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| Description: Description: Letter Head |
| STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT  *[mSCOA for MUNICIPALITIES]* |
| Project Detail:  Section 1 – Costing Segment  August 2016 (Version 6) |

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SECTION 8 – COSTING SEGMENT

## Background to the Segment

### Relevance of Cost Accounting, Methodologies and the Application thereof within the Context of mSCOA

1. The content of this section needs to be read with the National Treasury Guideline on Costing Methodology. Furthermore, the purpose is not to provide comprehensive content on “costing methodology and underlying principles” but rather to contextualise the classification included in the mSCOA Costing Segment.
2. Cost is an important element of the decision-making process for setting municipal tariffs. Information about costs is relevant even when the municipality provides goods and services for free or for a nominal consideration as a result of national/municipal policy decisions, or when tariffs are set on the basis of market prices.
3. Cost information can be used for cost control and reduction, for example, with appropriate cost information, managers can:

* compare costs with known or assumed benefits of activities, identify value-added and non-value-added activities, and make decisions to reduce resources devoted to activities that are not cost-effective;
* compare cost changes over time, identify their causes and take appropriate action, for example, take steps to improve efficiency;
* identify and reduce excess capacity costs;
* compare costs with similar benchmark activities, find the causes for cost differences, and take appropriate action, for example, revise and improve business processes; and
* through the municipality's performance management systems, enforce a culture with managers to analyse cost behaviour. Every manager should after careful consideration of all the consequences of their cost behaviour, take appropriate action. Unless initiative is taken by managers to analyse cost behaviour, inefficiencies may emerge, continue, and grow for a long time before the need for action becomes obvious.

1. Interest in performance measures is increasing. This result in municipalities establishing systems to better report this information. When measuring performance, both financial and non-financial measures should be included. Performance measurement is generally more effective when these measures are interrelated. Cost itself is a measure of financial performance. It is important to note that the mSCOA tables and the content of this document only deals with financial information. Non-financial information currently falls outside the scope of the mSCOA project.
2. Managers of programs, if they understand the managerial advantages of measuring their performance, are likely to put pressure in the organisation for increased performance monitoring. Program managers can improve their operational performance from three perspectives — quality/productivity, cycle time, and cost. If a manager brings cost (in balance with the other measures) into the decision-making processes better decisions can be made.
3. A municipality can evaluate its service efforts and accomplishments. For example, the municipality can combine cost with an effectiveness measure to assess the cost-effectiveness of its service/ goods. A municipality can also use the following measures:

* Measures of service efforts — these are resource costs and other measures of the inputs used to provide the services.
* Measures of accomplishments — these are outputs (the services provided) and outcomes (the effects of those services).
* Measures that relate efforts to accomplishments — these are, for example, the cost per unit of the various outputs.

1. The public and legislators can use the cost of services (combined with appropriate performance measurements) to evaluate the municipality's deliverables. Whether or not reported publicly, the cost of services is a factor in making policy decisions related to program authorisation, modification and discontinuation.
2. Accrual accounting forms the basis for municipal budgeting and management information. This triggered the increased use of cost accounting and the development of systems to support cost accounting. Recognition of the need for cost accounting in “right sizing, eliminating inefficiencies and privatisation” will also motivate municipalities to use cost accounting more which will result in more cost accounting systems being developed.
3. When starting to implement a cost system, a municipality may initially choose to only maintain limited cost information. As the municipality gains knowledge of its exact requirements and the likely costs of gathering the additional data, it can progress to a more comprehensive system. The mSCOA classification enables exactly this by providing for “minimum requirements” but sufficient enough in detail to accommodate more sophisticated costing applications. When comparing for example the mSCOA costing segment to the costing system of the City of Cape Town it is clear that the City has a far more advanced costing system (based on “activity based costing”). mSCOA enables the City to continue transacting on its advanced costing module yet meet the minimum requirements provided for in mSCOA.
4. When considering how to improve the quality of available information, the National Treasury (mSCOA Project Team) considered the advantages of using cost accounting for management purposes in addition to accrual accounting for financial reporting. In theory and research there are a number of approaches that governments in different circumstances can adopt to progressively implement cost accounting. This is a principle used to define the classification framework of the mSCOA Costing Segment.
5. The municipality's financial accounting system usually provides the value of the resources used or sacrificed in relation to any particular cost objective. This is for two basic reasons:

* It improves understanding of cost data which is consistent with financial accounting data; and
* the cost efficiency of generating the cost data (based on or integrated with an existing system of accounting).

