



## **Municipal Debt Relief Supplementary Guide to MFMA Circular No. 124**

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## 1. Background

- 1.1 The Eskom Debt Relief Act, 2023 constitutes government's initiative to improve the financial position of Eskom over the medium term. Municipal Eskom debt pose a material risk to the Eskom debt relief. The debt relief to Eskom, will improve Eskom's sustainability and facilitate the condition for Eskom, that Eskom write-off the municipal debt under strict conditions with the National Treasury's guidance.
- 1.2 The approach means that no additional funds are required from the fiscus to address the debt municipalities owed Eskom as of 31 March 2023. [MFMA Circular No. 124 on Municipal Debt Relief](#) (hereafter "**Circular**") was issued as part of the government's initiative to improve the financial position of Eskom over the medium term. Whilst the **Circular** creates mechanism for the write-off of municipal debt owing to Eskom, it also aims to address the liquidity and financial management practices of municipalities through a set of conditions for municipalities.
- 1.3 This supplementary guide sets out the accounting principles to be considered by municipalities who qualify to participate in the Municipal Debt Relief arrangement, as well as how municipalities should record these transactions in terms of the municipal standard chart of accounts (*mSCOA*). This guide should be read in conjunction with the **Circular**, the conditions for Eskom in the municipal space and the relevant Standards of Generally Recognised Accounting Practice (GRAP).
- 1.4 The cut-off date for municipal applications was 31 October 2023 to facilitate all approved municipalities' admission to municipal debt relief before 01 December 2023 – this means that a municipality admitted by 01 December 2023 that meets the conditions consecutively until 30 November 2026 could in principle receive a full debt write-off. A municipality that, subsequent its approval for debt relief, drops-out of the programme may re-apply – however in this case it could result in a less than full debt write-off.

## 2. Benefit to municipalities participating in the arrangement

- 2.1 The financial relief to municipalities will be in the form of the write-off of the debt owing to Eskom as at 31 March 2023<sup>1</sup>. This amount comprises of the principal amount and any interest and/or penalties accrued up until 31 March 2023 (hereafter referred to as "**Municipal Relief Debt**"). Eskom's MFMA s.41 statement as at 31 March 2023 provides the Rand value of the **Municipal Relief Debt**. Each municipality applies to the National Treasury to participate in the Municipal Debt Relief arrangement by providing the minimum information as specified in the **Circular**<sup>2</sup>.

**Note** – Most municipalities applying for debt relief already have a payment arrangement in place with Eskom for the Municipal Relief Debt. This payment arrangement ceases to exist at the **effective date**. The Eskom MFMA s.41 statement amount may include a component of the municipality's payment arrangement with Eskom to repay the debt regarded as the **Municipal Relief Debt**. It is thus important to note that the exact Rand value that is the subject of municipal debt relief for the specific municipality is to be confirmed by Eskom in writing to the National Treasury and municipality once Eskom affected the necessary adjustment for any payment arrangement.

<sup>1</sup> Municipal Relief Debt excludes the municipality's Eskom March 2023 current account.

<sup>2</sup> See section 3 of the Circular.

- 2.2 The Municipal Debt Relief arrangement, as outlined in the **Circular**, will apply as follows to qualifying municipalities, from the date the National Treasury approves the municipality's application ("**effective date**”):

### Interest

- 2.2.1 Eskom will permanently suppress (i.e., stop charging) interest on the **Municipal Relief Debt** from 01 April 2023 up to and including the **effective date**. Any interest charged by Eskom, will be reversed within three (3) calendar months from the date of the National Treasury approval letter to the municipality. This benefit remains in effect even if the municipality later fails to meet the conditions for the debt write-off.
- 2.2.2 *For new municipal arrears accruing from 01 April 2023 (that is not **Municipal Relief Debt**)* – Subject to 2.2.10 below, the municipality will need to enter into a repayment arrangement with Eskom if it is unable to pay any arrears<sup>3</sup> owing to Eskom from 01 April 2023 (including the March 2023 current account) up to the **effective date**. For the first 12 months of any such payment arrangement, Eskom will suppress interest thereon, subject to the municipality honouring the payment arrangement.
- 2.2.3 *Extension of the interest concession on bulk accounts to all customer accounts* – with effect from the Eskom October 2023 billing cycle<sup>4</sup> or earlier, cap the maximum interest raised against all municipal accounts at the prevailing prime interest rate plus 2.5 per cent or less. This concession applies to all municipalities and not only municipalities approved for debt relief.
- 2.2.4 *Continuation of previous concession to all municipalities* – allocate payments received from municipalities to capital first then to interest.

### Legal proceedings, court orders and existing payment arrangements

- 2.2.5 Any existing repayment plan with Eskom that relates to the **Municipal Relief Debt** will come to an end. Additionally, Eskom will stay any existing legal proceedings related to this debt where the court has not yet made an order.
- 2.2.6 However, if Eskom, as the applicant, **already obtained an order of court for direct payment**<sup>5</sup> **prior to the effective date** → Eskom to fully cease enforcing any such order of court parallel to Eskom writing-off the last third of the municipality's debt as envisaged in the **Circular** i.e., for the duration of debt relief Eskom must apply any collections in terms of such an order to the municipality's current account.
- 2.2.7 If Eskom, as the applicant, **already obtained an order of court for a payment arrangement**<sup>6</sup> relating to arrears, interest and penalties on the **Municipal Relief Debt prior to the effective date** → Eskom to enforce any such order of court only to the extent necessary to settle any current account of that municipality following the

<sup>3</sup> Arrears on the current account not paid in accordance with stipulated conditions.

<sup>4</sup> This means that with effect municipalities' October 2023 consumption (payment due in November 2023).

<sup>5</sup> An order where some consumers, normally large power users (LPU's), supplied by the municipality must directly pay their municipal electricity bill to Eskom and not to the municipality.

<sup>6</sup> For example, Eskom obtained a writ to attach the municipality's bank account for Municipal Relief Debt – the writ was obtained before the effective date.

**effective date** – Eskom to fully cease enforcing any such order of court parallel to Eskom writing-off the last third of the municipality's debt as envisaged in the **Circular**.

- 2.2.8 The stay of any other court order relating to **Municipal Relief Debt** where Eskom was the applicant, may be agreed on in writing between the National Treasury and Eskom on a case-by-case basis. The municipality will need to make a request for the stay of such an order of court to the National Treasury in writing.

### Debt write-off

- 2.2.9 The **Municipal Relief Debt** will be written off by Eskom over a three-year period – one third of the Municipal Relief Debt for every 12 consecutive months the municipality complies with the conditions. The write-off by Eskom is contingent upon the municipality continuously meeting the conditions specified in the **Circular**, as well as an annual written communication from the National Treasury confirming compliance with the conditions with the conditions.

**Notes to paragraph 2.2.9** – *In terms of the conditions for Eskom, paragraph 2.2.9 –*

- (1) *To be interpreted as not compromising in any way the full benefit of debt write-off for any municipality that maintained its existing payment arrangement with Eskom (relating to Municipal Relief Debt) up to the effective date. **For example**, if the municipality prior to the effective date during April and May 2023 already repaid R2000 of its R3 million Municipal Relief Debt – Eskom to write off the full R3 million value of the arrears, interest and penalties that existed at 31 March 2023 despite the municipality's R2000 repayment made prior to the effective date.*
- (2) *The last cycle of Eskom municipal debt write-off ends on 30 November 2026 – also for a municipality that after a drop-out from the programme successfully re-applied to NT. If at 30 November 2026 any municipality accumulated a cycle of compliance less than 12 months – Eskom to write-off a pro-rata of that year's third debt write-off benefit for that municipality subject thereto that: if any municipality made up (also partly) for any shortfalls as a result of failure since its initial admission to the programme, NT and Eskom may agree otherwise on the remaining debt of that municipality.*

- 2.2.10 **Only in relation to the top 13 Eskom municipal defaulters**<sup>7</sup>, on a case-by-case basis NT and Eskom may agree that Eskom –

- i. Ringfence any new overdue debt (the current accounts since March 2023 up to and including the date of the National Treasury approval letter<sup>8</sup>) of the municipality to not be subject to a payment arrangement as envisaged in the approval letters for these municipalities;

*Subject to the municipality's change in behaviour/ maintenance of the Eskom current account over the municipal debt relief compliance cycle –*

- ii. Annually suppress (i.e., stop charging) interest on this debt;

<sup>7</sup> The top 13 Eskom municipal defaulters as at 31 March 2023 are: Emalahleni (MP), Maluti-a-Phofung, Emfuleni, Matjhabeng, Govan Mbeki, Lekwa, Ngwathe, City of Matlosana, City of Mbombela, Thaba Chweu, City of Tshwane, Ditsobotla and Enoch Mgijima municipalities.

