



CENTLEC (SOC) Ltd. ANNUAL REPORT 2019/20

Registered name of the public entity	CENTLEC (SOC) Ltd
Company registration number	2003/011612/30
Country of incorporation and domicile	South Africa
Nature of business and principal activities	Electricity distribution
Chief Executive Officer (CEO)	Mr AN Mgoqi
Chief Finance Officer (CFO)	Mr MM Matsimela
Directors	Mr N Mokhesi (Chairperson) Ms DC Myeni (Deputy Chairperson) Mr KM Moroka Mr CAK Choeu
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Controlling entity

Mangaung Metropolitan Municipality

Bankers

ABSA

Auditors

Auditor-General of South Africa
(AGSA)

Company Secretary

Mr Thabo Malgas

Attorneys

Phatsoane Henney Incorporated
Ashira Consultant
Malebogo Maeyane Attorneys
GL Tshangana Attorneys

COMPANY SECRETARY'S CERTIFICATE TO THE SHAREHOLDER OF CENTLEC (SOC) LTD

In accordance with the provisions of the Companies Act (Act 71 of 2008), the Company Secretary of CENTLEC (SOC) Ltd, hereby certify that:

In respect of the reporting period ended 30 June 2020, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission (CIPC), all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.



T Malgas

COMPANY SECRETARY CENTLEC (SOC) Ltd

Date: 05 March 2021

CHIEF EXECUTIVE OFFICER'S QUALITY CERTIFICATION

I, M Sekoboto, Chief Executive Officer of CENTLEC (SOC) Ltd, hereby certify that:

The Annual Report for the 2019/2020 financial year has been prepared in accordance with the Municipal Systems Act (Act 32 of 2000) and the Municipal Finance Management Act (Act 56 of 2003) and regulations made under these Acts.



M Sekoboto

CHIEF EXECUTIVE OFFICER

Date: 05 March 2021

Legislation covering financial and administrative management:

- 1) The Constitution of the Republic of South Africa 1996 (Act 108 of 1996).
- 2) Basic Conditions of Employment Act (Act 15 of 1997 and regulations thereto).
- 3) Labour Relations Act (Act 66 of 1995).
- 4) South African Bargaining Council Main Collective Agreement 2015/2020.
- 5) Occupational Health and Safety Act (Act 85 of 1993 and regulations thereto).
- 6) Companies Act (Act 71 of 2008, Chapter 8 and regulations thereto).
- 7) Municipal Finance Management Act (Act 56 of 2003 and regulations thereto).
- 8) Municipal Systems Act (Act 32 of 2000 and regulations thereto)
- 9) Value Added Tax Act (Act 84 of 1991).
- 10) Electricity Regulations Act (Act 4 of 2006).
- 11) National Energy Regulator Act (Act 40 of 2004).
- 12) *King III Code of Corporate Governance* (until April 2017).
- 13) *King IV Report on Corporate Governance for South Africa, 2016* (effective from April 2017).
- 14) NRS048 – 2:2003, second edition, *Electricity Supply – Quality of Supply*.
- 15) NRS047 – 1:2005, third edition, *Electricity Supply – Quality of Service*.
- 16) *Supply Chain Management: A Guide for Accounting Officers of Municipalities and Municipal Entities*, October 2005.
- 17) National Key Point Act (Act 102 of 1980 and regulations thereto).
- 18) Employment Equity Act (Act 55 of 1998 and regulations thereto).
- 19) Municipal Structures Act (Act 117 of 1998 and regulations thereto).
- 20) Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993 and regulations thereto).
- 21) Unemployment Insurance Act, (Act 63 of 2001 and regulations thereto).
- 22) Promotion of Administrative Justice Act, (Act 3 of 2000).
- 23) Skills Development Act, (Act 97 of 1998 and regulations thereto).
- 24) Broad-based Black Economic Empowerment Act, (Act 53 of 2003).
- 25) Cross-boundary Municipalities Laws Repeal and Related Matters Act, (Act 23 of 2005).
- 26) Municipal Fiscal Powers and Functions Act, (Act 12 of 2007).
- 27) Intergovernmental Fiscal Relations Act (Act 97 of 1997).
- 28) Intergovernmental Fiscal Regulations Framework.

Table of Acronyms and Abbreviations:

Abbreviation/Acronym	Explanation/Description
AFS	Annual Financial Statements
AGSA	Auditor-General South Africa
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIPC	Companies and Intellectual Property Commission
DEA	Department of Environmental Affairs
EDI	Electricity Distribution Industry
EM	Executive Manager
EPMDS	Employee Performance Management and Development System
EME	Emerging Micro Enterprise
EXCO	Executive Committee
EWDs	Employees with Disabilities
GM	General Manager
GRAP	Generally Recognised Accounting Practices
HDI	Historically Disadvantaged Individuals
ICT	Information and Communication Technology
IDP	Integrated Development Plan
INEP	Integrated National Electrification Programme
KPA	Key Performance Area
KPI	Key Performance Indicator
KRA	Key Result Area
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MFP	Municipal Finance Planning
MMM	Mangaung Metropolitan Municipality
MTREF	Medium-Term Revenue and Expenditure Framework
NERSA	National Energy Regulator of South Africa
PMR	Professional Marketing Research
PMS	Performance Management System
POE	Portfolio of Evidence
PwC	PricewaterhouseCoopers
RED	Regional Electricity Distributor
REMCO	Human Resources and Remuneration Committee
SALGA	South African Local Government Association

Abbreviation/Acronym	Explanation/Description
SAWMU	South African Municipal Workers Union
SCM	Supply Chain Management
SDBIP	Service Delivery and Budget Implementation Plan
SHREQ	Safety, Health, Risk, Environment and Quality
SMME	Small, Medium and Micro Enterprise
SOC	State-Owned Company
WSP	Workplace Skills Plan

Glossary:

Accessibility indicators:	Explore whether the intended beneficiaries are able to access services or outputs.
Accountability documents:	Documents used by executive authorities to give “full and regular” reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution (1996). These include plans, budgets, in-year and Annual Reports.
Activities:	The processes or actions that use a range of inputs to produce the desired outputs and ultimately, outcomes. In essence, activities describe “what we do”.
Adequacy indicators:	The quantity of input or output relative to the need or demand.
Annual Report:	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the Municipal Finance Management Act (MFMA, 2003). Such a report must include annual financial statements as submitted to, and approved by, the Auditor-General.
Approved budget:	The Annual Financial Statements (AFS) of a municipality as audited by the Auditor-General and approved by council or a provincial or national executive.
Baseline:	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
Basic municipal service:	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided, it may endanger public health and safety or the environment.
Budget year:	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
Cost indicators:	The overall cost or expenditure of producing a specified quantity of outputs.