1. Financial accounting standards govern the flow of costs into the operating statement. The following discussion of the Standard of GRAP is in terms of property, plant and equipment, inventory and costs related to these assets. It is however important to note that other standards also affect the flow of costs.
2. How values for inventory and property, plant and equipment are determined (in terms of the Standards of GRAP) can briefly be summarised as follows:
3. Historical cost (incurred by the entity) is the general basis for the initial valuation of these assets to bring:

* inventories to their present location and condition; and
* property, plant and equipment to working condition for their intended use.

1. Specific types of costs are excluded from these valuations. Administrative and selling costs, development and preproduction costs, and storage costs are excluded unless they are directly attributable to inventories or property, plant and equipment. Abnormal amounts of wasted material and labour and excess capacity costs are also excluded.
2. Costs resulting from related party transactions are reflected in inventories and property, plant and equipment on the basis of the prices assigned to the transactions.
3. Under the Standards of GRAP 17 Property, Plant and Equipment allowed an alternative treatment for property, plant and equipment to be revalued regularly to fair value.
4. The Standards of GRAP do not deal comprehensively with the costs of deferred maintenance, the capital costs of holding inventory and property, plant and equipment, or the values of natural resources.
5. Processing costing accumulates costs by individual processing “functions” and then finally by outputs of the municipality. The output of “sub-function” either becomes the input of the next “sub-function” in the production flow or becomes a part of the end product output. Normally, each “sub-function” reports its costs, the completed units, and the work-in-process volume for each reporting period. When completed units are transferred from a “sub-function” to the next “sub-function”, the costs of those units are also transferred and are eventually incorporated in the cost of the municipality’s end product being a service.
6. In municipalities, process costing would typically be used by functions that involve repetitive processes to deliver services to the poor. An example is providing informal settlements with basic services involving a series of consecutive and repetitive processes of reviewing applications to establish eligibility, computing the amounts of benefits and issuing checks.
7. Job order costing accumulates and assigns costs to discrete projects or jobs. Resources consumed are identified with a job code rather than a process. This method is appropriate for functions that produce special order products or perform projects and assignments that differ in duration, complexity or input requirements. Job-order costing may be used in connection with the servicing and maintenance of fleet or specialised vehicles, special requests for services such as site cleaning or repair work to infrastructure and other municipal properties.
8. Some municipalities may wish to set information requirements at the activity level, an even lower level than processes or jobs. The concept of “Activity Based Costing” is that activities consume resources, although activities may sometimes be congruent with processes, if processes are defined narrowly. “Activity Based Costing” can be used in conjunction with job-order costing or process costing to enhance the accuracy of these costing methods. This method is not encouraged by National Treasury due to the complexities involved, sophisticated system requirement and ultimately cost versus benefit considerations.
9. The cost system’s functionality needs to include a report generator with capacity to generate a variety of reports needed by management or to satisfy financial reporting requirements. Benefiting from this capacity the needed data must be put into the system and the rules for capturing, distributing, and calculating the information must be there.
10. Cost accounting explained in the cost of accrual accounting budgeting with some examples:

* Integral to an accrual-based budget, as it is combined with funds control in a budgetary system that focuses on both cost and cash,
* Cost containment measures are fundamental in setting municipal budgets and expected to gain more emphasis over the coming years.
* Redefining reporting following the implementation of mSCOA within the Local Government to give justice to the implementation on cost-related information in the financial statements, budget tables and treasury-oversight reporting. A number of factors will affect the information to be included, including the degree of expected audit assurance, how much cost control National/Provincial Treasury wants to exercise in overseeing municipal operations, and the public’s interest in the cost of functions and service delivery outputs.

