



Banking & Investment Policy

Centlec (Soc) Ltd - Banking & Investment Policy

CENTLEC (SOC) LTD	
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DEFINITIONS:

CFO: An officer of the entity designated by Chief Executive Officer to be administratively in charge of the budgetary and treasury functions.

Director: A member of the Board of Centlec SOC Ltd.

Current Liabilities: Current and existing obligations which are due and payable within the subsequent twelve months.

Investments: Funds not immediately required for the defraying of expenses and invested at approved financial institutions.

Chief Executive Officer: A person appointed in terms of section 93J of the Municipal Systems Act as amended;

Negotiable Certificate: A loan certificate that is tradable on the capital market.

Current asset (inventory-perishable goods, Debtors and Cash): An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.

Public Funds: All monies received by the entity to perform the function allocated to it.

Security: A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor.

Entity: means Centlec (SoC) Ltd

SECTION 1: OBJECTIVES OF BANKING AND INVESTMENT POLICY

To ensure:

- a) Prudent investment of surplus cash;
- b) Risk averse cash handling procedures;
- c) Preservation and safety of investments;
- d) Provision of measures for investment diversification;

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- e) Timeliness of cash collections and banking;
- f) Maintaining favourable liquidity status, wherein the entity holds adequate cash or favourable bank balance in order to settle its obligations as and when they become due and payable;
- g) Continuously seek investment opportunities for surplus cash with an authorized financial services provider in a minimum risk investment exposure and
- h) Adherence to prescribed legal requirements for making investments.

SECTION 2: LEGISLATIVE CONTEXT

The entity shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003 (MFMA).

Regulation 3(2) of Municipal Investment Regulation 2005 provides that the board of directors of a municipal entity must adopt an investment policy for the entity consistent with the Municipal Finance Management Act, 56 of 2003 and these regulations.

On the other hand, regulation 3(3) provides that all investments made by a municipal entity, or by an investment manager on behalf of a municipal entity, must be in accordance with the investment policy of the entity and these regulations.

SECTION 3: SCOPE OF THE POLICY

The policy deals with:

- a) Responsibility accountability;
- b) Management of net current assets;
- c) Investment ethics;
- d) Investment principles;
- e) General investment practice;
- f) Investment Procedures
- g) Other external deposit; and
- h) Control over investment.

SECTION 4: RESPONSIBILITY / ACCOUNTABILITY

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- a) Section 99 (1)(h) of MFMA places the responsibility on the Accounting Officer to ensure that the entity's available working capital is managed effectively and economically in terms of any prescribed cash management and investment framework.

- b) The Chief Financial Officer shall, in terms of the delegation of powers and in consultation with the Chief Executive Officer, be responsible for:
 - (i) establishing systems,
 - (ii) procedures,
 - (iii) processes and
 - (iv) training and awareness programmes to ensure efficient and effective management of net current assets banking and cash management.

SECTION 5: MANAGEMENT OF NET CURRENT ASSETS

Current assets management shall include the following:

- a) Collecting revenue when it is due and receivable in line with the Credit Control Policy and Debt Collection Policies;
- b) Pay current liabilities as and when they become due and payable, including transfer to other levels of government entities;
- c) Avoiding pre-payments for goods or services (i.e. payments in advanced of the receipts of goods or services), unless required by the contractual arrangement with the supplier;
- d) Accepting discounts to effect early payments only when the payments has been included in the monthly cash flow estimates provided to the relevant treasury;
- e) Pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the entity are collected and banked promptly;
- f) Timing the inflow and outflow of cash;
- g) Recognizing the time value of money, i.e. economically, efficiently managing cash;
- h) Taking any other action that avoids locking up money unnecessary and inefficiently for efficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilised assets;
- i) Avoiding bank overdrafts;
- j) Management of net current assets;
- k) Debt collections; (The Board of Directors must set a target for debt collection. The target must be expressed as a percentage of potential income and/or the turnover rate of debtors);

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- l) Cash collected should be banked daily. Cash collected after the daily banking has been executed but during office hours should be restricted to authorized persons only, until the next business day when such cash should be banked;
- m) The level of cash on hand at any particular day should not exceed the amount comprehensively insured to be on site at any given time;
- n) In the event that such amount of money as may be insured has been reached prior end of business day, the Chief Financial Officer shall apply his discretion on a risk adverse approach whether to keep the excess not covered within the premises or to bank the excess;
- o) All monies owing to the entity must be collectively reflected in the debtors system;
- p) Any deferment of payment by an existing debtor should be allowed within the prescription of the Credit Control and Debt Collection policy; and
- q) Where the entity has entered into an agency relationship for collection of money, such collected money should be deposited in the bank account of the entity in the manner prescribed by the Accounting Officer, preferably within seven days after receipt.

5.1 Opening of bank accounts:

The entity must open and maintain at least one bank account in the name of the entity and all money received by entity must be paid into its bank account or accounts, and this must be done promptly.

The entity may not open bank account:

- a) abroad;
- b) with an institution not registered as bank in terms of Bank Act; 1990 (Act No. 94 of 1990); or
- c) otherwise than the name of the entity

An entity must have a primary bank account. If an entity has only one bank account that account is its primary bank account; or has more than one bank account, it must designate one of those accounts as its primary bank account.

Money may be withdrawn from entity's bank account in terms of section 11(1) of the Municipal Finance Management Act.

The following moneys must be paid into the entity's primary bank account:

- a) All allocations to the entity;
- b) All monies received by the entity on its investments;
- c) All money received by the entity in connection with its interest and dividends;

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- d) All money collected by entity or external mechanism on behalf of the municipality;
- e) Any other money as may be prescribed.

The Accounting Officer must submit to the Parent Municipality and the Auditor General, in writing, the name of the bank where the primary bank account of the entity is held, and type and number of the account. If the entity wants to change its primary bank account, it may do so only after the Accounting Officer has informed the Parent Municipality and the Auditor General, in writing, at least 30 days before effecting the change.

The Accounting Officer must submit to the Parent Municipality and the Auditor General, in writing:

- a) within 90 days after the entity has opened a new bank account, the name of the bank where the account has been opened, and the type and the number of account
- b) annually before the start of a financial year, the name of each bank where the entity holds a bank account, and the type and the number of each account.

5.2 Management of Inventory (Stock)

- a) Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.
- b) Minimum and maximum stock levels, reordering procedures, turnover rate of stock items must be reviewed quarterly to ensure that funds are not necessarily tied up in stock.
- c) A stock registers, reflecting the under mentioned detail must be kept and updated daily; amongst others it shall include:
 - (i) Item description;
 - (ii) Stores code number;
 - (iii) Transaction date;
 - (iv) Goods received;
 - (v) Delivery note number;
 - (vi) Number of items received;
 - (vii) Value of item received;
 - (viii) Goods issued;
 - (ix) Requisition number;
 - (x) Number of item issued;
 - (xi) Stock item number; and

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(xii) Balance of items in stock.

- d) Stock count must be executed monthly and an annual report reflecting stock shortage and surpluses must be submitted to the board of directors as at 30 June of each financial year. All surpluses and shortage must be explained by the responsible Executive Manager.

5.3 Management of Cash

- a) In order to establish and maintain effective cash management programme, the Chief Financial Officer shall prepare an annual estimate of the entity's cash flows divided into calendar months, and shall update this estimate on a weekly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred.
- b) Cash float allocation to cashiers shall vary between R 500 and R 1,500 at different pay point / receipting points based on the operational needs as determined by the Chief Financial Officer.
- c) The petty cash of the entity shall be kept at the minimum level required to finance the day to day operation of the entity. For this purpose a daily, weekly, monthly and annual cash flow forecast are required.
- d) A maximum threshold of R 10,000.00, or any other amount as the board of directors may from time to time determine, shall be applicable to be the maximum cash to be held in relation to petty cash transactions. Disbursements from the petty cash shall not exceed an initial amount of R 2,000.00 per transaction, or any other amount that the board of directors may determine from time to time.
- e) Except for Petty Cash Replenishment, all payment shall be done by electronic transfer-subject to strict control measures.
- f) Proper consideration must be given to the conditions credit terms of payment offered; if discounts are offered by early settlement they must be properly considered and utilized.
- g) Creditor's statement must be reconciled monthly in line with the accepted practice of creditor's reconciliation and any differences between the creditor's statement and the creditor's General Ledger balance investigated as and when they are noticed.

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- h) Payment must only occur on receipt of an official order, certified good received note and official supplier tax invoice, receipt or cash slip.
- i) Supplier's tax invoices should be date stamped and signed by the relevant Executive Manager or Manager on receipt after confirming that the goods or services have been delivered.
- j) All invoices should be paid within 30 days in terms of Section 99(1)(b) of MFMA from the date invoice is received in order to avoid interest being charged.

5.4 Cash Collection

- a) All monies due to the entity must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.
- b) The procurement of banking services should follow the normal procurement processes as stipulated in the entity's supply chain management policy.
- c) The administration of bank account of the entity should be consistent with Section 85 and 86 of Municipal Finance Management Act, 56 of 2003.
- d) The unremitting support of and commitment to the municipal entity's Credit Control and Debt Collection policy, both by the board of directors and the entity's officials, is an integral part of proper cash collections, and by approving the present policy the board of directors pledges itself to such support and commitment.

5.5 Payments to Creditors

- a) The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the entity stipulate payment terms favourable to the entity, i.e, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the entity. This rule shall be departed from only where there are financial incentives for the entity to effect earlier payment, and the Chief Financial Officer shall approve any such departure before any payment is made.
- b) In the case of SMME's, payment may be effected at the conclusion of the month or within (7) seven days of the date of receipt of the invoice for services rendered, whichever is the earlier. The Chief Financial Officer shall approve any such early payment before any payment is effected.

