VAT EDUCATION SESSION

INEP Grant Accounting Considerations

PRESENTED BY:

Office of the Accountant-General

Date:

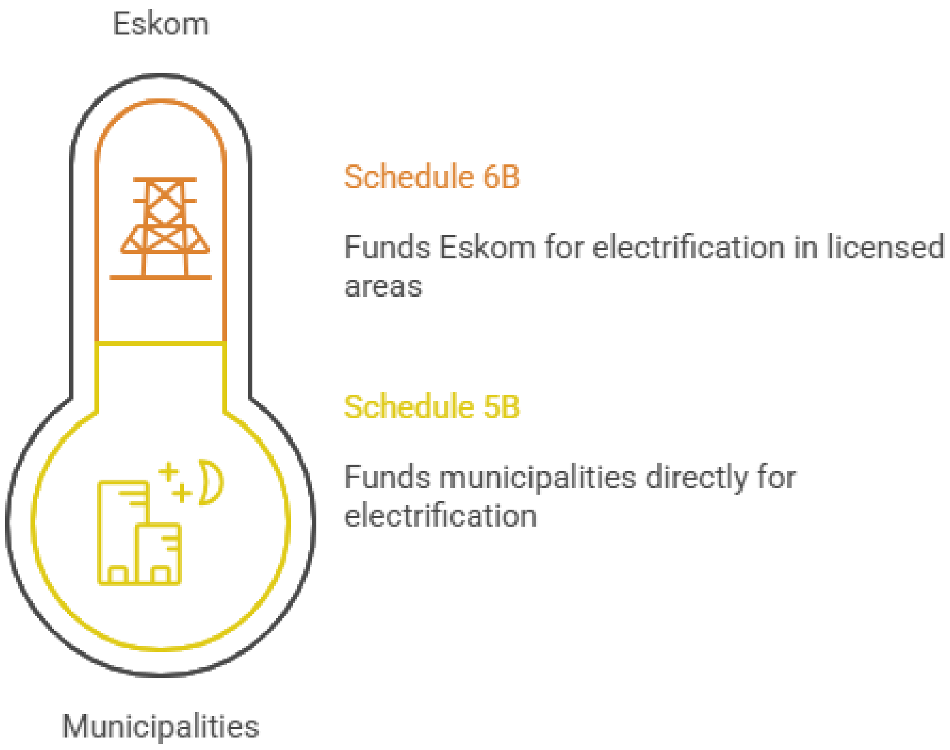
01 October 2025

national treasury

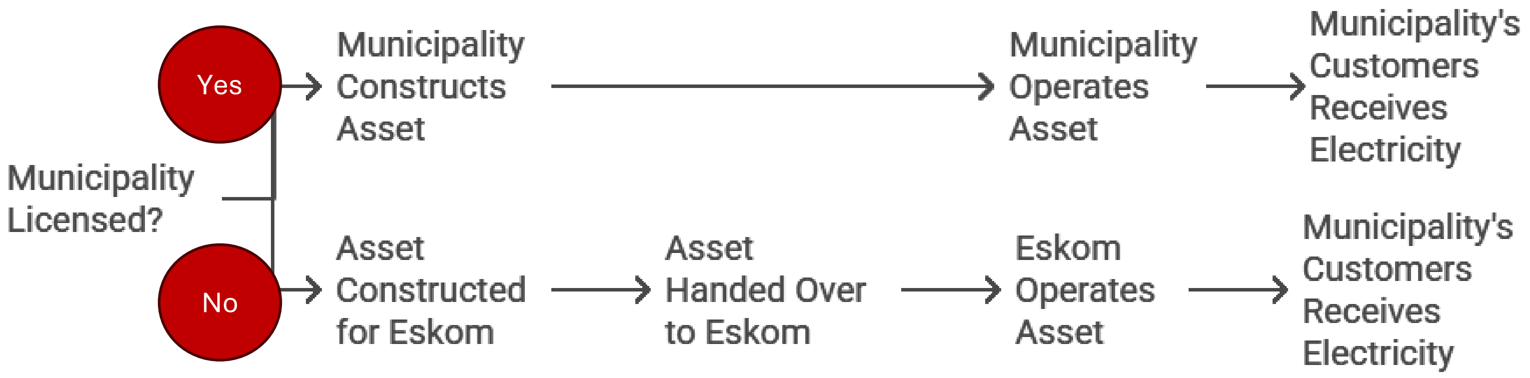
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Purpose of the INEP Grant

