

CENTLEC (SOC) Ltd. BUSINESS PLAN 2022 - 2027



Date: 2023/05/26

Mr. MS Sekoboto
Chief Executive Officer
Centlec (SOC) Ltd

- Was developed by CENTLEC's management in consultation with Manguang Metropolitan Municipality as the sole parent municipality.
- Considers all the relevant policies, legislations, and other mandates for the Entity which CENTLEC (SOC) Ltd is responsible for.
- Accurately, reflects the strategic outcome-oriented goals and objectives which the Entity will endeavour to achieve over the period of this plan.

It is hereby certified that this Multi-Year Business Plan:

1. OFFICIAL SIGN-OFF



CENTLEC (SOC) LTD BUSINESS PLAN 2022-2027



COMPANY DETAILS

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CONTENTS

1. OFFICIAL SIGN-OFF 2

2. EXECUTIVE SUMMARY 7

3. LEGISLATIVE AND POLICY MANDATES 9

3.1 LEGISLATIVE MANDATES 9

4. BACKGROUND 10

4.1 OVERVIEW OF CENTLEC (SOC) LTD STATISTICS 11

5. STRATEGIC OVERVIEW 12

5.1 Vision 12

5.2 Mission 13

5.3 Values 13

6. CORPORATE GOVERNANCE 15

7. PESTLE ANALYSIS 15

8. SWOT ANALYSIS 17

9. SERVICES RENDERED 17

10. MARKET OVERVIEW 18

10.1 Background 18

10.2 Map area of operation 19

10.3 Customer Classification per category 20

10.4 Demand Analysis 21

11. HUMAN RESOURCE OVERVIEW 22

11.1 Organisational Structure 22

11.2 HUMAN RESOURCES 22

11.3 Staff Complement 23

11.4 WORKFORCE AGE ANALYSIS 23

11.6 RETENTION STRATEGY 25

11.7 Skills Development 26

12. STRATEGIC PRIORITIES 27

13. STRATEGIC TIMELINES 28

14. RISK MANAGEMENT 29

15. TOP STRATEGIC RISKS 30

16. STAKEHOLDER MANAGEMENT, COMMUNICATION AND PUBLIC PERCEPTION

POSITIONING 31

16.1 Relationship Management 31

16.4 Stakeholder Management 33

8

17. FINANCIAL PLAN.....34

17.1 BUDGET PROCESS OVERVIEW.....34

17.2 OVERVIEW OF BUDGET AND FUNDING.....34

17.3 PROVISION OF FREE BASIC ELECTRICITY (FBE) / INDIGENT SUBSIDY36

18. COMPLIANCE AND IMPLEMENTATION OF MFMA36

18.1 MFMA Implementation and Monitoring.....36

18.2 Budget Statements Reporting.....36

18.3 Implementation of Supply Chain Management.....36

18.4 Delegations.....37

18.5 Asset register.....37

19. MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTRF) 2023/26 37

20. BUDGET SUMMARY.....37

20.1 Declining Revenue Trends37

20.2 Financial Challenges:38

20.3 Financial Considerations38

20.4 The Major Sources of Funding are as follows:38

20.5 Sales Forecast.....39

20.6 Break-even Analysis39

21. PROJECTED CASH FLOW.....40

22. PROJECTED BALANCE SHEET41

23. REFERENCES.....42



LIST OF ACRONYMS

BEE	Black Economic Empowerment
CEO	Chief Executive Officer
DER	Distributed Energy Resources
DSM	Demand Side Management
EDI	Electricity Distribution Industry
ERP	Enterprise Resource Planning
EXCO	Executive Committee
FS	Free State
ICT	Information, Communication and Technology
MGDS	Mangaung Growth & Development Strategy
KV	Kilo Volt
LV	Low Voltage
MFMA	Municipal Finance Management Act
MMM	Mangaung Metro Municipality
MV	Medium Voltage
MW	Mega Watt
MWh	Mega Watt hour
NRS	National Rationalisation Specifications
PV	Photo Voltaic
R&D	Research & Development
RE	Renewable Energy
SCADA	Supervisory Control and Data Acquisition
SOB	Sale of Business
SOPA	State of the Province Address
SUPE	System Utilisation & Process Engineering
SWOT	Strengths, Weaknesses, Opportunities and Threats
V	Volt
FBE	Free Basic Electricity
MTREF	Medium term Revenue and Expenditure Framework
IDP	Integrated Development Plan
TID	Token Identification

2. EXECUTIVE SUMMARY

CENTLEC (SOC) Ltd embarked on a review of the business strategy (2018 - 2023), as mandated by EXCO in December 2022. The strategy development process was initiated due to the Entity's clear need to review the current path it was taking, with several factors contributing to this need. These factors were both systemic in nature, affecting the electricity distribution industry, as well as specific to the Entity's situation.

From inception, as an Entity of Mangaung Metropolitan Municipality (MMM), CENTLEC (SOC) Ltd has been mandated to exist as a mechanism for service delivery. During this period, the Entity performed on its mandate, however potential for improvement will always exist.

The Entity redistributes electricity to Mangaung Metropolitan Municipality (MMM) and in two Southern Free State municipalities through service delivery agreements entered. Through this, the Entity drafted its vision, mission, and values to articulate its aspirations. The Entity took into cognisance the existing dynamics within the Entity, the Municipal, Provincial and National Development Plans to determine the framework within which the following questions could be answered:

- How should CENTLEC (SOC) Ltd be best utilised as a vehicle for service delivery?
- Since the development of the vision are we on the right path?
- Has there been significant changes in the industry that requires the Entity to re-think its strategy?
- What are the short-term challenges that the Entity is facing and what could be the way forward to solve these?
- What are the growth opportunities available to the Entity?
- What will be the impact of ESKOM unbundling on the Entity?
- How are we viewed by our customers and broader stakeholders?
- The impact of loadshedding?



- Just Energy transition
- Disaster Regulations
- Integrated Energy Resource Plan

During the strategic session held in August 2021 the VUCA 2026 turnaround strategy was introduced. The turnaround strategy was reviewed and reaffirmed during the strategic session held on the 08th to the 10th of March 2023.

The VUCA 2026 turnaround strategy aims to:

- ❖ **V (vision)** - keep lights burning
- ❖ **U (understanding)** - sustainable game strategy
- ❖ **C (caring)** - for the community and the
- ❖ **A (agility)** - of our employee recognition & diversity

To support the turnaround strategy, the Entity has developed the following priorities:

- ❖ Improve and sustain a positive financial position for the Entity,
- ❖ Establish the Entity's own alternative renewable energy to reduce over-reliance on ESKOM,
- ❖ A technology and innovation-driven Entity by establishing the research and development unit,
- ❖ Strategic collaborations for funding and energy delivery,
- ❖ Develop and maintain a reliable network infrastructure asset,
- ❖ Good governance practices and stakeholder engagement,
- ❖ Capacitated and empowered workforce.

The Entity through its various Directorates will develop operational plans to ensure the implementation of the VUCA 2026 turnaround strategy. The plans will be monitored and evaluated on a quarterly basis. The Entity will on an annual basis review this business plan to ensure that it is still in line with the relevant legislations and its mandate.



3. LEGISLATIVE AND POLICY MANDATES

LEGISLATIVE MANDATES

States that a private company which is a municipal Entity must restrict its activities to the purpose for which it is used by its parent municipality in terms of section 86E (1)(a); and b) has no competence to perform any activity which falls outside the functions and powers of its parent municipality contemplated by section 8.

Section 86D (2) of Local Government: Municipal Systems Amendment Act 32 of 2000 as amended.

The Entity is responsible for electricity distribution, which shall include the following obligations:

Development of an integrated detailed service plan within the framework of Mangaung Metropolitan Municipality's Integrated Development Plan.

Operational planning and management of electricity distribution services in line with NRS047, NRS048 and NRS097.

Undertaking social and economic development that is directly related to the provision of electricity distribution services.

Developing a customer management plan.