- c) Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal scheduled payment processing periods.

5.6 Cash Management Programme

- a) The Chief Financial Officer shall prepare an annual estimate of the entity's cash flows divided into calendar months, and shall update this estimate on a monthly basis.

5.7 Management of Bank Overdraft

- a) The entity shall apply for a Bank Overdraft facility / increase the current facility for the entity only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations.
- b) The entity must pay off bank overdraft or any short-term debt within the financial year that it was incurred; and shall not renew or refinance a bank overdraft or short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the overdraft or short-term debt into a new financial year.
- c) The board of directors can only approve a bank overdraft on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approved grant or long-term loan.

SECTION 6: SPECIFIC RESERVES AND PROVISIONS

Sufficient provision must be made to defray the following payments when they occur:

6.1 Income Statement

- (i) Salaries
Salaries should be secure for three (3) months with an average costs of R30 million.
The entity is currently carrying an average employment compliment of R20million based on 570 employees. It is the entities view to maintain a reserve equivalent to three times the entity's monthly salary commitments.
- (ii) Bulk purchases electricity;
Bulk purchases be secured for three (3) months with an average costs of R200 million in winter. The entity thus requires a total of R600million per annum to secure bulk purchases.
- (iii) Network Maintenance and repairs;

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The entity must maintain a reserved cash backed to ensure that the network is maintained and refurbished. A primary maintenance of the network must be carried whether the network is operational or mothballed. The entity spends an aggregate of R100 million on repairs and maintenance per annum. To this extend a reserve need to be created and maintained.

6.2 Balance Sheet Reserves and Provisions:

Sufficient provision must be made to the payment of:

(i) Leave Provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end. This amount to be due to the fact that not all leave balances are redeemed for cash, only 50% of the leave provision is cash backed.

(ii) Provision for Workmen's Commissioner Compensation

The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

The Workmen's Commissioner Compensation Provision must be cash backed to ensure availability of cash for payment of claims

(iii) COID Provision

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 7% per annum over member's expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 12%.

The COID Provision must be cash backed to ensure availability of cash for payment of claims.

(iv) Provision for Post-Retirement Benefits;

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Past service costs are recognized immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested. To the extent that,

at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised. Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the economic entity is demonstrably committed to curtailment or settlement. When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets. Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Due to the fact that the social contributions to employees are budgeted for on an annual basis, the Provision for Post-Retirement Benefits is not cash backed

(v) Provision for Long Service Awards;

The economic entity offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

Due to the fact that the long service awards to employees are budgeted for on an annual basis, the Provision for Long Service Awards is not cash backed.

(vi) Consumer Deposits

Consumer deposits are regarded as creditors, i.e. the funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget.

Only 50% of Consumer Deposits and Rental Deposits should be retained in cash.

(vii) Working Capital

Working capital is required to ensure cash availability to fulfil operating requirements of the Entity.

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In line with National Treasury recommendations, the difference between current creditors and current debtors must be retained in cash as working capital.

SECTION 7: INVESTMENT ETHICS

- a) In making any investments the Accounting Officer, shall at all times have only the best considerations of the entity in mind, and, except for the outcome of the consultation process with the board of directors, shall not accede to any influence by or interference from, individual board members, investment agents or institutions or any other outside parties.
- b) Neither the Accounting Officer (CEO) nor the Chief Financial Officer may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the entity has made or may potentially make an investment.

7.1 Payment of Commission

- a) No fee, commission or other reward may be paid to a board member, councillor of Mangaung Metro Municipality or official of the entity or Mangaung Metro Municipality or to a spouse or close family member of such board member, councillor or official, in respect of any investment made or referred by a the entity.
- b) The investee must declare in writing that no fees, commission or other reward was paid or will be paid to persons mentioned above.

SECTION 8: INVESTMENT PRINCIPLES

8.1 Standard of Care

Investments by the entity or by an investment manager on behalf of a municipality or entity:

- a) must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;
- b) may not be made for speculation but must be a genuine investment; and

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- c) must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the entity and lastly to the probable income derived from the investment.

8.2 Limiting Exposure

- a) Where surplus funds are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the entity.
- b) The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the entity's investments are so distributed that more than one investment category is covered (that is, call account, money market and fixed deposits).
- c) Where appropriate, the Chief Financial Officer shall obtain a professional advice on the degree of perceived risk of various institutions where investments may be made in order to limit exposure as far as possible.
- d) Based on professional judgment and any professional advice sourced, the Chief Financial Officer shall prevent any investment with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.
- e) Under no circumstances shall the board of directors borrow monies for the purpose of re-investment, as this is tantamount to speculation using public funds.

8.3 Risk and Return

- a) Although the objective of the Chief Financial Officer in making investments on behalf of the entity shall always be to obtain the best interest rate on offer, this consideration must be influenced by the degree of diversification required by the policy. No investment shall be made with an institution where it does not meet the requirements provided in this policy.

8.4 Permitted Investments

- a) From time to time it may be in the best interest of the entity to make longer-term investments. In such cases the CFO, must be guided by the best rates of interest pertaining to the specific type of investment, which the entity requires, and to the best and most secure instrument available at the time.
- b) The entity may invest funds only in any of the following investment types:

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- (i) Securities issued by the national government;
- (ii) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (iii) deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990 as amended), with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;
- (iv) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);
- (v) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);
- (vi) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 as amended; with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;
- (vii) Guaranteed endowment policies (with credit worthy institutions), with the intention of establishing a sinking fund;
- (viii) Municipal bonds issued by a municipality; and
- (ix) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

8.5 Investments Denominated in Foreign Currencies Prohibited

- a) The entity may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

8.6 Credit Requirements

- a) The entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in regulation 5 of Municipal Investment Regulations, 2005 to ensure that it places its investments with credit-worthy institutions.
- b) The entity must regularly monitor its investment portfolio; and when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in this policy.

8.7 Condition on Tenure of Investments

- a) No investment with a tenure exceeding twelve months shall be made without the prior approval of the board of directors.

8.8 Growth –related Investment

- a) When making investment, the Chief Financial Officer or his/her delegate must have guarantee that at least the capital amount invested will not reduce other than through known service charges and must exercise due diligence in this regard.

SECTION 9: GENERAL INVESTMENT PRACTICE

9.1 General

- a) In terms of this policy, the Chief Financial Officer shall be responsible for investing the surplus revenues of the entity, in consultation with the Accounting Officer and only with an institution registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990).
- b) Before any investment is made, the Chief Financial Officer or his duly delegated official shall determine and identify the amounts surplus to the entity's needs, as well as the time when and period for which such revenues are surplus.
- c) Prior to making an investment, the Supply Chain Management policy must be complied with in as far as it relates to acquisition of banking services.

9.2 Commission certificate

- a) The Auditor-General requires the financial institution, where the investment is made, to issue the certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party.

9.3 Reporting Requirements

- a) The Accounting Officer must, within **10** working days of the end of each month, as part of the section 87 report required by MFMA, submit to the board of directors a report describing in accordance with generally recognized accounting practice the investment portfolio of the entity as at the end of the month.
- b) The report referred must set out at least:

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- (i) the market value of each investment **as at** the beginning of the reporting period;
- (ii) any changes to the investment portfolio during the reporting period;
- (iii) the market value of each investment as at the end of the reporting period; and
- (iv) fully accrued interest and yield for the reporting period.

9.4 Cash in the bank

- a) Where money is kept in current account, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposit. Fixed term deposits can increase these rates. The most important factor is that the cash in the current account must be kept to an absolute minimum.

9.5 Interest on Investments

- a) The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally recognised accounting practices, be recorded as revenue in accordance with prescribed accounting standards.

9.6 Creditworthiness

- a) When investments are placed with smaller registered institutions, the Chief Financial Officer or his/her delegates has to see to it that the creditworthiness and performance of the institution are to his/her satisfaction, before investing money in the institution
- b) Where appropriate, the Chief Financial Officer or his/her delegates shall be entitled to require any information from which the creditworthiness of any financial institutions with which the entity has investment, analyze it and advice the Accounting Officer accordingly.

9.7 Investments for the Redemption of Long-Term Liabilities

- a) In managing the entity's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the entity, an amount is invested at least annually towards the redemption of that loan on maturity, or in guaranteed endowment policies with the intention of establishing a sinking fund to redeem the loan on maturity.
- b) Such investment may be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making

of such investment shall be approved by the board of directors at the time that the loan itself is approved.

SECTION 10: INVESTMENT PROCEDURES

- a) For all types of investment, the Chief Financial Officer or duly delegated official shall obtain written quotations from at least three financial institutions. This is specifically important for the purpose of comparison of the relevant terms and rates offered by such institution, whether the interest is payable monthly or only on maturity, etc.
- b) Once the required number of quotes has been obtained, a decision must be taken regarding the best term offered and the institution with which funds are going to be invested. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles. No attempts must be made to make institutions compete with each other as far as their rates and terms are concerned.
- c) If institutions have been asked for a quotation with regard to a specific package, the institutions must be requested to give the best rate in their quotation. They must also be informed that, once the quotation has been given, no further bargaining or discussions will be entered into in that regard.
- d) The person responsible for requesting quotations from institutions must record the following:
 - (i) Name of institutions;
 - (ii) Name of person quoting return rates;
 - (iii) Period of the investment;
 - (iv) Relevant terms; and
 - (v) Other facts i.e. are interested payable monthly or on maturation date.
- e) Once a quote has been accepted written confirmation of the details must be obtained from the financial institution. The Chief Financial Officer must ensure that the investment documents received are genuine, issued by an approved institution,
- f) Any monies paid over to the investing institution in terms of the agreed investment shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the entity receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the entity.

