

# Municipal and Vendor Masterclass

## Conditional Grants – INEP Treatment

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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA



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# LEGISLATIVE BACKGROUND

**Section 214(1) of the Constitution** requires an Act of Parliament to provide for—

- (a) the equitable division of revenue raised nationally among the national, provincial and local spheres of government;
- (b) the determination of each province's equitable share of the provincial share of that revenue; and
- (c) any other allocations to provinces, local government or municipalities from the national government's share of that revenue, and any conditions on which those allocations may be made; and

**DORA - Section 8 (3)(b)** A municipality must submit financial and non-financial reports, in the format and on the dates determined by the National Treasury, for any project pledged to be partially or fully funded by using a conditional allocation, or a portion thereof, as security as envisaged in paragraph.

# LEGISLATIVE BACKGROUND

**DORA - Section 10 (5)(a)** The transferring officer of a **Schedule 5 or 6 allocation** must, as part of the reporting envisaged in section 40(4)(c) of the Public Finance Management Act, but subject to paragraph (b), submit information, in the format determined by the National Treasury, for the month in question, and for the 2025/26 financial year up to the end of that month, on—

- (i) the amount of funds transferred to a province or municipality;
- (ii) the amount of funds for any province or municipality withheld or stopped in terms of section 17 or 18, the reasons for the withholding or stopping and the steps taken by the transferring officer and the receiving officer to deal with the matters or causes that necessitated the withholding or stopping of the payment;
- (iii) the actual expenditure incurred by the province or municipality in respect of a Schedule 5 allocation;
- (iv) the actual expenditure incurred by the transferring officer in respect of a Schedule 6 allocation;
- (v) any matter or information that may be required by the applicable framework for the particular allocation; and
- (vi) such other matters as the National Treasury may determine

# Types of Integrated National Electrification Programme Grants (INEP)

- **Schedule 5B** provides for capital **subsidies to municipalities that have a licence to perform the electricity function** to address the electrification backlog of all existing and planned residential dwellings (including informal settlements, farm dwellers, new and existing dwellings) and the installation of relevant bulk infrastructure. Receipt of the DoRA fund can be:
  - The full amount as per the project plan approved by DEE
  - Receipts in advance or in tranches as per the project plan approved by DEE
- **Schedule 6B** provides for capital **subsidies to Eskom** to address the electrification backlog of all existing and planned residential dwellings (including informal settlements, farm dwellers, new and existing dwellings) and the installation of relevant bulk infrastructure in **Eskom licenced areas**.
  - This includes cases where the municipality is waiting for licence approval from NERSA
  - In some cases, a municipality construct the work on behalf of Eskom to fast track the delivery and then hand the asset over to Eskom to maintain on completion of the construction. The funding (schedule 6B) is still transferred to Eskom and the municipality is reimbursed for the work as per **the agreement** between the municipality and Eskom.

# Integrated National Electrification Programme Grant (INEP) - Criteria

The grant administering department (DEE) subsequently took the decision to make schedule 5B **allocations to municipalities that presented capacity** to implement the projects themselves, irrespective of their licencing status. To this end, there are several municipalities without a distribution licence that receive direct allocations (schedule 5B grants).

DEE only manages the allocation to Eskom and monitors the implementation of the INEP grant to ensure that compliance with DoRA is achieved.

DoRA specifies that the ownership of the asset remains with government, and that the asset should be ring-fenced by Eskom in its asset register.

# Possible scenarios for INEP grant usage

INEP grant type as per DoRA	Recipient	Accounting applicable to municipality	GRAP standard applicable to municipality	Asset Ownership Post Construction
<b>Schedule 5B direct grant: Municipality has licence and unlicensed but presents capacity.</b>				
Full DORA allocation transferred (Licensed)	Municipality	Account for this as a liability in terms of the conceptual framework for general purpose financial reporting in terms of conditional grants.	GRAP 23	Municipality
Reimbursement from DEE (unlicensed)	Municipality	Account for this as an asset in terms of the conceptual framework for general purpose for financial reporting in terms of construction contracts.	GRAP 11	Eskom
Full DORA allocation transferred (unlicensed)	Municipality	Account for this as a liability in terms of the conceptual framework for general purpose for financial reporting in terms of construction contracts.	GRAP 11	Eskom
DORA allocation portion for licenced area, and portion for Eskom licenced area	Municipality	Account for this as a Liability in terms of the conceptual framework for general purpose for financial reporting in terms of construction contracts and Conditional Grants. <i>(Non-exchange revenue)</i>	GRAP 11 & GRAP 23	Eskom & Municipality

