Opportunity**

- Nodal point
- Availability of mineral resources

### **4.10 Organizational Benefits**

#### **Medical Aid**

Medical aid membership for 2008/2009

<b>Medical Aid</b>	<b>Number of Employees</b>
<b>HOSMED</b>	<b>2</b>
<b>BONITAS</b>	<b>26</b>
<b>L.A HEALTH</b>	<b>19</b>

#### **Pension Fund**

Pension Fund membership for 2010/2011

<b>PENSION – MEPF</b>
<b>80</b>

### **Transformation and Skills Retention**

To facilitate the objective of transformation, skills development, the Municipality has developed a workplace skills development plan. This will serve to ensure that our workforce is well capacitated to carry out the duties of the mandate on service delivery.

## **CHAPTER 5: FINANCIAL PERFORMANCE**

**MAKHUDUTHAMAGA LOCAL MUNICIPALITY  
(Municipal demarcation code**

**LIM473) ANNUAL FINANCIAL**

**STATEMENTS FOR THE YEAR**

**ENDED 30 JUNE 2011**

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **General Information**

---

<b>Legal form of entity</b>	<b>Local municipality</b>
<b>Nature of business and principal activities</b>	<b>Provision of municipal quality services and maintaining the best interests of the local community in the Makhuduthamaga area</b>
<b>Mayor</b>	<b>Cllr Matlala M.A</b>
<b>Councillors</b>	<b>Cllr Mampane M.A Cllr Lerobane M.P Cllr Masemola H.R Cllr Madiba M.F Cllr Mndebele M.E Cllr Matjomane N.M Cllr Makaleng M.M Cllr Maisela K.R Cllr Tala M.A</b>
<b>Grading of local authority</b>	<b>Low capacity municipality</b>
<b>Accounting Officer</b>	<b>Moropa M.E (Acting)</b>
<b>Chief Finance Officer (CFO)</b>	<b>Diale D.S</b>
<b>Postal address</b>	<b>Private Bag x 434 Jane Furse 1085</b>
<b>Bankers</b>	<b>ABSA Bank Limited</b>
<b>Auditors</b>	<b>Auditor General</b>



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Index**

---

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

**Index**

**Accounting Officer's Responsibilities and Approval**

**Accounting Officer's Report**

**Statement of Financial Position**

**Statement of Financial Performance**

**Statement of Changes in Net Assets**

**Cash Flow Statement**

**Accounting Policies**

**Notes to the Annual Financial Statements**

### **Abbreviations**

<b>COID</b>	<b>Compensation for Occupational Injuries and Diseases</b>
<b>CRR</b>	<b>Capital Replacement Reserve</b>
<b>DME</b>	<b>Department of Minerals and Energy</b>
<b>SA GAAP</b>	<b>South African Statements of Generally Accepted Accounting Practice</b>
<b>GRAP</b>	<b>Generally Recognised Accounting Practice</b>
<b>GAMAP</b>	<b>Generally Accepted Municipal Accounting Practice</b>
<b>HDF</b>	<b>Housing Development Fund</b>
<b>IAS</b>	<b>International Accounting Standards</b>
<b>IMFO</b>	<b>Institute of Municipal Finance Officers</b>
<b>IPSAS</b>	<b>International Public Sector Accounting Standards</b>
<b>ME's</b>	<b>Municipal Entities</b>
<b>MEC</b>	<b>Member of the Executive Council</b>
<b>MFMA</b>	<b>Municipal Finance Management Act</b>
<b>MIG</b>	<b>Municipal Infrastructure Grant (Previously CMIP)</b>

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

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

---

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

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

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 2012 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 pages 6 to 50, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

---

ME Moropa  
Acting Municipal Manager

31 August 2011

---

## **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

### **Accounting Officer's Report**

The accounting officer submits his report for the year ended 30 June 2011.

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

##### **Main business and operations**

The municipality is an investment and management entity with trading controlled entities engaged in provision of municipal quality services and maintaining the best interests of the local community in the Makhuduthamaga area. The municipality operates principally in South Africa.

Net surplus of the municipality was R 84 590 422 (2010: surplus R 28 799 888).

#### **2. Going concern**

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

#### **3. Subsequent events**

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

#### **4. Accounting policies**

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised

Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

#### **5. 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>	<b>Changes</b>
MJ Thamaga	South African	Resigned 31 July 2010
ME Moropa (acting)	South African	Appointed 01 August 2010

#### **6. Bankers**

The municipality banks primarily with ABSA Bank Limited.

#### **7. Auditors**

The Auditor General will continue in office for the next financial period.