Accessibility indicators:	Explore whether the intended beneficiaries are able to access services or outputs.
Distribution indicators:	The distribution of capacity to deliver services.
Financial statements:	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
General Key Performance Indicators (KPIs):	After consultation with Member of the Executive Council (MECs) for local government, the Minister may prescribe general KPIs that are appropriate and applicable to local government generally.
Impact:	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
Inputs:	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
Integrated Development Plan (IDP):	Sets out municipal goals and development plans.
National Key Performance Areas (KPA's):	<ul style="list-style-type: none"> • Service delivery and infrastructure. • Economic development. • Municipal transformation and institutional development. • Financial viability and management. • Good governance and community participation.
Outcomes:	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
Outputs:	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e. a product such as a passport, an action such as a presentation or immunisation, or a service such as processing an application) that contributes to the achievement of a Key Result Area (KRA).

Accessibility indicators:	Explore whether the intended beneficiaries are able to access services or outputs.
Performance indicator:	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered).
Performance information:	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with 'performance measure'.
Performance standards:	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this Employee Performance Management and Development System (EPMDS), performance standards are divided into indicators and the time factor.
Performance targets:	The level of performance that municipalities and their employees strive to achieve. Performance targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
Service delivery and budget implementation plan:	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.

Accessibility indicators:	Explore whether the intended beneficiaries are able to access services or outputs.
Vote:	<p>One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The vote specifies the total amount that is appropriated for the purpose of a specific department or functional area.</p> <p>Section 1 of the MFMA (2003) defines a "vote" as:</p> <ul style="list-style-type: none"> a) <i>one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i> b) <i>which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.</i>

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CHAPTER 1: FOREWORD AND EXECUTIVE SUMMARY



Mr. K.M Moroka
Chairperson of the Board
CENTLEC (SOC) Ltd

Overview of the chairperson

This report will serve as my last as the Chairperson of Centlec Board, it represents what as the board have learned about the organisation and what we believe should be improved to ensure that the entity meets its objectives. The journey from our appointment has been a filled with various challenges, however through the dedication and commitment of the board the entity has managed to navigate the various challenges that it was faced with for the year under review.

The President of the Republic of South Africa Cyril Ramaphosa announced that the country will be going on a national lockdown as from the 27 March 2020, since the beginning of the pandemic the entity have managed to minimize the impact of the virus through the establishment of the ad-hoc committee responsible for all activities related to covid-19 within CENTLEC. Their role was to provide updated data on COVID-19 workplace related activities, coordinated and provided reliable data on the workplace incidents, coordinate response to incidents and support to user directorates, coordinate and provide reports on productivity levels, coordinate and provide reports health and safety support, coordinate and provide analysis of hot spot areas, coordinate intervention and support for PPEs and sanitation.

The pandemic is more than a health crisis; it is an economic crisis, a humanitarian crisis, a security crisis, and a human rights crisis. It has affected us as individuals, as families and as societies. The pandemic has swiftly taken hundreds of thousands of lives, infected millions of people, upended the global economy and caused pervasive fear for the future. COVID-19 has dramatically augment the elements of VUCA world of works (Volatile, Uncertain,

Complex and Ambiguous) that CENTLEC and businesses find themselves and requires agile response and ethical leadership.

CENTLEC (SOC) Ltd most important role is to provide quality and reliable energy supply to support the Mangaung Metropolitan and Southern Free State Municipalities economic growth aspirations and to improve the quality of life of its citizens.

The 2019/20 financial year has been a challenging year for CENTLEC (SOC) Ltd, the entity continues to face many challenges relating to operational efficiency and the precarious financial position it finds itself. The Board is very concerned about the financial position of the entity. Revenue impacts heavily on the sustainability of our business and as such it has become one of my major concerns and focus areas going forward. The board has requested management team to focus on improving the finances of this organization by enhancing revenue collection.

The entity has achieved an overall of **50%** of its predetermined KPI's. Additional focus is required in the financial key performance areas. The organisation has been experiencing challenges associated with the decline in revenue figures characterized by illegal connections and fluctuation in electricity demand from both business and residential customers. Cable theft has also regrettably broadened and this cuts across the industry, which points to the need for a country wide security initiative to reverse the current trends.

On the shortcoming the Auditor General's audit findings highlighted criticality of performance measures and KPI's, the need to strengthen focus on internal controls, compliance and prevention of irregular expenditure. Measures are already underway to actively respond to the Auditor General's findings which will increase accountability, consequence management and ensure adequate governance oversight to monitor progress in closing the findings as well as preventing recurrence. These will be monitored directly from Internal Audit.

The Board focused specifically on improving the first level of assurances which is provided by Executive Management and the Chief Executive Officer. The Board will closely monitor the performance of the Accounting Officer and Executive Management to ensure that they

urgently and effectively address the significant deficiencies in internal controls on financial reporting, performance reporting and compliance with laws and regulations.


We concede that there remains a need to strengthen our stakeholder relationships to ensure that a sense of shared responsibility remains as we address social issues impacting the community. Issues such as theft, vandalism and illegal connections must be tackled from all available avenues to ensure that a strong message is sent out and received by the transgressors. Addressing these issues is crucial in ensuring the safety of our customers as well as the various communities we serve.

I must commend, the Shareholder, the Board, as well the staff of CENTLEC (SOC) Ltd who continue to ensure that CENTLEC (SOC) Ltd.'s vision of becoming a provincial energy supplier remains intact and attainable. The importance of sound leadership in ensuring we reach this goal must be emphasised. This places an obligation on us to ensure that we, not only provide leadership, but also cultivate leaders at all levels who stimulate confidence in the future of the company and are branded by their unique proficiency. The voyage to a rejuvenated, refocused and ethical organisation that keeps the lights on has begun.