# Possible scenarios for INEP grant usage

INEP grant type as per DoRA	Recipient	Accounting applicable to municipality	GRAP standard applicable to municipality	Asset Ownership Post Construction
<b>Schedule 6B indirect grant: Eskom Licenced Areas</b>				
Eskom constructs asset	Eskom	None	N/A	Eskom
Municipality constructs asset on behalf of Eskom and are reimbursed for expenditure	Eskom	Account for this as an asset in terms of the conceptual framework for general purpose for financial reporting in terms of construction contracts.	GRAP 11 on Construction contracts.	Eskom



# Integrated National Electrification Programme Grant (INEP) - Criteria

## Initial – DORA

Distribution License – Schedule 5B (direct/ municipal)

No Distribution License – Schedule 6B (indirect/Eskom)

## Subsequent – Decision made by DMRE

Distribution License – Schedule 5B (direct/ municipal)

No Distribution License – Municipalities that **presents capacity** to implement projects, however project is constructed on behalf of Eskom therefore handed over to Eskom on completion - Schedule 5B (direct/ municipal)

No Distribution License – Schedule 6B (indirect/Eskom)

**Licencing determines which institution will operate and maintain assets funded from the schedule 5B grant.**



# Additional details on INEP Accounting Treatment for Schedule 5B grants (1)

**No Distribution License – Municipalities that presents capacity to implement projects, however project is constructed on behalf of Eskom therefore handed over to Eskom on completion - Schedule 5B (direct/ municipal)**

- DEE identifies a municipality and enters into an agreement as the municipality has been identified for the construction.
- Municipality and Eskom enters into a separate agreement with regards to the construction specifications and once completed will be handed over to Eskom.
- Although the municipality enters separate sub-contracts to assist it with the construction of the bulk electrification infrastructure these arrangements are not **“transactions with third parties”** as discussed in GRAP 109.
- This is because the sub-contracting arrangements are likely to be between the municipality and the sub-contractors and for the benefit of the municipality who is responsible for the construction of the asset. The Municipality is therefore not appointed as an agent of Eskom therefore GRAP 109 is not applicable.

# Additional details on INEP Accounting Treatment for Schedule 6B grants (1)

Municipality is appointed, by way of a binding arrangement, to construct the electrification infrastructure to the specification of Eskom. Municipality does not own, operate or maintain the asset. Municipality is reimbursed for allowable costs.

The municipality is thus a contractor as defined in GRAP 11 and applies the accounting for cost-based contracts contained therein.

# Additional details on INEP Accounting Treatment for Schedule 6B grants (2)

## No Distribution License – Schedule 6B (indirect/ Eskom)

- Treatment as per GRAP 11 construction contracts or as illustrated below for construction contracts.
- Receivable is raised for Eskom and not the DEE as seen with an unlicensed schedule 5B
- It is expected for Eskom to account for this construction as WIP.

# Additional details on INEP Accounting Treatment for Schedule 6B grants (3)

A municipality may in the past have concluded that it was an agent either for Eskom or DEE. In such instances the municipality would have:

- a) recognised any revenue and expenses associated with undertaking the transactions on behalf of the principal [GRAP 109 par .43]; and
- b) recognised any assets and liabilities arising from the principal-agent arrangement in accordance with the relevant Standard of GRAP [GRAP 109 par .44].

Where it is subsequently concluded, after applying the guidance above, that there is no principal-agent arrangement the municipality will need to apply the principles in GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors* in amending its financial statements.

# PROBLEM STATEMENT

In terms of the as per NT guide on INEP:

1. Revenue and expenditure of the INEP funds are accounted in terms of GRAP 11. The revenue recognition (i.e. expenditure of grant funds) is no longer recorded on the transfers and subsidies data strings and thus this type of INEP expenditure does not pull through onto the S71 conditional grant reports extracted from Go Muni.
2. Municipalities are not recording the INEP funds (in the specific scenario attached) on their SA18 and SA19 schedules for the 2024/25 MTREF as they are accounting for them in terms of GRAP 11 (Construction Contracts) and not grant funds.