SECTION 11: CONTROL OVER INVESTMENTS

- a) An investment register should be kept of all investments made. The following information must be reflected in the register:
- (i) Name of institution,
 - (ii) Capital investment,
 - (iii) Date invested,
 - (iv) Interest rate,
 - (v) Maturation date,
 - (vi) Interest received,
 - (vii) Capital repaid; and
 - (viii) Confirmation numbers.
- b) The investment register and accounting records must be reconciled on monthly basis.
- c) The investment register must be examined on a monthly basis to identify investment falling due within the next two months. It must then be established as what to do with the funds, bearing in mind the cash flow requirements.
- d) Interest, correctly calculated, must be received timeously, together with any distribution capital. The Chief Financial Officer must verify that the interest is calculated correctly.
- e) Investment documents and certificates must be safeguarded in a fire resistance safe, with dual custody. The following documents in particular must be safeguarded:
- (i) Fixed deposit letter or investment certificate,
 - (ii) Receipt for capital invested,
 - (iii) Copy of electronic transfer or cheque requisition,
 - (iv) Excel schedule of comparative investment figures,
 - (v) Commission certificates indicating no commission was paid on the investment and
 - (vi) Interest rate quoted.
- f) The Chief Financial Officer is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, such risk must be rated realistically.



Credit Control and Debt Collection Policy

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Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

Definitions:

In this policy any word or expression to which a meaning has been assigned in the Local Government: Municipal Systems Act, No 32 of 2000 and Municipal Finance Management Act, No 56 of 2003 has that meaning, unless the context indicates otherwise:

“Accommodation” means accommodation in an accommodation establishment, a room, dwelling-house or second dwelling unit, self-catering room, self-catering apartment or free standing building let to transient guests.

“Accommodation Establishments” – consists of one or more of the following to be let types of accommodation:

- a) “Camping” (informal temporary accommodation in a unique environment) is defined by a property used for erection of tents or other temporary structures for temporary accommodation for visitors or holiday-makers, which includes ablution, cooking and other facilities that are reasonably and ordinarily related to camping , for use of such visitors, and includes a caravan park, whether publicly or privately owned, but which excludes the alienation of land on the basis of time sharing, sectional title share blocks or individual subdivision; and excludes resort accommodation or mobile homes;
- b) “Bed and Breakfast” (accommodation in a dwelling-house or second dwelling unit for transient guests) is defined by a dwelling-house or second dwelling in which the owner of the dwelling supplies lodging and meals for compensation to transient guests who have permanent residence elsewhere; provided that the primary use of the dwelling-house concerned shall remain for the living accommodation of a single family;

Definitions (continued):

- c) “Guest House” (accommodation in a dwelling-house or second dwelling unit for transient guests) is defined by a dwelling-house or second dwelling which is used for the purpose of supplying lodging and meals to transient guests for compensation, in an establishment which exceeds the restrictions of a bed and breakfast establishment and may include business meetings or training sessions for resident guests;
- d) “Self-catering Accommodation” (accommodation for non-permanent residents and transient guests) is defined by a house, cottage, chalet, bungalow, flat, studio, apartment, villa, or similar

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accommodation where facilities and equipment are provided for guests to cater for themselves. The facilities should be adequate to cater for the maximum advertised number of residents the facility can accommodate;

- e) "Self-catering Apartments" (accommodation for non-permanent residents and transient guests) is defined by a building or group of buildings consisting of separate accommodation units, each incorporating a kitchen / -ette facility, and which may include other communal facilities for the use of transient guests, together with outbuildings as are normally used therewith; which are rented for residential purposes and may include holiday flats; but does not include a hotel, dwelling-house, second dwelling or group house;
- f) "Backpackers Accommodation" (accommodation and communal facilities in a building or free standing buildings for transient guests) is defined by a building where lodging is provided, and may incorporate cooking dining and communal facilities for the use of lodgers, together with such outbuildings as are normally used therewith and includes a building in which dormitories/rooms/beds are rented for residential purposes, youth hostel, and backpackers' lodge; but does not include a hotel, dwelling house, second dwelling or group house;
- g) "Boarding House" a dwelling-house or second dwelling which is used for the purpose of supplying lodging with or without meals or self-catering to non-permanent/permanent residents for compensation; provided that the primary use of the dwelling-house shall remain for the living accommodation of a single family;

"Account" means an account rendered specifying charges for electricity services provided by the entity, or any authorised and contracted service provider, and which account may include other surcharges.

"Accounting Officer" means the Chief Executive Officer in terms of section 93 of Municipal Finance Management Act.

"Arrangement" means a written agreement entered into between the entity and the consumer where specific repayment parameters are agreed to. Such arrangement does not constitute a credit facility envisaged in terms of section 8(3) of the National Credit Act, Act No. 34 of 2005 (NCR) but is deemed to be Incidental Credit as envisaged in terms of section 4(6)(b) read with section 5(2) and (3) of the National Credit Act.

Definitions (continued):

"Arrears" means those service charges that have not been paid by the due date, including overdue arrangements.

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"Authorised Representative" means a person or instance legally appointed by the entity to act or to fulfil a duty on its behalf.

"Basic electricity services" shall mean a service necessary to ensure an acceptable and reasonable quality of life, which service – if not provided – would endanger public health or safety or the environment.

"Billing Date" means the date upon which the monthly statement is generated and debited to the consumer's account.

"Board" means board of directors of Centlec (SOC) Ltd as appointed by the Council of Mangaung Metropolitan Municipality from time to time.

"Business and Commercial Property" means:

- a) property used for the activity of buying, selling or trading in commodities or services and includes any office or other accommodation on the same property, the use of which is incidental to such activity; or
- b) property on which the administration of the business of private or public entities take place.

"By-law" means a municipal legislation passed by the council of Mangaung Metropolitan Municipality, and which shall be binding on the entity and on the persons and institutions to which it applies.

"Calendar year" shall mean 12 consecutive months of a year.

"Consumer Price Index" shall mean the CPIX as determined and gazetted from time to time by the Statistics South Africa

"Consolidated Account" means an account which is a consolidation of any separate accounts of a person who is liable for payment to the Centlec (SOC) Ltd.

"Council" means the Council of the Mangaung Metropolitan Municipality.

"Credit Control" means all the functions relating to the collection of monies owed by consumers of electricity within the area of supply of Centlec (SOC) Ltd.

Definitions (continued):

"Consumer" means the occupier of any premises to which the Entity has agreed to supply or is actually supplying electricity services, or if no occupier can be identified or located, then the owner of the premises and includes any consumer of the Entity.

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"**Day(s)**" means calendar days, inclusive of Saturdays, Sundays and public holidays.

"**Debt Collectors**" means an external person or entity appointed by the Entity to collect monies due and payable to the Entity, subject to the conditions contained herein.

"**Defaulter**" means any person who owes arrears to the Entity.

"**Delivery Date**" shall mean the date on which the periodic account is delivered to the consumer or 3 days after the date the account was posted, whichever is the first.

"**Due Date**" in relation to -

- a) service charges due in respect of any immovable property, means the date for payment indicated on the account, provided that the due date for any service charges means the twentieth (20th) day of September in the case where service charges are levied annually; and
- b) should such day fall on a Saturday, Sunday or public holiday the due date shall be the next working day.

"**Dwelling**" means a building, structure or place of shelter to live in.

"**Electricity Charges**" means service charges in respect of the provision of electricity.

"**Financial Year**" shall mean the period starting from 1 July in any year and ending on 30 June of the following year.

"**Indigent Consumer**" means the head of an indigent household:-

- a) who applied for and has been declared indigent in terms of Mangaung Metropolitan Municipality's Indigent Support Policy for the provision of electricity services from the Entity; and

Definitions (continued):

- b) who makes application for indigent support in terms of Mangaung Metropolitan Municipality's Indigent Support Policy on behalf of all members of his or her household;

"**Indigent Support Policy**" means the Indigent Support Policy adopted by the Council of Mangaung Metropolitan Municipality

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"Indigent Support Programme" means a structured program for the provision of indigent support subsidies to qualifying indigent consumers in terms of Mangaung Metropolitan Municipality's Indigent Support Policy.

"Industrial Property" – means property used for construction, repair, trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on such a large scale that capital and labour are significantly involved, and includes any office or other accommodation on the same property, the use of which is incidental to such activity;

"Interest" means the charge levied on arrears, calculated as the prime rate, charged by the bank which holds the Entity's primary bank account, plus one percent or such other percentage as may be determined by board from time to time.

"Monthly Average Consumption" means the monthly average consumption in respect of that property calculated on the basis of consumption over the preceding or succeeding twelve months.

"Owner" in relation to immovable property means -

- a) the person in whom is vested the legal title thereto provided that:-
 - i. the lessee of immovable property which is leased for a period of not less than thirty years, whether the lease is registered or not, shall be deemed to be the owner thereof;
 - ii. the occupier of immovable property occupied under a service servitude or right analogous thereto, shall be deemed to be the owner thereof;
- b) if the owner is dead or insolvent or has assigned his or her estate for the benefit of his creditors, has been placed under curatorship by order of court or is a company being wound up or under judicial management, the person in whom the administration of such property is vested as executor, administrator, trustee, assignee, curator, liquidator or judicial manager, as the case may be, shall be deemed to be the owner thereof;
- c) if the owner is absent from the Republic or if his address is unknown to the Entity, any person who as agent or otherwise receives or is entitled to receive the rent in respect of such property, or if the Entity is unable to determine who such person is, the person who is entitled to the beneficial use of such property.