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	4	477 345	114 220
VAT receivable	5	16 667 092	10 133 593
Consumer debtors	6	35 024 893	14 134 805
Cash and cash equivalents	7	74 680 723	65 178 257
		<b>126 850 053</b>	<b>89 560 875</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	207 444 814	154 219 476
<b>Total Assets</b>		<b>334 294 867</b>	<b>243 780 351</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	9	27 274 351	8 216 242
Unspent conditional grants and receipts	8	-	11 299 501
		<b>27 274 351</b>	<b>19 515 743</b>
<b>Total Liabilities</b>		<b>27 274 351</b>	<b>19 515 743</b>
<b>Net Assets</b>		<b>307 020 516</b>	<b>224 264 608</b>
<b>Net Assets</b>			
Accumulated surplus		<b>307 020 516</b>	<b>224 264 608</b>



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>			
Administration and management fees received		2 399 160	3 092 455
Government grants & subsidies	12	147 559 834	117 027 810
Interest received - investment	19	5 993 148	2 193 884
Property rates	11	24 520 367	17 956 005
Rental of facilities and equipment		38 644	-
Other income	13	3 588 409	566 103
<b>Total Revenue</b>		<b>184 099 562</b>	<b>140 836 257</b>
<b>Expenditure</b>			
Administration		(4 982 008)	(4 083 196)
Contracted services	22	(4 085 519)	(2 790 099)
Debt impairment	18	(4 048 544)	(2 566 229)
Depreciation and amortisation	20	(10 878 235)	(5 072 489)
General Expenses	14	(26 177 379)	(47 953 755)
Grants and subsidies paid	23	(3 260 347)	(5 874 456)
Personnel	16	(20 899 591)	(16 919 477)
Remuneration of councillors	17	(13 670 393)	(13 597 749)
Repairs and maintenance		(11 507 124)	(13 178 919)
<b>Total Expenditure</b>		<b>(99 509 140)</b>	<b>(112 036 369)</b>
<b>Surplus for the year</b>		<b>84 590 422</b>	<b>28 799 888</b>



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Statement of Changes in Net**

### **Assets**

**Accumulated  
surplus**

**Total net  
assets**

#### **Figures in Rand**

<b>Opening balance as previously reported</b>	<b>178 010 912</b>	<b>178 010 912</b>
<b>Adjustments</b>		
<b>Prior year adjustments</b>	<b>17 453 808</b>	<b>17 453 808</b>
<b>Balance at 01 July 2009 as restated</b>	<b>195 464 720</b>	<b>195 464 720</b>
<b>Changes in net assets</b>		
<b>Surplus for the year</b>	<b>28 799 888</b>	<b>28 799 888</b>
<b>Total changes</b>	<b>28 799 888</b>	<b>28 799 888</b>
<b>Opening balance as previously reported</b>	<b>230 171 189</b>	<b>230 171 189</b>
<b>Adjustments</b>		
<b>Prior year adjustments</b>	<b>(7 741 095)</b>	<b>(7 741 095)</b>
<b>Balance at 01 July 2010 as restated</b>	<b>222 430 094</b>	<b>222 430 094</b>
<b>Changes in net assets</b>		
<b>Surplus for the year</b>	<b>84 590 422</b>	<b>84 590 422</b>
<b>Total changes</b>	<b>84 590 422</b>	<b>84 590 422</b>
<b>Balance at 30 June 2011</b>	<b>307 020 516</b>	<b>307 020 516</b>

Note(s)



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash received from Consumers, Government and other sources of		154 029 763	115 411 651
Interest income		5 993 148	2 193 884
		<b>160 022 911</b>	<b>117 605 535</b>
<b>Payments</b>			
Cash paid to suppliers, employees and other related services		(84 582 361)	(72 293 023)
Net cash flows from operating activities	24	<b>75 440 550</b>	<b>45 312 512</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(65 938 085)	(31 275 387)
Non-cash movements in property plant and equipment		-	(1 216 530)
Net cash flows from investing activities		<b>(65 938 085)</b>	<b>(32 491 917)</b>
Net increase/(decrease) in cash and cash equivalents		9 502 465	12 820 595
Cash and cash equivalents at the beginning of the year		65 178 257	52 357 662
Cash and cash equivalents at the end of the year	7	<b>74 680 722</b>	<b>65 178 257</b>





# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1. Presentation of Annual Financial Statements**

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

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

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

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

#### **1.1 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, loans and other receivables**

The municipality assesses its trade receivables, loans and other 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, loans and other 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 operation surplus note.