1. A wide variety of questions will need to be considered, including whether performance measures will be included in the published financial statements, how cost information will be integrated with the budget of what level of detail should be included in management reports, and what comparative information should be provided.
2. Successful implementation of cost accounting requires senior management participation. Only senior management can set goals and implementation strategies, or answer questions of how cost accounting will be used, what information will be provided and included in reports, and what systems changes are most appropriate. Financial officers and various kinds and levels of operating management will need to be involved to ensure that senior management has the information and advice to make appropriate decisions.
3. There are a variety of approaches that can be used to obtain the necessary level of senior management involvement. Once involved, senior management has a continuing role in implementation.
4. The “Cost” segment provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity based recoveries, for example labour, vehicle, plant and equipment, internal service charges (internal billings), and departmental charges for example office rental, audit fees and procurement.
5. Indirect cost (secondary cost) is initially recorded as primary cost within the “Item” segment and funded according to the indicator selected in the “Fund” segment.
6. The cost indicator within the “Costing” segment provides for the re-distribution of these primary costs between functions (no change in the funding source); together with indicators provided in the “Function” segment. The “Project” segment provides the classification link to these indicators and specific projects.

### Purpose of this Segment

1. The purpose for including this segment in mSCOA is to provide for the recording of full cost reflection for at least the four core municipal functions being electricity, water, waste water and waste management services, as a minimum requirement (for now). Focusing on these functions is essential for setting cost reflective tariffs as these four services are the most significant revenue generating functions within municipalities.
2. The direct (primary cost) is accommodated in the account set-up within the “Item” segment: expenditure component.
3. The introduction of this segment is responding to the demand by local government practitioners for guidance and tools to identifying the cost (see table below) of providing a service to their customers.
4. It addresses the gap within a sector and provides the functionality to produce consistent data on the actual cost of a service; with the added ability to benchmark with other municipalities with a better or improved degree of confidence.
5. In the table below hidden costs are also reflected, these are typical costs whereby a donation or free time from the community is received to render a particular service. Should this goodwill gesture from the community cease then these costs to render the service should be factored in the tariffs to ensure continuity of the service.



1. The espoused principle on cost allocation in using the “costing” segment and in the context of helping to promote a structured and consistent approach to allocating costs during the business process will lead to improved cost reflected tariffs. This process will help municipalities to improve their understanding of the principles and techniques of cost allocation, across municipalities, functions, projects and so allow for cost comparison and benchmarking.
2. This classification framework provides to local government, ”a common cost architecture approach” for setting out to ascertain costs, as this will enable municipalities to compare service costs by clarifying the actual cost drivers in the whole chain of events for the provision of a particular service.
3. Extracting information from the “Cost” segments within mSCOA would thus provide approximate full cost information for the defined core municipal functions. Typically, the “Function” segment would identify the core service as being electricity, water, waste water management and waste management. The “Item” segment will provide the type of revenue, expense, asset or liability, whilst the “Costing” segment is used to derive the full cost dimension.

## Cost Recovery Approach

1. The typical “cost recovery approach” is explained in the table hereunder. National Treasury is not at present concerned on which method or even a combination of methods is adopted by municipalities. National Treasury do however at this stage suggest that municipalities use a hybrid approach, but if a municipality has the capacity and it is cost efficient, a simplified activity based costing method (usage or benefit approach) is recommended.
2. Standardisation of “cost recovery approaches” would only be of concern once municipalities are able to meet “minimum classification requirements” in recording cost allocations within the general ledger accounts and mSCOA segments.
3. The table hereunder presents a summary of the content contained in the National Treasury Guideline on the Costing Methodology. Please refer to the reference material for a more comprehensive discussion.