We further face challenges in ensuring the interface with our customers' remains fluid. In addressing this challenge we have focused our efforts to improving our billing and customer relations management systems. We are therefore willing to implement innovative strategies which assist us in improving communications with our customers, to ensure that we continue to make strides in this regard.

I must thank the various committees and sub-committees of the CENTLEC (SOC) Ltd Board for their valued guidance and direction and ensuring that we have, yet another, successful year. Every entity is faced with its own unique challenges from time to time. However, it is how the entity handles and overcomes those challenges which defines an entity. I must also commend the CENTLEC (SOC) Ltd management, for their commitment and drive in upholding the CENTLEC (SOC) Ltd mandate. This has ensured that CENTLEC (SOC) Ltd remains a reliable source in the energy supply sector.

In conclusion I must extend my vote of thanks to the shareholder, Mangaung Metropolitan Municipality, for its continued support. My fellow Board members who have consistently been my pillars and assisted me in steering CENTLEC (SOC) Ltd and its sub committees to the numerous successes we have achieved. I thank the CENTLEC (SOC) Ltd executive management for their commitment in overcoming the various challenges we face and showing the competency to effectively implement the Board's vision. I would also want to wish the incoming CENTLEC board the best in its term.



CHAIRPERSON OF THE BOARD
MR K M MOROKA

1.2 OVERVIEW BY THE CHIEF EXECUTIVE OFFICER



Overview of Chief Executive Officer

The 2019/20 financial year was another challenging year against the background of continued difficult global economic conditions and the Covid-19 pandemic. The President of the Republic of South Africa Cyril Ramaphosa announced that the country will be going on a national lockdown as from the 27 March 2020. This announcement required the entity to develop operational procedures to ensure that service delivery continues under the lockdown conditions. Our staff compliment was trimmed down to 33% and a work from home policy was introduced.

The Occupational Health & Safety Section conducted safety Covid-19 training, with special emphasis on the hand hygiene, elbow greeting and sneezing/coughing as well as social distancing amongst employees. An isolation room within the premises was also set up to receive and isolate employees who might report symptoms of COVID 19 if necessary. Personal Protective Equipment in the form of gloves, masks and hand sanitizers were distributed. Each company vehicle used by front-line staff (those that directly deal with customers) was supplied with a bottle of sanitizer.

In the 2019/20 financial year, Centlec has experienced the decline in energy consumption. On the 4th quarter of the financial year, the decline in energy consumption of bulk customers, dropped by 18.11% on average. Covid 19 pandemic had an impact as a results of lock down of the top bulk customers. In April 2020 only, the average decline of top 10 bulk customers was between 30% and 18%.

Despite the challenges CENTLEC (SOC) Ltd provided network services to all its customers, which include: the purchasing, distribution, sale of electricity, constructing networks, connecting customers, repair and maintenance of networks, installation and maintenance of public lighting. We are committed to meet the existing and future energy needs of our customers. To succeed over the long term, we know that we must ensure good governance, operational excellence and financial sustainability by ensuring access to essential services that are affordable to all, be responsive to the needs of the community and be progressive orientated to create an environment to uplift and dignify lives.

For the year under review, several milestones were accomplished as set out in the entity's Service Delivery and Budget Implementation Plan (SDBIP) which include among others the following:

- Matlharantlheng and Botshabelo R networks as energizes as part of supplying 1550 customers with electricity
- Fourteen (14) high masts have been erected and commissioned within MMM by 30 June 2020.
- 367 DC Transformer Inspections completed by 30 June 2020.
- 506 Distribution Centre Panels were tested by 30 June 2020.
- The Vending Systems has been upgraded to a Standard Transfer Specification (STS) compliance version 2 for 2024 readiness.

Regardless of these successes, the entity faces some daunting challenges and risks that threaten and have a negative impact on its ability to deliver services in a sustainable manner. CENTLEC (SOC) Ltd suffered financial losses due to the ongoing theft of copper cables at various electrical installations and has also encountered many incidents of tampering or bypassing of electricity meters as well as illegal use of electricity. Apart from the loss in revenue, illegal connections cause power outages and are a threat to the safety of people and animals. A total of 471.49 kilometres of the 132kV overhead lines inspections were inspected and repaired in the Mangaung Metropolitan Municipality (MMM) area of supply to minimise breakdowns and to improve the quality of supply to all customers. We strive to maintain a reliable network that meets NRS compliance requirements. We have undertaken a number of initiatives and programmes that benefit the environment and our customers. Our view is that renewable energy and suitable infrastructure are a must.

The past financial year was also a thought-provoking year from a budget cut perspective. This cut meant that available resources were stretched with service delivery while CENTLEC (SOC) Ltd continued to contribute to community development through improvement and upgrading of the electricity network and maintenance of the infrastructure. In the 2019/20 financial year the entity spent a capital budget of R 116 135 721.

The entity managed to revert back to an unqualified audit opinion for the 2018/19 financial year through engagements with the parent municipality to address the causes of the differences in the intercompany transactions.

In conclusion, I would like to thank the board of directors, executive management team and the personnel of the entity for their support during a challenging 2019/20 financial year. CENTLEC (SOC) Ltd has devoted personnel who have proved time and again that they are up to any challenges coming their way. I have no doubt that this will also be the case in 2020/21.