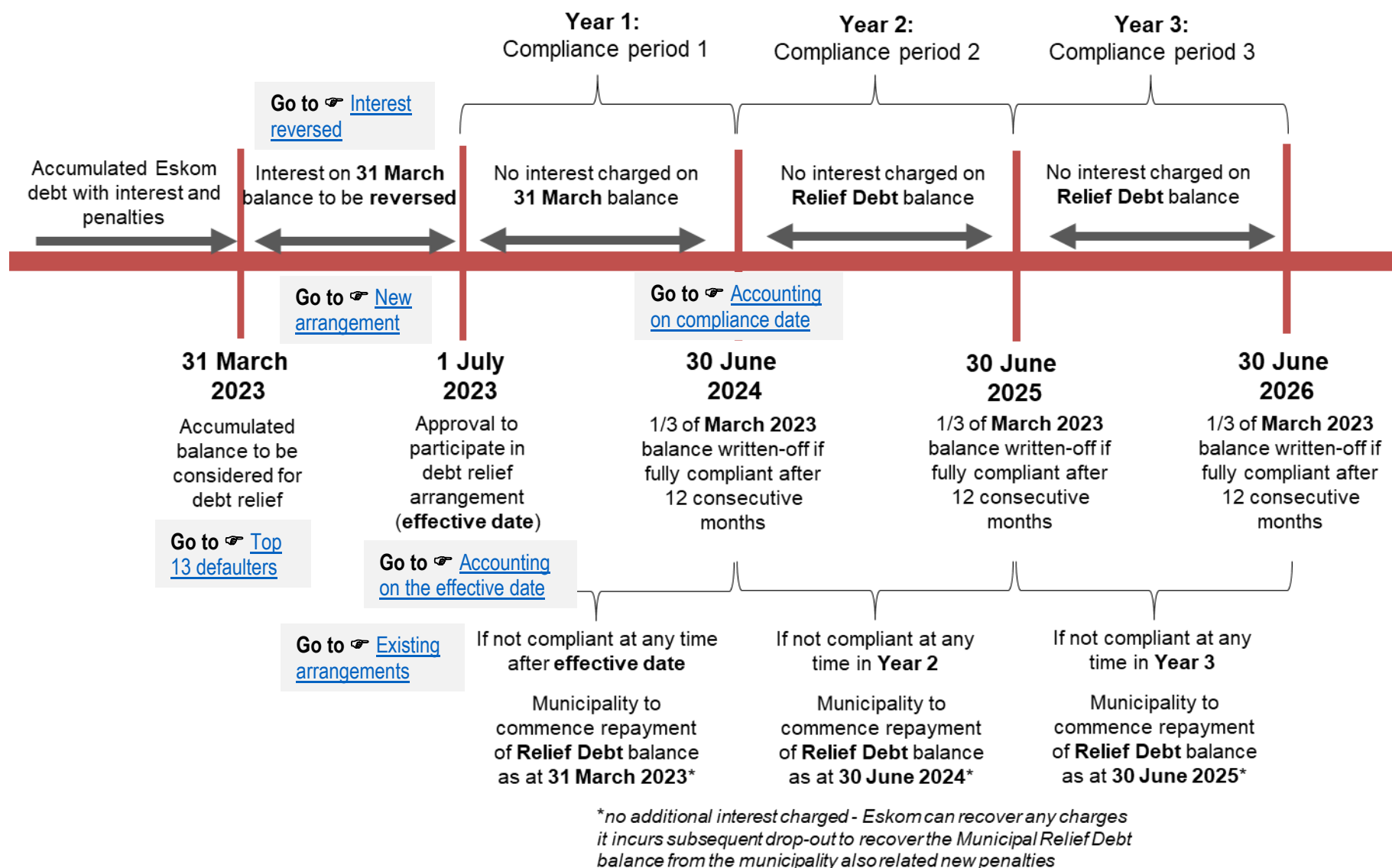
<sup>8</sup> It is important to note that in this case it is not the effective date.

- iii. Write-off this debt at the end of the municipality's 36 months debt relief compliance cycle; and
- iv. If the municipality default on any current account subsequent the approval date, Eskom may in relation to this debt at its discretion immediately –
  - a. Implement its normal credit control processes;
  - b. Levy interest going forward, from the date of default; and
  - c. Conclude a payment arrangement with the municipality in relation to this new overdue debt as envisaged in the municipality's debt relief approval letter.

### Consequences for failure

- 2.2.11 If the municipality fails to meet the conditions, it will be required to repay the remaining balance of the **Municipal Relief Debt** to Eskom. The remaining balance being the initial value of the **Municipal Relief Debt** less any amounts written-off up to the date of non-compliance. The repayment period will be determined between Eskom and the municipality, and no new interest will accrue on the **Municipal Relief Debt** during this or any subsequent period.
- 2.2.12 Eskom may recover any related charges incurred subsequent to the municipality's exit from the programme to recover the **Municipal Relief Debt** from the municipality, including new penalties that Eskom may charge the municipality after exit. Any amounts previously witten-off by Eskom cannot be reinstated. A municipality will have a curing period of 30 days to rectify any non-compliance from the date the National Treasury and / or relevant Provincial Treasury issue the municipality with a non-compliance certificate relating to the agreed arrangement.
- 2.2.13 Failure to meet the conditions could also result in Eskom enforcing any existing court orders pertaining to the **Municipal Relief Debt** still owed to Eskom. Eskom may also institute new legal action to recover the remaining balance of the **Municipal Relief Debt** from the municipality.

## Illustrating the Municipal Debt Relief Arrangement



### 3. Accounting considerations

#### Considerations on the effective date – the Municipal Relief Debt

- 3.1 Prior to qualifying for participation in the Municipal Debt Relief arrangement, a municipality would have accounted for the financial liability owing to Eskom in terms of GRAP 104 on *Financial Instruments* (issued October 2009)<sup>9</sup>. This includes any separate repayment arrangements negotiated with Eskom on the outstanding amounts.

**NB:** There are currently five municipalities<sup>10</sup> with an **effective date** of 1 June 2023. This implies that the municipality must consider the accounting treatment discussed below when preparing its annual financial statements for the year ended 30 June 2023.

#### ***Do the terms of the Municipal Debt Relief arrangement modify the existing terms of the liability between the qualifying municipality and Eskom?***

- 3.2 According to GRAP 104, if there is a **significant modification in the terms** of an existing financial liability (regardless of whether it is due to the debtor's financial difficulty), it is accounted for as the extinguishment of the original financial liability and the recognition of a new financial liability<sup>11</sup>.
- 3.3 The terms are considered substantially different if the discounted present value of cash flows under the new terms, including any net fees paid or received and discounted using the original effective interest rate, differs by at least 10% from the discounted present value of the remaining cash flows of the original financial liability<sup>12</sup>. The waiving of interest/ penalties alone will most likely result in a difference of more than 10%.
- 3.4 Where the **Municipal Relief Debt** is not regarded as a new financial liability for the municipality on the **effective date**, consideration is given to GRAP 1 on *Presentation of Financial Statements* which specifies that if an entity expects, and has the discretion, to refinance or roll over an obligation or at least twelve months after the reporting date under an existing payment arrangement, it classifies the obligation as non-current even if it would otherwise be due within a shorter period<sup>13</sup>.
- 3.5 The Debt Relief Arrangement results in a change in classification of 2/3<sup>ds</sup> of the **Municipal Relief Debt** due to Eskom as non-current because the municipality will have a substantive right to defer settlement for at least 12 months after the end of the reporting period.

<sup>9</sup> GRAP 104 on Financial Instruments was revised in 2019. The revised Standard is effective for municipalities from 1 April 2025.

<sup>10</sup> Rand West City, Ulundi, Mbombela, Emfuleni, and the City of Matlosana LM's.