"Prescribed debt" means debt that becomes extinguished by prescription in terms of the Prescription Act 68 of 1969.

"Private Open Space" means land that is privately owned and used for practising of sport, play- or leisure facilities or used as a botanical garden, cemetery or nature area.

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"Privately Owned Townships Serviced by the Owner" – means single properties, situated in an area not ordinarily being serviced by the Entity, divided through subdivision or township establishment in (ten or more) full-title stands and/or sectional units and where all rates-related services inclusive of installation and maintenance of streets, roads, sidewalks, lighting, storm water drainage facilities, parks and recreation facilities, are installed at the full cost of the developer and are rendered and maintained by the residents, Home owners association or management companies/ bodies of such estate.

"Service Charges" means the fees levied by the Entity in terms of its tariff policy for any services rendered in respect of an immovable property and includes any penalties, interest or surcharges levied or imposed in terms of this policy.

"Tariff" means the scale of charges or other fees which may be levied by the Entity in respect of services provided.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

SECTION 1: OBJECTIVES

- a) To focus on all outstanding debt as raised on the consumers' account.
- b) To provide for a uniform credit control and debt collection policy in relation to services rendered by the entity.
- c) To promote a culture of good payment habits amongst consumers of electricity and instil a sense of responsibility towards the payment of electricity services and reduction of consumer debt.
- d) To ensure that the board of directors of Centlec (SOC) Ltd uses innovative, cost effective, efficient and appropriate methods to collect as much of the debt in the shortest possible time without any interference in the process.
- e) To ensure that the entity effectively and efficiently deal with defaulters in accordance with the terms and conditions of this policy.

SECTION 2: LEGISLATIVE BACKGROUND

Section 96(a) of the Local Government: Municipal Systems Act, No 32 of 2000 (hereinafter referred to as the "Systems Act"), obliges the entity (in this case the entity) to collect all money that is due and payable to it, subject to the provisions of that Act and any other applicable legislation.

Section 96(b) on the other hand, requires the entity to adopt, maintain and implement a credit control and debt collection policy, which is consistent with its tariff policies and complies with the provisions of the Act.

Section 97 of the Municipal Finance Management Act, No 56 of 2003 stipulates that the Accounting Officer of a municipal entity must take all reasonable steps to ensure:

- a) that the entity has and implements effective revenue collection systems to give effect to its budget;
- b) that all revenue due to the entity is collected;
- c) that any funds collected by the entity on behalf of a municipality:
 - (i) are transferred to that municipality strictly in accordance with the agreement between the entity and the municipality; and
 - (ii) are not used for the purposes of the entity;
- d) that the municipal entity has effective revenue collection systems consistent with those of the parent municipality;
- e) that revenue due to the entity is calculated on a monthly basis;
- f) that accounts for service charges are prepared on a monthly basis, or less often as may be prescribed where monthly accounts are uneconomical;

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- g) that all money received is promptly deposited in accordance with this Act into the municipal entity's bank accounts;
- h) that the municipal entity has and maintains a management, accounting and information system which:
 - (i) recognises revenue when it is earned;
 - (ii) accounts for debtors; and
 - (iii) accounts for receipts of revenue;
- i) that the municipal entity has and maintains a system of internal control in respect of debtors and revenue, as may be prescribed; and
- j) that all revenue received by the municipal entity, including revenue received by any collecting agent on its behalf is reconciled at least on a weekly basis.

SECTION 3: POLICY PRINCIPLES

- a) The administrative integrity of the entity must be maintained at all times.
- b) This policy must have the full support of the board of directors
- c) The board must have full knowledge of the implementation and enforcement of the policy.
- d) Consumers must apply for services from the entity by the completion of the prescribed application form.
- e) Consumers must receive regular and accurate accounts that indicate the basis for calculating the amounts due. The consumer is entitled to have the details of the account explained upon request.
- f) Consumers must pay their accounts regularly by the due date.
- g) Consumers are entitled to reasonable access to pay points and to a variety of reliable payment methods.
- h) Consumers are entitled to an efficient, effective and reasonable response to appeals and queries, and should not suffer any disadvantage during the processing of a reasonable appeal.
- i) Debt collection action will be instituted promptly, consistently, and effectively without exception and with the intention of proceeding until the debt, including the cost of collection, is recovered.
- j) It shall be the duty of all consumers to ensure that they have the correct information regarding all due amounts.
- k) Implementation and enforcement of this policy shall be done in line with the applicable service standards as outlined in the Customer Care Policy.

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SECTION 4: CODE OF ETHICS

All the officials of the entity who are responsible for the implementation of this policy shall embrace the spirit of **Batho Pele Principle** and treat all debtors with dignity and respect at all times. Employees shall execute their duties in a transparent, fair and honest manner whilst ensuring efficient implementation of this policy in order to realize its desired objectives.

SECTION 5: IMPLEMENTING AUTHORITY

As the implementing authority of this policy, the Accounting Officer (CEO):-

- a) Implements and enforces the Credit Control and Debt Collection Policy.
- b) Is accountable to the board of directors for the enforcement of the policy and shall submit a report to the board of directors regarding the implementation and enforcement of the Credit Control and Debt Collection Policy at such intervals as may be determined by board of directors.
- c) Must establish effective administration mechanisms, processes and procedures to collect money that is due and payable to the entity.
- d) Where necessary make recommendations to the board of directors with the aim of improving the efficiency of the Credit Control and Debt Collection mechanisms, processes and procedures.
- e) Establish effective communication between the entity and consumers with the aim of keeping account holders abreast of all decisions by board of directors and the council of Mangaung Metropolitan Municipality that may affect consumers.
- f) Establish consumer service centres, located in such communities as determined by the board of directors and Mangaung Metropolitan Municipality.

The Accounting Officer may, in writing, delegate any of the powers entrusted or delegated to him or her in terms of this policy to the Chief Financial Officer.

SECTION 6: APPLICATION FOR THE PROVISION OF ELECTRICITY SERVICES

A consumer who requires the provision of electricity services must apply for the service from the entity. The application must be made on the prescribed form.

The application for the provision of services must be made by the registered owner of an immovable property only.

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The entity will not entertain an application for the provision of electricity services by a tenant of a property, or any other person who is not the owner of the property. The only exception will be:-

- a) Individuals and Businesses with lease agreements to lease properties from the entity itself or Mangaung Metropolitan Municipality;
- b) Government Departments;
- c) Body Corporates who take the responsibility for the payment of electricity services on behalf of the individual sectional title owners; and
- d) Approved Indigent Consumers for the purposes of registering and allocating the applicable subsidy to qualified indigent consumers whom will be allowed to open an account in the name of the lessee of the property.

In the case of existing arrangements where tenants have existing accounts, written permission of the owner may be requested from the owner by the entity. If the tenant is guilty of non-payment, the owner, where permission has been granted, as a last resort is liable for the outstanding debt, except where the property concerned is owned by the entity itself.

An agent may with a proxy open an account in the name of the owner. By completing the prescribed application form for the provision of electricity services the consumer of services enters into an agreement with the entity. Such agreement does not constitute a credit facility envisaged in terms of section 8(3) of the National Credit Act (NCA) but shall be incidental credit as envisaged in terms of section 4(6)(b) of the NCA, to which the NCA will only apply to the extent as stipulated in section 5 of the NCA.

The agreement with the entity makes provision for the following:-

- a) An undertaking by the occupier that he or she will be liable for collection costs including administration fees, interest, disconnection and reconnection costs, and any other legal costs occasioned by his or her failure to settle accounts by the due date on an attorney/ client basis;
- b) An acknowledgement by the occupier that accounts will become due and payable by the due date notwithstanding the fact that the owner did not receive the account;
- c) That the onus will be on the occupier to ensure that he or she is in possession of an account before the due date; and
- d) An undertaking by the entity that it shall do everything in its power to deliver accounts timeously.

The application for the provision of electricity services shall be made at least fourteen (14) days prior to the date on which the services are required to be connected.

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On receipt of the application for provision of electricity services, the entity will cause the reading of metered services linked to the property to be taken on the working day preceding the date of occupation.

The first account for services will be rendered after the first meter reading cycle to be billed following the date of signing the service agreement.

In case of new buildings being erected and a connection is made for the first time to the main service lines, the metering and levying of services actually consumed or received will take place as follow:-

- a) Basic electricity (in the case of builders' connections) charges are levied with effect from the date when the connection is made to the main service line.
- b) Basic electricity (if no builders' connection) charges are levied with effect from the date of the Occupancy Certificate issued by the Building Control Section of Mangaung Metropolitan Municipality.
- c) Any connection date between the 1st and 15th of the month will be levied for a full month whilst any connection date after the 15th of the month will only be levied from the 1st of the following month.

SECTION 7: DEPOSITS AND GUARANTEES

On application for the provision of electricity services the consumer deposit prescribed by the board of directors in terms of the Tariff Policy shall be paid. **No interest will accrue and be paid on any deposit held by the entity.**

For the purposes of registering and allocating the applicable subsidy to qualified indigent consumers, accounts will be opened for these consumers without requiring any deposit. This is made possible through the fact that the value of services levied against these accounts is fully offset on a monthly basis against the applicable indigent subsidy. This arrangement will immediately terminate if the status of the indigent consumer changes.

The Chief Financial Officer may, in respect of business premises, accept an irrevocable bank guarantee in lieu of a deposit on application for the provision of electricity services by a business.

Existing consumers moving to a new address are required to pay the prescribed consumer deposit on application for the provision of electricity services at the new address. The minimum deposit payable is determined annually by the board of directors and shall be contained in the tariff schedule annually.