| Classification | Definitions |
| --- | --- |
| Pro Rata Approach | This approach where it is not possible or too costly to identify actual resource usage.  The approach starts with the cost data as found in the municipality’s general ledger.  In the context of mSCOA the function in combination with the primary cost depicted in the “Item” segment: expenditure component.  The costs are allocated on a proportionate allocation basis to outputs by using measures such as:   * staff involved in production of the output as percentage of total staff; * direct resource use in the production of the output as a percentage of total resource use; and * the budgets for the output as a percentage of the total budget. |
| The “Usage” or “Benefit” Approach | The “usage” or “benefit” approach looks to build from the bottom up, starting with the activities themselves (for example, processing a service requirement) and calculating the resources they consume.  Costs are then attributed to these activities, which in turn can be assumed to calculate the cost to serve an end-to-end process. Actual resource usage may be estimated in several ways.  Examples of methods of apportioning indirect cost pool are direct observation, time (in the case of indirect staff costs) and log sheets (in the case of vehicle and plant and equipment).  The method used must be well documented, verifiable and efficient.  This type of indirect cost measurement can in practice be linked to an activity based costing method, but it needs to be adjusted for practical reasons. |

## Illustration – High-level Classification

1. At the highest level the segment structure distinguishes between “Charges” and “Recoveries” followed by accounts groups for “Departmental Charges (Support Services), Internal Billing and Activity Based Recoveries”.

**Definitions:**

Charges: Distinction is made at this level between "charges to receiving departments and recoveries made be sending departments". This specific is for charges to receiving departments.

Recoveries: Distinction is made at this level between "charges to receiving departments and recoveries made be sending departments". This specific is for recoveries by sender departments.

Departmental Charges (Support Services): This refers to the allocation of overheads to a cost centre used by multiple functions, such as Information Technology; for example, pro rata allocations based on the number of service points or users such as the electricity department. Some applications refer to assessment charges.

Internal Billing: This refers to departmental use of internal services such as electricity, water, waste water management and waste management, for example cost allocation for the electricity department’s water.

Activity Based Recoveries: This refers to the actual allocation of resources (used or benefit method) used by various departments; for example, allocation of labour is based on time sheets, and the allocation of vehicles and plant equipment is based on log sheets

Default: All transactions not relevant to the allocation of secondary cost to be classified within this account.