<sup>11</sup> GRAP 104 (2009) par .80

<sup>12</sup> GRAP 104 (2009) paragraph .81 and AG149

<sup>13</sup> GRAP 1 paragraph .75



### ***Is the [new] Municipal Relief Debt owing to Eskom a financial liability for the qualifying municipality?***

- 3.6 When a municipality received approval for its participation in the Municipal Debt Relief arrangement from the National Treasury (i.e., on the **effective date**), it must assess whether the **Municipal Relief Debt** constitutes a financial liability.
- 3.7 A financial instrument is considered a residual interest when an entity is a party to the contractual provisions of the instrument and meets the recognition criteria but does not have any obligation to deliver cash or another financial asset to the other party, nor is it required to exchange financial instruments under unfavourable conditions. In other words, it does not meet the definition of a financial liability<sup>14</sup>.
- 3.8 Although the Municipal Debt Relief arrangement provides an opportunity for the debt to be written off, this write-off is contingent upon the municipality satisfying specific conditions to the satisfaction of the National Treasury (and consequently Eskom).
- 3.9 The municipality still owes Eskom the **Municipal Relief Debt** on the **effective date**. The write-off or the re-commencement of the payment is however contingent on certain future events happening or not happening. These future events are the meeting of the conditions set out in clause 6 of the **Circular** by the municipality. If these conditions are wholly within the control of the municipality, then municipality cannot recognise the **Municipal Relief Debt** as a financial liability<sup>15</sup>.
- 3.10 This guidance takes a view that, at the **effective date**, the municipality does not possess an unconditional right to avoid settling its obligation with Eskom as meeting all the conditions (on a continuously basis) is not wholly within its control. The guidance to follow discusses the nature and accounting for the **Municipal Relief Debt** as a financial liability.

### ***What is the nature of the new financial liability?***

- 3.11 The liability for a municipality originated from the receipt of goods/ services from Eskom on credit. However, the Municipal Debt Relief arrangement changes the substance of the liability to a repayment arrangement. This arrangement has a “concessionary element” in that no interest will be charged over the period of the arrangement. This liability, like all others, is recognised at fair value on initial recognition.

Assume Muni XY’s **Municipal Relief Debt** amounts to R30million. It is a three-year liability at 0% interest, with “repayments” made annually. A similar debt instrument in the market bears interest at 12% per annum.

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Capital balance	R20 million	R10 million	R0
Total “repayments”	R10 million	R10 million	R10 million
PV	R8.93 million	R7.97 million	R7.12 million

<sup>14</sup> GRAP 104 (2009) paragraph .27

<sup>15</sup> The new financial liability should not be interpreted to fall within the ambit of section 45 or 46 of the MFMA.



Total “repayment”	R30 million
Less: PV (FV of the liability on initial recognition)	<u>R24 million</u>
Off-market portion of the liability	R6 million

The off-market portion, of R6 million, is recognised by the municipality in terms of GRAP 23 on *Revenue from Non-exchange Transactions*<sup>16</sup>.

**How should the municipality recognise the off-market portion of the arrangement (financial liability)?**

- 3.12 As mentioned above, the municipality will apply GRAP 23 to recognise the off-market portion of the liability. Under this Standard, a municipality recognises non-exchange revenue at the outset, unless a liability is identified<sup>17</sup>. If a liability is recognised, the municipality recognises revenue as it fulfils the conditions stipulated in the payment agreement.
- 3.13 Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset [i.e., the off-market portion] is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.
- 3.14 The off-market portion is essentially an interest benefit for the municipality. This means the municipality will not have to pay any interest on the **Municipal Relief Debt**. Importantly, this benefit isn't contingent on the municipality's ongoing adherence to the conditions outlined in the **Circular**.
- 3.15 Moreover, even if the municipality fails to comply at a later date and consequently has to start repaying the **Municipal Relief Debt** balance to Eskom, this liability will remain interest-free. The entry illustrated below, is **not** reversed if the municipality is at any stage non-compliant with the conditions in the **Circular**.
- 3.16 It is thus expected that a municipality will recognise the off-market portion, in full on the **effective date**, as **non-exchange revenue**.

Year 1 – When the municipality qualifies to participate in the Municipal Debt Relief arrangement	Debit	Credit
	Rm	Rm
Eskom debt (POS)	30	
Municipal Relief Debt liability (POS)		24
Revenue from non-exchange transactions (PER)		6
<b>Derecognition of the existing liability to Eskom and the recognition of the Municipal Relief Debt liability.</b>		

<sup>16</sup> GRAP 104 (2009) paragraph .37

<sup>17</sup> GRAP 23 paragraph .44

### Considerations on the effective date – interest charged in intervening period

- 3.17 As mentioned in paragraph 2.2.1 above, Eskom will permanently suppress interest on the **Municipal Relief Debt** charged from 01 April 2023 up to and including the **effective date**. Eskom will do so within three months of the **effective date**.
- 3.18 The municipality may only de-recognise the interest when notified by Eskom of the reversal, it may not automatically reverse any additional interest accrued up until the **effective date**. GRAP 104 only permits the derecognition of a liability or part thereof when it is waived by the creditor<sup>18</sup>.
- 3.19 When a creditor waives its right to collect a debt or part thereof, the amount waived is regarded as revenue from a non-exchange transaction for the reporting entity. Revenue arising from debt forgiveness is measured at the carrying amount of the debt forgiven<sup>19</sup>.

Muni XY's **Municipal Relief Debt** amounts to R30 million on 31 March 2023. Eskom charges interest of 15% on arrear debt. Prior to the effective date, Muni XY would have accrued an additional interest of R1.1 million (15% over 3 months).

Year 1 – Charging of interest	Debit	Credit
	Rm	Rm
Finance charges (PER)	1.1	
Eskom debt (POS)		1.1
<b>Recognition of interest on the Eskom debt charged monthly by Eskom – this journal shows the total for the three-month period.</b>		

Year 1 – When the municipality is notified of the waiving of interest charged in the intervening period	Debit	Credit
	Rm	Rm
Eskom debt (POS)	1.1	
Revenue from non-exchange transactions (PER)		1.1
<b>Derecognition of a portion of the liability that accrued interest in the intervening period.</b>		

- 3.20 As mentioned above, these accounting transactions are affected by a municipality on notification from Eskom. In practice, it may be that the reversal of the interest by Eskom (and the notification thereof) is done only after the **effective date**.

<sup>18</sup> GRAP 104 (2009) paragraph .80

<sup>19</sup> GRAP 23 paragraph .85 - .88

## Considerations on the effective date – existing payment arrangements

- 3.21 As mentioned in paragraph 2.2.5 above, Eskom will, on the **effective date**, suspend enforcing any existing repayment plan and stay any existing legal proceedings related to this debt where the court has not yet made an order. In such instances, the municipality will consider the accounting guidance provided in the section [☞ Considerations on the effective date – the Municipal Relief Debt](#) above.

### ***What about payments made to Eskom relating to the Municipal Relief Debt after March 2023 but prior to the effective date?***

- 3.22 Payments made by a municipality (or a direct payment by a municipal customer to Eskom) under an existing payment arrangement, either as agreed or enforced by the courts, relating to the **Municipal Relief Debt** after 31 March 2013 but before the **effective date**, will **NOT** be considered in determining the value of the **Municipal Relief Debt** on the **effective date** (see notes to paragraph 2.2.9 above). These amounts will instead be allocated against the current account of the municipality.

### ***What is the impact on accounting where the court has already issued a ruling against the municipality?***

- 3.23 An entity can be legally absolved from its primary obligation for a debt, either through a legal process or an agreement with the creditor<sup>20</sup>. Following a court ruling, a municipality assesses the court's decision and whether it legally exempted it from repaying Eskom.
- 3.24 This document has identified two types of court rulings against a municipality, these are considered in further detail below:
- 3.24.1 A customer is ordered to settle its debt owing to the municipality directly with Eskom (paragraph 2.2.6). Assuming, following an assessment of the court order, the municipality continued to recognise the debt owing to Eskom, it would have derecognised part of the debt owing with each direct payment, by the customer, to Eskom. In terms of the **Circular**, the municipality will cease to derecognise the portion of the debt settled by the customer for the duration of its participation in the arrangement. This is because Eskom will not attribute the funds received to the municipality's **Municipal Relief Debt**. All funds received from the customer will instead be allocated by Eskom to the municipality's current account.

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Assume Customer ABC owes Muni XY R12 million. The court has ordered Customer ABC to settle the amount owing directly with Eskom. It is required to pay Eskom R500,000 per month over 24 months. On the effective date, Customer ABC still owed Eskom R9 million (i.e. only 6 months had passed since the date of order). Customer ABC continues to pay Eskom R500,000 per month over the remaining 18 months. Each month, Eskom allocates the R500,000 received against Muni XY's current account. The municipality will in turn allocate the payment made by Customer ABC against debt recognised by the municipality (i.e. the receivable of Customer ABC in the financial records of the municipality).