# EXAMPLES OF ACCOUNTING TREATMENT

# **Integrated National Electrification Programme Grant (INEP) – Accounting Treatment 5B** (Licensed)

The municipality receives the full amount upfront from DORA and spends it according to the project plan.



# RECEIPTING OF GRANT – Receipting of the Integrated National Electrification Programme Grant

Segment	Debit	Credit
Project	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance
Item	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: Deposits	IL: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies Unspent: Capital: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

# SPENDING OF GRANT- Raising Accrual

Segment	Debit	Credit
Project	Capital : Infrastructure: New: Electrical Infrastructure Networks	Capital : Infrastructure: New: Electrical Infrastructure: MV Networks
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	IA: Non-current assets: Construction work in progress: Acquisitions: Outsourced. And IA: Current assets: Vat Receivable Input Tax Accrual: Recognised	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: <b>Contractors:</b> Deposits And IL: Current liabilities: Retention: Deposits
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
Region	Ward 2	Ward 2
Costing	Default	Default

# SPENDING OF GRANT- Payment to Supplier

Segment	Debit	Credit
Project	Capital : Infrastructure: New: Electrical Infrastructure Networks	Capital : Infrastructure: New: Electrical Infrastructure: MV Networks
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: <b>Contractors: Withdrawals</b>	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: <b>Withdrawals</b>
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
Region	Ward 2	Ward 2
Costing	Default	Default

# SPENDING OF GRANT- Input Vat Recognition

Segment	Debit	Credit
<b>Project</b>	Capital : Infrastructure: New: Electrical Infrastructure Networks	Capital : Infrastructure: New: Electrical Infrastructure: MV Networks
<b>Function</b>	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
<b>Item</b>	IA: Current assets: Vat Receivable Input Tax Capital: Recognised	IA: Current assets: Vat Receivable Input Tax Accrual: Transfers
<b>Funding</b>	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
<b>Region</b>	Ward 2	Ward 2
<b>Costing</b>	Default	Default

# SPENDING OF GRANT- Revenue Recognition - GRAP 23

Segment	Debit	Credit
Project	Default	Default
Function	Finance: Core: Finance	Finance: Core: Finance
Item	Liabilities: Current Liabilities: Trade and Other Payable Non-Exchange Transactions: Transfers and Subsidies <b>Unspent:</b> Capital: Monetary Allocations: National Government: Integrated National Electrification Programme Grant: <b>Transfer to revenue/Capital expenditure</b>	Revenue: Non-exchange Revenue: Transfers and Subsidies: Capital: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
Funding	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant	Fund: Capital: Transfers and Subsidies: Monetary Allocations: National Government: Integrated National Electrification Programme Grant
Region	Ward 2	Ward 2
Costing	Default	Default

# **Integrated National Electrification Programme Grant (INEP) – Accounting Treatment 5B - (Unlicensed) (2)**

**Scenario 1** - The municipality receives the full amount upfront from DORA and spends it according to the project plan.

**Scenario 1** - Create advance payment as funds are expected to be received as per the DORA allocation. (*1<sup>st</sup> allocation - 50%*)

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: <b>Deposit</b>	Liabilities : Current Liabilities : Trade and Other Payable Exchange Transactions : <b>Deferred Revenue : Receipts</b>  Liabilities : Current Liabilities : VAT Payable: Output Tax: Recognised
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default



## Scenario 1 – Incurring expenditure relating to construction costs.

Segment	Debit	Credit
Project	<b>Operational:</b> Typical Work Streams: Electrification	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	Expenditure: Contracted Services: Contractors: Electrical <i>(All other applicable expenditure)</i>  Assets : Current Assets : VAT Receivable : Input Tax Accrual : Recognised	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: <b>Contractors:</b> Deposits
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Ward 1	Ward 1
Costing	Default	Default

## Scenario 1 – Paying the contractors invoices.

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: <b>Contractors:</b> Withdrawals  Assets: Current Assets: VAT Receivable: Input Tax General: Recognised	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: <b>Withdrawals</b>  Assets: Current Assets: VAT Receivable: Input Tax Accrual: Transfers
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