##### **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.

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. .

#### **Provision**

s

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.1 Significant judgements and sources of estimation uncertainty**

(continued) Effective interest rate

The municipality used the prime interest rate plus 1% to discount future cash flows.

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.

### **1.2 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 at no cost, or for a nominal cost, 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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as 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

---

## **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

### **Accounting Policies**

---

#### **1.2 Property, plant and equipment (continued)**

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

<b>Item life</b>	<b>Average useful</b>
<b>Land</b>	<b>Indefinite</b>
<b>Buildings</b>	<b>25 years</b>
<b>Plant and machinery</b>	<b>3 - 10 years</b>
<b>Furniture and fixtures</b>	<b>4 - 6 years</b>
<b>Motor vehicles</b>	<b>5 - 7 years</b>
<b>Office equipment</b>	<b>3 - 4 years</b>
<b>IT equipment</b>	<b>1 - 3 years</b>
<b>Infrastructure</b>	<b>5 - 25 years</b>
<b>Capital work in progress depreciated</b>	<b>Not</b>

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Depreciation is calculated on a straight line basis from the the time depreciable assets become ready for use.

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### **Transitional provision**

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 3.

---

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.2 Property, plant and equipment (continued)**

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

### **1.3 Site restoration and dismantling cost**

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

If the related asset is measured using the cost model:

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

### **1.4 Financial instruments**

#### **Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

## **Initial recognition and measurement**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is ~~not~~

---



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.4 Financial instruments**

(continued)

determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at settlement date.

#### **Subsequent measurement**

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### **Impairment of financial assets**

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

## **Trade and other receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is

# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.4 Financial instruments

(continued)

measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;

A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and

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

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

the rights to receive cash flows from the asset have expired;

the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

the municipality has transferred its rights to receive cash flows from the asset and either

- has transferred substantially all the risks and rewards of the asset, or

- has neither transferred nor retained substantially all the risks and rewards of the asset,

but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.4 Financial instruments**

(continued)

asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

#### **Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### **1.5 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.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense when it becomes probable that the economic benefits or service potential associated with the lease agreement will flow from the municipality to the lessor. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.6**

#### **Inventories**

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, 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 first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

#### **Transitional provision**

The municipality changed its accounting policy for inventories in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where inventory was acquired through a transfer of functions, the municipality is not required to measure that inventory for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and inventory has accordingly been recognised at provisional amounts, as disclosed in note 4.

Until such time as the measurement period expires and inventory is recognised and measured in accordance

**with the requirements of the Standard of GRAP on inventory assets, the municipality need not comply with the Standards of GRAP on:**

**Presentation of Financial Statements (GRAP 1),  
The Effects of Changes in Foreign Exchange Transactions (GRAP 4),  
Leases (GRAP 13),  
Segment Reporting (GRAP 18),**

---



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.6 Inventories (continued)**

#### **Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)**

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

### **1.7 Impairment of cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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 held with the primary 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:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) 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 test 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.

**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.

---

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.7 Impairment of cash-generating assets (continued)**

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.

#### **Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

**Reversal of impairment  
loss**

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

---

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.7 Impairment of cash-generating assets (continued)**

estimates the recoverable amount of that asset.

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

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

its recoverable amount (if determinable); and

the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

### **1.8 Impairment of non-cash-generating assets**

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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 held with the primary 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.**

---

# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

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:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) 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 test 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.

### Value in use

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

### 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 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.**

---



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

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.

### **1.9 Employee benefits**

#### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### **1.10 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 deficits.

**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.**

---

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.10 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 a 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 agreement.

After their initial recognition contingent liabilities recognised in business 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 26.

### **Decommissioning, restoration and similar liability**

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

If the related asset is measured using the cost model:

changes in the liability is added to, or deducted from, the cost of the related asset in the current period.

the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.

if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.

If the related asset is measured using the revaluation

**model:**

**changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:**

- **a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and**
- **an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;**

**in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;**

**a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying**

---

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.10 Provisions and contingencies (continued)**

amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

#### **Transitional provision**

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in note .

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

Presentation of Financial Statements (GRAP 1),  
The Effects of Changes in Foreign Exchange Transactions (GRAP 4),  
Leases (GRAP 13),  
Segment Reporting (GRAP 18),  
Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

### **1.11 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.**

---

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.11 Revenue from exchange transactions**

#### **(continued) Measurement**

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

#### **Sale of goods**

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

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

#### **Rendering of services**

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction .

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

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends 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.