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The consumer deposit paid on application for the provision of electricity services must be reviewed annually and may be increased or decreased upon written notice to consumers. The deposit payable should be as per the tariff schedule as determined from time to time.

On termination of the supply of services the amount of the deposit less any payment due to the entity will be refunded to an account holder, provided that payments due are less than the deposit paid, and that the account holder has provided a forwarding address.

If the Chief Financial Officer intends increasing the minimum deposit payable by the consumer, then he or she shall, in the aforesaid notice, state full reasons for the increase, and allow the consumer an opportunity to make written representations in this regard. An aggrieved consumer may, within a period of twenty one (21) days of having been notified of an increase in the minimum deposit payable, lodge an appeal against the decision of the Chief Financial Officer with the Accounting Officer.

The Accounting Officer shall, in his or her capacity as the appeal authority, consider the appeal, and confirm, vary or revoke the decision of the Chief Financial Officer, within a reasonable period providing reasons for such decision.

SECTION 8: ACCOUNTS AND BILLING

The entity shall provide all consumers with a monthly consolidated account for electricity services rendered, which account shall be generated on a monthly basis in cycles of approximately thirty (30) days.

All accounts rendered by the entity shall be payable on the due date. Account balances which remain unpaid after 30 days from the delivery date of the account shall attract interest on arrears, irrespective of the reasons for non-payment. Interest will be charged from the first working day of the month following the month in which the account becomes payable.

All accounts are payable as above regardless of the fact that the consumer has not received the account, the onus shall be on the consumer to obtain a copy of the account before the due date.

Accounts will be rendered using conventional postal services, hand delivery at the premises or by means of an email if so requested by the consumer.

The provisions of this policy, in respect of the supply of electricity to a consumer, shall constitute the payment conditions of the entity as licensee, contemplated in section 21(5) of the Electricity Regulation Act No. 4 of 2006.

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Service charges in respect of electricity shall be determined in accordance with metered consumption. Monthly accounts shall be rendered for electricity consumption and the consumers shall effect payment thereof by the due date.

Availability charges for electricity, where applicable, are levied annually for a specific financial year but recovered in monthly instalments to assist its consumers. In the case of the consolidated account of a consumer being in arrear during a specific financial year the full amount becomes due and payable with immediate effect.

The tariffs to calculate the electricity charges are determined annually, approved by the board of directors and contained in the tariff schedule produced by the entity.

SECTION 9: SUNDRY CONSUMER ACCOUNTS

Sundry consumer accounts may be rendered by the entity from time to time. Any sundry consumer account shall be included in the monthly consolidated account produced by the entity.

SECTION 10: FINAL ACCOUNTS

Upon receipt of a consumer's application for the termination of electricity services, the entity shall:-

- a) take final readings in respect of electricity consumption;
- b) prepare and render a final account;
- c) appropriate the consumer deposit for the reduction or settlement of any outstanding amount owed by the consumer; and
- d) return the consumer deposit to the consumer in the event that no amount is owed to the Centlec (SOC) Ltd or Mangaung Metropolitan Municipality.

SECTION 11: METERING OF CONSUMPTION

The entity may introduce various metering equipment and may encourage consumers to convert to a system which is preferred by the entity when the board of directors considers this to be beneficial to the entity's functioning and operations.

Electricity is measured with credit and prepayment meters. Consumers may apply to entity for the installation of a prepayment electricity meter in place of a credit meter at the cost of the consumer.

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Where a consumer has successfully applied for indigent support with Mangaung Metropolitan Municipality the credit meter for electricity will be changed to prepayment electricity at the cost of the entity.

The following applies in relation to reading of credit meters:-

- a) Credit electricity meters are read at in cycles of approximately 30 days.
- b) If for any reason the credit electricity meters cannot be read, the entity will render an account based on estimated consumption. The estimate will be based on the average of the previous 12 months consumption.
- c) Where the estimates were being used for any reason, there should be an actual reading taken at least once per quarter within a financial year.
- d) The account based on estimated consumption will be adjusted in the subsequent account based on the actual consumption.
- e) The consumer is responsible to ensure access to metering equipment for the purpose of obtaining meter readings for billing purposes.
- f) Consumers can, for reasons of non-accessibility to their properties by meter readers, provide the entity with monthly meter readings for billing purposes, provided that an audit reading can be obtained by the entity once every six months and provided that a final reading can be obtained should the consumer vacate the property.
- g) If any calculation, reading or metering error is discovered in respect of any account rendered to a consumer:-
 - i. the error shall be corrected in the subsequent account;
 - ii. any such correction in favour of entity may apply in respect of an account from a date no more than three calendar years back from the date on which the error on the account was discovered;
 - iii. any such correction in favour of the consumer may apply in respect of an account from a date no more than three calendar years back from the date on which the error on the account was discovered; and
 - iv. the correction shall be based on the tariffs applicable during the period.
- h) When a consumer vacates a property and a final reading of the meter is not possible, an estimation of the consumption may be made by the entity and the final account rendered accordingly.

The following applies in relation to prepayment metering:-

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- a) Prepayment electricity is purchased at prepayment vending points for consumption after the date of purchase.
- b) Amounts tendered for the purchase of prepayment electricity will not be refunded after the prepayment meter voucher has been produced.
- c) On request of the consumer, copies of the previous prepayment meter vouchers will be produced. Lost vouchers will not be replaced under any circumstances.
- d) Credits remaining in the prepayment meter will not be refunded when a premises is vacated by a consumer or in case of purchasing against a wrong account.
- e) The entity shall not be liable for the reinstatement of credit in a prepayment meter due to tampering with, or the incorrect use or abuse of prepayment meters.
- f) The board of directors may appoint vendors for the sale of prepaid electricity so as to ensure accessibility of the services to the consumers, but does not guarantee the continued operation of any vendor.
- g) The entity may apply all the debt collection functions available on the prepayment system to collect all arrear debt on any account of the consumer.

SECTION 12: PAYMENT OF ACCOUNTS

All accounts rendered by the entity are due and payable on the due date as reflected on the statement of account. All payments, whether made by cash, stop order, electronic payments or payments made through duly authorized agents must be receipted by the entity by the close of business on the due date.

Only cash will be accepted as payment for prepaid electricity. Credit or debit cards may be used for prepaid electricity only at merchants where services for credit card or debit card facilities are available.

Accounts rendered by the entity can be paid at any municipal cashier office and any other pay point available for payment of municipal services. The payment methods and facilities supported by the entity can be used to make payments on accounts.

Payments received in respect of service charges will be allocated by the entity entirely within its discretion, on the account of the consumer. Part payment received on an account shall be allocated firstly to reduce any penalty charges that may have accrued on the account.

An official receipt issued by the Centlec (SOC) Ltd, Mangaung Metropolitan Municipality or its duly authorized agent will be the only proof of payments made.

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Although the entity must render an account for the amount due by a debtor, failure thereof shall not relieve a debtor of the obligation to pay any amount due on account.

When payments of electricity accounts are made by means of electronic funds transfer (EFT), Debit Order or direct deposit at the bank, the account number of the account being paid must be used as a reference number so as to ensure timeous and accurate allocation of payment to the appropriate account by the entity. The account holder shall be responsible for the correctness and accuracy of the payment reference number (i.e. account number used) used. Where a payment is not timeously allocated to the account due to incorrect reference number being used or for any other reason, it is the responsibility of the account holder to furnish the entity with a valid proof of payment so as to facilitated tracing of the payment on the entity's records and subsequent allocation thereof to the appropriate account.

SECTION 13: INTEREST ON ARREAR DEBT

Account balances which remain unpaid 30 days after the delivery date of an account shall attract interest irrespective of the reason for non-payment. Such interest shall be calculated for each month, or part thereof, for which such payment remains unpaid.

Interest will be charged from the first working day of the month following the month in which the account becomes payable.

In case of outstanding debt owed by Residential Households, no further interest shall be charged on any outstanding amounts in respect of which an agreement had been concluded for the payment by way of instalment thereof, provided the instalments are paid in full by the due dates thereof.

SECTION 14: ENQUIRIES AND APPEALS

Any aggrieved person may address a grievance or query regarding charges for electricity services to the Chief Financial Officer in writing or may visit any consumer care office provided by the entity.

Every consumer has the right to ask and to be provided with a clear explanation as to the services being charged and a breakdown of all amounts shown on their account.

The aggrieved person shall clearly state the basis of his or her dissatisfaction and the desired resolution.

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The lodging of an inquiry shall not relieve the aggrieved person of the responsibility to settle his or her account. An interim payment similar to an average account must be paid by the due date pending finalisation of the enquiry.

The entity will respond to all inquiries from consumers in writing within twenty eight days from the lodging of the enquiry.

The Chief Financial Officer will keep custody of all enquiries and appeals through the Collaborator Programme and report monthly to the board of directors on all enquiries and appeals yet to be resolved.

SECTION 15: LIMITATION, DISCONNECTION OR DISCONTINUATION OF SUPPLY

An account rendered to a consumer by the entity in respect electricity shall be paid by the due date and if the consumer fails to pay any account within a period of fourteen (14) days after the expiry of the due date, then:-

- a) without further notice, the entity may disconnect or discontinue the supply of electricity or the immovable property in question; and
- b) the Chief Financial Officer or any duly authorised person may instruct attorneys to recover the outstanding amounts owed.

The disconnection or discontinuation of the supply of electricity shall be effected in the manner that is customarily used or by taking such reasonable and lawful steps as may be necessary.