## Scenario 1 – Revenue recognition based on expenditure incurred by the municipality.

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	Liabilities: Current Liabilities: Trade and Other Payable Exchange Transactions: <b>Deferred Revenue: Transfer to Revenue</b>	<i>Revenue: Exchange Revenue: Sales of Goods and Rendering of Services: Construction Contract Revenue</i>
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

# **Integrated National Electrification Programme Grant (INEP) – Accounting Treatment 5B - (Unlicensed) (2)**

**Scenario 2** – The municipality spends according to the project plan and gets claimed back all expenditure incurred from the Department.

## Scenario 2 – Incurring expenditure relating to construction costs.

Segment	Debit	Credit
<b>Project</b>	<b>Operational</b> : Typical Work Streams : Electrification	Default
<b>Function</b>	Function: Energy Sources: <b>Non-core Function</b> : Electricity	Function: Energy Sources: <b>Non-core Function</b> : Electricity
<b>Item</b>	Expenditure: Contracted Services: Contractors: Electrical <i>(All other applicable expenditure)</i>  Assets : Current Assets : VAT Receivable : Input Tax Accrual : Recognised	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: <b>Contractors</b> : Deposits
<b>Funding</b>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
<b>Region</b>	Ward 1	Ward 1
<b>Costing</b>	Default	Default

## Scenario 2 – Recognise revenue and receivable on expenditure incurred.

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	Assets: Current Assets: Construction Contracts and Receivables: <b>Receivables Due: Transfer from Assets (DEE)</b>	<i>Revenue: Exchange Revenue: Sales of Goods and Rendering of Services: Construction Contract Revenue</i>  Liabilities: Current Liabilities: VAT Payable: Output Tax Accrual: Recognised
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

## Scenario 2 – Paying contractors invoices

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	IL: Current liabilities: Trade and other payables Exchange transactions: Payables and accruals: <b>Contractors:</b> Withdrawals  Assets: Current Assets: VAT Receivable: Input Tax General: Recognised	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: <b>Withdrawals</b>  Assets: Current Assets: VAT Receivable: Input Tax Accrual: Transfers
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default



## Scenario 2 – Reimbursed with the amount claimed from the DEE

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> <b>Function:</b> Electricity
Item	IA: Current assets : Cash and cash equivalents: Cash at Bank: Bank Account: Specify: <b>Deposit</b>  Liabilities: Current Liabilities: VAT Payable: Output Tax Accrual: Transfers	Assets: Current Assets: Construction Contracts and Receivables: <b>Receivables Due: Collections (DEE)</b>  Liabilities: Current Liabilities: VAT Payable: Output Tax: Recognised
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

# Scenario 1 & 2

Segment	Debit	Credit
Project	Operational : Typical Work Streams : Electrification	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	Expenditure: Contracted Services: Contractors: Electrical (All other applicable expenditure)	<i>Revenue: Exchange Revenue: Sales of Goods and Rendering of Services: Construction Contract Revenue</i>
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

# Scenario 1 & 2 – Vat Net Effect

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: <b>Non-core</b> Function: Electricity	Function: Energy Sources: <b>Non-core</b> Function: Electricity
Item	Assets: Current Assets: VAT Receivable: <b>Input Tax</b> General: Recognised	Liabilities: Current Liabilities: VAT Payable: <b>Output Tax</b> : Recognised
Funding	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>	<i>Fund : Operational: Revenue: General Revenue : Sales of Goods and Rendering of Services</i>
Region	Head Office and Administration	Head Office and Administration
Costing	Default	Default

# SOLUTION TO THE PROBLEM STATEMENT

- Municipalities must apply the correct accounting standard when budgeting and transacting for grants relating to INEP.
- This change is effective from the 2025/26 MTREF (Item Liabilities: Deferred Revenue). In 2024/25, municipalities could record deferred revenue pertaining to the spending of the INEP grant against the advance payment item under current liabilities, trade, and other payable exchange transactions.
- The children under this parent item provides for all the required posting level items needed to record the movement and recognition of deferred revenue.
- The license determination and allocation will guide the municipality in presenting it according to the respective standard.

# THANK YOU



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