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



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.12 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

#### **Rates, including collection charges and penalties interest**

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 transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period 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.

#### **Fines**

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of 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 fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **Levies**

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

### **Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses 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 transaction 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 programme 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.

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 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**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and

to the extent that there has been compliance with any restrictions associated with the grant.

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.

### **1.13**

#### **Turnover**

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

---

# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.14 Investment income

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

### 1.15 Comparative figures

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

### 1.16 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.17 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.

### 1.18 Irregular expenditure

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

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998);  
or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the

municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised 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.

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.18 Irregular expenditure (continued)**

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.

### **1.19 Use of estimates**

The preparation of annual financial statements in conformity with 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 areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual 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.

### **1.20 Presentation of currency**

These annual financial statements are presented in South African Rand.

### **1.21 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a

Standard of  
GRAP

### **1.22 Investments**

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

### **1.23 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.



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Policies**

---

### **1.24 Budget information**

Municipalities 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.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note

34.



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

#### GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity 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 will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;

- the actual amounts on a comparable basis; and

- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

~~The effective date of the standard is for years beginning on or after 01 April~~

**2012.**

**The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.**

**The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.**

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Notes to the Annual Financial Statements**

---

### **2. New standards and interpretations**

(continued) GRAP 21: Impairment of non-cash-

generating assets

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

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

An 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, an entity estimates the recoverable service amount of the asset.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee benefits

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

**This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance**

.

**The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.**

**The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.**

**GRAP 104: Financial Instruments**

**The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial**

# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Notes to the Annual Financial Statements**

---

### **2. New standards and interpretations (continued)**

liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance

.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

### **2.2 Standards and interpretations not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods but are not relevant to its operations:

#### **GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance

.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

#### **GRAP 103: Heritage Assets**

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and

cannot be disposed of without consent as required by law or otherwise.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.



# **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## **Notes to the Annual Financial Statements**

---

### **2. New standards and interpretations (continued)**

subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment

losses. The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011			2010		
3. Property, plant and equipment						
	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
	n	n		n	n	
Buildings	13 865 482	(1 969 998)	11 895 484	9 360 948	(1 334 201)	8 026 747
Furniture and fixtures	4 483 436	(2 421 769)	2 061 667	4 296 367	(687 375)	3 608 992
Motor vehicles	6 769 249	(3 686 966)	3 082 283	6 769 249	(2 522 737)	4 246 512
Office equipment	1 099 191	(411 579)	687 612	749 953	(282 814)	467 139
IT equipment	4 186 556	(1 471 639)	2 714 917	2 112 999	(1 037 194)	1 075 805
Infrastructure	210 420 770	(24 775 256)	185 645 514	153 967 203	(17 994 651)	135 972 552
Loose tools	1 357 337	-	1 357 337	821 729	-	821 729
Total	242 182 021	(34 737 207)	207 444 814	178 078 448	(23 858 972)	154 219 476

### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Total
<b>Buildings</b>	8 026 747	4 504 534	-	(635 797)	11 895 484
<b>Furniture and fixtures</b>	3 608 992	187 068	-	(1 734 393)	2 061 667
<b>Motor vehicles</b>	4 246 512	-	-	(1 164 229)	3 082 283
<b>Office equipment</b>	467 139	349 238	-	(128 765)	687 612
<b>IT equipment</b>	1 075 805	2 073 557	-	(434 445)	2 714 917
<b>Infrastructure</b>	135 972 552	58 092 997	(1 834 514)	(6 585 521)	185 645 514
<b>Loose tools</b>	821 729	730 691	-	(195 083)	1 357 337
	154 219 476	65 938 085	(1 834 514)	(10 878 233)	207 444 814

### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
<b>Buildings</b>	5 593 907	2 677 446	(244 606)	8 026 747
<b>Furniture and fixtures</b>	3 262 159	751 737	(404 904)	3 608 992
<b>Motor vehicles</b>	5 405 656	-	(1 159 144)	4 246 512
<b>Office equipment</b>	143 960	409 264	(86 085)	467 139
<b>IT equipment</b>	852 829	562 816	(339 840)	1 075 805
<b>Infrastructure</b>	111 955 636	26 596 120	(2 579 204)	135 972 552
<b>Loose tools</b>	713 272	278 004	(169 547)	821 729
	127 927 419	31 275 387	(4 983 330)	154 219 476

### Transitional provisions

Property, plant and equipment recognised at provisional amounts

**In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note certain property, plant and equipment with a carrying value of R 207 444 814 (2010: R 154 219 476) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:**

---

# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

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

Due to initial adoption of GRAP 17

Tangible fixed assets	22 047 488	18 246 924
Infrastructure assets	189 663 036	137 415 682

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

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

### 4. Inventories

Consumable stores	477 345	114 220
-------------------	---------	---------

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain inventories with a carrying value of R 477 345 (2010: R 114 220) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Consumable goods	477 345	114 220
------------------	---------	---------

Steps taken to establish the values of inventories recognised at provisional amounts due to the initial adoption of GRAP 12, is as follows:

The municipality will employ the services of a valuator to accurately determine the valuation method and valuation of consumables to comply with Grap 12.