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<sup>20</sup> GRAP 104 (2019) .AG144(b)

3.24.2 If the municipality is ordered to settle arrear amounts, and such amounts are included in the **Municipal Relief Debt** on the **effective date**, it will be required to continue to advance the payments as per the order. All payments made will however be attributed, by Eskom and the municipality, to the current account of the municipality. The amount paid (and payable) by the municipality will however be limited to the current account balance.

### Considerations on the effective date – new payment arrangements

- 3.25 Paragraph 2.2.2 discusses the negotiation of a new repayment arrangement for municipal arrears accruing from 1 April 2023 (including the March 2023 current account) up to the effective date. This arrangement is only possible for municipalities that have been approved to participate in the municipal debt relief arrangement. For the first 12 months of any such payment arrangement, Eskom will suppress interest thereon, subject to the municipality honouring the payment arrangement.
- 3.26 The municipality must, subsequent to the conclusion of the negotiations, consider whether there is a significant modification of the existing liability as defined in GRAP 104 (see discussion and the resulting accounting entries, if relevant [☞ Considerations on the effective date – the Municipal Relief Debt](#)).

### Considerations on the effective date – top 13 defaulters

- 3.27 The arrangement is effectively extended for the top 13 municipal defaulters and importantly is contingent on both National Treasury and Eskom agreeing in relation to a specific defaulter. The added benefit for these municipalities is that the **Municipal Relief Debt plus** debt accruing from March 2023 to the **effective date** (“**Interim Debt**”) date may be subject to debt write-off under the arrangement.
- 3.28 Eskom will suppress the charging of interest on the **Interim Debt** and will consider writing off the balance at the end of the municipality's 36-month debt relief compliance cycle subject to the conditions set out in paragraph 2.2.10 above.
- 3.29 Starting from the effective date, the municipality won't incur interest on the interim debt for the first year. If the municipality consistently meets its current account obligations, this interest free benefit extends into year 2 and year 3. Eskom will consider the write-off of the interim debt at the end of year 3.
- 3.30 However, if the municipality ever defaults on its current account, the interest benefit ends. Eskom can then resume charging interest and enforce its standard credit controls. At that point, a new payment plan for the interim debt with Eskom would be necessary.
- 3.31 The municipality must, on the **effective date**, also consider whether there is a significant modification of the existing liability (i.e. the **Interim Debt**) as defined in GRAP 104 (see discussion and resulting accounting entries, if relevant [☞ Considerations on the effective date – the Municipal Relief Debt](#)). As this could be a three-year interest free liability, there is most likely a significant modification to the terms of the existing liability.

- 3.32 For the **Interim Debt** however, any difference in the remeasurement of the liability will not immediately be recognised as non-exchange revenue. The municipality will recognise a liability and only recognise revenue for each compliant period.

Assume Muni XY's **Interim Debt** amounts to R15 million. It is assumed to be a three-year liability at 0% interest, with "repayments" made annually. A similar debt instrument in the market bears interest at 12% per annum.

	Year 1	Year 2	Year 3
Capital balance	R10 million	R5 million	R0
Total "repayments"	R5 million	R5 million	R5 million
PV	R4.46 million	R3.99 million	R3.56 million

Total "repayment"	R15 million
Less: PV (FV of loan on initial recognition)	<u>R12 million</u> **
Off-market portion of loan	R3 million

\*\*Using excel: =PV(12%;3;5000000)

Year 1 - When the municipality qualifies to participate in the Municipal Debt Relief arrangement	Debit	Credit
	Rm	Rm
Eskom debt (POS)	15	
Municipal Relief Debt –loan (POS)		12
Liability related to non-exchange revenue (POS)		3
<b>Derecognition of the existing liability to Eskom and the recognition of the Municipal Relief Debt – loan.</b>		

Year 1 - When the municipality demonstrates compliance in keeping current account up to date	Debit	Credit
	Rm	Rm
Liability related to non-exchange revenue (POS)	1	
Revenue from non-exchange transactions (PER)		1
<b>A 3<sup>rd</sup> of the interest benefit is recognised at the end of year 1 if the municipality demonstrates compliance.</b>		

The same accounting entry will be passed at the end of year 2 and 3 if the municipality remains compliant. If the municipality defaults the remaining balance of the non-exchange revenue liability will be considered in the calculation of the amount to be paid back to Eskom.

### Considerations at the compliance date

- 3.33 Using the information in paragraph 3.11 above, the compliant municipality will write off a third of its debt as follows:

Year 1 – Write-off of the debt due to confirmed continued compliance to the Circular by the municipality	Debit	Credit
	Rm	Rm
Municipal Relief Debt –loan (POS)	10	
Municipal Relief Debt write-off* (PER)		10
<b>Write-off of a third of the Municipal Relief Debt.</b>		

\*The write-off is a non-exchange transaction and is accounted for in terms of GRAP 23<sup>21</sup>.

- 3.34 A similar accounting entry will be passed in Year 2 and Year 3 of the compliance cycle – provided compliance has been demonstrated and confirmed by National Treasury and the municipality receives notification of the write-off from Eskom.

### Events after the reporting date

- 3.35 Municipalities whose **effective date** is after 30 June 2023 but before the date on which the financial statements are authorised for issue should consider relevant disclosures in the notes to the financial statements – as non-adjusting events per GRAP 14 on *Events After the Reporting Date*.

<sup>21</sup> GRAP 104 (2009) paragraph .82

## 4. **mSCOA ring-fencing for purposes of condition 6.12 in the Circular**

- 4.1 Municipal Debt Relief Condition 6.12 of the **Circular** requires the municipality to apportion and ring-fence in a sub-account to its primary bank account –
- all electricity, water and sanitation revenue the municipality collects in any month; and
  - the component of the Local Government Equitable Share (LGES) the municipality earmarked to provide free basic electricity, water and sanitation.
- 4.2 The municipality must monthly first apply the revenue in the sub-account (required per condition 6.12.1) to pay its current Eskom account and then secondly its bulk water current account before it may apply the revenue in the sub-account for any other purpose. The municipal standard chart of accounts (*mSCOA*) facilitates such ring-fencing and the National Treasury therefore confirms that **for purposes of the Circular (Condition 6.12) the municipality does not need to open a separate bank account. However, it is important that municipalities budget and transact correctly in terms of mSCOA to enable ring-fencing.** Guidance in this regard is provided below.
- 4.3 Municipalities must ensure that they budget and transact on the following accounts in respect of ringfencing electricity, water and sanitation. It is important to utilise the bank deposits in the primary bank account of the municipality to ring fence the receipts as it will also accommodate the prepaid electricity and water receipts of the municipality.
- 4.4 Municipalities must ensure that they apply the accrual basis of accounting to revenue and expenditure transactions, thus ensuring that the bulk purchases are accrued correctly in the statement of financial position and performance.

### **Guidance: Condition 6.12 – Electricity**

#### 4.5 *Expenditure: Bulk Purchases Electricity: Eskom*

The municipality must identify the relevant bulk electricity expenditure line item from the chart of accounts that is provided under Item Expenditure: **IE00200100100**

#### 4.6 *Accounting for the Eskom invoice*

Municipal Debt Relief Condition 6.3 requires the municipality to monthly pay and maintain its Eskom current account within 30 days of receiving the relevant invoice (this applies to all municipalities, including metros). It is therefore important that the payment to Eskom is appropriately recorded for *mSCOA* purposes and fully align to the proof of payment the municipality upload to the GoMuni portal.