## Design Principles

1. The following design principle(s) have been used in preparing the segment outline:
2. *Principle 1: mSCOA* - The segment outline and detail classification provides for all possibilities as a “master mSCOA” from which each municipality select the accounts needed to “populate” their chart of accounts.
3. *Principle 2: Municipal Entities and Agencies -* Recording of transactions in this segment would be done according to the principles determined for municipalities. References made to “municipalities” must be read to also refer to “municipal entities”, unless indicated otherwise.
4. *Principle 3: Legislative and Regulatory Requirements -* The research and development into the segment, categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by National Treasury and summarised in the table below. Furthermore, brief comments on any changes to a circular or guideline (issued by National Treasury) following the mSCOA regulation are given in the “Proposed Changes Column” of the table.
5. *Principle 4: Linking Transaction by Business Process to mSCOA -* Business processes is the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting a source document from an activity within a business process initiates the activity to flow through a defined business processes ultimately resulting in the transaction to be captured within a financial model in the system and updating the general ledger. The mSCOA provides a classification structure within the general ledger to “record” transaction information within “fields” within the database functioning in the background of the financial application.
6. *Principle 5: Category Links and Programming Rules -* Category links and business rules refer to programming rules that system developers of financial and business applications for local government would be required to provide for in the application. The considerations listed may not be complete, considering the development stage of this project and might need to be enhanced as this consultation with the various stakeholder groups evolves.
7. *Principle 6: mSCOA Detail Accounts -* Labels and accounts defined to have readily available the information needed for local government budgeting (annual budgets, adjustment budgets and SDBIP) and reporting (monthly, mid-year performance assessment and annual financial statements).
8. *Principle 7: mSCOA Definitions -* The master mSCOA provides definition for all accounts and reporting levels to assist practitioners in achieving consistency in recording transactions of a similar type or nature between municipalities to enhance the comparability of information and report extraction.
9. Principle 8: *Annual Financial Statements and Budget Reporting Formats* - Alignment of budget and reporting formats with the Standards of GRAP applicable to the different categories of municipality, especially recognising that local government uniquely operates in an accrual accounting and accrual budgeting environment.
10. *Principle 9: The Standards of GRAP Reporting Framework* - Outlined in Directive 5 Determining the GRAP Reporting Framework (2015/2016) issued by the Accounting Standards Board.
11. *Principle 10: Economic Reporting Format -* The Economic Reporting Format, September 2009 identifies the categories for transfers as being transfers received from other governmental units (national, provincial and local government (specific in the context of municipalities, district municipalities), higher educational institutions, foreign government and international organisations, public corporations, private enterprises, households and non-profit institutions. The budget reporting regulations distinguish between transfers recognised operational and capital, contributions and public donations and contributed assets replaced in mSCOA with these categories.
12. *Principle 11: NERSA Regulatory Reporting Requirements -* NERSA as explained in the Regulatory Reporting Manual Volume 2: Electricity prescribes and provides guidance to the regulated entities in the electricity Supply Industry on the format, content, preparation and submission to the Energy Regulator of required information to perform its functions. In an attempt to avoid a dual accounting process for recording transaction for reporting to NERSA and another set of accounts for financial and budgetary reporting to National Treasury, provided for the information needs in terms of this regulation in the mSCOA. Important in the selection of accounts to be activated within the system application is the municipalities’ readiness to comply with the NERSA Regulatory Reporting Requirements. In order to assist municipalities to comply with the mSCOA Regulation the structure makes provision for an alternative to the detail required by the NERSA Reporting Regulation. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and this will oversee and enforce their requirements ensconced in the relevant sets of legislation.
13. *Principle 12: Department of Water and Sanitation (DWS) Reporting Requirements –* The Department had been instrumental in guiding and informing the setting-up of the classification requirements for the water and waste water functions municipalities provide. Important in the selection of accounts to be activated within the system application is the municipalities’ readiness to comply with the DWS Reporting Requirements. In order to assist municipalities to comply with the mSCOA Regulation the structure makes provision for an alternative to the detail required by the DWS. National Treasury deals with these principles in a Position Paper on Water Balance Reporting. DWS is the custodian of the Reporting Requirements and thus will oversee and enforce their requirements ensconced in the relevant sets of legislation.
14. *Principle 13: Level of Detail -* Municipalities may add detail breakdown-levels in addition to that provided in the chart of accounts at their discretion. However, adding detail need to be carefully considered rather being the exception than the principle. The indicators provided to guide on the posting level and breakdown required reflect the minimum requirements from the National Treasuries perspective. Hence the table below explain the indicators used in the columns provided in the mSCOA Tables:

| Indicator | Yes | No |
| --- | --- | --- |
| Posting Level | Defines the level of capturing the transaction. | Not a posting level, therefore follows the guidance for breakdown required and principle explained for detail to be added. |
| Breakdown Required | The municipalities are required to define the level of capturing the transaction, expand the parent-child code structure and adopt the guid of the parent. . | National Treasury is not interested in further detail but the municipality may add detail at own discretion. This will not be extracted for reporting to National Treasury. |