The date at which full compliance with GRAP 12 is expected, is 30 June 2012.

### 5. VAT receivable

VAT	16 667 092	10 133 593
-----	------------	------------



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>6. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	41 639 666	16 701 034
<b>Less: Provision for debt impairment</b>		
Rates	(6 614 773)	(2 566 229)
<b>Net balance</b>		
Rates	35 024 893	14 134 805
<b>Rates</b>		
Current (0 -31 days)	5 352 563	1 553 990
32 - 61 days	1 995 390	2 057 130
62 - 91 days	1 827 955	1 320 768
92 - 121 days	1 455 406	1 579 151
>122 days	24 393 579	7 623 766
	35 024 893	14 134 805
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(2 566 229)	-
Contributions to provision	(4 048 544)	(2 566 229)
	(6 614 773)	(2 566 229)

### Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 2 179 833 (2010: R 2 566 229) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 323 528	1 553 990
2 months past due	443 082	2 057 130
3 months past due	413 222	1 320 768

### Consumer debtors impaired

As of 30 June 2011, consumer debtors of R (6 614 773) (2010: R 2 566 229) were impaired and provided for.





# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial

Figures in Rand	2011	2010
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	618	1 453
Bank balances	4 680 105	65 176 804
	<b>4 680 723</b>	<b>65 178 257</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
ABSA Bank - 9113420033 - Money market	-	34 234	-	34 234
ABSA Bank - 9087599067 - Money market	-	32 660	-	32 660
ABSA Bank - 4069702429 - Call account	60 050 344	26 265 121	60 050 344	26 265 121
ABSA Bank - 4069702615 - Call account	-	16 090 104	-	16 090 104
ABSA Bank - 4063761912 - Traffic cheque account	13 072 090	8 160 127	13 068 265	8 162 956
ABSA Bank - 4050384145 - Primary cheque account	2 368 477	6 474 089	1 510 971	2 588 328
ABSA Bank - 4054362230 - Project cheque account	-	11 966 534	-	11 966 534
ABSA Bank - 9109077462 - Money Market	-	36 867	-	36 867
ABSA Bank - 4076690079 - Salaries bank account	515 292	-	50 525	-
<b>Total</b>	<b>76 006 203</b>	<b>69 059 736</b>	<b>74 680 105</b>	<b>65 176 804</b>

## 8. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	11 243 930
Finance Management Grant	-	42 051
Municipal Systems Improvement Grant	-	13 520
	<b>-</b>	<b>11 299 501</b>

Movement during the year

Balance at the beginning of the year	11 299 501	-
Additions during the year	-	44 541 375
Income recognition during the year	(11 299 501)	(33 241 874)
	<b>-</b>	<b>11 299 501</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been

recognised. See note 12 for reconciliation of grants from Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>9. Trade and other payables from exchange transactions</b>		
Trade payables	13 706 240	7 405 008
Creditor: Ward committee	5 000	-
Accrued leave pay	969 001	811 234
Accruals	12 584 899	-
Deposits received	9 211	-
	<b>27 274 351</b>	<b>8 216 242</b>
<b>10. Revenue</b>		
Property rates	24 520 367	17 956 005
Rental of facilities & equipment	38 644	-
Government grants & subsidies	147 559 834	117 027 810
	<b>172 118 845</b>	<b>134 983 815</b>
The amount included in revenue arising from exchanges of goods or services are as follows:		
Rental of facilities & equipment	38 644	-
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	24 520 367	17 956 005
Government grants & subsidies	147 559 834	117 027 810
	<b>172 080 201</b>	<b>134 983 815</b>
<b>11. Property rates</b>		
Rates received		
Residential	24 520 367	17 956 005
Valuations		
Commercial	259 138 000	245 338 000
Municipal	15 754 300	15 754 300
Residential	214 316 400	214 316 400
Social	33 537 000	33 537 000
State	652 980 000	632 220 000
	<b>1 175 725 700</b>	<b>1 141 165 700</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation was implemented on 01 July 2011.