Managing its own accounting, financial management, budgeting, and investment activities within a framework of transparency, accountability, reporting, and financial control determined in terms of the SDA and applicable municipal finance management legislation.

Laying service delivery fee to customers in accordance with the NERSA approved tariffs.

Provide its own Safety, Health, Environment, Risk and Quality (SHERQ) services; and

Provide street and area lighting on behalf of Mangaung

Service Delivery Agreement (SDA) entered by and between Mangaung Metropolitan Municipality and Centlec (SOC) Ltd

Other legislative duties and responsibilities of CENTLEC (SOC) Ltd are set out in Chapter 10 of the Local Government: Municipal Finance Management Act, 56 of 2003.

Figure 1: Legislative Mandates





The Entity is governed by the Board of Directors, duly appointed by MMM from time to time and its day-to-day business is conducted under the leadership of the Chief Executive Officer (CEO) and the Executive Committee (hereinafter referred to as the EXCO). The Board has ensure the application of principles of good corporate governance in all its dealings on behalf of the Entity.

CENTLEC (SOC) Ltd (hereinafter referred to as "CENTLEC") was established as a Municipal Entity wholly owned by Mangaung Metropolitan Municipality (hereinafter referred to as "MMM"). The Entity was established both in terms of the Municipal Systems Act 32 of 2000 (hereinafter referred to as the "Systems Act") and the Companies Act 71 of 2008 (hereinafter referred to as the "Companies Act") and by virtue of being a Municipal Entity, it is obliged to comply with the provisions of the Municipal Finance Management Act 56 of 2003 (hereinafter referred to as the "MFMA").

4. BACKGROUND



OVERVIEW OF CENTLEC (SOC) LTD STATISTICS

The below picture depicts the Entity's current customers, assets, revenue, infrastructure, and employee profile.

OVERVIEW OF CENTLEC STATISTICS

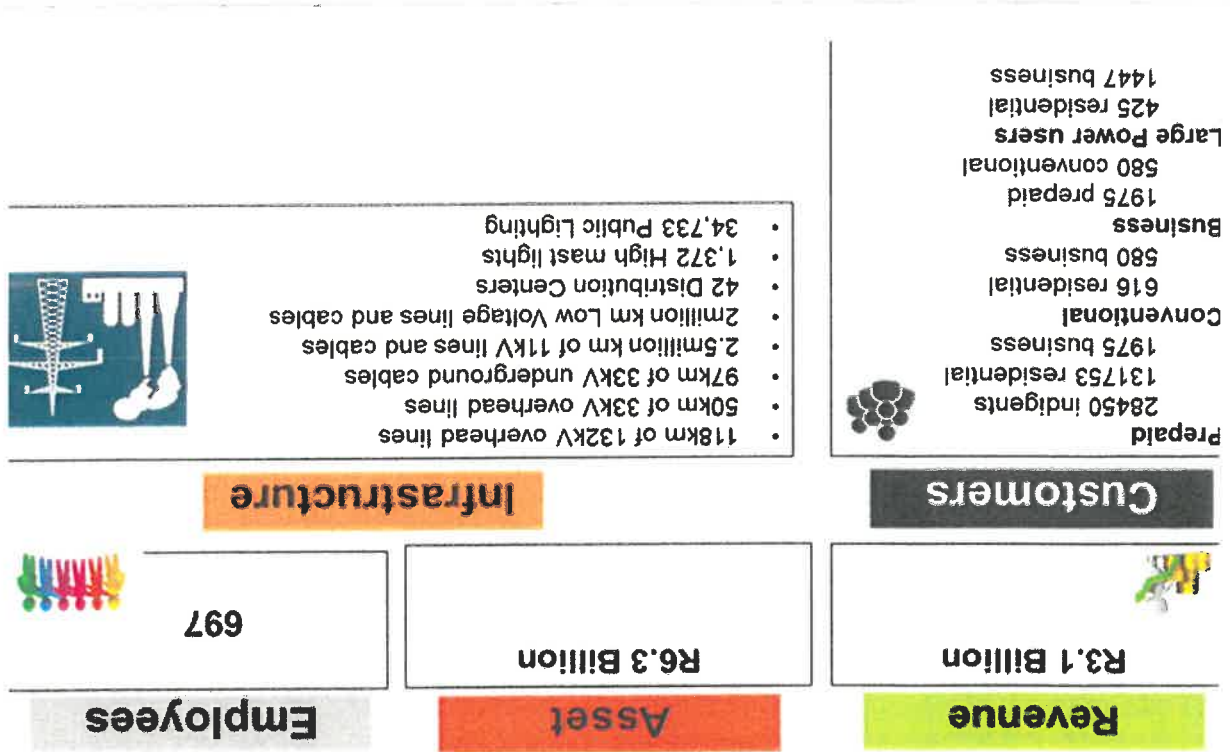


Figure 2: customer, asset, revenue, infrastructure, and employee profile



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

Vision

The Entity drafted its vision, mission, and values to articulate its aspirations. However, for the previous strategic sessions held in 2021 and 2023, the Entity came to the realisation that the vision, mission and values are still relevant. The Entity took into cognisance the existing dynamics within the Entity, the Municipal, Provincial and National Development Plans to determine the framework within the following vision and mission:

5. STRATEGIC OVERVIEW



Values

In working towards the achievement of its vision and mission, CENTLEC (SOC) Ltd subscribes to the following internal values which are in line with the Entity's strategy. The Entity believes in providing excellent, efficient, and effective service to all customers and stakeholders. In terms of the values, an acronym was used to make it easier for the employees to remember and be in a position identify with them. The acronym decided on

Figure 3: Centlec's mission



Mission



(Handwritten mark)

was "CENTLEC", as this would assist in entrenching the values into the Entity. The values are as follows:

- Customer Centric
- Ethical & Accountable
- Nurturing Passions for Efficiency
- Technology Innovation
- Leaders in Service Delivery
- Employee Recognition & Diversity
- Caring for community

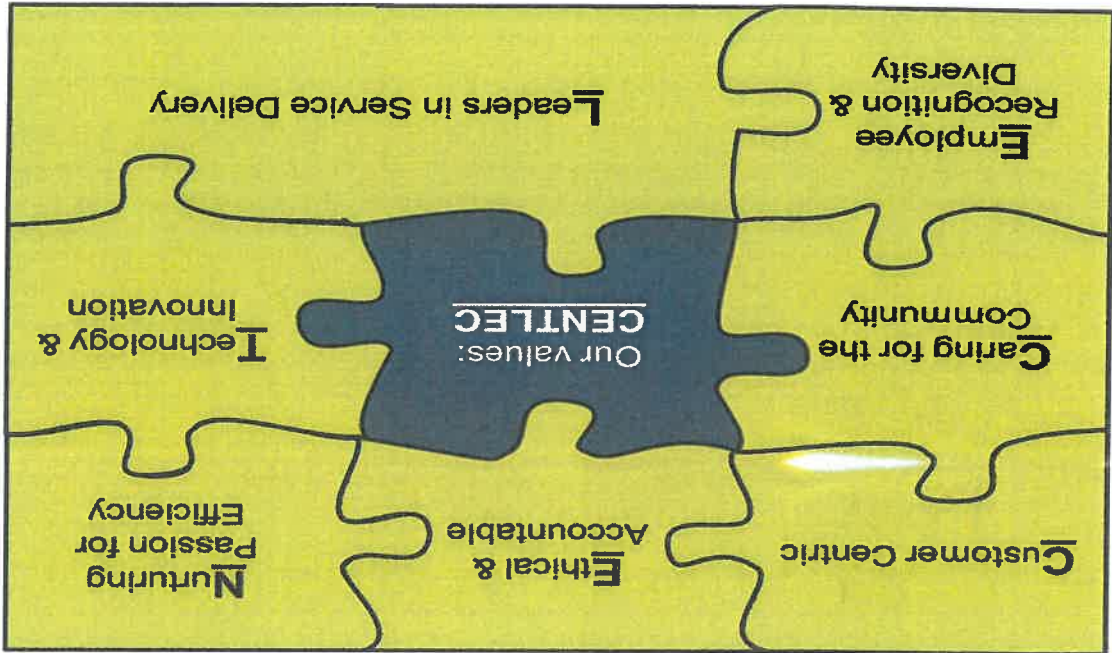


Figure 4: Centlec's Values

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the aspects of external analysis.

The aspects covered within a PESTLE analysis include the impact of politics, economics, social, technology, legal and environmental develops on the Entity. Table one below depicts innovation were considered.

The PESTLE analysis was used as a framework for the identification of external influences that affects the Entity's competitive position and sustainability in the context of continuous change in the external environment. Pertinent areas that were discussed included aspects such as the effect of new digital technologies, distributed energy options, changes in customer expectation, changes in work environment, regulatory impact and the role of

7. PESTLE ANALYSIS

To stabilize corporate governance in the Entity, the Shareholder has embarked on the recruitment process to appoint the Entity's new Board of Directors.

stakeholder interest.

Entity's strategic objectives whilst ensuring shareholder value and long-term protection of standards of corporate governance through the Entity are upheld for the delivery of the which is Mangang Metropolitan Municipality. The Board is tasked with ensuring that high corporate governance. The Entity's Board of Directors are appointed by the shareholder CENTLEC (SOC) Ltd Board of Directors serve as the primary direct stakeholder influencing

administrative structures, throughout a budget year.

show accountability to communities for decisions taken by the Board and matters relating to compilation and publication of the Annual Report. The purpose of such an annual report is to Sections 65(1) (a) of the MFMA and Section 46 of the MSA be undertaken through the matters of governance should be communicated to communities. This should according to of the MFMA supports the requirements of Section 18(1) (d) of the MSA: information on To ensure that accountability and governance arrangements are in place, Section 12(2) (c)

6. CORPORATE GOVERNANCE



NO	EXTERNAL FACTOR	DESCRIPTION
1.	Political	<ul style="list-style-type: none"> An analysis of the environment in which CENTLEC (SOC) Ltd operates shows that: Politically, there are several areas that will need to be managed to get buy-in from all stakeholders. The Mangaung Metropolitan Council (MMC), as the shareholder of the Entity, has a high impact on the Entity's decision in line with the service delivery agreement.
2.	Economical	<ul style="list-style-type: none"> The reduction in energy consumption continues due to economic pressures. Energy price increased severely in the past years and continue to grow annually. The slow economic growth, high unemployment, and rapid increase of tariffs rate in South Africa has a negative impact on CENTLEC electricity sale and revenue. The impact of load shading on the economy in general and on CENTLEC specifically has been severe. In addition, consumers are increasingly moving towards own generation of electricity, to avoid the impact of load shading, leading to a loss of sales and revenue.
3.	Social	<ul style="list-style-type: none"> South Africa has sustained high unemployment rate due to low economic growth. Lack of unemployment leads to an increase demand for Free Basic Electricity (FBE), illegal connections, theft, and vandalism of critical electrical infrastructure. An increase in urbanization leads to ever growing needs for new electricity connections
4.	Technological	<ul style="list-style-type: none"> Technological advances in smart grid and robotics affect the way in which people work. It enhances the Entity's ability for smooth service delivery. The Entity's needs to integrate the innovative technologies in such a way that it becomes more effective and efficient
5.	Legislative	<ul style="list-style-type: none"> Declaration of electricity as a National State of Disaster.

TABLE 1: PESTLE ANALYSIS

- **Electricity Distribution/Energy Services:** CENTLEC procures its energy from Eskom at 20 supply points in 18 towns in the Southern Free State and Mangaung Metropolitan Municipality (MMM).

CENTLEC as an Entity provides the following services in its area of supply:

9. SERVICES RENDERED

STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Unqualified audit opinion • Human capital (skilled and dedicated) • Relationship with community leaders (Strong stakeholder management) • 95% collection rate • Constant reliable supply for strategic events • Inhouse infrastructure design capacity • Teamwork • Effective training center 	<ul style="list-style-type: none"> • Ageing infrastructure • Limited human capital • Ineffective technical forum (workstreams) • Slow implementation of automated systems • Inadequate Board composition • Submetering from third party vendors 	<ul style="list-style-type: none"> • Alternative power generation and new technologies • Training center as a center of excellence • Strategic partnerships to improve revenue streams. • Explore renewable energy programmes. • Digital billboards • Training opportunities for employees in renewable energy 	<ul style="list-style-type: none"> • Vandalism of infrastructure • Loadshedding • Incentives on solar panels • Ineffective corporate governance • Loss of potential income (insurance) because of loadshedding • Decline in revenue. • Unauthorized access to electrical infrastructure • Increasing Eskom tariffs • Incomplete and unapproved indigent register

Table 2: SWOT ANALYSIS

opportunities, and threats as detailed on the table below.

After a thorough institutional review, the Entity was able to identify its strengths, weaknesses,

8. SWOT ANALYSIS



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Through a 24-hour Call Centre, the Entity has succeeded in maintaining a stable electricity network with far below national average power failure statistics and a quick response time

50% of CENTLEC's electricity sales revenue. customers and commercial users, with each category of users contributing approximately Southern FS Towns depicted below. CENTLEC's customer base consists of domestic 196 773 customers in the areas of Mangaung, Kopanong and Mokokare and in the CENTLEC (SOC) Ltd is currently the license holder and distributes electricity to over outside MIM's political boundaries.

enabling regulatory framework which allows the provision of electricity distribution services municipalities. Ordinance 8 of 1962 was assigned to the Free State in 1994 and is the The Entity distributes electricity to Mangaung, Kopanong and Mokokare local

Background

10. MARKET OVERVIEW

meter reading and billing is done in-house from 1 July 2011.

are available to customers to always ensure convenience and availability. Credit and credit metering systems are in use. Extensive pre-payment vending facilities systems are employed to meter the various categories of customers. Prepayment **Metering, Pre-payment Vending and Billing Services:** Modern metering of the network.

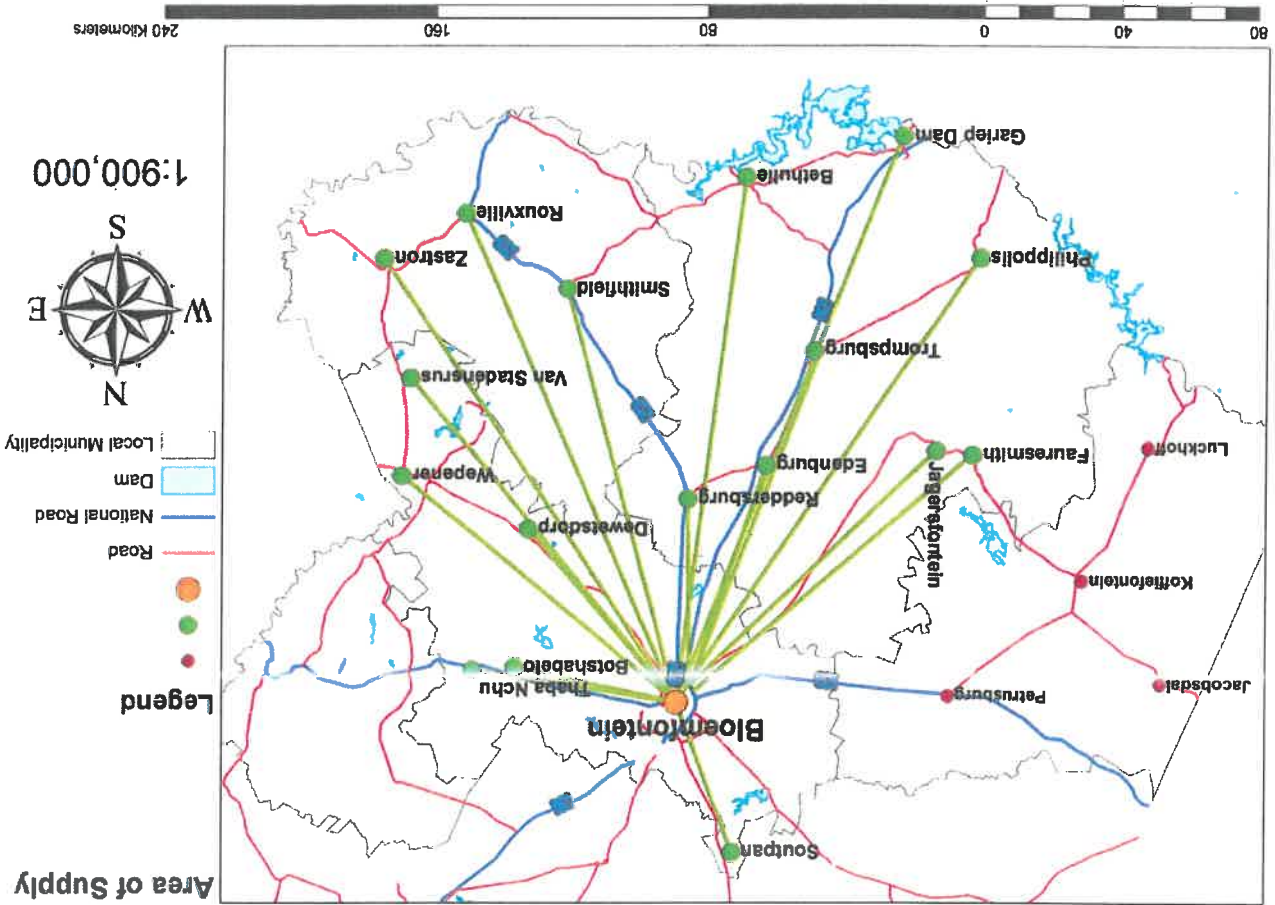
any overloading or failure, and this is addressed with upgrading and/or extension power outages. Ongoing evaluation is performed on existing networks to detect hour standby service ensures that customers are not inconvenienced by long electricity distribution networks forms a large part of CENTLEC operations. A 24- **Operation, Maintenance and Extension of Networks:** The maintenance of process and appointment of private service providers.

sections and where additional capacity is required it is done through the tender upgrading of existing networks is handled by the Entity's design and construction **Construction of Electrical Networks:** All new electrification networks,





Figure 5: Area of operation



Map area of operation

according to NRS requirements. Tariffs have been kept comparatively low with many domestic customers, approximately 80% having been converted to pre-paid meters with customer access to an online vending system.

An automated metering system has been installed to service the top 2079 customers with readings taken every 24 hours and published on the Entity's website to assist customers to manage their energy costs. All these customers are charged on a Time-of-Use Tariff system to promote efficient energy consumption and management of the larger entities.



Customer Classification per category

Table 3: Customer per tariff group

Tariff Group: 2021-2022 baseline	Number of Consumers		
	MMM	KOPANONG	MOHOKARE
INDIGENT	29 928	2 370	668
INCLINING BLOCK	148 682	6 575	3 653
FLAT RATE BUSINESS	2 475	275	175
BULK RESL 2	32	0	0
BULK RESL 3	193	0	0
BULK RESEIDENTIAL 2 SFS	0	0	0
BULK RESIDENTIAL 3 SFS	0	2	1
CENTLEC (SOC) LTD DEPARTMENTAL	7	0	1
TOU			8
SFS DEPARTMENTAL TOU	0	4	0
COMPLEX - SINGLE PHASE	57	0	0
COMPLEX - THREE PHASE	700	0	0
COMPLEX - SFS SINGLE PHASE	0	4	0
COMPLEX - SFS THREE PHASE	0	33	5
ELECFLX 1	3	0	0
ELECFLX 2	172	0	0
ELECFLX 2 - SFS	0	4	0
ELECFLX 3	514	0	0
ELECFLX 3 - SFS	0	15	9
HOMEFLEX - SINGLE PHASE	33	0	0
HOMEFLEX - THREE PHASE	167	0	0
HOMEFLEX - SFS SINGLE PHASE	0	2	0
HOMEFLEX - SFS THREE PHASE	0	5	0
SPORT STADIUMS	7	0	0
SPORT STADIUMS SFS	0	2	0
TOTAL	182 970	9 291	4 512
			196 773



Demand Analysis

The Entity currently has an agreed Notified Maximum Demand (NMD) of 323 MVA with Eskom. Constant monitoring of demand values is done to ensure that the demand does not surpass the NMD. However, as per the records and values outlined in the table below, it shows that annually there has been negative demand growth. The contributing factors associated with the decline in demand is due to the prolonged power failures and load shedding.

Table 4: Maximum demand

MAXIMUM DEMAND (MW) - VALUES										
Year	Month	2018 /	2019 /	2020 /	2021 /	2022 /	2023 /	Percent Growth	2022 /	2023 /
		2019 /	2020 /	2021 /	2022 /	2023 /				
July		259.86		253.46	-2.46%	253.46	0.00%	237.9	-6.14%	
Aug		239.73		243.39	1.53%	235.9	-3.08%	235.16	-0.31%	
Sep		222.35		230.58	3.70%	215.94	-6.35%	213.2	-1.27%	
Oct		211.37		200.39	-5.19%	196.73	-1.83%	193.07	-1.86%	
Nov		210.45		195.81	-8.55%	191.24	-2.33%	185.75	-2.87%	
Dec		220.52		179.34	-18.67%	188.49	5.10%	178.43	-5.34%	
Jan		225.09	201.3	194.9	-3.18%	183	-6.11%	186.66	2.00%	
Feb		215.94	209.54	196.73	-6.11%	193.98	-1.40%	179.34	-7.55%	
Mar		213.2	204.96	195.81	-4.46%	192.15	-1.87%			
Apr		223.26	196.73	209.54	6.51%	216.86	3.49%			
May		232.41	239.73	233.33	-2.67%	218	-6.57%			
Jun		249.8	256.2	255.29	-0.36%	251.63	-1.43%			
Average (Yearly)		222.45	223.03	215.71	-3.33%	211.45	-1.86%	201.19	-2.46%	



11. HUMAN RESOURCE OVERVIEW

Organisational Structure

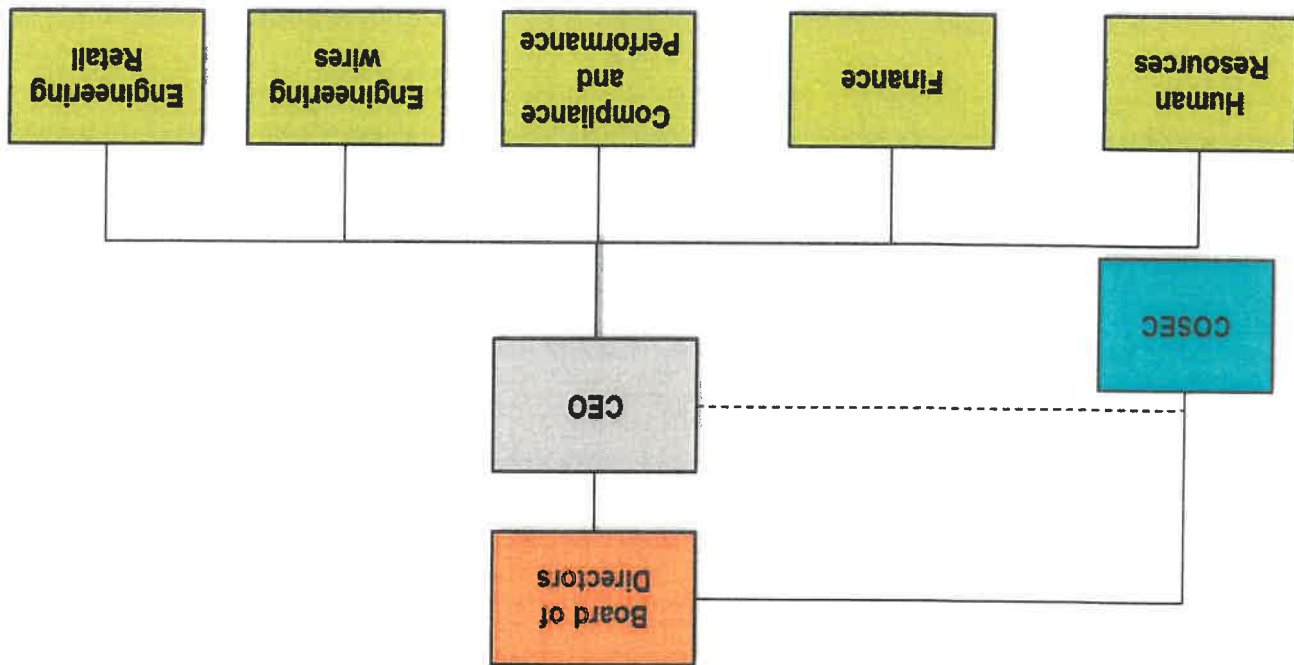


Figure 6: Organisational Structure

HUMAN RESOURCES

The purpose of Human Resource Directorate is to ensure that the Entity makes optimum use of its human resources. The Directorate ensures that the Entity's employees are suitably skilled and competent to add value to the strategic goals and objectives of the Entity. The functional areas of Human Resource Directorate are divided into Human Resources Management and Human Resources Development.

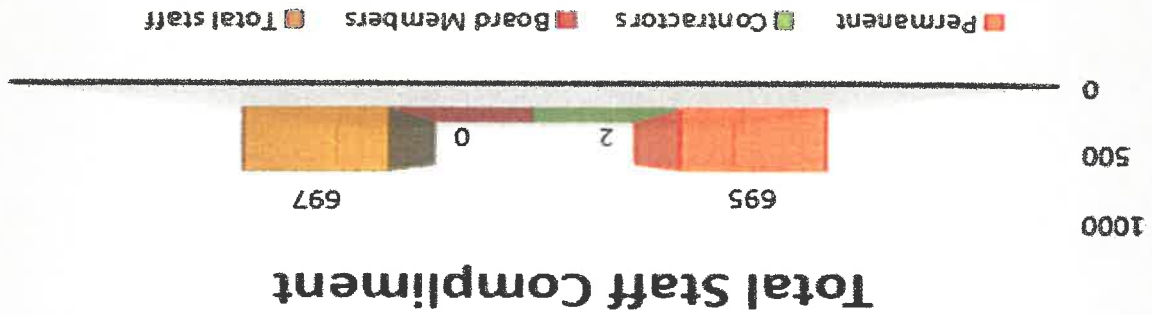
The Human Resource Management Directorate serves to support the implementation of the Entity's strategies through human resources activities such as HR planning, attraction, recruitment, rewards, recognition, performance management, retention, succession, wellness, training, and development.

- Two (2) employees are within and age group (19-23)
- Two hundred and twenty-eight (228) employees are with and age group. (24 -39)
- Two hundred and seventy-one (271) employees are within the age group (40-49)
- One hundred and sixty-two (162) employees are within the age group (50-59)
- Thirty-four (34) employees are within the age group (60-65)

The workforce age analysis:

WORKFORCE AGE ANALYSIS

Figure 7: Analysis of Staff Compliance



employees.

The current staff compliance is six hundred and ninety-seven (697) employees, of which six hundred and ninety-five (695) are permanent employees and two (2) are contract

Staff Compliance



BUY: The Entity, through the revisiting and the approval of the organogram, must embark in the process of recruitment and selection. Adverts must be drafted to ensure that the best candidate with the necessary skills and experience is attracted. It is advisable that the Entity source external talent as far as possible to complement the internal skills that the employees already possess.

BUILD: The Entity must ensure that opportunities are created to ensure that employees are skilled through formal training, on the job training, job rotations, and on the job training. The Training Centre must be utilized to provide theoretical and practical training to employees within the technical divisions to ensure that they are on par with their day-to-day functions. Divisions should ensure that technical employees are rotated within the Retail and Wires Directorate to ensure that employees know the Entity's network to be able to perform their functions optimally. Through personal development plans, the human resource development division together with the Finance Directorate should ensure that

Figure 8: Human Resource Strategy source (Ulrich 2003)



11.5. Human Resources Strategy

Entity's mandate.

The Entity will strive to ensure that the retention plan is drafted and implemented. The Entity should strive to ensure that there are extra benefits and incentives as a way of retaining its employees. There should be recognition of hard work by employees to motivate them to perform to the best of their ability. The Entity should create a culture where there is respect amongst line managers and their subordinate to build on employees' self-esteem. Strides should be made to work towards maintaining a good working relationship between employees and management to ensure that the involved parties work towards achieving the

11.6 RETENTION STRATEGY

that they work together to address this initiative.

sets. Human Resource together with other Directorates within the Entity should ensure Entity should also have programmes to address the re-skilling of employees with old skills poor performance is addressed, and plans put in place to address non-performance. The **BOOST:** The Entity through the performance management system should ensure that

in ensuring that there is business continuity.

with critical competencies to sustain institutional memory within the Entity. This will assist **BIND:** The Entity should develop retaining strategies to be able to retain skilled personnel

boost employees' morale within the Entity.

be followed through normal recruitment and selection processes. This will improve and employees are promoted to higher positions whenever positions are advertised. This must **BOOST:** As a way of motivating employees, the Entity must ensure that deserving

employees to be trained and capacitated effectively.

Entity will partner with other external stakeholders who have the know-how to enable the **BORROW:** In cases where the Training Officers lacks knowledge in a specific field, the

Centre.

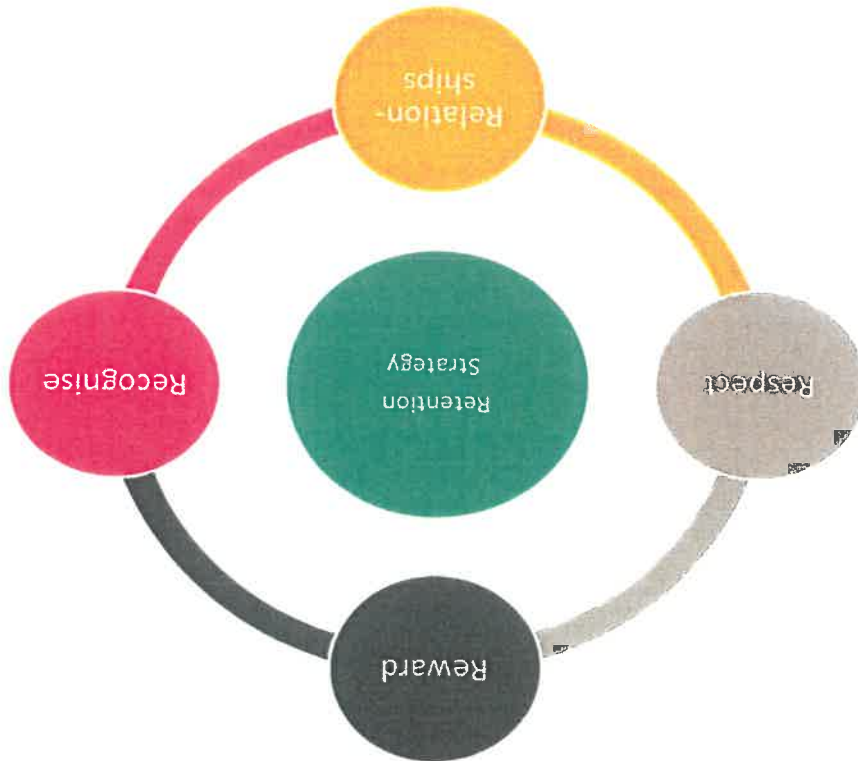
training providers are procured to facilitate training that cannot be performed in the Training

The above-mentioned programmes and others to follow will further capacitate the employees to be able to perform their functions effectively and be able to achieve the overall Entity's mandate. The training committee continues to work closely with various directorates within the Entity in ensuring that employees are trained and developed according to their skills needs. The Entity anticipates broadening its partnerships with external stakeholders to explore other avenues in relation to training and development of its human capital.

The Entity has partnered with the Central University of Technology to develop ten (10) of its employees in Renewable Energy. The qualification is a twelve-month programme that fits to the energy mix initiative within the Entity's VUCA strategy. The Entity further partnered with Motheo TVET College to develop its Trade Workers level V in N2 Electrical Engineering. Centlec (SOC) Ltd has received a discretionary grant from Local Government SETA to provide Adult and Education Training (AET) for twenty-five (25) of its employees. Six (6) female employees have been selected to attend woman in leadership programme at the Northwest University (NWU) through SALGA.

11.7 Skills Development

Figure 9: Retention Strategy



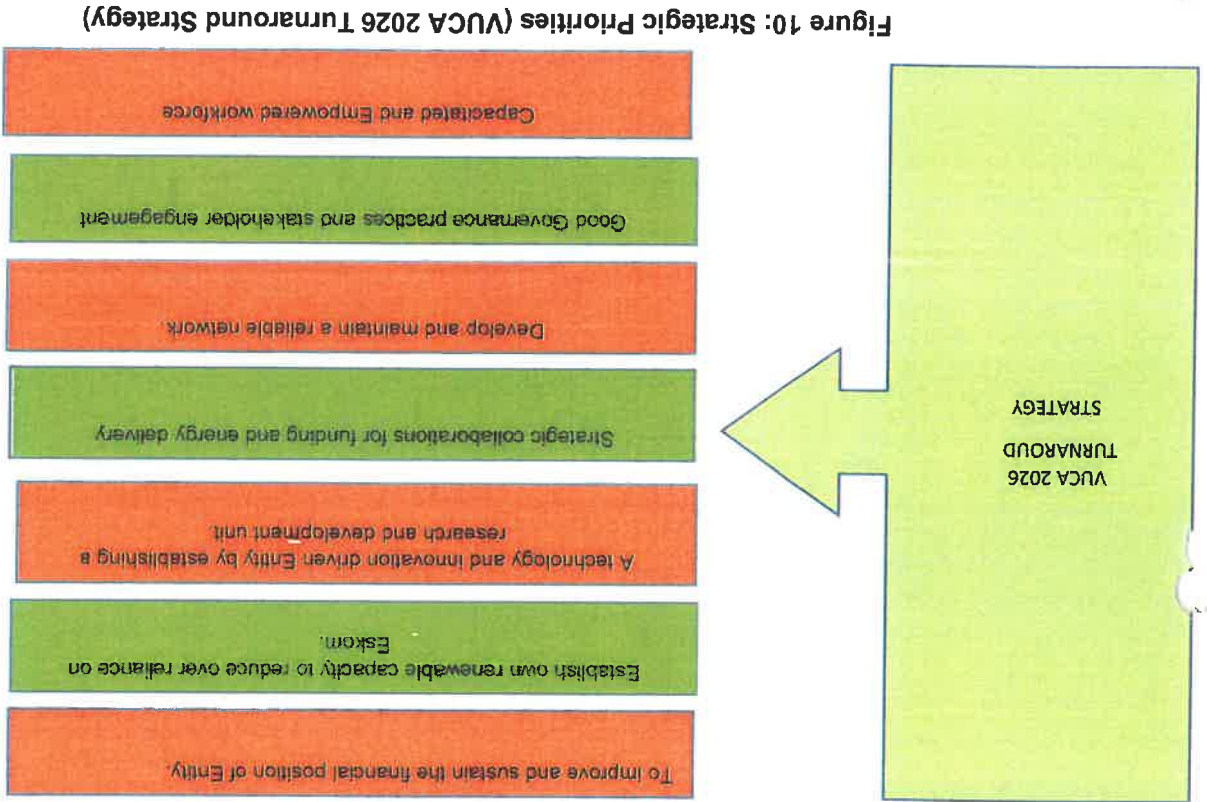


Figure 10: Strategic Priorities (VUCA 2026 Turnaround Strategy)

stated below.

To support the VUCA 2026 turnaround strategy, the Entity has developed 7 priorities as

12. STRATEGIC PRIORITIES

13. STRATEGIC TIMELINES

The picture below depicts the timelines that evolved over the years in alignment in the implementation of VUCA 2026 turnaround strategy.

Table 5: VUCA Turnaround Strategy 2022 - 2027

REVENUE AND ASSURANCE On-going	
❖ Aggressive credit control policy	❖ Aggressive prepaid meter conversion
❖ Regular meter inspections and follow ups for tampering	❖ Adherence to 95% revenue collection
❖ Adherence to NRS service standards	❖ Public lightning 90% Visibility
❖ Date Purification that led to successful TID implementation	❖ Revised Business Model
❖ Staff engaged and aligned with CENTLEC vision	
SECURITY OF SUPPLY AND NETWORK STABILITY 2022/2023	
❖ Cost reflective tariff	❖ Public lightning regular maintenance
❖ Preventative Maintenance "as" the norm"	❖ Reduce technical and non-technical losses
❖ Energy mix implementation	❖ Stable electrical infrastructure network
❖ Effective governance	❖ Competent staff driving results
❖ TID roll out plan	❖ Alternative energy player
ENTERPRISE AND FINANCIAL SUSTAINABILITY 2023/2024	
❖ Energy mix implementation	❖ Smart CENTLEC
❖ Refurbished distribution centers	❖ Happy customer
❖ Guaranteed energy capacity	❖ Energy mix pilot projects
❖ Revenue Collection target	❖ Complete TID implementation
SMART CITY ENERGY UTILITY 2024/2025	
❖ Smart meter vending and building	❖ Smart renewable energy trade-off
❖ Smart grid	❖ Energy mix implementation
SYSTEM STABILISATION 2025/2026	
❖ Risk and business intelligent Entity	❖ Empowered Entity management lead the change agenda



14. RISK MANAGEMENT

The Entity has established and maintained a system of risk management in accordance with the provisions of the Municipal Finance Management Act no 56 of 2003, the King IV report on Corporate Governance and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) ERM Framework. Oversight over risk governance in CENTLEC (SOC) Ltd is carried out by the Board of Directors through the Audit and Risk Committee.

The Audit and Risk Committee meets on a quarterly basis and operates in accordance with approved Audit and Risk Charter. An annual risk assessment is conducted for strategic, ICT and Fraud risks, these risks inform the annual audit plan where risk controls are then tested. The risks are documented accordingly and monitored on an ongoing basis in relation to risk treatment strategies, relevance of existing risks and the identification of additional and new/emerging risks. Risk treatment plans are developed and implemented to ensure that strategic objectives and budgets are met. Each of the strategic risks is allocated to risk owners to ensure accountability and ownership.

Monitoring and review are done on quarterly basis and presented to EXCO and the Audit and Risk Committee exercising oversight as mandated by ARC Charter. The Entity aims to be a risk intelligent organisation and, a maturity ranking tool has been developed to assess the current stage of Enterprise Risk Management culture within the Entity. The current state of maturity indicates that foundational risk management elements are in place, but the Entity needs to transition from risk management to management of risk. Robust engagements with risk owners and increased accountability as well as, effective application of the framework as part of normal business will move the Entity to systemic and risk intelligent stages.

MITIGATION	IMPACT	RISK
The appointment of the Board of Directors by the Council	●	A collapse in key stakeholder relations
Collaboration with relevant stakeholders such as SAPS and Justice	●	Theft and vandalism of the electrical infrastructure
Rolling out of the anti-virus, malware, and general awareness	●	Cyber attacks
Establishment of the off-site data centre, etc	●	Loss of critical business information
Robust disconnection programme (RDP)	●	Decline in revenue.
Increase in preventative maintenance budget	●	Extended/Prolonged downtime leading to loss of public confidence.
Minimizing downtime possible.	●	Revenue forgone.
Expenditure management and prioritization	●	Inability to provide basic services
Continuous monitoring and evaluation of strategy against related reports	●	Consistency: objectives, indicators and targets between planning and reporting.
Energy Plan (Collaboration with strategic partners)	●	Loss of benefits accompanied by the current industrial reforms

Table 6: Top ten (10) Strategic Risks

15. TOP STRATEGIC RISKS

Relationship Management

The Entity has developed a system that seeks to integrate different methods and approach towards the communication approach with specific focus to the Entity's employees as well as the internal stakeholders such as labour and appointed service providers.

The strategy further caters to the aspirant needs of the Entity's customers, key customers and the broader general communities it serves. This is done in various ways and interventions including all medium forms of communication such as regular and continues updating of the social age accounts, the use and partnering with local media houses, developing, printing of pamphlets and posters to keep employees and customers updated and informed.

Some of the internal methods of communication to be fully maintained by the Entity relates to and not limited to:

- Monthly Newsletter to employees
- Wellness programmes
- Employee team building sessions.
- The use of online communications (emails, WhatsApp's, and Facebook)

figure: Internal and external communication



The Entity has further established an active participatory partnership with one of its strategic stakeholders and a very important arm of its operations which is the Councilors WhatsApp's group. Various groups have been established catering to different legs of the Councilors, such as PR and Ward Councilors.

For the period under review, the Entity has had engagements with community-based stakeholders, such as anti-crime groups who have initiated programmes to work with the Entity towards combating and fighting cable and cooper theft including meter tampering. Currently the Entity is working on launching a memorandum of understanding with these groups of interest.

The forum is shared and led in the main by the Entity's Chief Financial Officer, Executive Managers, and middle managers, who can give and provide immediate responses on matters raised.

The Entity has established a vibrant, interactive stakeholder management programme and forum that allows the key customers an opportunity to interact and directly engage with the senior management up to the level of the CEO.

16.2 Media Relations

Engagements with various media houses has been one of the Entity's key cornerstones as the Entity, this relates to the kind of working relations we have built and the special working relationship we have with many of the local media houses. This has afforded the Entity more opportunities to engage and reengage on various aspects of mutual interest such as marketing, advertising spaces and coverage of the Entity's programmes, projects, and the ability to communicate and give feedback the Entity's broader client base.

16.1 Integrated communication approach



8

The Entity has imitated various community social investment programmes and roll out more to some parts of its distribution areas and towns, the objective herein is to establish social relations with the communities and stakeholders, partnering and join programs.

16.6 Community social investment

The system of internal communication is mainly based on various engagement platforms that the Entity has created internally which allows and gives more user-friendly employer and employee relations. The Entity has in its internal processes given an open platform to sectoral based structures internally such as the labour unions to fully engage with members. The Entity's internal communications services such as email communications, which seek to inform and update employees from time to time, the use of employees' intranet services as well as staff notices on noticeboards etc. The Entity has an in-house newsletter bulletin which also assists in communication and disseminating information to the employees. Many of the directorates have now formalized their engagement as both departmental and inter departmental through means of official WhatsApp's links.

16.5 Internal Communication

The Entity has established a vibrant, interactive stakeholder management programme and has done through the process of identifying amongst its key customers a contact sessions and information sessions, on various services it offers and the establishment of a forum that allows our key customers and opportunity to interact and directly engage with the senior management up to the level of the CEO.

16.4 Stakeholder Management



- *the funding of operating and capital expenditure.*
- *financial plans.*

must include at least the following:

The overview of budget funding must explain how the annual budget is to be funded, which

OVERVIEW OF BUDGET AND FUNDING

The Board is required to submit the draft budget to the parent municipality (MMM) by 15th of March annually, after which an extensive consultation between the Entity and MMM will take place to reach consensus on the proposed budget.

The budget preparation and Business Plan review process should be conducted mainly in line with the legislative and regulatory frameworks prescribed by the Municipal Finance Management Act no 56 of 2003 (MFMA), Municipal Systems Act no 32 of 2000 (MSA) and National Treasury Guidelines. The format and contents of the budget document must be in accordance with the Municipal Budgeting and Reporting Regulations, 2009.

- the way the business planning process is integrated,
- the input of policy directions; and
- consultation with the relevant stakeholders.

Critical to the development of a credible budget are:

MFMA, section 87 provides guidance on the steps in the annual budget process for a municipal Entity. The National Treasury has also issued Circular 70 and 72, which also serves as an elaborative guidance for municipalities and municipal entities for preparation of budgets and MTRRF.

BUDGET PROCESS OVERVIEW

17. FINANCIAL PLAN

- reserves.
 - the fiscal viability of the municipal Entity.
 - the overall impact on rates and tariffs; and
 - allocations from or distributions to the parent municipality.
- a) Funding measures used to determine whether operating and capital expenditure are funded in accordance with section 18 of the Act: the budget of the Entity will be funded from the revenue raised internally as well as conditional grants from the Department of Energy. The Entity has no intentions to use the previous year accumulated surplus to fund any of the budgeted expenditure in the MTRRF, it is important to note that the energy bulk purchases represent more than 55% of the Entity's operational budget. The revenue from the sale of electricity represents more than 88% of the operating revenue for the Entity.
- b) Tariffs and other charges on energy and services are developed and submitted as part of MTRRF and submitted to the parent municipality.
- c) The debtors' collection levels that have been estimated: electricity debtors' collection rate set at 95% factored in the revenue projection.
- d) Particulars of planned savings and efficiencies for the medium term as detailed in the multi-year business plan.
- Data Purification
 - Meter maintenance
 - Conversion to pre-paid metering
 - Increase Automated Meter Reading (AMR)
 - Streetlight Management
 - Meter audits



The supply chain management policy of the Entity is reviewed annually and serves as the basis for all the procurement and disposal activities of the Entity. All bid committees as required by the SCM regulations are in place, and the composition thereof is compliant with the Regulations. Supply Chain Management reporting is done on a monthly, quarterly, and monthly basis as prescribed by legislation.

Implementation of Supply Chain Management

All monthly, quarterly, and annual MFMA reports are submitted by the Entity to the parent municipality (MMM) as required.

Budget Statements Reporting

The Entity complies with the implementation priorities as per the National Treasury implementation and monitoring checklist.

MFMA Implementation and Monitoring

This section provides disclosure regarding progress in implementing various related legislation including the MFMA and how this affects the budget and budget process.

18. COMPLIANCE AND IMPLEMENTATION OF MFMA

Free Basic Electricity is supplied to indigent households as per Indigent register compiled and maintained by MMM. FBE of 50kWh per month is provided by the Entity to qualifying households as a measure to provide access to basic electricity.

PROVISION OF FREE BASIC ELECTRICITY (FBE) / INDIGENT SUBSIDY



Recent technological and economic changes are expected to challenge and transform the EDI. These changes arise due to a convergence of factors, including falling costs of distributed generation and other distributed energy resources (DER); an enhanced focus

20.1 Declining Revenue Trends

A summary of the operating and capital budget proposals over the medium-term is provided in the schedules below. The tabled budget represents the projected financial proposal of this business plan over medium term.

20. BUDGET SUMMARY

The MTRFF2023/26 represents the operating and capital budget of the Entity over the medium term. The budget was developed in line with the requirements of Municipal Financial Management Act and Municipal Budgeting and Reporting Regulations, 2009. Both the MFMA and the regulations provide for uniform norms and standards for ensuring transparency, accountability, and appropriate lines of responsibility in the budgeting and reporting process within the Entity.

19. MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTRFF) 2023/26

The Entity maintains registers for both its infrastructure assets and other fixed assets and the register is updated regularly. The registers are GRAP compliant.

Asset register

Financial delegations and sub-delegations are not in place and are still to be developed and presented to the Board for approval.

Delegations





20.4 The Major Sources of Funding are as follows:

The current financial plan for CENTLEC is to generate funding through energy to expand into new products namely solar and related ICT services. This over time can be achieved through efficiency initiatives, cutting on losses and effective revenue management.

20.3 Financial Considerations

The financial risks created by disruptive technologies include declining utility revenues, increasing operational costs, and lower profitability margins, particularly over the long-term. As DER and DSM programs continue to capture our market share, CENTLEC revenues will be reduced. Adding the higher costs to integrate DER, increasing subsidies for DSM and direct metering of DER will result in the potential for a squeeze on profitability and thus, credit rating.

20.2 Financial Challenges

On development of new DER technologies; increasing customer, regulatory, and political interest in demand-side management technologies (DSM); government programs to incentivize selected technologies; the lower price of natural gas; slowing economic growth trends; and rising electricity prices.

Taken together, these factors are potential "game changers" to the South African EDI. As technological innovation e.g., solar photovoltaic (PV) becomes economically viable due to this confluence of forces, the industry and its stakeholders must proactively assess the impacts and alternatives available to respond to these disruptive technologies in a timely manner.





BREAK-EVEN ANALYSIS	
Monthly Revenue Break-even	R 264 830 910
Assumptions:	
Average Percent Variable Cost	28%
Estimated Monthly Fixed Cost	R 171 821 902

Table 8 - Break-even Analysis

For the break-even analysis, the monthly revenue needed to break-even is R264, 830,910. The break-even analysis has been calculated on the "burn rate" of CENTLEC.

20.6 Break-even Analysis

Sales Forecast					
	2021/2022	2022/2023	2023/2024	2024/2025	2025/2026
Sales	2 886 778 015	3 309 163 160	3 578 510 707	3 743 122 200	3 915 305 821
Total Sales	2 886 778 015	3 309 163 160	3 578 510 707	3 743 122 200	3 915 305 821
Direct Cost of Sales	2 038 346 454	2 101 176 437	2 199 931 730	2 301 128 590	2 406 980 505

Table 7 - Sales Forecast

The table below show CENTLEC's projected Sales Forecast. Annual projections for three years are tabled.

20.5 Sales Forecast

Electricity sales to consumers namely, residents, government and commercial customers. Government grants for infrastructure. The new focus areas are to expand on solar energy and related ICT services. The Entity's key to success involves satisfying its customers, producing a quality product, and delivering excellent service.



21. PROJECTED CASH FLOW

The following table displays CENTLEC's budgeted cash flow

Table 9 - Cash Flow

- Table D5 Budgeted Cash Flow

Description	2019/20		2020/21		2021/22		Current Year 2022/23		Medium Term Revenue and Expenditure Framework	
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26	
CASH FLOW FROM OPERATING ACTIVITIES	2 945 112	2 668 052	2 668 052	3 160 269	3 160 269	3 160 269	3 399 585	3 555 966	3 719 541	
Receipts										
Property rates										
Service charges										
Other revenue	13 982	13 982	13 982	18 950	18 950	18 950	20 560	21 505	22 495	
Transfers and Subsidies - Operational	3 183	69 433	69 433	60 300	60 300	60 300	67 300	66 108	64 999	
Transfers and Subsidies - Capital										
Interest										
Dividends										
Payments										
Suppliers and employees	(2 755 702)	(2 432 471)	(2 432 471)	(2 739 032)	(2 739 032)	(2 739 032)	(3 345 213)	(3 336 066)	(3 494 837)	
Finance charges	(1 073)	(57)	(57)	(217)	(217)	(217)	(229)	(239)	(250)	
Transfers and Subsidies										
CASH FLOW FROM INVESTING ACTIVITIES	349	329	329	329	329	329	9 285	9 712	10 159	
Receipts										
Proceeds on disposal of PPE										
Decrease (increase) in non-current receivables										
Decrease (increase) in non-current investments										
Payments										
Capital assets	(95 948)	(164 633)	(164 633)	(295 007)	(295 007)	(295 007)	(228 884)	(235 339)	(242 227)	
CASH FLOWS FROM FINANCING ACTIVITIES	(4 333)	(4 333)	(4 333)				(1 774)	5 665	5 925	
Receipts										
Short term loans										
Borrowing long term/financing										
Increase (decrease) in consumer deposits										
Payments										
Repayment of borrowing	(70 000)									
NET CASH FROM/(USED) INVESTING ACTIVITIES	(95 948)	(164 633)	(164 633)	(295 007)	(294 678)	(294 678)	(219 589)	(225 627)	(232 064)	
NET CASH FROM/(USED) FINANCING ACTIVITIES	(70 000)	(4 333)	(4 333)				(1 774)	5 665	5 925	
NET INCREASE/(DECREASE) IN CASH HELD	25 571	47 407	51 391	111 005	111 005	111 005	111 005	1 431	1 496	
Cash/cash equivalents at the year begin:	73 481	99 053	146 460	197 851	197 851	197 851	197 851	31 099	32 529	
Cash/cash equivalents at the year end:	99 053	146 460	197 851	308 856	308 856	308 856	31 099	32 529	34 026	





Table 10 – Financial Position

Table D4 Budgeted Financial Position

Description	Ref	Current Year 2022/23						Medium Term Revenue and Expenditure Framework
		Audited Outcome 2019/20	Audited Outcome 2020/21	2021/22	Audited Outcome	Budget	Original Budget	
R thousands		Audited Outcome 2023/24	Budget Year +1 2024/25	Budget Year +2 2025/26	Pre-audit outcome	Forecast		
ASSETS								
Current assets								
Cash and cash equivalents	3	32 393	15 821	12 256	37 677	37 677	34 026	
Trade and other receivables from exchange transactions	1	866 024	557 337	536 996	601 127	601 127	644 551	
Receivables from non-exchange transactions	1	2 670 040	3 069 498	3 468 218	601 127	601 127	102 114	
Current portion of non-current receivables								
Inventory	2	107 776	(3 454)	85 397	83 260	83 260	113 029	
Other current assets								
Total current assets		3 676 233	3 639 202	4 102 867	722 065	722 065	893 719	
Non current assets								
Investments								
Investment property		1 124	849	573				
Property, plant and equipment	3	6 664 549	6 333 690	6 250 471	6 408 353	6 408 353	6 168 932	
Biological assets								
Living and non-living resources								
Heritage assets								
Intangible assets		81 638	86 214	80 151	92 826	92 826	62 836	
Trade and other receivables from exchange transactions	1	1 296 498	1 288 904	1 342 778	1 227 610	1 227 610	1 400 104	
Non-current receivables from non-exchange transactions								
Other non-current assets								
Other non-current assets								
Total non current assets		8 063 809	7 709 656	7 673 973	7 728 789	7 728 789	7 631 874	
TOTAL ASSETS		11 740 042	11 348 858	11 776 841	8 450 854	8 450 854	8 525 594	
LIABILITIES								
Current liabilities								
Bank overdraft								
Consumer deposits		127 226	125 968	129 279	124 918	124 918	30 316	
Trade and other payables from exchange transactions	4	5 066 052	5 415 771	6 023 871	683 548	683 548	134 733	
Trade and other payables from non-exchange transactions	5	36 024	43 894	44 076	38 035	38 035	969 561	
Provision								
VAT								
Other current liabilities								
Total current liabilities		5 229 802	5 585 623	6 197 226	872 965	872 965	1 178 180	
Non current liabilities								
Financial liabilities								
Provision	6		5 313	3 499				
Long term portion of trade payables	7	1 604 032	1 409 574	1 385 748	1 564 910	1 564 910	1 603 631	
Other non-current liabilities								
Total non current liabilities		1 604 032	1 414 886	1 389 247	1 564 910	1 564 910	1 603 631	
TOTAL LIABILITIES		6 833 833	7 000 509	7 586 473	2 437 875	2 437 875	2 781 811	
NET ASSETS		5 006 209	4 348 349	4 190 368	6 012 979	6 012 979	5 743 783	
COMMUNITY WEALTH/EQUITY								
Accumulated surplus/(deficit)	8	668 520	254 438	96 960	1 862 577	1 862 577	1 673 062	
Reserves and funds	9	4 337 689	4 093 911	4 093 407	4 150 402	4 150 402	4 070 731	
Other								
TOTAL COMMUNITY WEALTH/EQUITY		5 006 209	4 348 349	4 190 368	6 012 979	6 012 979	5 743 783	



23. REFERENCES

- CENTLEC Annual Report: 2020/2021
- CENTLEC Annual Report: 2021/2022
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- Free State Growth and Development Plan
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