1. *Principle 14: Applicability* - This column indicates the minimum requirements a municipality need to comply with in the implementation of this segment. Indication is further given for municipalities exceeding these minimum requirements based on more sophisticated costing modules in use. The use of these accounts is restricted to the municipalities as indicated. If more information is needed than currently provided, please consult with the mSCOA Technical Committee to expand the existing segment detail to accommodate specific needs in this regard.
2. *Principle 15: National Treasury Costing Methodology Guideline for Local Government -* This Guideline addresses the gap in the sector in the ability to produce consistent data on the cost of rendering a trade service. It also provides the ability to benchmark a service against other municipalities with a certain degree of confidence. This section of the mSCOA Classification Framework provide for the cost elements to enable recording of the transactions inherent to reflecting the charge out to the receiving department to the recovery for the sender department. The content of the guideline serves as the basis for the design reflect in this segment.
3. Principle 16: Internal Billings, Departmental Charges and Activity Based Recoveries - these elements are provided for in the mSCOA Costing Segment. The cost collectors provided for are in accordance with the costing methodologies guideline proposed by National Treasury. The allocations are based on the proposed standard and serve as a guide on the minimum requirements for costs to be allocated. Due to the nature and complexity of internal charges and municipalities being in different stages of implementation this group of accounts would require customisation according to system requirements and municipality’s implementation thereof.
4. Principle 17: Secondary Costing – Secondary costing elements to be extracted based on the departments charged for the use of municipal services and functions. The cost collectors provided for are in accordance with the costing methodologies guideline proposed by National Treasury. The allocations provided are based on the proposed standard and service as a guide on the minimum requirements for costs to be allocated. Due to the nature and complexity of secondary cost and municipalities in different stages of implementation this group of accounts would require customisation according to system requirements and municipalities implementation thereof.
5. *Principle 18: The Cost of Individual Service –* A key objective to highlight the total cost of identifiable services. It is normal for overheads to be recharged to services and for these charges to be recorded by those services according to the origin of the recharge (e.g. finance department recharge). Recharges typically come from support departments and trading operations, but could also be between two front-line services within a service
6. *Principle 19: Elimination of “Recharges” for Consolidation Purposes –* Basic principles of consolidation dictate that charges within the parent municipality should be eliminated leaving only the externally raised income and expenditure with the outside world in the consolidated statements. The Standards of GRAP only requires that certain disclosures (for example staff costs) that require the true total of an item be shown not including recharges. mSCOA also aims to produce useful data for policy and national accounts purposes which require data in this format. For all these reasons it is necessary that internal charges are disregarded in preparing annual financial statements and being accounted for in accordance of its expenditure nature. Therefore, internal cost recovery is dealt with in the “Function” and “Funding” segment, as not to interfere with the nature of spending for annual financial statement reporting purposes. Therefore, at a posting level distinction is made between “recharges (charges) and recoveries”.
7. *Principle 20: Customisation of Proposed Model –* Various methodologies exist for the apportionment of costs towards specific processes. A higher level of complexity does not automatically imply that the method is superior. A more complex system will yield more accurate results; however, a more granular approach may be more suitable. The argument between accuracy and complexity needs to be balanced through adopting an approach that is manageable, not over complicated and fit for the purpose. However, a trade-off needs to be struck between accuracy and the cost of collecting information. mSCOA does not favour any specific methodology but attempts to provide a classification conducive to multi methodologies. The end-result is that the operation must be as simple as possible but still providing for maximum accuracy. The model as provided for in mSCOA provides a simple classification to extract information on common areas but subject to “recharge” to functions within local government. The model is not necessarily complete and therefore this section of the classification provides for customisation according to the needs of the municipality
8. *Principle 21: Capitalisation of Cost Allocation to Fixed Assets –* The allocation of cost to self-constructed fixed assets need to be done in accordance with the requirements as set-out in the Standards of GRAP relevant to the type of fixed asset and the recognition of cost to be included in “initial cost”.
9. *Principle 22: Account Number Structure –* The following table summarise the account number structure relevant to this segment.

| Account Number Structure | Level |
| --- | --- |
| CO | Pre-fix for identifying the “Costing Segment” from the string. |
| Numeric 1 (3 digits) | Distinction is made at this level between "charges to receiving departments” and “recoveries made by sending departments”. |
| Numeric 2 (3 digits) | The highest level being Departmental Charges, Internal Billing and Activity Based Recoveries |
| Numeric 3 (3 digits) | Provide for the breakdown within the above levels which is standardised based on cost items. |
| Numeric 4 (3 digits) | Either provides for a standard breakdown at a detailed level or discretionary detail to be added. |