CHIEF EXECUTIVE OFFICER
M SEKOBOTO

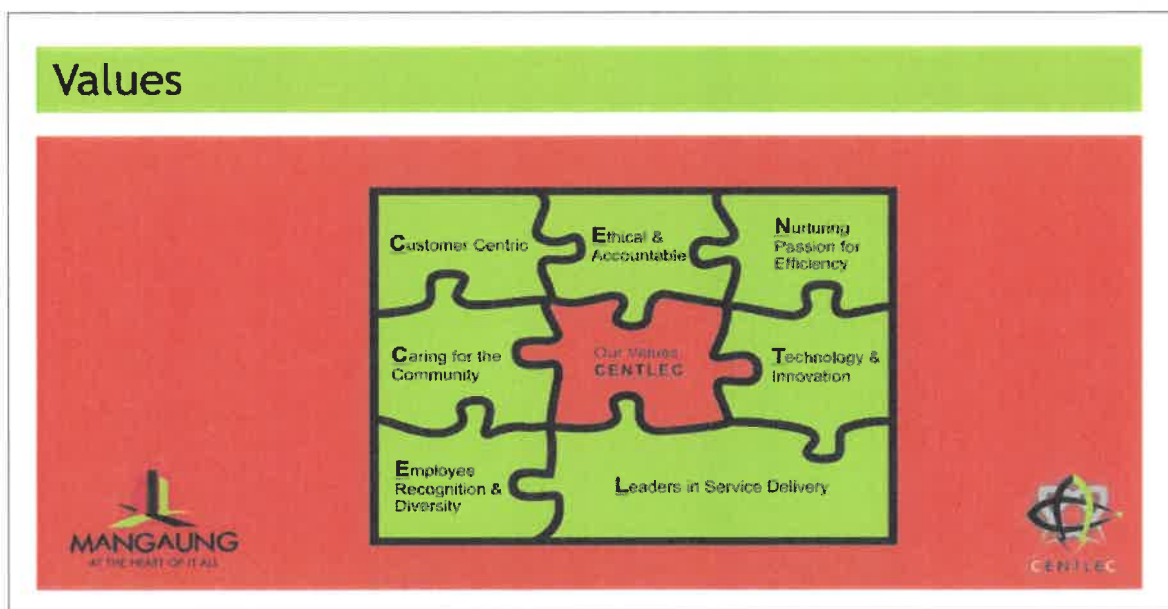
1.3 Vision

“To be a reliable energy utility that enables social and economic upliftment”.

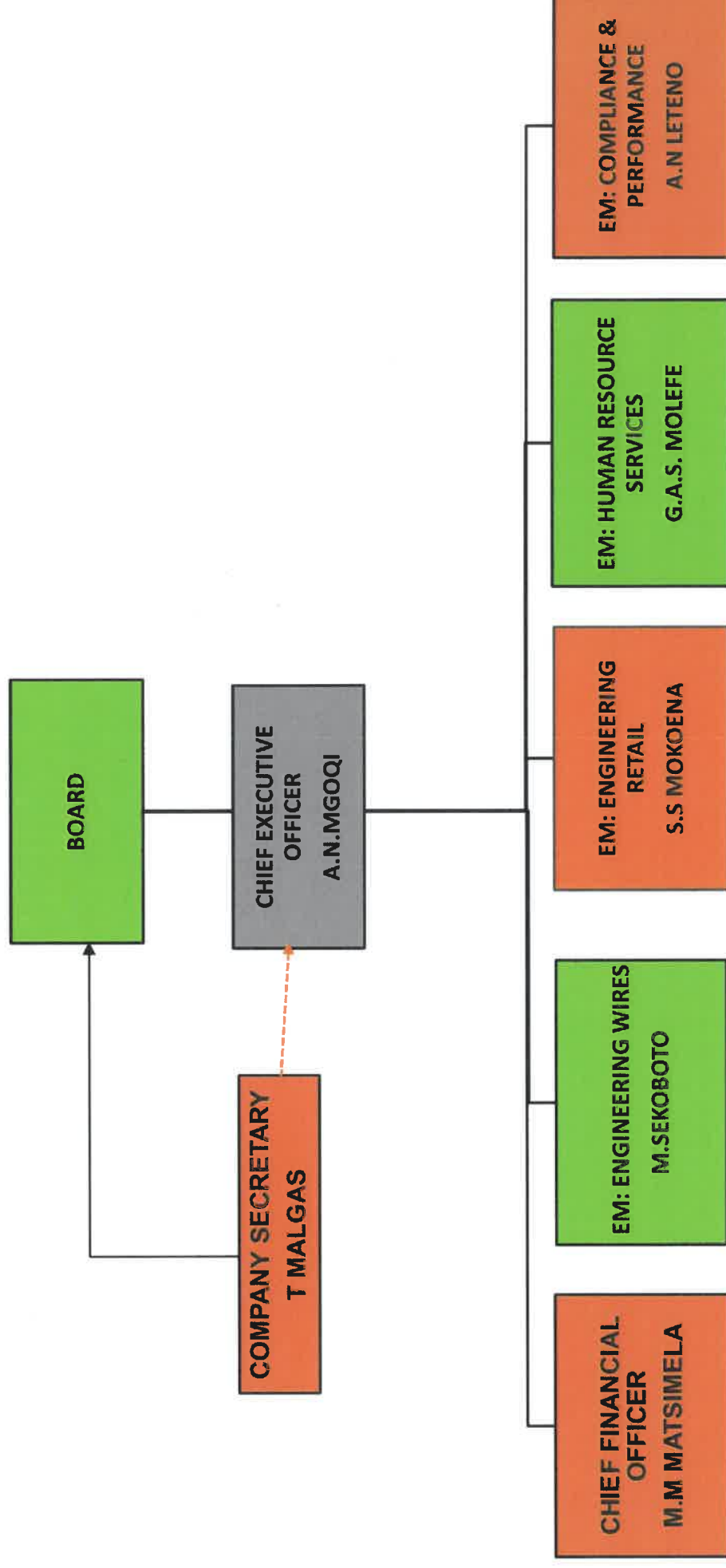
1.4 Mission

- To provide optimal service delivery as mandated by the Mangaung Metropolitan Council.
- To strategically manage our operations in an effective, efficient and financially prudent manner, as measured against relevant indicators.
- To seek the most cost effective and innovative energy solutions in partnership with relevant stakeholders in order to maximise shareholder value.
- To train, develop, attract and retain a highly skilled workforce and to promote sound relations with organised labour.
- To ensure a safe and healthy environment for our workforce and the community.
- To be a socially responsible corporate citizen that is concerned with improving the lives of the community and the environment in which we operate.

1.5 Values



1.6 Organisational structure



1.7 Legal requirements

In terms of Section 121 (1) of the MFMA (2003), every municipality and every municipal entity must prepare an Annual Report for each financial year. The Council of a municipality must, within nine months after the end of a financial year, deal with the Annual Report of the municipality and of any municipal entity under the Municipality's sole or shared control in accordance with Section 129 of the MFMA (2003).

1.8 Purpose of an Annual Report

1. To provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates.
2. To provide a report on performance against the budget of the municipality or municipal entity for that financial year.
3. To promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity.