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>12. Government grants and subsidies</b>		
Equitable share	111 893 476	83 785 936
Municipal Infrastructure Grant	28 401 000	30 330 070
Financial Management Grant	1 515 358	1 457 949
Municipal Systems Improvement Program Grant	750 000	1 453 855
Integrated National Electrification Program Grant	5 000 000	-
	147 559 834	117 027 810

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	11 243 930	-
Current-year receipts	28 401 000	27 924 000
Conditions met - transferred to revenue	(28 401 000)	(30 330 070)
2010/11 MIG received in advance	(11 243 930)	13 650 000
	-	11 243 930

Conditions still to be met - remain liabilities (see note 8)

#### Financial Management Grant

Balance unspent at beginning of year	42 051	-
Current-year receipts	1 500 000	2 221 480
Conditions met - transferred to revenue	(1 500 000)	(2 179 429)
Reverted to National Treasury	(42 051)	-
	-	42 051

Conditions still to be met - remain liabilities (see note 8)

#### Municipal Systems Improvement Program Grant

Balance unspent at beginning of year	13 520	-
Current-year receipts	750 000	745 895
Conditions met - transferred to revenue	(750 000)	(732 375)
Reverted to National Treasury	(13 520)	-
	-	13 520

Conditions still to be met - remain liabilities (see note 8)



## **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

### **Notes to the Annual Financial Statements**

<b>Figures in Rand</b>	<b>2011</b>	<b>2010</b>
<b>12. Government grants and subsidies</b>		
<b>(continued) Integrated National Electrification</b>		
<b>Programme Grant</b>		
<b>Current-year receipts</b>	<b>5 000 000</b>	<b>1 000 000</b>
<b>Conditions met - transferred to revenue</b>	<b>(5 000 000)</b>	<b>(1 000 000)</b>
	<b>-</b>	<b>-</b>

All conditions to the Integrated National Electrification Programme Grant were met during the year.

#### **Changes in level of government grants**

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

#### **13. Other income**

<b>Administration and management fees received - third party</b>	<b>2 399 160</b>	<b>3 092 455</b>
<b>Sundry Income</b>	<b>3 588 409</b>	<b>566 103</b>
	<b>5 987 569</b>	<b>3 658 558</b>



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>14. General expenses</b>		
Advertising	554 128	1 324 939
Assets expensed	-	27 385 822
Auditors remuneration	1 218 993	1 755 058
Bank charges	100 173	87 015
Cleaning	371 399	208 164
Commission paid	-	173 009
Conferences and seminars	273 930	83 018
Consulting and professional fees	4 384 620	1 772 567
Consumables	-	753
Delivery expenses	-	5 000
Donations	860 328	687 490
Electricity	633 161	388 555
Entertainment	486 984	85 119
Fuel and oil	474 882	360 551
General expenses	379 108	24 217
IT expenses	242 709	170 352
Insurance	365 776	362 350
Lease rentals on operating lease	247 825	149 364
Marketing	161 652	704 565
Motor vehicle expenses	340 979	329 800
Postage and courier	44 211	25 269
Printing and stationery	706 066	790 376
Promotions and sponsorships	1 539 832	301 634
Protective clothing	-	19 453
Publications	491 361	-
Security (Guarding of municipal property)	7 274 474	6 427 607
Subscriptions and membership fees	264 664	36
Telephone and fax	355 897	1 054 579
Traditional leader support	162 229	-
Training	2 586 049	2 437 715
Travel - local	1 655 949	839 378
	<b>26 177 379</b>	<b>47 953 755</b>

## 15. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Lease rentals on operating lease		
Contractual amounts	247 825	149 364
Depreciation on property, plant and equipment	10 878 235	5 072 489
Employee costs	34 569 984	30 517 226





# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>16. Employee related costs</b>		
Basic	10 288 946	9 523 348
Medical aid - company contributions	661 975	384 397
UIF	104 273	57 732
WCA	-	233
SDL	159 149	68 230
Leave pay provision charge	170 673	506 528
Post-employment benefits - Pension - Defined contribution plan	2 238 766	1 766 838
Overtime payments	134 004	68 400
Car allowance	2 617 112	1 075 258
Housing benefits and allowances	396 100	245 243
Clothing Allowance	7 249	1 812
Audit committee allowance	30 211	44 866
Cellphone allowance & costs	498 619	152 777
	<b>17 307 077</b>	<b>13 895 662</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration including benefits and allowances	<b>889 352</b>	<b>815 920</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration including benefits and allowances	<b>786 462</b>	<b>528 735</b>
<b>Corporate and human resources (corporate services)</b>		
Annual Remuneration including benefits and allowances	<b>638 900</b>	<b>545 476</b>
<b>Health, safety and social services (emergency management services)</b>		
Annual Remuneration including benefits and allowances	<b>638 900</b>	<b>545 476</b>
<b>Procurements and infrastructure (planning, transport and environmental affairs)</b>		
Annual Remuneration including benefits and allowances	<b>638 900</b>	<b>588 208</b>