Any disbursements or charges incurred or raised in respect of the limitation, disconnection or discontinuation of the supply of electricity shall be paid by the consumer.

At the time of the disconnection, limitation or discontinuation of the supply of electricity the entity shall:-

- a) provide the consumer with notice of disconnection, limitation or discontinuation, including:-
 - i. the date and time of the limitation, disconnection or discontinuation;
 - ii. the reason for the disconnection or discontinuation;
 - iii. the place at which the consumer can challenge the basis of the disconnection or discontinuation;
and
 - iv. allow the consumer fourteen to challenge or make representations.

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If a consumer unlawfully reconnects or attempts to reconnect a supply of electricity that has been limited, disconnected or discontinued, then –

- a) the entity may disconnect or discontinue the supply entirely by removing the service connection from the premises; and
- b) any disbursements, penalties or reconnection charges, together with any outstanding amounts owed, must be paid in full before a reconnection can be made.

Subject to the provisions of this policy, the Chief Financial Officer or any person duly authorised thereto may enter into an arrangement with a defaulter for the payment of an outstanding account, in which event:

- a) payment may be made by way of instalments; and
- b) the normal supply of electricity to the premises shall be resumed.

Any defaulter who enters into a *bona fide* arrangement with the entity for the settlement of arrears, and who fails to honour the terms of such arrangement, shall not be allowed to enter into any further arrangement with the entity.

The Chief Financial Officer can at his/her discretion revise the arrangement conditions in terms of the number of arrangements allowed, arrangement deposit amount payable or number of instalments, if it assists the entity to recover the outstanding amounts.

Any consumer already handed over to a debt collector or attorney is not allowed to make any arrangement with the entity for the payment of such an account and must be referred to the relevant debt collector or attorney attending to the account handed over.

In the case of a consumer where the supply of electricity been disconnected or discontinued at least twice during the preceding period of twelve (12) months, the entity may review the amount of the consumer deposit required from such consumer.

The entity must provide an owner of a property in its area of supply with copies of accounts sent to the occupier of the property for services supplied to the property if the owner requests such accounts in writing from the entity.

The entity must provide an owner of a property in its area of supply with copies of any agreement entered into with the occupier of the property for the payment of an outstanding account if the owner requests such agreement in writing from the entity.

SECTION 16: DEBT COLLECTION

16.1 Handover of debt to debt collectors

Debts which have been outstanding for more than 90 days from due date may be handed over to debt collectors appointed by the entity for the purposes of collecting such debt.

The relevant debt collectors must ensure that the stipulations contained in the NCA with respect to incidental credit are duly complied with. If the debt collectors are unsuccessful in collecting the debt within 90 days of being handed over, the debt may be handed over to attorneys for legal action.

Only the Chief Financial Officer may hand over debts to attorneys for collection, and the Chief Financial Officer shall hand such debts over to attorneys for collection if they have not been collected by debt collectors within the aforementioned period of ninety (90) days, unless the Chief Financial Officer is of the opinion that it shall not be cost effective to do so.

If the Chief Financial Officer is of the opinion that it is appropriate to do so (such as in cases of urgency), he or she may hand over debts for collection to attorneys at any time prior to the expiration of any of the periods referred to above and without first handing them to debt collectors.

The following types of debt will not be handed over to debt collectors:

- i. Debts of indigent consumers that are registered as indigent at the date of handover.
- ii. Government debt.
- iii. Debt that is being paid off as per an arrangement with the consumer.
- iv. Debt that has not been subject to internal credit control actions for at least two months.

The process of collecting debt by debt collectors includes:

- i. The phoning of consumers.
- ii. Sending demands for payment by SMS (short message service) to consumers.
- iii. Sending out demand letters.
- iv. Making arrangements with consumers to pay off debt in terms of the entity's credit control and debt collection policy.
- v. Making follow-up contact with consumers on unpaid arrangements.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

16.2 Handover of debt to Attorneys for legal collection

Debt that could not be collected by the debt collectors and debt that requires urgent legal attention will be handed over to attorneys for legal collection.

The following types of debt will not be handed over to attorneys:

- i. Debt of approved indigent consumers that has not yet been written off by the board.
- ii. Debt that is being paid off as per an arrangement with the consumer.
- iii. Debt that has not been subject to internal credit control actions for at least two months.

The process of legal collection includes:-

- i. Final demands for payment to consumers.
- ii. Emolument attachment orders on consumer's salaries.
- iii. Summons issued for debt to be paid.
- iv. Default judgment to be obtained against the consumer.
- v. The attachment of moveable properties and sale in execution of moveable property
- vi. The attachment of immoveable property and the sale in execution of immoveable property.

16.3 Debt of approved indigent consumers written off

Upon registration as an indigent household, the arrears on the account of the applicant will be written off.

Where restriction of consumption applies to an electricity service, applicants may not refuse to be restricted. Where restrictions are not possible the account holder will be responsible for the consumption in excess of the approved subsidy.

The writing off of any arrears is strictly subject to the provision that the property may not be sold within a period of three years from the date that the owner qualify as a registered indigent. In the case of the property being sold within a period of three years the arrear debt, excluding any further accumulated interest, will be recovered before a clearance certificate is issued.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

16.4 Other debt collection methods

The debt collection methods mentioned in the paragraphs above are not an exhaustive list of methods that can be applied to collect debts and any other methods that can be initiated will be implemented with the approval of board.

SECTION 17: ARRANGEMENTS TO PAY ARREAR DEBT

Arrangements to pay outstanding and due amounts in consecutive instalments:-

17.1 Residential Households

One of the key objectives of debt collection is to encourage consumers to start paying their monthly accounts in full. The growing average balances on consumer accounts necessitate that innovative ideas be implemented to encourage consumers to pay off their arrears. At the same time it is also of utmost importance that regular payers not be discouraged through the implementation of any possible incentives.

The main aim of an arrangement agreement will be to promote full payment of the current account and to address the arrears on a consistent basis.

A consumer may enter into a written payment agreement with the entity to repay any outstanding and due amount to the entity under the following conditions:-

- i. The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
- ii. The current monthly amount must be paid in full; and
- iii. The written agreement has to be signed on behalf of the entity by a duly authorised officer.

The agreement will be compliant with the requirements of the National Credit Act where applicable.

In order to determine monthly instalments a comprehensive statement of assets and liabilities as well as the statement of income and expenditure of the consumer must be compiled and submitted by the consumer on application. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer, taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.

The entity may from time to time introduce incentive schemes to improve the debt collection rate.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

During the time of the debt collection process, but before the debt is handed over to the attorneys a consumer may enter into an arrangement to pay off arrear debt, which will be made an order of court by agreement in terms of the Rules of the Court. A consumer who cannot pay their arrear debt may enter into an arrangement to pay the account over an extended period of time.

No arrangements will be entertained by the entity on a debt that has been handed over for legal collection.

The Entity will entertain only one arrangement with a consumer to pay off arrear debt. Failure to abide by the arrangement will result in:

- i. the arrangement being terminated with immediate effect; and
- ii. the outstanding balance being immediately become due and payable;

The consumer by signing the arrangement agreement to pay off arrear debt acknowledges the following:

- i. The debt is owed to the Entity.
- ii. That on default of the arrangement agreement, interest on arrears will be charged on the amount due, electricity supply will be disconnected to the property of the consumer or the consumer will be blocked from the purchase of electricity on the prepayment system, and legal proceedings will be instituted to collect the debt.
- iii. That the consumer will be liable for all costs, which includes legal costs on an attorney client basis incurred to collect the debt.

17.2 Arrangements by businesses

At the date of the arrangement a minimum of 50% of the capital arrear debt must be paid immediately.

The balance of the debt which includes the capital amount and interest must be paid over a 6 to 12 month period provided payments are made monthly by the due date. Only the Chief Financial Officer may approve any extension on this arrangement.

The total monthly instalment must include the current monthly charges plus the amount to pay off arrear debt.

Arrangement by businesses to pay off arrear debt will only be entertained for debt on which debt collection actions have been taken and which actions are in an advanced stage.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

During the time of the debt collection process, but before the debt is handed over to the attorneys a consumer may enter into an arrangement to pay off arrear debt, which will be made an order of court by agreement in terms of the Rules of the Court.

No arrangements will be entertained by the entity on a debt that has been handed over for legal collection. Failure to maintain the arrangement will result in interest being reversed and full debt collection being implemented, with no possibility of reprieve.

Any arrangement outside of the foregoing must be approved by the Accounting Officer (CEO). This function cannot be delegated.

***NB! The principal debt on all arrangement shall be the amount outstanding as at the date of the arrangement excluding the current amount due less the deposit paid for the arrangement. The principal amount owing after the deposit payable on the acknowledgement of debt form shall be the principal amount captured in the system.**

SECTION 18: STAFF, DIRECTORS AND EMPLOYEES & COUNCILLORS OF MANGAUNG METROPOLITAN MUNICIPALITY - PAYMENT OF ARREARS

All existing staff, directors and employees and councillors of Mangaung Metropolitan Municipality who are in arrears will have not entered into an agreement to pay arrears must do so as soon as their accounts fall in arrears, failure which will result in debt collection actions in terms of this policy being instituted.

All staff joining the entity must within thirty days sign an agreement to pay arrears.

- i. The repayment period for staff, directors and employees and councillors of Mangaung Metropolitan Municipality shall not exceed twelve months.
- ii. All agreements with Directors, Councillors and other employees of term contracts must not exceed the expiry date of their term of office.

SECTION 19: ADMINISTRATION ORDERS - PAYMENT OF ARREARS

On notification that an order for administration in terms of section 74 of the Magistrates Court Act, 1944 order has been granted, entity will manage the debt that is part of the administration order separately to the current account.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

The consumer concerned will be responsible for the payment of the current monthly account and if the consumer defaults on the payment of the account, debt collection action will be implemented.