1.9 Scope of report

This Annual Report covers CENTLEC (SOC) Ltd's (the municipal entity) governance, financial, service delivery performance, and environmental, broader economic and overall sustainability performance information for the financial year 2019/20. It provides an account of the entity's progress as at the end of June 2020 and offers a forward-looking perspective in terms of future plans and value-generating strategies.

1.10 Functions, population and service delivery overview

The municipal entity is mandated to provide electricity services to all its customers. As the electricity distribution service provider of the MMM, the municipal entity's core competency is to purchase, distribute and sell electricity within its geographical footprint.

CENTLEC (SOC) Ltd was established as a municipal entity wholly owned by MMM in terms of the Municipal Systems Act (Act 32 of 2000) and the Companies Act, (Act 71 of 2008).

- **Electricity distribution/energy services:** the municipal entity distributes electricity to Mangaung, Kopanong, Mantsopa and Mohokare municipalities. The municipal entity purchases its energy from Eskom at **27 supply** points in 22 towns in the Southern Free State and the Mangaung supply area.
- **Construction of electrical networks:** All new electrification networks and upgrading of existing networks are handled by the municipal entity's design and construction sections, and where additional capacity is required, it is done through the supply chain processes and the appointment of private companies.
- **Operation, maintenance and extension of networks:** The maintenance of electricity distribution networks forms a large part of the municipal entity's operations. A 24-hour standby service ensures that customers are not inconvenienced by long power outages. Ongoing evaluation is performed on existing networks to detect any overloading or failure and this is addressed with the upgrading and/or extension of the particular network.
- **Metering, pre-payment vending and Billing services:** Modern me employed to meter the various categories of customers. Pre-payment and credit metering systems are in use. Extensive pre-payment vending facilities are available to customers to ensure convenience and availability at all times. Credit meter reading and billing have been done in-house from 01 July 2011.

The municipal entity has approximately **174 721** active customers, ranging from domestic to commercial and industrial properties, as detailed below. The number of customers have increased slightly compared to the previous year due to new connections.

Customer base as per tariff group as at 30 June 2020:

Tariff Group	Number of Consumers				
	Mangaung Metropolitan Municipality	Kopanong	Mohokare	Mantsopa	Total
INDIGENT	28,551	2,179	426	198	31,354
INCLINING BLOCK	128,254	5,099	2,994	2,425	138,772
FLAT RATE BUSINESS	1,686	345	167	281	2,479
BULK RESELL 2	31	-	-	-	31
BULK RESELL 3	202	-	-	-	202
BULK RESIDENTIAL 2 SFS	1	-	-	-	1
BULK RESIDENTIAL 3 SFS	5	2	1	-	8
CENTLEC DEPARTMENTAL TOU	7	3	1	-	11
COMPLEX - SINGLE PHASE	16	-	-	-	16
COMPLEX - THREE PHASE	591	-	-	-	591
COMPLEX - SFS SINGLE PHASE	-	1	-	-	1
COMPLEX - SFS THREE PHASE	5	35	1	-	41
ELEC FLEX 1	4	-	-	-	4
ELEC FLEX 2	173	-	-	-	173
ELEC FLEX 2 - SFS	-	4	-	1	5
ELEC FLEX 3	572	-	-	-	572
ELEC FLEX 3 - SFS	3	15	7	8	33
HOME FLEX - SINGLE PHASE	5	-	-	-	5
HOME FLEX - THREE PHASE	174	-	-	-	174
HOME FLEX - SFS THREE PHASE	1	-	-	-	1
SPORT CLUBS	-	13	-	2	15
SPORT STADIUMS	7	2	-	-	9
BULK SUPPLY	-	-	-	6	6
DEPARTMENTAL FLAT RATE	22	95	29	71	217
TOTAL	160,310	7,793	3,626	2,992	174,721

1.11 Financial health overview

Although the municipal entity has been able to honour its financial commitments, financial viability remains one of the major challenges faced by municipalities and municipal entities. The main challenges having an impact on the financial viability of the entity are:

- Debt collection.

- Low revenue growth.
- Above-inflation increase in bulk purchases.
- Distribution losses (mainly as a result of theft).
- Cable theft.
- High unemployment.

Financial health summary:

Financial health summary:

Details	Original Budget		Adjustment Budget		Actual	Variance (Adj. Budget less Actual)	%
	(R)	%	(R)	%	(R)		
	2019/20		2019/20		2019/20		
Revenue	2 820 555 691	100%	2 820 555 691	100%	2 657 779 648	162 776 043	6%
Electricity	2 684 816 554	95,2%	2 684 816 554	95%	2 503 722 302	181 094 252	7%
Grants	26 000 000	0,9%	26 000 000	1%	22 608 696	3 391 304	15%
Other Revenue	109 739 137	4%	109 739 137	4%	131 448 650	- 21 709 513	-17%
Less:	2 255 226 162	100%	2 255 226 162	100%	2 735 558 657	- 480 332 495	-18%
Expenditure	2 255 570 522	100%	2 255 570 522	100%	2 727 698 666	- 472 128 144	-17%
(Profit) / Loss on disposal of assets	- 344 360	0%	- 344 360	0%	9 647 299	- 9 991 659	0%
Inventories losses / (gains)	-	0%	-	0%	- 1 787 308	1 787 308	200%
Surplus / (Deficit) before taxation	565 329 529	25%	565 329 529	25%	- 77 779 009	- 317 556 452	-195%