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>17. Remuneration of councillors</b>		
Mayor	362 756	358 818
Speaker	274 271	273 053
Mayoral Committee Members	1 605 327	1 602 449
Councillors	5 707 925	5 699 949
Councillors' pension contribution	1 450 915	1 422 344
Allowances	3 839 146	3 830 426
Travel claims	188 647	181 603
Skills Development Levy	-	64 107
Ex-officio council sitting allowance	174 000	165 000
	<b>13 602 987</b>	<b>13 597 749</b>
<b>In-kind benefits</b>		
The Department of Local Government provided the municipality with an Accountant Resident who was still in service in year under review.		
<b>18. Debt impairment</b>		
Contributions to debt impairment provision	4 048 544	2 566 229
<b>19. Investment revenue</b>		
Interest revenue		
Bank and investments	5 993 148	2 193 884
<b>20. Depreciation and amortisation</b>		
Property, plant and equipment	10 878 235	5 072 489
<b>21. Auditors' remuneration</b>		
Fees	1 218 993	1 755 058
<b>22. Contracted services</b>		
Information Technology Services	131 254	243 192
Specialist Services	1 349 281	31 114
Other Contractors	2 604 984	2 515 793
	<b>4 085 519</b>	<b>2 790 099</b>
<b>23. Grants and subsidies paid</b>		
Other subsidies		
Indigent grants	3 260 347	5 874 456



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>24. Cash generated from operations</b>		
Surplus	84 590 422	28 799 888
Adjustments for:		
Depreciation	10 878 235	5 072 489
Debt impairment	4 048 544	2 566 229
Changes in working capital:		
Inventories	(363 125)	(47 960)
Trade and other receivables from exchange transactions	-	4 726 979
Consumer debtors	(24 938 632)	(16 701 034)
Trade and other payables from exchange transactions	19 058 106	6 534 105
VAT	(6 533 499)	3 062 315
Unspent conditional grants and receipts	(11 299 501)	11 299 501
	<b>75 440 550</b>	<b>45 312 512</b>
<b>25. Commitments</b>		
Authorised operating and capital expenditure		
Operational expenditure		
Approved and contracted	4 160 705	15 187 723
Approved but not yet contracted	-	-
	<b>4 160 705</b>	<b>15 187 723</b>
Capital expenditure		
Property, plant and equipment	2 333 111	-
Investment property	-	-
	<b>2 333 111</b>	<b>-</b>

The municipality still has future commitments to service providers for services still to be rendered. The minimum payments still due to the service providers at 30 June 2011 amount to R 2 333 111 for capital commitments, and R4 160

705 for commitments relating to operating expenditure.

## 26. Contingencies

Litigation is in the process against the municipality relating to a dispute with Carlos B Fernandes who alleges that the municipality owes him an amount of R22 840. The matter was still however pending at year end.

Litigation is in the process against the municipality relating to a dispute with Africon who alleges that the municipality owes them an amount of R333 000. The matter was still however pending at year end.

There is no reimbursement from any third parties for potential obligations of the municipality.

Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.



# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>27. Related parties</b>		
<b>Relationships</b>		
Moropa M.E	Accounting Officer	
(Acting) Diale D.S	Chief Financial Officer	
<b>Controlled entities</b>	Not applicable to Makhuduthamaga Local Municipality	
<b>Councillors and members of key management</b>	Refer to General Information page for detail on councillors and key management.	
Remuneration of senior management, and councillors is disclosed in note 16 and note 17 respectively.		
<b>Related party balances</b>		
<b>Amounts included in Trade receivable / (Trade Payable) regarding related parties</b>		
National Treasury	-	3 146 828
Department of Transport	-	(626 977)
<b>Related party transactions</b>		
<b>Remuneration</b>		
Mayor	362 756	358 818
Council	13 240 231	13 238 931
Accounting Officer (Acting)	889 352	815 920
Chief Financial Officer	786 462	528 735
<b>28. Prior period errors</b>		
Cell phone allowances (2010: R 114 862), a component of remuneration for selected staff and councillors, were previously accounted for as general expenses and have been retrospectively reclassified.		
Electricity infrastructure assets, for which control and the risks and benefits of ownership vested with the Department of Minerals were incorrectly capitalised. They have been retrospectively reclassified to expenses. The correction of the errors results in adjustments as follows:		
<b>Statement of financial position</b>		
Consumer debtors	-	1 320
Trade and other payables from exchange transactions	-	(608 263)
VAT receivable	-	(884 009)
Property, plant and equipment	-	(4 415 624)
Opening accumulated Surplus or Deficit	-	17 453 812
<b>Statement of financial performance</b>		
Depreciation and amortisation	-	(4 120 878)
General expenses	-	27 270 960
Personnel	-	152 777