- To provide capital subsidies to municipalities **(Schedule 5B)** and Eskom **(Schedule 6B)** primarily for the electrification of existing and planned residential dwellings, including informal settlements and farm dwellers, as well as for the installation of essential bulk infrastructure.
- **Schedule 5B** allocations are direct transfers to municipalities.
- Some **Schedule 5B** grants are allocated to unlicensed municipalities based on capacity, even if Eskom will ultimately operate the infrastructure.



Schedule 5B Grants to Municipalities



- **Licenced:** Municipality constructs, controls, operates, and maintains the asset.
- **Unlicenced:** Municipality constructs, but asset is handed over to Eskom. Eskom controls, operates, and maintains the asset.

Unlicenced Municipality – GRAP 109 considerations

Key questions..

- Is there a binding arrangement between the parties?
- Does one party transact with third parties on behalf of another?
- Are the rights and obligations of the principal fulfilled by the agent?

On third parties..

- Third parties are external entities involved in transactions facilitated by the agent.
- They may receive goods/services or make payments as part of the arrangement.
- Third-party transactions should be specifically identified or have eligibility criteria.

Unlicenced Municipality – GRAP 109 considerations

Identifying binding arrangements.....

- There is a **funding agreement** between DMRE and the municipality → where DMRE commits to transfer funds to the municipality, and the municipality commits to implement the electrification project (construction of infrastructure asset) in line with the approved business plan.
- There is a **specification agreement** between Eskom and the municipality → which sets out the design requirements and the handover process.

Unlicenced Municipality – GRAP 109 considerations

Binding arrangement between DMRE and unlicenced municipality

- Third parties? Contractors/sub-contractors appointed by the municipality to implement the electrification project.
- The municipality contracts directly with theses parties **in its own name**, not on behalf of DMRE.
- There is no delegation of authority to act in the name of DMRE when entering into contracts with the contractors/sub-contractors
- The municipality bears the procurement and construction responsibilities under its own contracts
- While there is a binding arrangement, its nature is one of funding for the construction of an asset, rather than principal-agent

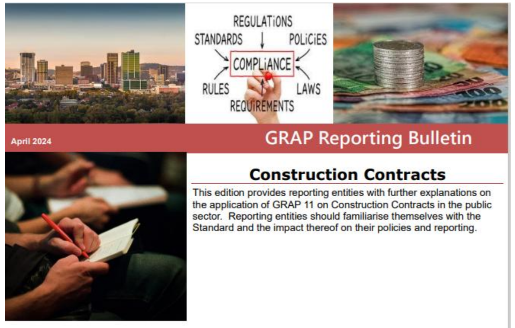
Unlicenced Municipality – GRAP 109 considerations

Binding arrangement between Eskom and unlicenced municipality

- Third parties? Contractors/sub-contractors appointed by the municipality to implement the electrification project – same finding as for the funding agreement
- Third parties? Beneficiaries of the electricity connections
- The municipality does not enter into service contracts, billing, or connection agreements with beneficiaries.
- Eskom directly contracts with and bills beneficiaries in its licensed capacity. The municipality has no intermediary role in those future arrangements.
- GRAP 109 does not apply, because there is no third-party facilitation on behalf of Eskom.

Unlicenced Municipality is a Contractor (GRAP 11)

Aspect	GRAP 11
Nature of transaction	Exchange → municipality provides construction services paid for by DMRE.
Revenue recognition	% completion, linked to stage of construction.
Expenditure recognition	Matched with contract activity (construction costs).
Result in AFS	Revenue and costs broadly aligned across project life.



April 2024 GRAP Reporting Bulletin

Construction Contracts

This edition provides reporting entities with further explanations on the application of GRAP 11 on Construction Contracts in the public sector. Reporting entities should familiarise themselves with the Standard and the impact thereof on their policies and reporting.

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