Municipalities must practise accrual accounting and therefore monthly invoices from ESKOM must be accrued under Current Liability: deposits and the payments to ESKOM against the Current Liability: Withdrawal as indicated below:

**IL00100600800200** – Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Electricity Bulk Purchase: Deposits



IA001001001 – Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Withdrawals

**IL00100600800300** – Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Electricity Bulk Purchase: Withdrawals

#### 4.7 *Exchange Revenue: Service Charges: Electricity*

Municipal Debt Relief condition 6.6.1 requires the municipality to issue a consolidated bill to all consumers/ property owners. Parallel to issuing the monthly consolidated bill the municipality must record in terms of *m*SCOA the electricity component of the consolidated bill as follows – the municipality must identify the relevant electricity income generating line item from the chart of accounts that is provided under Item Exchange Revenue:**IR002006001 and Exchange Trade and other Receivables: IA001010003001002.**

#### 4.8 *Receipts of Electricity in the Municipal Bank Account*

Municipal Debt Relief condition 6.6.1 requires the municipality to issue a consolidated bill to all consumers/ property owners and then allocate all partial payments received in the following order of priority: firstly, to property rates, thereafter to water, sanitation, refuse removal and lastly to electricity. When allocating any receipts in terms of the consolidated bill, the municipality must consider the condition 6.6.1 order of priority and apply such first. Then only must the following *m*SCOA accounts be used to account for the receipt of the component of the electricity payments paid into the bank account:

**IA001001001001001** Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits

**IA001010003001005** Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Collections

**FD001001001008001** Fund: Operational: Revenue: General Revenue: Service Charges: Electricity

#### 4.9 *Free Basic Services Formal Settlements: Electricity*

In terms of Municipal Debt Relief Condition 6.12 the municipality to apportion and ring-fence in a sub-account to its primary bank account the component of the Local Government Equitable Share (LGES) the municipality earmarked to provide free basic electricity. The receipt of the LGES can be ringfenced through the function segment per trading services (electricity, water and sanitation).

Consideration should be given to the allocations to the Free Basic Services (FBS) as per the LGES formula and should be incorporated in the Indigent Policy of the municipality. Free Basic Services is recorded via Typical Workstreams Project against the Revenue Item (electricity). No Liability is created. The following *m*SCOA accounts to be used to account for this in relation to electricity:

*Receipt of Equitable Share*

**IR003005002002006002** – Revenue: Non-exchange Revenue: Transfers and Subsidies: Operational: Monetary Allocations: National Revenue Fund: Equitable Share

**FX00200100100000000** – Function: Energy Sources: Core Function: Electricity

*Free Basic Services Formal Settlements: Electricity*

To record the actual provision of Free Basic Electricity, municipalities must budget and transact for Free Basic Electricity for the indigent consumers under Project: Typical Workstreams; Item Revenue using the following *m*SCOA accounts:

**PO00305700100000** – Operational: Typical Work Streams: Cost of Free Basic Services: Electricity (50 kwh per household per month)

**IE0100640000000** – Expenditure: Operational Cost: Indigent Relief

*Unlimited Free Basic Services Formal Settlements: Electricity*

Some municipalities are not restricting Free Basic Electricity provided to indigent households to the national policy limit of 50kwh Free Basic Electricity. All electricity provided to indigent households above the national policy limit of 50 kwh must be recorded using the following *m*SCOA accounts:

**PO003058001000** – Operational: Typical Work Streams: Revenue Cost of Free Services: Electricity (Other Energy).

4.10 *Free Basic Services: Informal Settlements*

Municipalities provide services for informal settlements these indigent consumers are often not billed by the municipality. The chart makes provision under typical workstreams to ringfence the expenditure items. The expenditure items will depend on the nature of the relief given to the indigent consumer which is obtainable from the chart. The following *m*SCOA accounts can be used:

**PO003060** – Operational: Typical Work Streams: Cost of Free Basic Services to Informal Settlements

**IE003003** – Item Expenditure

4.11 *Example in illustration - Electricity*

Below is an example of how Muni XY receipts and capture the transaction after the approval of the municipal debt relief for the ringfencing of the Electricity receipts.

*Example Paragraph 4.5 - Accrual of Bulk Electricity*

Municipalities must accrue for the bulk purchase of electricity prior to payment being made.

Segment	Debit	Credit
Project	Municipal Running Cost	Default
Function	Energy Sources: Core Function: Electricity	Energy Sources: Core Function: Electricity
Item	Bulk Purchases: Electricity: ESKOM	Current Liabilities: Trade and Other Payable Exchange Transactions: <b>Electricity Bulk Purchase:</b> Deposits
Funding	Operational:Revenue: General Revenue: Service Charges: Electricity	Operational:Revenue: General Revenue: Service Charges: Electricity
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

#### *Example paragraph 4.7 above* - Billing for Electricity Revenue

In terms of Municipal Debt Relief Condition 6.6 the municipality must issue a consolidated bill to the municipal consumer/ property owner – the electricity component of the consolidated bill needs to be recorded as follows –

Segment	Debit	Credit
Project	Default	Default
Function	Energy Sources: Core Function: Electricity	Energy Sources: Core Function: Electricity
Item	<b>Current Assets:</b> Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: <b>Monthly Billing</b>	<b>Exchange Revenue:</b> Service Charges: Electricity: Electricity Sales: Commercial Conventional (Single Phase)
Funding	Operational: Revenue: General Revenue: Service Charges: Electricity	Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

**Example paragraph 4.8 above – Ringfencing the Receipts of Electricity Sales**

Before allocating any consumer/ property owner payments to the consumer's account, to facilitate credit control, the municipality is required to consider and apply the order of priority<sup>22</sup> required in terms of Municipal Debt Relief Condition 6.6.1 –

Segment	Debit	Credit
Project	Default	Default
Function	Energy Sources: Core Function: Electricity	Energy Sources: Core Function: Electricity
Item	<b>Current assets</b> : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: <b>Deposits</b>	<b>Current Assets</b> : Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: <b>Collections</b>
Funding	Operational: Revenue: General Revenue: Service Charges: Electricity	Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

**Paragraph 4.6 – Payment of Bulk Purchases: Electricity** (Capturing the municipality's payment of the Eskom invoice)

Segment	Debit	Credit
Project	Municipal Running Cost	Municipal Running Cost
Function	Energy Sources: Core Function: Electricity	Energy Sources: Core Function: Electricity
Item	Current Liabilities: Trade and Other Payable Exchange Transactions: <b>Electricity Bulk Purchase</b> : Withdrawals	Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Withdrawals
Funding	Operational: Revenue: General Revenue: Service Charges: Electricity	Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

<sup>22</sup> Condition 6.6.1 requires all partial payments received to be allocated in the following order of priority: firstly, to property rates, thereafter to water, sanitation, refuse removal and lastly to electricity.

*Example paragraph 4.9 above* – **Free Basic Services Formal Settlements: Electricity (50kwh per household)** – Free Basic Services is recorded via Typical Workstreams Project against the Revenue Item (electricity). No Liability is created:

Segment	Debit	Credit
<b>Project</b>	Operational: Typical Work Streams: Cost of Free Basic Services: Electricity (50 kwh per household per month)	Default
<b>Function</b>	Energy Sources: Core Function: Electricity	Energy Sources: Core Function: Electricity
<b>Item</b>	<b>Exchange Revenue:</b> Service Charges: Electricity: Electricity Sales: Commercial Conventional (Single Phase)	<b>Current Assets:</b> Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: <b>Monthly Billing</b>
<b>Funding</b>	Operational: Revenue: General Revenue: Equitable Share	Operational: Revenue: General Revenue: Service Charges: Electricity
<b>Region</b>	Whole of Municipality	Whole of Municipality
<b>Costing</b>	Default	Default

*Example paragraph 4.9 above* – **Unlimited Free Basic Services: Electricity**

Some municipalities are not restricting Free Basic Electricity provided to indigent households to the national policy limit of 50kwh Free Basic Electricity. All electricity provided to indigent households above the national policy limit of 50 kwh must be recorded using the following mSCOA accounts:

Segment	Debit	Credit
<b>Project</b>	Operational: Typical Work Streams: Revenue Cost of Free Services: Electricity (Other Energy)	Default
<b>Function</b>	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
<b>Item</b>	<b>Revenue: Exchange Revenue:</b> Service Charges:Electricity: <b>Electricity</b> <b>Sales:Domestic High:Conventional</b>	<b>Assets:Current Assets:</b> Trade and other Receivables from Exchange Transactions:Trading Service and Customer Service Debtors:Electricity: <b>Monthly Billing</b>
<b>Funding</b>	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
<b>Region</b>	Whole of municipality	Whole of municipality
<b>Costing</b>	Default	Default



**Example paragraph 4.10 above – Free Basic Services Informal Settlements: Electricity**

Municipalities provide services for informal settlements these indigent consumers are often not billed by the municipality.