Remuneration of councillors	-	(37 915)
Repairs and maintenance	-	95 444
29. Risk management		

---

# Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 29. Risk management

#### (continued) Liquidity risk

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

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### 30. Going concern

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

### 31. Unauthorised expenditure

Integrated National Electrification Programme (Municipal) Grant	12 854 680	-
Solid waste collection	290 207	-
Property, plant and equipment	744 528	-
	<u>13 889 415</u>	<u>-</u>

#### Integrated National Electrification Programme (Municipal) Grant:

Expenditure was incurred against the provisions of section 84(1)(c) of the Municipal Structures Act which vests the function of bulk supply of electricity (including the transmission, distribution and generation of electricity) in district municipalities. Contrary to the Act, the municipality used the equitable share for provision of electricity.

#### Solid waste

**collection:**

**Expenditure was incurred against the provisions of section 29 of Municipal Finance Management Act which prescribes procedures to be followed in respect of unforeseeable and unavoidable expenditure for which no provision was made in an approved budget as a result of emergency or other exceptional circumstances. The Solid waste collection vote was overspent and no authorization by the major was made for the overspending.**

**Property, plant and equipment**

**The budget for property, plant and equipment in 2011 was overspent by R 744,528.34.**

---

## Makhuduthamaga Local Municipality

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

### Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>32. Fruitless and wasteful expenditure</b>		
Fruitless and wasteful expenditure	3 914	4 304
The above fruitless and wasteful expenditure relates to penalties and interest levied from supplier to whom payments were not made on time.		
<b>33. Irregular expenditure</b>		
Opening balance	-	-
Add: Irregular Expenditure - current year	935 131	-
	935 131	-
Details of irregular expenditure – current year		
Incident	Management response	
Security	Annual escalation for security expenditure was incurred in excess of contractually agreed upon rate increases.	935 131
<b>34. Reconciliation between budget and statement of financial performance</b>		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus per the statement of financial performance	84 590 422	28 799 888
Adjusted for:		
Property rates	491 535	(11 856 005)
Investment revenue	(3 218 855)	806 116
Transfers recognised	(14 834)	1 483 190
Other own revenue	11 665 958	8 571 442
Employee costs	(4 896 260)	(10 239 648)
Remuneration of councillors	46 399	1 736 038
Depreciation & asset impairment	2 875 398	5 072 489
Finance charges	(108 033)	(200 000)
Transfers and grants	760 347	3 574 456
Other expenditure	(8 182 561)	(18 701 384)
Net surplus per approved budget	84 009 516	9 046 582



## **Makhuduthamaga Local Municipality**

(Municipal demarcation code LIM473)

Annual Financial Statements for the year ended 30 June 2011

### **Notes to the Annual Financial Statements**

<b>Figures in Rand</b>	<b>2011</b>	<b>2010</b>
<b>35. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Audit fees</b>		
Amount paid - previous years	1 218 993	1 755 058
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	2 238 766	1 766 838
Amount paid - current year	(2 238 766)	(1 766 838)
	-	-
<b>VAT</b>		
VAT receivable	16 667 092	10 133 593

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

#### **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 Municipal Manager and noted by Council.

Deviations occurred in the current year in respect of procurements of over R 2 000 for which it is required, in terms of the Treasury Regulations, that the municipality obtain quotations from at least three prospective suppliers that are registered on the list prospective suppliers prior to selecting sources of procurement. Approval for the transactions concerned was obtained as described above



---

## **CHAPTER 6: AUDITOR GENERAL AUDIT FINDINGS**

### ***CHAPTER 6: AUDITOR GENERAL'S AUDIT FINDINGS***

#### ***FINAL MANAGEMENT REPORT***

#### ***MAKHUDUTHAMAGA LOCAL MUNICIPALITY***

***30 June 2011***



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

---