@

#

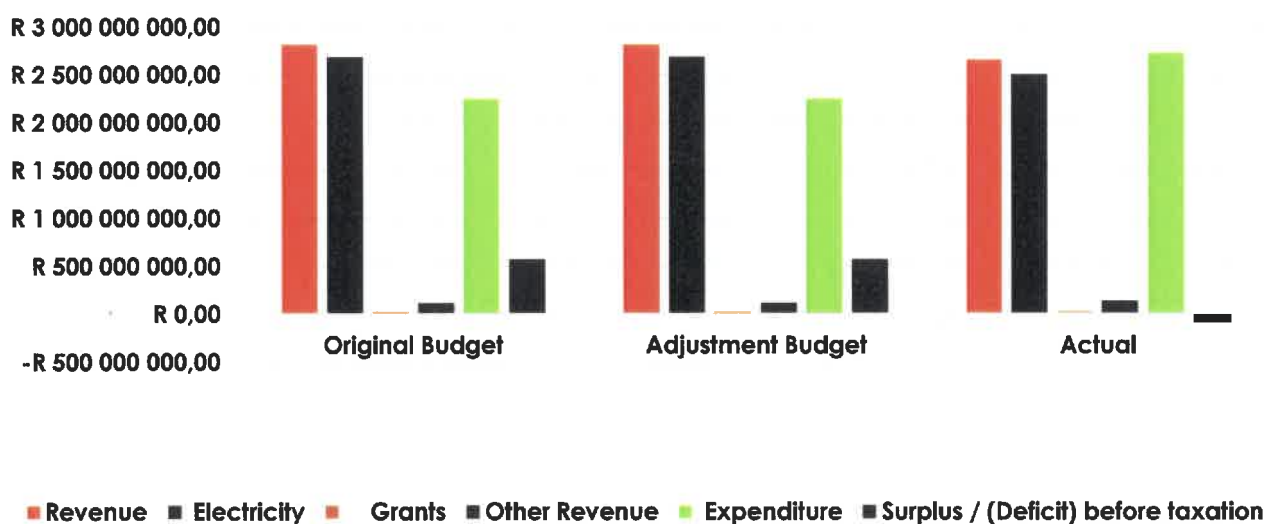
&

@: The variance is due to the fact that the amount budgeted for included VAT while the actual amount recognized for the grant revenue excludes VAT.

#: The variance is mainly due to the revision of the number of street lights and streetlight luminaires that are used as a basis to calculate the street light consumption revenue following the 2019/20 assets verification.

&: The variance is attributed to under provision on some of the line items in the general expenses category.

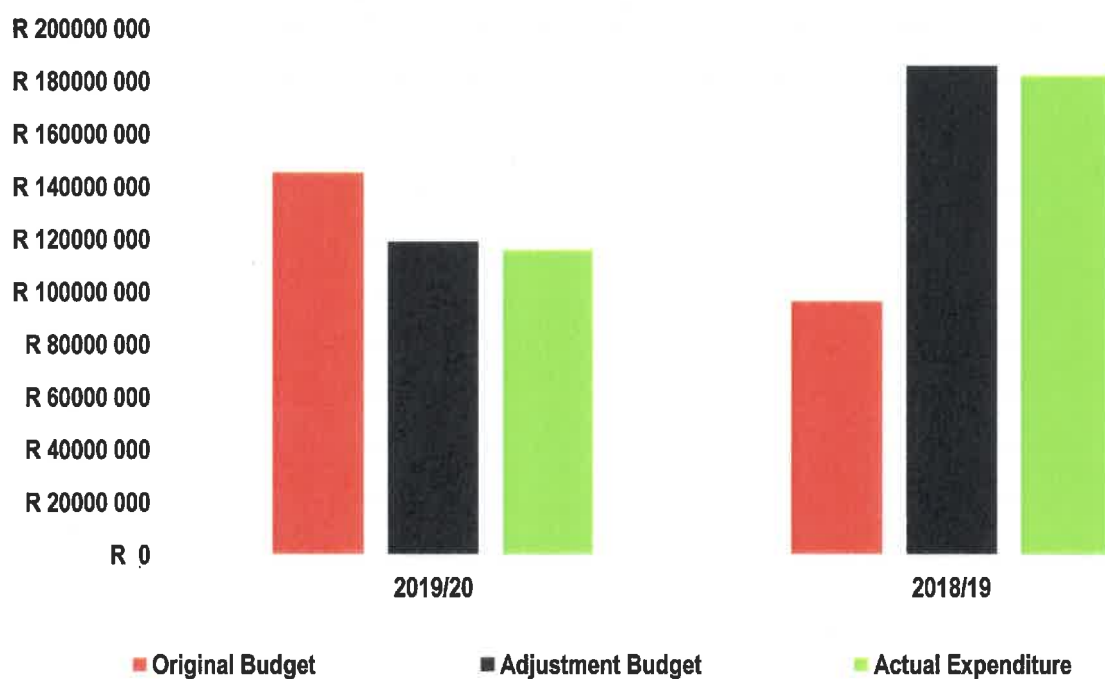
Revenue 2019/20



Financial health summary (continued):

Details	Capital Expenditure	
	2019/20	2018/19
Original Budget	R 145 638 821	R 96 647 176
Adjustment Budget	R 119 158 821	R 186 035 354
Actual Expenditure	R 116 135 721	R 182 548 423

Capital Expenditure 2019/20



CHAPTER 2: GOVERNANCE

CHAPTER 2: GOVERNANCE

2.1. Intergovernmental relations recipients

2.1.1. *Introduction to co-operative governance and intergovernmental relations*

Guidance in terms of co-operative governance is achieved via structures and forums created and functioning in terms of the Intergovernmental Fiscal Relations Act (Act 97 of 1997) and the Intergovernmental Fiscal Regulations Framework, service delivery in line with national KPAs, which ultimately become municipal KPAs and eventually KPIs.

- National intergovernmental structures:

The municipal entity participates in national forums and this assists in the appropriate allocation of resources to address service backlogs.

- Provincial intergovernmental structure:

The municipal entity entered into service delivery agreements with three neighbouring municipalities on electricity distribution and maintenance, which enhance service delivery to communities.

- Relationships with municipal entities:

Decisions are taken by the Board according to the IDP programmes and interventions from municipalities as well as the allocated budget for executing these decisions. Performance contracts are entered into with all executive managers in line with the SDBIP, which forms part of the municipal SDBIP. Progress and performance of these executive managers are reported on in terms of Section 87 of the MFMA (2003) on both a monthly and quarterly basis.

Policies of the entity relating to budget are aligned with those similar policies of the municipality.

- District intergovernmental structures:

The South African Local Government Association (SALGA) regional office plays a key role in ensuring that regular meetings are held including local and district municipalities, with derived benefits of service delivery co-ordination.

2.2. Public accountability and participation

2.2.1. Overview

In terms of Section 15(1) and (2) (b) of the Municipal System Act (2000), a municipal entity must create by-laws. These by-laws are in place and are reviewed on a needs basis. Section 16(1) (a) (i) of the Municipal System Act (2000) requires a municipal entity to develop a system of governance that complements formal representative governance with a system of participatory governance. In view of this, the municipal entity does the following:

- IDP meetings.
- Performance management monthly reporting.
- Community participation in the budget process.

Provision is made in terms of the budget to execute Section 16(1) (c) of the Municipal System Act (2000). Section 18(1) (d) of the Municipal System Act (2000) requires the municipality to make available to the community information concerning municipal governance, management and development. The municipal entity complies with this in that there are various public meetings held with the community.

2.2.2. Public meetings

- Communication, participation and forums:

This is co-ordinated by MMM in terms of legislative requirements, with MMM also responsible for arrangements in relation to the meetings.

- Ward committees:

This is contained in the combined Annual Report of MMM.

- Effectiveness of public meetings held:
This is contained in the combined Annual Report of MMM.
- IDP participation and alignment:
This is contained in the combined Annual Report of MMM.





2.3. Ethical leadership

Responsible leadership, characterised by the values of responsibility, accountability, fairness and transparency, has been a defining characteristic of the entity since the entity's establishment in 2003. The Board recognises the impact that the municipal entity has on the economy and society and therefore strives to ensure that there is an ethical relationship between the entity and all its stakeholders. The Board has taken steps to entrench ethical leadership in the formulation of its strategy and to ensure that there are consequences for non-adherence to these values. The Board provides effective leadership based on a principled foundation and the municipal entity subscribes to high ethical standards. The Board has put in place structures and controls to inculcate an ethical culture.

The fundamental objective has always been to do business ethically while building a sustainable entity that recognises the short- and long-term impact of its activities on the economy, society and the environment. In its deliberations, decisions and actions, the Board is sensitive to the interests and expectations of the municipal entity's stakeholders and to ensure that its decisions are grounded in the municipal entity's values.

2.4. Political governance: Board of Directors

The Board of Directors consisted only of five (5) non-executive Directors and one (1) member resigned on the 22nd May 2019 which left Board of Directors with only four (4) members by 30 June 2020.

Initials and surname	Designation	Race	Gender
N Mokhesi 	Chairperson	African	Male
DC Myeni 	Deputy Chairperson	African	Female
KM Moroka 	Non-Executive Director	African	Male
CAK Choeu 	Non-Executive Director	African	Male

The Board has met regularly and retains full control of the company. The Board remains accountable to MMM (the municipal entity's sole shareholder) and its stakeholders, the citizens of Mangaung and the other areas where electricity is distributed.

Non-executive directors contribute an independent view to matters under consideration and add to the depth of experience of the Board. The roles of Chairperson and Chief

Executive Officer of the company are separated, with responsibilities divided between them. The Chairperson has no executive functions. Members of the Board have unlimited access to the Company Secretary, who acts as an advisor to the Board and its committees on matters including compliance with company rules and procedures, statutory regulations and best corporate practices.

The Board or any of its members may, in appropriate circumstances and at the expense of the company, obtain the advice of independent professionals.

2.4.1. Board Members as at 30 June 2020

2.4.1.1. Duties of Directors

Section 93H of the Municipal System Act (2000), stipulates that:

The Board of Directors of a municipal entity must:

- Provide effective, transparent, accountable and coherent corporate governance and conduct effective oversight of the affairs of the municipal entity.
- Ensure that the municipal entity complies with all applicable legislation and agreements.
- Communicate openly and promptly with the parent municipality of the municipal entity.
- Deal with the parent municipality of the municipal entity in good faith.

2.4.1.2. Statement of Compliance

The Board of Directors and executives recognise and are committed to the principles of transparency, integrity and accountability advocated by the *King IV, Report on Corporate Governance for South Africa, 2016* (effective April 2017). Through this process, the shareholder and other stakeholders are assured that the company is being managed ethically according to prudent risk parameters in compliance with generally accepted corporate practices. The monitoring of the company's compliance with King IV forms part of the mandate of the Audit and

Risk Committee. The municipal entity has complied with the code in all material respects during the year under review, except for cases as reported in the notes to the financial statements on non-compliance with legislation.

The Board held both ordinary and special meetings during the period under review, in which a number of decisions were taken as follows.

2.4.2. Board meetings

Type of meeting	Date	Venue
Ordinary	14/08/2019	CENTLEC (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Special	30/08/2019	CENTLEC (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	05/12/2019	CENTLEC (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary	13/03/2020	CENTLEC (SOC) Ltd, 30 Rhodes Avenue, Oranjesig, Bloemfontein
Ordinary / Virtual	15/06/2020	Virtual meeting

2.4.3 Board meeting attendance

Names of Directors	Designation	14/08/2019	30/08/2019	05/12/2019	13/03/2020	15/06/2020	Total
N Mokhesi	Chairperson	X	√	X	√	VIRTUAL MEETING	3/5
DC Myeni	Deputy Chairperson	X	√	√	√		4/5
KM Moroka	Member	√	√	√	√		5/5
CAK Choeu	Member	√	√	√	X		4/5

√ = present x= apology

2.4.4 Board Committees

The Board had the following committees during the period under review:

- Audit and Risk Committee.
- Finance Committee.
- Human Resources and Remuneration Committee.
- Social Responsibility and Ethics Committee.
- Information Technology Governance Committee.
- Engineering Committee.

2.4.4.1 Audit and Risk Committee

The Committee is responsible for reviewing the effectiveness of the financial reporting process, the system of internal control and management of financial risks, the assurance process, and the entity's process for monitoring compliance with laws and regulations and its own code of business conduct.

The appointed Audit and Risk Committee will serve for a period of four (4) years in the office which commenced on 1st October 2017 until 31st October 2021. Under the year under review one of the ARC members passed away.

Audit and Risk Committee attendance

Member	31/07/2019	29/08/2019	01/11/2019	28/11/2019	28/02/2020	Total
NP Lubanga	√	√	√	√	√	5/5
MR Tsupa	√	√	√	x	√	4/5
T Malakoane	x	x	x	√	x	2/5
NS Ntingane	√	√	√	x	√	4/5
E.T Tsoaeli #	x	x	x	x	x	0/5

√ = present x = apology

= Mr. E.T Tsoaeli lost his life during the year under review.