Segment	Debit	Credit
Project	Operational: Typical Work Streams: Revenue Cost of Free Services to Informal Settlements	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Expenditure: Operational Cost: Wet Fuel	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Withdrawals
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Whole of municipality	Whole of municipality
Costing	Default	Default

**Guidance: Condition 6.12 – Water**4.12 *Current Assets: Inventory: Water: System Input Volume: Bulk Purchases*

The municipalities must identify the relevant Water Inventory current asset line item from the chart of accounts that is provided under Item current assets: **IA00100900500200200**

4.13 *Accounting for the Water Board/ Water Authority invoice*

Municipalities must practise accrual accounting and therefore monthly invoices from Water Boards/Water Authorities must be accrued under Current Liability: deposits and the payments to Water Boards/ Water Authorities against the Current Liability: Withdrawal as indicated below:

**IL00100602300200** – Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Inventory: Deposits

**IA001001001** – Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Withdrawals

**IL00100602300300** – Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Inventory: Withdrawals

**NB:** Kindly note that the current chart V6.7 accommodates the recording of bulk purchases water under Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Inventory as well as Current Liabilities: Trade and Other Payable Exchange Transactions: Bulk Water. Municipalities are encouraged **not** to utilise this account: Trade and Other Payable Exchange Transactions: Bulk Water (Linked to Expenditure Bulk Purchases).

*m*SCOA prescribes that Water Inventory be recorded under Current Liabilities: Trade and Other Payable Exchange Transactions: Payables and Accruals: Inventory in terms of GRAP 12 on inventories. The item Trade and Other Payable Exchange Transactions: Bulk Water will be retired within V6.8 and a new item under Trade and Other Payable Exchange Transactions: Payables and Accruals: Water Inventory will be created.

#### 4.14 *Exchange Revenue: Service Charges: Water*

Municipal Debt Relief condition 6.6.1 requires the municipality to issue a consolidated bill to all consumers/ property owners. Parallel to issuing the monthly consolidated bill the municipality must record in terms of *m*SCOA the water component of the consolidated bill as follows – the municipality must identify the relevant water income generating line item from the chart of accounts that is provided under Item Exchange Revenue: **IR002006004** and Trade and other Receivables from Exchange Transactions: **IA001010003007**

#### 4.15 *Receipts of Water Revenue in Municipal Bank Account*

Municipal Debt Relief condition 6.6.1 requires the municipality to issue a consolidated bill to all consumers/ property owners and then allocate all partial payments received in the following order of priority: firstly, to property rates, thereafter to water, sanitation, waste and lastly to electricity. When allocating any receipts in terms of the consolidated bill, the municipality must consider the condition 6.6.1 order of priority and apply such first. Then only must the following *m*SCOA accounts be used to account for the receipt of the component of the water payments paid into the bank account:

**IA001001001001001** Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits

**IA00101000300700** Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Water: Collections

**FD001001001008001** Fund: Operational: Revenue: General Revenue: Service Charges: Water

#### 4.16 *Free Basic Services Formal Settlements: Water*

In terms of Municipal Debt Relief Condition 6.12 the municipality to apportion and ring-fence in a sub-account to its primary bank account the component of the Local Government Equitable Share (LGES) the municipality earmarked to provide free basic water.

The receipt of the LGES can be ringfenced through the function segment per trading services (electricity, water and sanitation). Consideration should be given to the allocations to the Free Basic Services (FBS) as per the LGES formula and should be incorporated in the Indigent Policy of the municipality.

The following *m*SCOA accounts be used to account for this in relation to water:

##### *Receipt of Equitable Share*

**IR003005002002006002** – Revenue: Non-exchange Revenue: Transfers and Subsidies: Operational: Monetary Allocations: National Revenue Fund: Equitable Share

**FX01600100200000000** – Function: Energy Sources: Core Function: Water



#### 4.17 *Free Basic Services Formal Settlements: Water*

To record the actual provision of Free Basic Water, municipalities must budget and transact for Free Basic Water for the indigent consumers under Project: Typical Workstreams; Item Revenue using the following *m*SCOA accounts:

**PO00305700400000** – Operational: Typical Work Streams: Cost of Free Basic Services: Water (6KL per household per month)

**IE01006400000000** – Expenditure: Operational Cost: Indigent Relief

#### 4.18 *Unlimited Free Basic Services Formal Settlements: Water*

Some municipalities are not restricting Free Basic Water provided to indigent households to the national policy limit of 6 kilolitre Free Basic Water. All water provided to indigent households above the national policy limit of 6 kilolitre must be recorded using the following *m*SCOA accounts:

**PO003058006000** – Operational: Typical Work Streams: Revenue Cost of Free Services: Water

#### 4.19 *Free Basic Services: Informal Settlements*

Municipalities provide services for informal settlements these indigent consumers are often not billed by the municipality. The chart makes provision under typical workstreams to ringfence the expenditure items. The expenditure items will depend on the nature of the relief given to the indigent consumer which obtainable from the chart. The following *m*SCOA accounts can be used:

**PO003060** – Operational: Typical Work Streams: Cost of Free Basic Services to Informal Settlements

**IE003003** – Item Expenditure

#### 4.20 *Example in illustration – Water*

Below is an example of how Muni XY receipts and capture the transaction after the approval of the municipal debt relief for the ringfencing of the Water receipts.

*Example paragraph 4.12 above - Purchases of water: Receipt of invoice for bulk water purchased.*

Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
Item	Assets: Current assets: Inventory: Water: System input Volume: Bulk Purchases	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: Water Bulk Purchase: Deposits
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

**Example paragraph 4.14 above – Billing for Water Revenue**

In terms of Municipal Debt Relief Condition 6.6 the municipality must issue a consolidated bill to the municipal consumer/ property owner – the water component of the consolidated bill needs to be recorded as follows:

Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
Item	Assets: Current Assets: Trade and other Exchange Transactions: Trading Services and Customer Service debtors: Water: Monthly billing	Revenue: Exchange Transactions: Service Charges: Water: Sale : Conventional / Prepaid / Flat rate
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
Region	Per Ward	Per Ward
Costing	Default	Default

**Example paragraph 4.15 above – Ringfencing the Receipts of Water Sales**

Before allocating any consumer/ property owner payments to the consumer's account, to facilitate credit control, the municipality is required to consider and apply the order of priority<sup>23</sup> required in terms of Municipal Debt Relief Condition 6.6.1:

Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits	Assets: Current Assets: Trade and other Exchange Transactions: Trading Services and Customer Service debtors: Water: Collections
Funding	Fund:Operational:Revenue: General Revenue: Service Charges: Water	Fund:Operational:Revenue: General Revenue: Service Charges: Water
Region	Per Ward	Per Ward
Costing	Default	Default

**Paragraph 4.13 – Payment of Bulk Purchases: Water** - Capturing the municipality's payment of the Water Board/ Water Authority invoice:

Segment	Debit	Credit
Project	Default	Default
Function	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
Item	IL: Current Liabilities: Trade and other payables exchange transactions: Bulk Water: Withdrawals	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Withdrawals
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund:Operational:Revenue: General Revenue: Service Charges: Water
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default

<sup>23</sup> Condition 6.6.1 requires all partial payments received to be allocated in the following order of priority: firstly, to property rates, thereafter to water, sanitation, refuse removal and lastly to electricity.

**Example paragraph 4.16 above – Free Basic Services Formal Settlements: Water (6kl per household)**

Segment	Debit	Credit
<b>Project</b>	Operational: Typical Work Streams: Cost of Free Basic Services: Water (6KL per household per month)	Default
<b>Function</b>	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
<b>Item</b>	Revenue: Exchange Transactions: Service Charges: Water: Sale : Conventional	Assets: Current Assets: Trade and other Exchange Transactions: Trading Services and Customer Service debtors: Water: Monthly billing
<b>Funding</b>	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
<b>Region</b>	Per Ward	Per Ward
<b>Costing</b>	Default	Default

**Example paragraph 4.18 above – Unlimited Free Basic Services: Water**

Some municipalities are not restricting Free Basic Water provided to indigent households to the national policy limit of 6kl Free Basic Water. All water provided to indigent households above the national policy limit of 6kl must be recorded using the following *m*SCOA accounts:

Segment	Debit	Credit
<b>Project</b>	Operational: Typical Work Streams: Revenue Cost of Free Services: Water	Default
<b>Function</b>	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
<b>Item</b>	Revenue: Exchange Transactions: Service Charges: Water: Sale : Conventional	Assets: Current Assets: Trade and other Exchange Transactions: Trading Services and Customer Service debtors: Water: Monthly billing
<b>Funding</b>	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
<b>Region</b>	Per Ward	Per Ward
<b>Costing</b>	Default	Default

**Example paragraph 4.19 above – Free Basic Services Informal Settlements: Water**

Municipalities provide water services for informal settlements these indigent consumers are often not billed by the municipality:

Segment	Debit	Credit
Project	Operational: Typical Work Streams: Revenue Cost of Free Services to Informal Settlements	Default
Function	Function: Water Management: Core: Water distribution	Function: Water Management: Core: Water distribution
Item	Expenditure: Contracted Services: Outsourced Services: Water Takers	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Withdrawals
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Water	Fund: Operational: Revenue: General Revenue: Service Charges: Water
Region	Per Ward	Per Ward
Costing	Default	Default

**Guidance: Condition 6.12 – Waste Water**

Sanitation is closely linked to water and although no bulk purchase is made, in terms of the municipal debt relief conditions, the revenue and expenditure relating to sanitation must be recorded as follows in terms of *m*SCOA to facilitate the required ring-fencing as required in terms of Municipal Debt Relief Condition 6.12.