SECTION 20: ALLOCATION OF PART PAYMENTS AND APPROPRIATION OF DEPOSITS

If an accountholder pays only part of an overdue account, the payment shall be allocated such follows to in relation to that account:

- **firstly**, to any additional charges levied by the entity in respect of legal expenses, disconnection or reconnections of services in respect of the account or property concerned;
- **secondly**, to any unpaid interest raised on the account;
- **thirdly**, to the arrear electricity account
- **fourthly**, to the current electricity account;.

This sequence of allocation shall be followed despite any instructions to the contrary given by the accountholder.

SECTION 21: CERTIFICATES REQUIRED FOR TENDERS

A person or an institution reacting to a tender published by Centlec (SOC) Ltd and / or Mangaung Metropolitan Municipality or wishing to enter into a contract to either provide services or goods to Centlec (SOC) Ltd and / or Mangaung Metropolitan Municipality must produce a certificate, on the prescribed form, which states that regular payment of rates and services accounts are maintained and that the accounts are currently up to date.

A person who fails to provide such a certificate shall be disqualified from the tendering process. A person who has an existing arrangement with the entity and / or Mangaung Metropolitan Municipality for the payment of arrears shall be exempted from the foregoing provisions to the extent of the arrears.

SECTION 22: POWER OF ENTRY AND INSPECTION

For any purpose related to the implementation or enforcement of this policy, and at all reasonable times, or in an emergency, a duly authorised representative of the entity may enter premises, request information and carry out such inspection or examination, as he or she may deem necessary:-

- a) with regard to the installation or repair of any meter or service connection or reticulation; or
- b) so as to limit, discontinue, disconnect or reconnect the provision of electricity service.

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

If the entity considers it necessary that work be performed to enable the foretasted authorised representative to perform a function referred to in preceding paragraph properly and effectively, then it may:

- a) by written notice require the owner or occupier of the premises, at his or her own expense, to do specific work within a specified period; or
- b) if, in its reasonable opinion, the situation is a matter of urgency, then the entity may do such work, or cause it to be done, at the expense of the owner or occupier, and without written notice.

If the work referred to above is carried out for the sole purpose of establishing whether a contravention of this policy has been committed, and no such contravention has taken place, then the entity shall bear the expense connected therewith, together with the expense of restoring the premises to its former condition.

SECTION 23: NOTICES

A notice or document issued by the entity in terms of this policy shall be deemed to be duly issued if signed by a duly authorised representative of the entity.

If a notice is to be served on a person in terms of this policy then such service shall be effected by:

- a) delivering the notice to him or her personally, or to his or her duly authorised agent or by postage to the official address as noted on the system;
- b) delivering the notice at his or her residence or place of employment, to a person apparently not less than 16 (sixteen) years of age, and apparently residing or employed there;
- c) if he or she has nominated an address for legal purposes, delivering the notice to such an address;
- d) Postage addressed to his or her last known address;
- e) in the case of a body corporate, delivering it to the registered office or the business premises of such a body corporate; or
- f) if service cannot be effected in terms of the foregoing subsections, by affixing it to the principal door of entry to the premises or displaying it in a conspicuous place on the property to which it relates.

SECTION 24: OFFENCES AND PENALTIES

Any person who commits any of the following acts, shall be guilty of an offence:-

- a) fails to give the access required by a duly authorised representative of the entity in terms of this policy;

Centlec (Soc) Ltd - Credit Control & Debt Collection Policy

- a) obstructs or hinders a duly authorised representative of the entity in the exercise of his or her powers or performance of functions or duties in terms of this policy;
- b) unlawfully uses or interferes with entity's equipment or the consumption of services supplied to any consumer;
- c) tampers with or breaks any seal on a meter or on any equipment belonging to the entity, or causes a meter not to register properly the service used;
- d) illegally connects and / or reconnects electricity;
- e) fails, or refuses, to give a duly authorised representative of the entity such information as he or she may reasonably require for the purpose of exercising or performing his or her powers or functions in terms of this policy, or gives such representative false or misleading information, knowing it to be false or misleading; or
- f) contravenes or fails to comply with a provision of this policy.

SECTION 25: REPORTING

The Chief Financial Officer shall report monthly to the Accounting Officer (CEO) in a suitable format to enable the CEO to report to the board of directors.

The board shall, quarterly every financial year, report to the Mangaung Metropolitan Municipality the implementation and enforcement of the entity's Credit Control and Debt Collection policy.

This report shall contain particulars on cash collection statistics, showing high-level debt recovery information including amongst others numbers of customers, enquiries, arrangements, default arrangements, growth or reduction of arrear debt.

Where possible, the statistics should ideally be divided into wards, business (commerce and industry), domestic, state, institutional and other such divisions.



Long-Term Debtors Policy

Centlec (Soc) Ltd - Long-Term Debtors Policy

CENTLEC (SOC) LTD	
Subject: Long-Term Debtors Policy	Policy No:
Directorate: Finance	Board Item No:
Sub-Directorate: Accounting & Compliance	Date Approved:
Custodian: GM: Accounting & Compliance	Effective Date: 1 July 2017
Last Date Of Review:	Reference:

Centlec (Soc) Ltd - Long-Term Debtors Policy

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Centlec (Soc) Ltd - Long-Term Debtors Policy

DEFINITIONS:

Long-term receivables / debtors: is any debtor / receivable that is scheduled or projected for receipt in a period more than 12-month period.

Payment Arrangement: An agreement to pay an overdue account in instalments over a specified period of time.

Exchange transactions: Transactions that related to provision of goods and / or services by the entity.

Interest: Means the applicable rate to be added or capitalised to the long-term debt or principal advanced loan amount.

Liability: Means the possible outflow of funds or resources from the entity due to past event.

Repayment: Means interval payments of instalments on debts or loans.

Receivable: Means the possible inflow of funds or resources into the entity due to the services rendered or loan advanced.

PART A: LONG-TERM DEBT RELATING TO CONSUMER ACCOUNTS

Centlec (Soc) Ltd - Long-Term Debtors Policy

1. OBJECTIVES

- a) To provide for measures and principles for addressing the consumer debt problem, while maintain a positive and reciprocal relationship with consumers of electricity, and
- b) To outline the accounting treatment for long-term outstanding debt.

2. LEGISLATIVE CONTEXT

Section 96 of Municipal Systems Act requires that the entity must collect all money that is due and payable to it, subject to this Act and any other applicable legislation and for this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its tariff policies and complies with the provisions of this Act.

3. POLICY PRINCIPLES

- a) This policy is applicable only to long-term debtors from exchange transactions.
- b) This policy must be read together with the Revenue Enhancement Strategy, Credit Control and Debt Collection Policy, Revenue Policy, Customer Care Policy and Bad Debts Policy of the entity.
- c) This policy should not be used to divest the entity from its legislative responsibility to implement its Credit Control and Debt Collection Policies so as to ensure that monies due are collected as and when they become due.
- d) All material adjustments in debtors' accounts shall require approval of the Chief Financial Officer.
- e) Similarly, any write-off of bad debts against long-term debtors shall require approval of the Board of Directors and the Council of the parent municipality.

4. MEASURES TO PREVENT INCURRENCE / ESCALATION OF LONG-TERM DEBT

- a) The entity shall continuously review its revenue business models and processes so as to identify areas that require improvement and ensure revenue sustainability.
- b) The entity's revenue business models shall therefore focus on maximizing revenue collection, reducing inefficiency and costs, and reducing uncollectible debt.

Centlec (Soc) Ltd - Long-Term Debtors Policy

- c) In order to achieve the above, measures shall therefore be put in place to ensure that the following critical elements of revenue sustainability are continuously improved and implemented:
- (i) Provision of Metered Services
 - (ii) Accurate and timeous Billing
 - (iii) Meter Audits
 - (iv) Implementation of Credit Control and Debt Collection Policy;
 - (v) Customer interaction processes / Community Education
- d) As part of the annual strategic and business planning process, a holistic approach shall therefore be implemented to ensure that all the above mentioned critical elements are considered and simultaneously incorporated in the strategic and annual performance plans.

5. IDENTIFICATION OF LONG-TERM DEBTORS

In the context of this policy, long-term debtors shall include the following:

- a) Debtors' accounts that are older than 360 days as per the accounting records of the entity; and
- b) Debtors' accounts for which there are an arrangement made to pay in installment up to a period of 12 months.

Long-term debtors / receivables shall be disclosed as non-current receivables in the financial statements of the entity and shall include principal debt and interest.

6. INTEREST

- a) The same interest calculation formula shall be used for both long-term and short-term debtors. However, interest that remains unpaid shall typically be added to the principal amount and compounded for interest that's carried over from accounting period to the next. Adjusting entries for accumulated interest shall be made on the date the accounting period ends.
- b) Interest shall be calculated at the rates determined by the board from time to time. The board shall also have the discretion not to charges interest on certain categories of debt (e.g a portion of long-term debt that is under arrangement to pay by instalments).

Centlec (Soc) Ltd - Long-Term Debtors Policy

7. ARRANGEMENT TO PAY LONG-TERM DEBT BY INSTALMENTS

In cases where arrangements are entered into with the debtor to pay a long-term debt (accumulated account) in instalments as provided for in the Credit Control and Debt Collection policy of the entity, such arrangements shall be administered in accordance of the provision of that policy (i.e Credit Control and Debt Collection).

