

23 June 2023

To : The Speaker  
Cllr M. Davies

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

**1. Purpose**

This reports serves to request that the definitive agreements between Mangaung metropolitan municipality and Centlec as per the council resolution taken on the 31<sup>st</sup> of August 2021 be deferred to a date where there is an agreement or consensus on the accounting and legal treatment between the two entities (MMM and Centlec).

See attached the following.

- 1.1 – The new SOB agreement approved in June 2021,
- 1.2 - Council resolution approving the new SOB in June 2021,
- 1.3 - Council resolution approving deferral of the New SOB agreement 31 August 2021

The Mangaung Metropolitan Municipality was tasked by council appoint a service provider to perform a due diligence on the viability of Centlec (SOC) 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 approves the definitive agreements to regulate the corporate, service delivery and shareholder relationship between CENTLEC and the Municipality. See council resolution attached (Annexure 1.1 and 1.2)

**However, on the council meeting held on the 31<sup>st</sup> of August see (Annexure 1.3) 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) 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**

EMS solution was appointed to do the due diligence study and report back to management of both entities on the progress made to date to allow senior management of the two entities to make decisions and recommend to council the best way of dealing/ treating Centlec both legally and in the correct accounting method. EMS have completed a draft report which have to be assessed by management to guide the Municipality in concluding on the matter.

#### **5. Current status and reasons for the deferment or extension of the council resolution taken 31 August 2021**

EMS solutions has commenced with the feasibility study of Centlec.

Consideration of the financial viability of CENTLEC

To date significant advancements have been achieved on the financial viability of Centlec, the cost vs benefit for the City of Mangaung and the risk on going concern. This includes, but is not limited to:

- Financial analysis on Centlec and Mangaung as well as a forecast on the impact of the options presented in the feasibility study.
- Determination of possible job losses and the financial and socio-economic impact are in the process of being determined.
- Determination of possible tax implications regarding the round-up of Centlec is in process of being determined.
- Determination and benchmarking of Mangaung and Centlec as well as the consolidated city of Mangaung to City of Johannesburg, City Power, and the consolidated City of Johannesburg.

Steps and procedures have been performed to determine the impact of the application of the sale of business agreement on both Mangaung and Centlec.

- To date significant advancements has been achieved on the accounting implication of the new sale of business agreement and the impact thereof on the AFS.

- Determination of possible tax implications regarding the SOB is in process of being determined.

## 6. Current challenges experienced:

- Change in senior management within the Metro and Centlec, both at council/board and at administrative level (HOD'S)
- Difficulty in scheduling of meetings to have discussions with MMM and Centlec.
- Slow response on requested information.
- Minimal leadership involvement from both Centlec and MMM as this decision needs to be taken at a higher-level management and at council level.
- Lack of involvement, meetings or assistance provided by Centlec and MMM.

## 7. Conclusion

Based on the council resolution take above (also see attached 1.3) the **following have not been concluded.**

- a) Alignment of the accounting and legal treatment and proposal of the best way to account for Centlec in the books of both Centlec and MMM
- b) and the Definitive Agreements incorporating the alignments be effective in the 2022/23 financial year and implementation be from 01 July 2022. **(This is impossible as there is no conclusion on the accounting and legal treatment).**
- 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. **(This is impossible as valuation of the assets will need to take place before a decision is made whether MMM takes the assets or Centlec retains them. There is no conclusion on the legal treatment which makes the accounting treatment impossible to implement).**
- 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. **(There is no conclusion made and senior management have not advised council on the accounting and legal treatment).**
- e) The Office of the Accountant General (National Treasury) be consulted to consider the Managements interpretation and proposed implementation of the agreements. **(There is no conclusion on the accounting and legal treatment and NT has not been given the chance to go through the report and comment or advice the city of the best legal and accounting treatment).**

**8. Recommendation**

The Council resolution taken on 4 June 2021 on the implementation of the new sale of business and the resolution taken on 31 August 2021 requesting deferral on the implementation be deferred until both the Centlec Board and MMM Council agree on the best accounting and legal treatment for both entities.

**Submitted by:**

  
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**L. Denge**  
**Acting Chief Financial Officer**

**Supported by:**

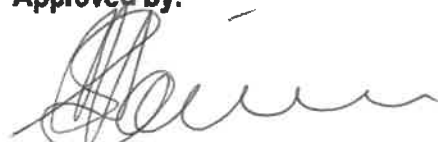
  
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**M. Sekoboto**  
**Chief Executive Officer: Centlec**

**Recommended by:**

  
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**N. Dumalisile**  
**Acting City Manager**

27/06/23  
**Date**

**Approved by:**

  
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**Cllr G. Nthatsi**  
**Acting Executive Mayor**

29/06/2023  
**Date**

**Ratified by:**

  
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**G. Malaza**  
**National Cabinet Representative (NCR)**

29/06/2023  
**Date**