



DIRECTORATE CORPORATE SERVICES

Committee Services

Ref: Mr M Mothekhe  
Ext: 8095/8543  
Date: 31 AUGUST 2021

**COUNCIL 154.14 – 31/08/2021**

**THE CHIEF FINANCIAL OFFICER**

**THE DEFINITIVE AGREEMENT BETWEEN MMM AND CENTLEC (PTY) LTD**

Your report refers.

I wish to inform you that the abovementioned report was considered and approved as follows at the Council meeting held on Tuesday, 31 August 2021:

**RESOLVED**

- a) That the old Sale of Business Agreement continue to be in effect for the 2020/21 financial year to allow the alignment of the accounting and legal treatment and the Definitive Agreements incorporating the alignments be effective in the 2022/23 financial year and implementation be from 01 July 2022;
- b) That management be allowed a period of nine (9) months from the date of this resolution for the process to unfold as it has valuation issues as some of the assets need to be revalued before transfer;
- c) That after both parties (Centlec and Mangaung Metropolitan Municipality) have agreed on the process to be followed, Council be informed of any amendments or alignments to the draft Definitive Agreements;
- d) That the office of the Accountant General (National Treasury) be consulted to consider the Managements interpretation and proposed implementation of the agreement;
- e) That during the nine (9) months period allowed in sub paragraph (b) the following actions be, in addition to accounting and legal alignments and for the time being, performed by the Municipal and CENTLEC management;
  - CENTLEC review and phase out its non-core projects and functions;
  - Restructure itself to be learner core-based functions to unlock funds to pay the municipality;
  - Certain non-core functions such as ICT, communications, marketing, budgeting and treasury, security, law enforcement, legal, training etc should be reviewed downwards or integrated into the municipality;
  - Payments by CENTLEC to the municipality should be prompt, in equal quarterly



instalments in line with budget;

- Municipal step in rights should still be applied by the municipality in the circumstances outlined in the Shareholder compact anytime and when necessary.

The matter **THE DEFINITIVE AGREEMENT BETWEEN MMM AND CENTLEC (PTY) LTD** is therefore conveyed for your urgent attention.

.....  
**ACTING CITY MANAGER**  
**MR S MORE**

.....02/09/2021  
**DATE**

COPIES:

- SECRETARIAT UNIT: SENIOR ADMIN OFFICER: MS R MAMATELA: Copy for information.
- RECORDS UNIT

**THE DEFINITIVE AGREEMENT BETWEEN MMM AND CENTLEC (PTY) LTD**

The Chief financial officer  
Mangaung Metro  
Bram Fischer Building  
Bloemfontein  
9301

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**For the attention of:**

Chief Executive Officer (CEO)  
Centlec (SOC) Ltd  
30 Rhodes avenue  
Oranjesig  
Bloemfontein  
9301

**RE: THE DEFINITIVE AGREEMENTS BETWEEN MANGAUNG METROPOLITAN MUNICIPALITY AND CENTLEC**

**1. Purpose**

That the Mangaung Metropolitan Municipality (“MMM”) to perform a due diligence on the viability of Centlec (SOC) Ltd (“CENTLEC”) as authorised by the council decision taken on 31 August 2021.

To allow management of the municipality working with CENTLEC management to align and incorporate accounting practises into the Definitive Agreements

**2. Background**

On the last quarter of June 2021 council approved the following.

a) That Council considers and approves the definitive agreements to regulate the corporate, service delivery and shareholder relationship between CENTLEC and the Municipality

**However on the council meeting held on the 31<sup>st</sup> of August and the following was concluded:**

- a) The postponement of the implementation of the definitive agreements and that the old Sale of Business Agreement continue to be in effect for the 2020/21 financial year to allow the alignment of the accounting and legal treatment.

- b) and the Definitive Agreements incorporating the alignments be effective in the 2022/23 financial year and implementation be from 01 July 2022.
- c) That management be allowed a period of six months from the date of this resolution for the process to unfold as it has valuation issues as some of the assets will be to be revalued before transfer;
- d) That after both parties (Centlec and Mangaung Metropolitan Municipality) have agreed on the process to be followed, Council be informed of any amendments or alignments to the draft Definitive Agreements.
- e) The Office of the Accountant General (National Treasury) be consulted to consider the Managements interpretation and proposed implementation of the agreements;
- f) During the 6 months period allowed in sub paragraph (b) the following actions be, in addition to accounting and legal alignments and for the time being, performed by the Municipal and CENTLEC management:
  - CENTLEC review and phase out its non-core projects and functions
  - Restructure itself to be leaner core-based functions to unlock funds to pay the municipality
  - Certain non-core functions such as ICT, communications, marketing, budgeting and treasury, security, law enforcement, legal, training etc should be reviewed downwards or integrated into the municipality
  - Payments by CENTLEC to the municipality should be prompt, in equal quarterly instalments in line with budget
  - Municipal step in rights should still be applied by the municipality in the circumstances outlined in the Shareholder compact any time and when necessary.

### **3. Scope of work**

Based on the above, EMS Solutions was appointed and requested to perform the following:

Consideration of the financial viability of CENTLEC as an entity. This includes, but is not limited to the following:

- Implication of the Definitive Agreement on both MMM and CENTLEC's annual financial statements ("AFS").
- Cost vs. benefit analysis for the City of Mangaung.
- Implication and risk on the going concern assumption and audit opinions.
- Benchmarking of financial and operational models to similar entities.

Application of the "new" Sale of business agreement. This includes, but is not limited to the following:

- Accounting implication of the new sale of business agreement.

- Impact of the accounting treatment on the AFS.
- Risks associated with the accounting treatment on the going concern assumption and audit opinion.

#### 4. Working relation

That EMS Solutions be granted access and permission by both MMM and Centlec to perform the due diligence study and information requested by them be provided to further assist in this matter

Submitted by:



S. Mofokeng  
Chief Financial Officer

16/03/2022  
Date

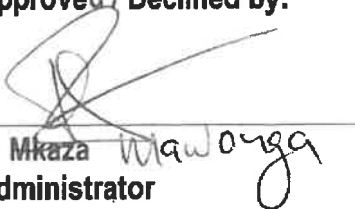
Approved / Declined by:



M Nkungwana  
Acting City Manager

16/03/2022  
Date:

Approved / Declined by:



T. Mkaza  
Administrator

17/03/2022  
Date: