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INTERNAL / EXTENAL

MEDIA RELEASE

CEO CENTLEC PRESENT CENTLEC (SOC) STATE OF AFFAIRS AND TURN AROUND STRATEGY

The entity would like to welcome all the employees from the Festive Seasons and wish them a blessed 2022. The month of December 2021 it was a challenging one for the institution where we experienced 72 Covid-19 positive cases. To all employees Proverbs 3:5-18 says "trust in the Lord with all your heart, and lean not on your understanding, in all your ways acknowledge Him; And he shall direct your paths".

VUCA 2025 CEO turnaround strategy aims to ensure that the entity becomes sustainable, is customer-centric, ethical and accountable, nurturing a passion for efficiency, technology and innovation, leaders in service delivery, employee recognition and diversity and caring for the community.

- ❖ V: Vision to keep lights burning
- ❖ U: Understanding the Sustainability game strategy
- ❖ C: Caring for the Community
- ❖ A: Agility of our Employee Recognition & Diversity

Given the above, in giving effect to the strategy, the priorities outline below is viz.

- ❖ Improve stabilize and sustain a positive financial position for CENTLEC

- ❖ Establish CENTLEC's own generation to reduce over-reliance on Eskom
- ❖ 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

Overview of CENTLEC state of affairs.

On Electrical Infrastructure:

In the past and financial year under review, the Entity faced daunting challenges and risks that threatened and harmed CENTLEC's ability to deliver services sustainably. CENTLEC (SOC) Ltd suffered financial loss due to the ongoing theft of copper cables at electrical distribution centres and sub-stations. The Entity had encountered numerous incidents of tampering, vandalism of streetlights, bypassing of electricity meters and illegal connections of electricity. The impact of vandalism of electrical infrastructure, illegal connections lead to a decline in revenue, increased power outages and posed a threat to human lives and animals.

The maintenance and refurbishment backlog per year amounts to R351million. The management is finalising the business case proposal to source funding to address the infrastructure backlog.

On Revenue Collection:

The table below depicts the entity revenue collection excluding prepaid sales:

2018/2019		2019/2020		2020/2021		2021/2022	
Period	% Collected						
Jul-18	67%	Jul-19	80%	Jul-20	75%	Jul-21	76%
Aug-18	75%	Aug-19	71%	Aug-20	71%	Aug-21	71%
Sep-18	65%	Sep-19	66%	Sep-20	69%	Sep-21	76%
Oct-18	79%	Oct-19	83%	Oct-20	77%	Oct-21	78%
Nov-18	70%	Nov-19	76%	Nov-20	87%	Nov-21	79%
Dec-18	58%	Dec-19	65%	Dec-20	68%		
Jan-19	73%	Jan-20	74%	Jan-21	72%		

Feb-19	76%	Feb-20	76%	Feb-21	75%		
Mar-19	72%	Mar-20	60%	Mar-21	76%		
Apr-19	65%	Apr-20	68%	Apr-21	86%		
May-19	69%	May-20	100%	May-21	71%		
Jun-19	83%	Jun-20	82%	Jun-21	78%		
(Grey area indicates the time of COVID-19 pandemic)							

On Irregular and Fruitless Expenditure:

The entity did conduct a review of irregular expenditures for the past four (4) years from 2015/16 – 2019/20, for Council’s consideration. The last report submitted to the Mangaung Metro Municipality (MMM) was for the financial year ending 30 June 2015.

The investigation was conducted to support the CENTLEC Board and Mangaung Metro Municipality (MMM) Municipal Public Accounts Committee (MPAC) in making the appropriate decision on possible liability in respect of irregular expenditure incurred.

During the prior financial years, the office of the Auditor-General SA identified irregular expenditures relating to non-compliance with several legislations. The details of each financial year are as follows:

1) Financial year ending 30 June 2016.

Regulation 4(4) of the Preferential Procurement Regulation states: No tender must be regarded as an acceptable tender if it fails to achieve the minimum qualifying score for functionality as indicated in the tender initiation. Suppliers who didn't meet the minimum threshold on functionality were appointed, no proof could be obtained that the suppliers appointed per contract CD20/2015 were evaluated using the 90/10 preference point systems.

