



Long-Term Debtors Policy

Centlec (Soc) Ltd - Long-Term Debtors Policy

| CENTLEC (SOC) LTD | |
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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

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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.

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- 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).

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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

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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.

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- 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;
- 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;

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- 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.

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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 charge 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

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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.

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- 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.

6. REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by the board of directors on: _____

Signed: _____
Chairperson of the Board

Date: _____