However, the principal debt together with interest, debt collection costs and commission shall become due and payable immediately in the event of any of the following:

- a) The insolvency of the debtor or any of them;
- b) The debtor or any of them committing act of insolvency;
- c) The debtor or any of them being place under administration;
- d) Any payment due in terms of the arrangement agreement not being made on due dates;
- e) The debtor on anyone of them not making payment of any further or future amounts that may be accrued to the entity for the account of the debtors;
- f) The sale of property against which the debt is owed.

The Chief Executive Officer or any duly delegate officials shall have the discretion to depart from any of the above conditions, provided that a report to that effect is furnished to the delegating authority.

8. EXCLUSIONS

This policy shall is not applicable in respect of any debt that may be owed by pre-paid electricity merchants / vendors in relation to selling of pre-paid electricity, in which case the pre-paid electricity vending agreement and the Pre-paid Electricity Vending Policy shall apply.

PART B: LONG-TERM DEBT RELATING TO LONG-TERM LOANS ADVANCED

Centlec (Soc) Ltd - Long-Term Debtors Policy

1. OBJECTIVES

- a) To provide for policy framework regarding granting of long-term loans and management of existing loan agreements in respect of property, plant and equipment relating to provision of electricity services.
- b) To outline the accounting treatment of long-term loans.

2. LEGISLATIVE CONTEXT

- a) In terms of section 164(1)(c) of Municipal Finance Management Act, 56 of 2003 (MFMA), a municipality or a municipal entity is prohibited from making / granting loans to three categories of borrowers:
 - (i) councillors or officials of the municipality;
 - (ii) directors or officials of the municipal entity; and
 - (iii) members of the public.
- b) In terms of this policy, the Accounting Officer is required to take all reasonable steps to ensure that the entity does not engage granting of loans as outlined by section 164(1)(c).

3. POLICY PRINCIPLES

- a) Where permissible, the entity shall advance long-term loans only to municipalities or other municipal entities falling within its areas of supply only for the purpose of capital expenditure on property, plant or equipment to be used for the purpose providing electricity services within the area of jurisdiction of such municipality or municipal entity.
- b) All variations in the terms of loans and advances should be duly approved in writing by the Accounting Officer (Chief Executive Officer).
- c) Where security is taken against the loans, the form and adequacy of security shall be reviewed annually by the Chief Financial Officer.
- d) The loan and security documents should be kept in safe custody by the Chief Financial Officer. A record of all such documents should be maintained and the documents should be annually verified with reference to such records.

Centlec (Soc) Ltd - Long-Term Debtors Policy

- e) All material adjustments in loan accounts shall require approval of the Chief Financial Officer.
- f) Similarly, any write-off of bad debts against loan accounts shall require approval of the Board of Directors and the Council of the parent municipality.
- g) The loan agreements shall provide for identification of cases where principal and/or interest have become overdue or where any other terms are not being complied with.

4. CONDITIONS RELATING TO GRANTING OF LOANS

Where appropriate, the entity shall advance long-term loans only to municipalities or other municipal entities falling within its areas of supply purely for the purpose of capital expenditure on property, plant or equipment to be used for the purpose providing electricity services within the area of jurisdiction of such municipality or municipal entity.

The total amount and / or maximum of the each loan shall be determined and approved by the Board of Directors and the Council of the parent municipality for each individual case.

Each long-term loan shall be made subject to the following minimum conditions:

- a) total amount up to which loans may be made must be determined and approved by the board of directors and / or the Council of Mangaung Metropolitan Municipality depending on the levels of delegations;
- b) the purposes for which loans may be made must be stipulated and approved by the board of directors and / or the Council of Mangaung Metropolitan Municipality depending on the levels of delegations.
- c) maximum amount of loans which may be made for each such purpose in individual cases must be determined and approved by the board and / or the Council of Mangaung Metropolitan Municipality depending on the levels of delegations;
- d) The loan agreement, which shall outline the terms on which such loans are made must be made entered into and signed by all relevant parties for each individual case;

Centlec (Soc) Ltd - Long-Term Debtors Policy

- e) Only the board of directors and / or the Council of Mangaung Metropolitan Municipality shall have the authority to approve qualifying loans in terms of this policy;
- f) Procedure for ensuring compliance with relevant legal requirements shall be shall be determined and approved by the board of directors and / or the Council of Mangaung Metropolitan.
- g) Despite the provisions of (a) to (g) above, the entity shall not advance long-term loan to any municipality or municipality for the purpose of re-financing existing long-term debt already held with the entity or any other institution.

The Board of Directors or the Council of the parent municipality shall have the discretion to place other conditions for each individual long-term loan.

Loans that were taken over from Mangaung Metropolitan Municipality shall be dealt with in accordance with the prevailing Loan Agreements as signed by the parties.

5. REPAYMENT PRINCIPLES

- a) As a principle, the following terms of the loan shall be outlined and agreed upon in the loan agreement in order to determine the repayment amount of the loan:
 - (i) amount of loan;
 - (ii) interest rate;
 - (iii) timing of payments (e.g., monthly, quarterly, annually), and
 - (iv) length of loan;
- b) At no point shall the repayment period of the loan exceed the useful life of an asset being financed though such as loan.
- c) Repayment amounts shall firstly be allocated to pay interest and the remainder thereof towards the outstanding capital amount.

6. INTEREST

The loan advanced in terms of this policy shall bear interest with effect from the date of inception of the loan as agreement.

Centlec (Soc) Ltd - Long-Term Debtors Policy

Interest that remains unpaid shall typically be added to the principal amount and compounded for interest that's carried over from accounting period to the next. Adjusting entries for accumulated interest shall be made on the date the accounting period ends.

Interest shall be calculated at the rates determined by the board in consultation with the duly delegated senior official of the municipality concerned from time to time. The board shall also have the discretion not to charges interest on certain categories of long-term loan (e.g a portion of long-term loan that is under certain special arrangements as may be determined by the board from time to time).

Regardless of the repayment frequency applicable in each individual case as may be agreed upon in terms of loan agreement, interest shall be capitalized on a monthly basis in arrears.

5. RESPONSIBILITIES OF CENTLEC (SOC) AS A LENDER

Centlec (SOC) Ltd may only grant a loan in terms of this policy only if the municipality or municipal entity concerned comply with the following:

- a) A resolution of the municipal council, signed by the mayor, has approved the debt agreement;
- b) The impending long-term debt must be consistent with the municipality or municipal entity concerned capital budget; and
- c) The Accounting Officer has signed the agreement or other document which creates or acknowledges the debt.

PART C: INTERCOMPANY LOANS RECEIVABLE

Centlec (Soc) Ltd - Long-Term Debtors Policy

1. OBJECTIVES

- a) To provide for policy framework regarding intercompany loans receivable as a result of transactions between Centlec (SOC) Ltd and its parent municipality.

2. LEGISLATIVE CONTEXT

Section 56 (1) of Municipal Finance Management Act 56 of 2003 (MFMA) stipulates that the mayor of a municipality which has sole or shared control over a municipal entity must guide the municipality in exercising its rights and powers over the municipal entity in a way: -

- a) that would reasonably ensure that the municipal entity complies with this Act and at all times remains accountable to the municipality; and
- b) that would not impede the entity from performing its operational responsibilities.

Section 56 (2) stipulates that in guiding the municipality in the exercise of its rights and powers over a municipal entity in accordance with subsection (1), the mayor may monitor the operational functions of the entity, but may not interfere in the performance of those functions.

3. POLICY PRINCIPLES

Intercompany transactions are commonly made between the entity and the parent municipality, which in some cases end up being classified as intercompany loans. The following principles shall apply in respect of any transaction which culminates into intercompany loans:

- a) Measures shall be taken to ensure that as far as possible, intercompany loans are entered into in accordance with normal commercial terms (i.e terms that would apply should a similar transaction be entered into with unrelated party).
- b) Fixed intercompany loans shall initially be recognised at fair value, plus directly attributable transaction costs for items that will not be measured at fair value subsequently.
- c) Given that there is no active market for inter-company loans, fair value will usually need to be estimated by discounting the future loan repayments using a market rate of interest for similar loan transactions. The discount (i.e. difference between the loan amount and fair value) shall then be recorded as part of the parent's cost of investment in the subsidiary.

Centlec (Soc) Ltd - Long-Term Debtors Policy

- d) If the loan is repayable at the discretion of the parent municipality (i.e. it contains a demand feature), then Centlec (SOC) Ltd shall therefore record the full loan amount as a liability in its books.
- e) This policy should be read with Related Party Policy of Centlec (SOC) Ltd.

4. LOANS FROM CENTLEC (SOC) LTD TO THE PARENT MUNICIPALITY

- a) Where a loan is made by Centlec (SOC) Ltd to its parent, any initial difference between loan amount and fair value shall be dealt with as follows:
 - (i) recorded as a distribution by Centlec (SOC) Ltd to the parent; and
 - (ii) recorded as income by the parent municipality to the extent the distribution is made out of post-establishment accumulated profits of Centlec (SOC) Ltd.
- b) If the loan contains a demand feature, it should, as in other scenarios, be recorded at the full loan amount by the parent (borrower).
- c) Centlec (SOC) Ltd shall at least annually perform an impairment assessment to assess whether there is objective evidence that its financial asset (i.e loans granted to the parent) is impaired.

5. REPORTING AND DISCLOSURE REGARDING INTERCOMPANY LOANS RECEIVABLE

Reporting and disclosures relating to intercompany loans must comply with all the requirements of the Municipal Finance Management Act be given in sufficient detail in the entity's financial statements to enable the effect of the loans on the financial statements to be understood. Where there are significant uncertainties, such as the expected terms of a loan, the reports and disclosures should refer to this.