The Auditor-General SA identified that procurement on CD20-2015 **R 24 713 837** Supply and Delivery of Power Cables and Accessories did not comply with Preferential

Procurement Regulations 2011 due to internal control weaknesses that are noted in the bid Specification environment and Bid committees.

Total irregular expenditure reported during the financial year ending 30th of June 2016 amounted to **R 24 754 940.00** which included **R 41 103** for deviations not complying with the SCM regulation.

On the ICT Panel contract, an amount of **R 31 348 999,49** was paid to Calluna Trading and irregular emanate from 2015. The procurement of the service was in contravention with SCM regulations.

2) Financial year ending 30 June 2017.

Irregular Expenditure identified due to contravention of SCM related regulations.

Any expansion or variation more than the stipulated thresholds will be regarded as an amendment to the contract, and must be dealt with in terms of the provisions of section 116(3) of the MFMA as follows:

- ❖ the reasons for the proposed amendment have been tabled to the board of directors and in the council of the parent municipality; and
- ❖ the local community- (i) must be given reasonable notice of the intention to amend the contract or agreement, and (ii) must be invited to submit representations to the entity.

The Auditor-General SA identified elements of non-compliance with Municipal Financial Management Act, Section 116 (3)(b) and Circular 62, relating to contract extensions as the local community was not given reasonable notice by the entity of the intention to amend the contract for the telephone system.

Total irregular reported during the financial year ending 30th of June 2017 amounted to **R 11 463 427, 30.**

3) Financial year ending 30 June 2018.

i. Irregular Expenditure identified due to contravention of SCM related regulations

The Auditor-General SA identified elements of non-compliance with Municipal Financial Management Act, Section 116 (3)(b) and Circular 62, relating to contract extensions as the local community was not given reasonable notice by the entity of the intention to amend the contractor's agreement.

An amount of R **66 011 433** was as a result of overspending mainly due to incorrect billing from Eskom and budget cuts due to the financial situation at the parent municipality on the entity

The irregular expenditure reported during the financial year as a result of these extensions amounted to **R 31 107 052.97**.

The entity identified procurement in contravention with Supply Chain Management policy and Municipal Financial Management Act.

The irregular expenditure as a result of wrong deviation processes reported during the financial year amounted to **R 688 605.02**.

The Auditor-General SA identified elements of non-compliance with Municipal Systems Act no 32 of 2000, section 56(1)(c) where Senior Employees were appointed as acting executive managers for a period exceeding six months.

The irregular expenditure reported as a result of this acting during the financial year amounted to **R 202 523, 50**.

4) Financial year ending 30 June 2019.

Irregular Expenditure identified due to contravention of SCM related regulations

The Auditor-General SA identified elements of non-compliance with Municipal Financial Management Act, Section 116 (3)(b) and Circular 62, relating to contract extensions as the local community was not given reasonable notice by the entity of the intention to amend the contractor's agreement.

The irregular expenditure as a result of the variations amounted to **R 13 734 533.88**.

- ii. The AGSA identified the procurement of services amounting to **R622 915.11** which did not follow proper SCM processes relating to formal written quotations and were in contravention of the MFMA act.

5) Financial year ending 30 June 2020.

i. Non-Cash items (Overspending on the budget)

An amount of **R 309 841 054** was reported as irregular expenditure mainly due to overspending on items such as employee-related costs, bulk purchases, general expenses, and budget cuts from the consolidated budget as the parent municipality had to comply with stringent financial controls imposed by National Treasury.

The report indicated that there was an element of negligence concerning overspending on the general expenses. However, it concludes by indicating that no office should be subjected to appropriate consequence management procedures.

ii. Irregular expenditure identified due to contravention of SCM related regulations.

An amount of **R 1 389 259, 03** was due to overspending on contract value which was caused by the labour unrest that resulted in delayed completion of the Asset Management Project.

On Wasteful and Fruitless Expenditure.

The below table depicts information emanating from the late payments of Eskom, Telkom, SARS, AGSA:

FRUITLESS AND WASTEFUL EXPENDITURE	
YEAR	(Rand)
2014/15	R 77 448.00
2015/16	R 210 186.09
2016/17	R 285 441.00
2017/18	R 833 156.00
2018/19	R 8 967 402.00
2019/20	R 23 233 086.00
Total	R 45 525 020.00

Lastly, the entity has established special programs to provide strategic interventions to facilitate the implementation of gender programs and support the psychological well-being of the employees.

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