**4.21 Exchange Revenue: Service Charges: Waste Water**

Municipal Debt Relief condition 6.6.1 requires the municipality to issue a consolidated bill to all consumers/ property owners. Parallel to issuing the monthly consolidated bill the municipality must record in terms of *m*SCOA the waste water component of the consolidated bill as follows – the municipality must identify the relevant waste water income generating line item from the chart of accounts that is provided under Item Exchange Revenue: **IR002006003** and Trade and Other Receivables from Exchange Transactions: **IA001010003006**

**4.22 Receipts of Waste Water Revenue in Municipal Bank Account**

Municipal Debt Relief condition 6.6.1 requires the municipality to issue a consolidated bill to all consumers / property owners and then allocate all partial payments received in the following order of priority: firstly, to property rates, thereafter to water, sanitation, refuse removal and lastly to electricity. When allocating any receipts in terms of the consolidated bill, the municipality must consider the condition 6.6.1 order of priority and apply such first. Then only must the following *m*SCOA accounts be used to account for the receipt of the component of the sanitation payments paid into the bank account:

**IA001001001001001** Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits

IA001010003006005 Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Collections

**FD001001001008004** Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water

#### 4.23 *Accounting for the bulk invoice*

Item Liabilities \_Deposits and Withdrawals - as noted above this item does not apply to waste water.

#### 4.24 *Free Basic Services Formal Settlements: Waste Water*

In terms of Municipal Debt Relief Condition 6.12 the municipality to apportion and ring-fence in a sub-account to its primary bank account the component of the Local Government Equitable Share (LGES) the municipality earmarked to provide free basic sanitation (Waste Water).

The receipt of the LGES can be ringfenced through the function segment per trading services (Electricity, Water and Waste Water). Consideration should be given to the allocations to the Free Basic Services (FBS) as per the LGES formula and should be incorporated in the Indigent Policy of the municipality.

The following *m*SCOA accounts be used to account for this in relation to waste water:

##### *Receipt of Equitable Share*

**IR003005002002006002** – Revenue: Non-exchange Revenue: Transfers and Subsidies: Operational: Monetary Allocations: National Revenue Fund: Equitable Share

**FX01500100200000000** – Function: Waste Water Management: Core Function: Sewerage

#### 4.25 *Free Basic Services Formal Settlements: Waste Water*

To record the actual provision of Free Basic Waste Water, municipalities must budget and transact for Free Basic Waste Water for the indigent consumers under Project: Typical Workstreams; Item Revenue using the following *m*SCOA accounts:

**PO003057002000** – Operational: Typical Work Streams: Cost of Free Basic Services: Waste Water Management (free minimum level service)

**PO003058005000** – Operational: Typical Work Streams: Revenue Cost of Free Services: Waste Water Management

#### 4.26 *Free Basic Services: Informal Settlements*

Municipalities provide services for informal settlement these indigent consumers often are not billed by the municipality. The chart makes provision under typical workstreams to ringfence the expenditure items. The expenditure items will depend on the nature of the relief given to the indigent consumer which obtainable from the chart. The following *m*SCOA accounts can be used:

**PO003060** – Operational: Typical Work Streams: Cost of Free Basic Services to Informal Settlements

**IE003003** – Item Expenditure

4.27 **Example in illustration – Waste Water**

Below is an example of how Muni XY receipts and capture the transaction after the approval of the municipal debt relief for the ringfencing of the Waste Water receipts.

*Example paragraph 4.21 above* – **Billing for Waste Water Revenue**

In terms of Municipal Debt Relief Condition 6.6 the municipality must issue a consolidated bill to the municipal consumer / property owner – the water component of the consolidated bill needs to be recorded as follows:

Segment	Debit	Credit
<b>Project</b>	Default	Default
<b>Function</b>	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
<b>Item</b>	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Monthly Billing	Revenue:Exchange Revenue:Service Charges:Waste Water Management:Sanitation Charges
<b>Funding</b>	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
<b>Region</b>	Per Ward	Per Ward
<b>Costing</b>	Default	Default



**Example paragraph 4.22 above – Ringfencing the Receipts of Waste Water Sales**

Before allocating any consumer/ property owner payments to the consumer's account, to facilitate credit control, the municipality is required to consider and apply the order of priority<sup>24</sup> required in terms of Municipal Debt Relief Condition 6.6.1:

Segment	Debit	Credit
Project	Default	Default
Function	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Specify (replace with account description): Deposits	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Collections
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
Region	Per Ward	Per Ward
Costing	Default	Default

**Example paragraph 4.25 above – Free Basic Services Formal Settlements: Waste Water (free minimum level of service)**

Segment	Debit	Credit
Project	Operational: Typical Work Streams: Cost of Free Basic Services: Waste Water Management (free minimum level service)	Default
Function	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
Item	Revenue: Exchange Revenue: Service Charges: Waste Water Management: Sanitation Charges	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Waste Water Management: Monthly Billing
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
Region	Per Ward	Per Ward
Costing	Default	Default

<sup>24</sup> Condition 6.6.1 requires all partial payments received to be allocated in the following order of priority: firstly, to property rates, thereafter to water, sanitation, refuse removal and lastly to electricity.

*Example paragraph 4.26 above* – **Free Basic Services informal Settlements: Waste Water**  
Municipalities provide Waste Water services for informal settlement these indigent consumers often are not billed by the municipality:

Segment	Debit	Credit
<b>Project</b>	Operational: Typical Work Streams: Revenue Cost of Free Services to Informal Settlements	Default
<b>Function</b>	Function: Waste Water Management: Core Function: Sewerage	Function: Waste Water Management: Core Function: Sewerage
<b>Item</b>	Expenditure: Contracted Services: Contractors: Sewerage Services	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Withdrawals
<b>Funding</b>	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water	Fund: Operational: Revenue: General Revenue: Service Charges: Waste Water
<b>Region</b>	Whole of municipality	Whole of municipality
<b>Costing</b>	Default	Default

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16 February 2024

# MUNICIPAL DEBT RELIEF

April 2024

PRESENTED BY:

Office of the  
Accountant-General

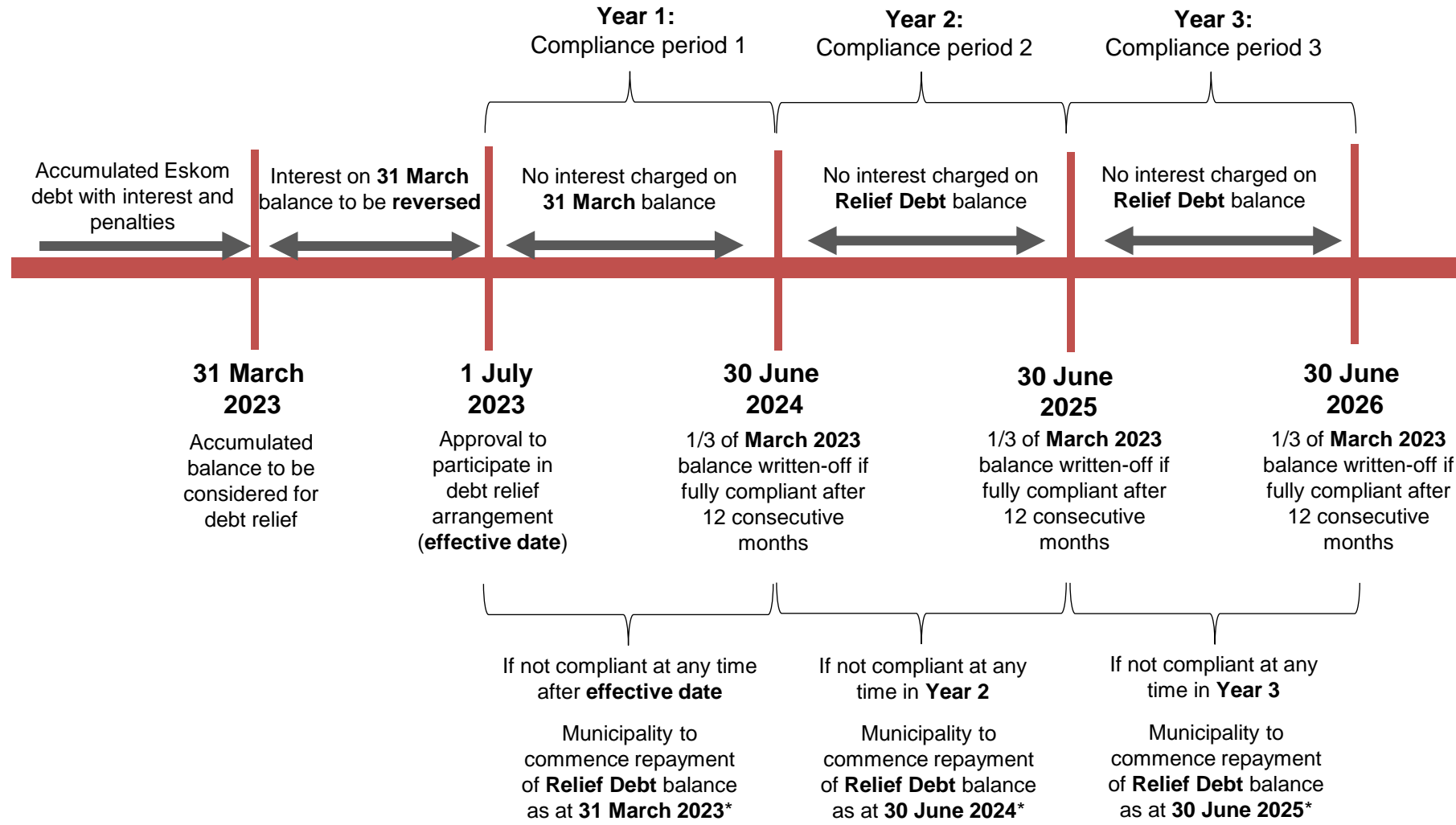


**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



# High level illustration of the municipal debt arrangement



*\*no additional interest charged - Eskom can recover any charges it incurs subsequent drop-out to recover the Municipal Relief Debt balance from the municipality also related new penalties*

# On the effective date (initial recognition & measurement)

- Amount owing to Eskom owing as of 31 March 2023, including interest and penalties accrued thereon will be de-recognised, and a new financial liability, **Municipal Relief Debt** recognised by the municipality *[see paragraphs 3.2 – 3.5 of Supplementary Guidance]*;
- **Why?** A significant modification in the terms of an existing financial liability will result in the derecognition of the original financial liability and the recognition of a new financial liability
- **What makes it significant?** 3-year period and waiving of further interest and penalties
- **New financial liability?** The Municipal Relief Debt is recognised at fair value. Fair value is usually the transaction price, however where there is no interest the fair value is estimated as the present value of all future cash flows discounted at the prevailing market rate(s) of interest for a similar instrument with a similar credit rating (i.e. loan repayable over 3 years).

# On the effective date (initial recognition & measurement)

- Accounting entries?

Amount owing to Eskom at 31 March 2023 (de-recognised)

Year 1 – When the municipality qualifies to participate in the Municipal Debt Relief arrangement	Debit	Credit
	Rm	Rm
Eskom debt (POS)	30	
Municipal Relief Debt liability (POS)		24
Revenue from non-exchange transactions (PER)		6
<b>Derecognition of the existing liability to Eskom and the recognition of the Municipal Relief Debt liability.</b>		

FV of the Municipal Relief Debt (new)  
- Using 12% effective interest rate

Concession from Eskom – interest relief

# At the reporting date (subsequent measurement)

The amortised cost of the Municipal Relief Debt over the three years is determined as follows →

Transaction price	24 000 000			
Rate	12%			
Credit terms	3 years			
Annual payment	10 000 000			
	<b>Opening bal</b>	<b>Interest</b>	<b>Payment</b>	<b>Closing bal</b>
Year 0				24 000 000
Year 1	24 000 000	2 880 000	10 000 000	16 880 000
Year 2	16 880 000	2 025 600	10 000 000	8 905 600
Year 3	8 905 600	1 094 400	10 000 000	-

The municipality will accordingly recognise finance costs annually in its statement of financial performance

Year 1 – Subsequent measurement of the Municipal Relief Debt –loan		
	Debit	Credit
	Rm	Rm
Finance cost (R24m x 12%)	2,88	
Municipal Relief Debt –loan		2,88
<b>Recognising finance cost using the effective interest rate method</b>		

Year 2 – Subsequent measurement of the Municipal Relief Debt –loan		
	Debit	Credit
	Rm	Rm
Finance cost (R16,88m x 12%)	2,03	
Municipal Relief Debt – loan		2,03
<b>Recognising finance cost using the effective interest rate method</b>		

Year 3 – Subsequent measurement of the Municipal Relief Debt – concessionary loan		
	Debit	Credit
	Rm	Rm
Finance cost (R8,91m x 12%)	1,09*	
Municipal Relief Debt – concessionary loan		1,09
<b>Recognising finance cost using the effective interest rate method</b>		
<i>*rounding difference</i>		

Not specifically illustrated in the Supplementary Guide as this is not unique to the arrangement. However, see the next slide for further guidance.



# At the reporting date (subsequent measurement)

- **Municipal Relief Debt** – measured at amortised cost → finance costs at effective interest rate recognised in statement of financial performance – illustrating Year 1 below

Year 1 – Subsequent measurement of the Municipal Relief Debt –loan		Debit	Credit
	Rm	Rm	
Finance cost (R24m x 12%) (PER)	2,88		
Municipal Relief Debt –loan (POS)			2,88
<b>Recognising finance cost using the effective interest rate method</b>			

Finance cost over 3-year period:

Year 1: R2,88m

Year 2: R2,03m

Year 3: R1,09m

**Total: R6m**

- **If compliant** – write-off a third of the amount owing and recognise

Year 1 – Write-off of the debt due to confirmed continued compliance to the Circular by the municipality		Debit	Credit
	Rm	Rm	
Municipal Relief Debt –loan	10		
Municipal Relief Debt write-off*			10
<b>Write-off of a third of the Municipal Relief Debt</b>			

Remember to classify the remaining balance between long-term and short-term debt in the statement of financial position

# Other matters

- **Interest charged** by Eskom on the amount owing at 31 March 2023, from 1 April 2023 to the effective date will be written off – on receipt of confirmation from Eskom;
- **Existing payment arrangements** – put on hold by Eskom;
- **Payments made between 1 April and effective date**, will be allocated to current account of the municipality and not the Municipal Relief Debt balance;
- **Existing court orders** – will remain in force, money collected will be allocated to current account of municipality and not Municipal Relief Debt balance → Eskom will cease enforcing the order when current account balance is settled, i.e. cannot collect beyond balance of current account even if court order envisaged the collection of a larger amount;
- **For top 13 defaulters** – additional ring fencing of debt, which will not carry interest and can be written off after 36 months by Eskom.

# Top 13 defaulters

- **For top 13 defaulters** – additional ring fencing of debt, which will not carry interest and can be written off after 36 months by Eskom
- Remeasure at fair value (similar to **Municipal Relief Debt**)

Year 1 - When the municipality qualifies to participate in the Municipal Debt Relief arrangement	Debit	Credit
	Rm	Rm
Eskom debt (POS)	15	
Municipal Relief Debt –loan (POS)		12
Liability related to non-exchange revenue (POS)		3
<b>Derecognition of the existing liability to Eskom and the recognition of the Municipal Relief Debt – loan.</b>		

Concession from Eskom – interest relief is dependent on compliance, therefore it is deferred and recognised over the period of the arrangement

Year 1 - When the municipality demonstrates compliance in keeping current account up to date	Debit	Credit
	Rm	Rm
Liability related to non-exchange revenue (POS)	1	
Revenue from non-exchange transactions (PER)		1
<b>A 3<sup>rd</sup> of the interest benefit is recognised at the end of year 1 if the municipality demonstrates compliance.</b>		

## Default by municipality (non-compliance)

- Municipality to resume paying the balance of the Municipal Relief Debt to Eskom;
- New payment arrangement to be entered into, no interest will be charged on this debt until full settlement;
- A default by one of the top 13 defaulters on additional ring-fenced debt, will result in a new payment arrangement and the charging of interest on this debt by Eskom to resume;

# Questions



[Send a query to the OAG](#)