2.4.4.2 Finance Committee

The role of the Committee is to assist the Board in fulfilling its responsibility of oversight with respect to all governance aspects, financial management and financial accounting, *inter alia* assisting the Board in fulfilling its responsibility to oversee CENTLEC (SOC) Ltd's financial position, financing plans and programmes, cash management, investment management, employee retirement plans, insurance management and review of financial and procurement policies.

Initials and surname	Designation
N Mokhesi	Chairperson
KM Moroka	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee

2.4.4.3 Human Resources and Remuneration Committee

The role of the Committee is to assist the Board in ensuring that the company remunerates Directors and executives fairly and responsibly and that the disclosure of Directors and remuneration is accurate, complete and transparent.

Initials and surname	Designation
C Choeu	Chairperson
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Human Resources	Invitee

2.4.4.4. Social Responsibility and Ethics Committee

The role of the Committee is to assist the Board with the oversight of social and ethical matters and ensuring that members of the Board of Directors and employees of the entity adhere to the established Code of Conduct in terms of Schedule 1 and 2 of Municipal Systems Act (2000), as amended, the Municipal Finance Management Act (2003), any other legislation applicable to the entity as well as good governance principles as outlined in the *King IV Report on Corporate Governance for South Africa, 2016* (effective April 2017).

Initials and surname	Designation
KM Moroka	Chairperson
N Mokhesi	Member
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Human Resources	Invitee
EM: Compliance and Performance	Invitee

2.4.4.5. Information Technology Governance Committee

The role of the Committee is to oversee the implementation, monitoring and review of the CENTLEC (SOC) Ltd policies, procedures, practices and guidelines aimed at meeting the Information and Communication Technology (ICT) governance requirements as stipulated in the King IV report.

Initials and surname	Designation
C Choeu	Chairperson
Chief Executive Officer	Member
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Retail)	Invitee
EM: Engineering (Wires)	Invitee

2.4.4.6. Engineering Committee

The Committee is charged with the responsibility to oversee the implementation, monitoring and review of the CENTLEC (SOC) Ltd policies, procedures, practices and guidelines aimed at meeting the requirements as stipulated amongst others in the NRS 047 and 048 documents.

Initials and surname	Designation
D. Myeni	Chairperson
Chief Executive Officer	Invitee
Chief Financial Officer	Invitee
Company Secretary	Invitee
EM: Engineering (Wires)	Invitee
EM: Engineering (Retail)	Invitee

2.4.4.7. Meetings of Board Committees

The respective committees held meetings during the period under review, as follows:

Committee	No. of meetings	Dates of meetings
IT GOVERNANCE	3	2 August 2019
		4 November 2019
		03 March 2020
ENGINEERING	3	6 August 2019
		11 November 2019
		27 February 2020
HUMAN RESOURCES & REMUNERATION	4	2 August 2019
		11 September 2019
		4 November 2019
		3 March 2020
SOCIAL RESPONSIBILITY & ETHICS	2	22 November 2019
FINANCE	3	5 August 2019
		7 November 2019
		9 March 2020
AUDIT & RISK	6	31 July 2019
		29 August 2019
		1 November 2019
		28 November 2019
		28 February 2020
		May 2020

2.4.4.8. Board decision-making

During the period under review, the Board took a number of decisions for implementation. Decisions were taken from duly constituted meetings in line with legislation and such decisions were minuted, the records of which are available in the office of the Company Secretary.

2.5. Administrative governance

The functional areas of the municipal entity's administration are divided into the Office of the Chief Executive Officer, Office of the Company Secretary, Human Resources, the Office of the Chief Financial Officer, Engineering: Wires, Engineering: Retail and Compliance and Performance. The entity employed 673 staff members.

The entire administration is under the leadership of the Chief Executive Officer who is accountable to the Board of Directors.

2.5.1 The Executive Management

The Chief Executive Officer, together with his senior managers, constitutes the executive management team of the municipal entity. The following individuals were part of the executive management team of the municipal entity for the period under review:

Initials and surname	Designation	Race	Gender
A.N Mgoqi	Chief Executive Officer	A	Male
T Malgas	Company Secretary	A	Male
G.A.S Molefe	EM: Human Resources	A	Female
M.M. Matsimela	Chief Financial Officer	A	Male
M Sekoboto	EM: Engineering Wires	A	Male
S Mokoena	EM: Engineering Retail	A	Male
N.A Leteno	EM: Compliance & Performance	A	Female

The Executive Committee held various meetings during the year under review.

Type of meeting	Date	Particulars of representative(s)
Extended	10 July 2019	AS PER ATTENDANCE
continuation	16 July 2019	AS PER ATTENDANCE
special	17 July 2019	AS PER ATTENDANCE
special continuation	18 July 2019	AS PER ATTENDANCE
special continuation	19 July 2019	AS PER ATTENDANCE

Type of meeting	Date	Particulars of representative(s)
Extended	24 July 2019	AS PER ATTENDANCE
Extended	28 August 2019	AS PER ATTENDANCE
Ordinary	10 September 2019	AS PER ATTENDANCE
Extended	8 October 2019	AS PER ATTENDANCE
Special extended	10 October 2019	AS PER ATTENDANCE
Extended	23 October 2019	AS PER ATTENDANCE
Extended	24 October 2019	AS PER ATTENDANCE
Extended	29 October 2019	AS PER ATTENDANCE
Extended	30 October 2019	AS PER ATTENDANCE
Continuation	31 October 2019	AS PER ATTENDANCE
Extended	5 November 2019	AS PER ATTENDANCE
Extended	13 November 2019	AS PER ATTENDANCE
continuation	19 November 2019	AS PER ATTENDANCE
Continuation	20 November 2019	AS PER ATTENDANCE
Extended	23 January 2020	AS PER ATTENDANCE
Special	27 January 2020	AS PER ATTENDANCE
Extended	12 February 2020	AS PER ATTENDANCE
Extended special	16 March 2020	AS PER ATTENDANCE

2.5.2 Remuneration

Non-executive Directors' and independent Audit and Risk Committee members' fees are only paid in accordance with the council's approved fee structure. The remuneration of Non-Executive Directors amounted to R 608 528 while the remuneration of Executive Management amounted to R 10 650 352. See Notes 25 and 42 respectively in the Annual Financial Statements for detail.