## Legislative and Regulatory Requirements

1. The research and development into the segment, categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by National Treasury and summarised in the table below. Furthermore, brief comments on any changes to a circular or guideline (issued by National Treasury) following the mSCOA Regulation are given in the “Proposed Changes Column” of the table.

| Act, Regulations, Guideline or Circular | Section and Requirement | Impact on mSCOA |
| --- | --- | --- |
| LEGISLATION |  |  |
| Local Government Municipal Property Rates Act, No 6 of 2004 | Section 3: Rates Policy  Section 5: Annual Review of Rates  Section 8: Differential Rates  Section11: Amount due for Rates | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| Local Government Municipal Finance Management Act, No. 56 of 2003 | Section 20: Matters to be Prescribed - (1)b(iv) “uniform norms and standards concerning the setting of municipal tariffs, financial risks and other matters where a municipality uses a municipal entity or other external mechanism for the performance of a municipal service or other function”.  Section 41: Monitoring of Prices and Payments for Bulk Resources  Section 42: Price Increases of Bulk Resources for Provision of Municipal Services  Section 43: Applicability of Tax and Tariff Capping on Municipalities | Considered in the set-up of the mSCOA segments. |
| Local Government Municipal Systems Act, No 32 of 2000 | Section 74(2): Tariff Policy | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| Water Services Act, No 108 of 1997 | Section 10: Norms and Standards for Tariffs | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| Constitution No 108 of 1996 | Section 216: Treasury Control   1. National legislation must establish a national treasury and prescribe measures to ensure both transparency and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing: 2. Generally, recognised accounting practice 3. Uniform expenditure classification; and 4. Uniform treasury norms and standards 5. The national treasury must enforce compliance with the measures established in terms of subsection (1), and may stop the measures established in terms of subsection (1), and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of these measures. | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| Local Government Transition Act Second Amendment Act, No 97 of 1996 | Section 5: Sewerage  (j): the determination of a uniformly structured bulk tariff for the purification and bulk conveyance of sewerage;  (k): the development of a uniform basis for the structuring of user tariffs; | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| Electricity Regulation Act, No 4 of 2006 | Section 4: Powers and Duties of Regulator  (a)(ii): Regulate prices and tariffs  Section 16: Tariff Principles | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| Municipal Fiscal Powers and Functions Act, No 12 of 2007: | Definition for “municipal base tariff” | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| REGULATIONS | | |
| Municipal Regulation on a Standard Chart of Accounts (mSCOA) | Annexure: Costing Segment  7. This segment provides for a classification structure for secondary cost elements and acts as a cost collector in determining inter alia total cost of a service or function, identification of productivity inefficiencies and tariff determination of municipal services. Classification codes are identified with reference to departmental charges, internal billing and activity based recoveries for purposes of recording specific activities and functions in terms of their unit costs and cost categories. | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| CIRCULARS: |  |  |
| MFMA Circular No. 42 Funding a Municipal Budget, 30 March 2007 | Accrual based Financial Management  The focus on accrual based financial management will assist decision-makers with comprehensive information when funding strategies are discussed prior to adoption of the budget. Discussions on proposed borrowing, the utilisation of grants, and setting of appropriate tariffs to ensure ongoing sustainability of existing and proposed services will be strengthened. Information will also assist in the review of ratepayer’s/consumers contributions towards services, for the years covered by the medium term revenue and expenditure framework. | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 48 Municipal Budget Circular for the 2009/10 MTREF, 2 March 2009 | *Revising Rates, Tariffs and Other Charges*  Eskom Bulk Tariff Increases  Impact of the 2 cents per kWh Environmental Electricity Levy  Implementation of the Municipal Property Rates Act  Verification of Existing Municipal Taxes in terms of the Municipal Fiscal Powers and Functions Act  Fuel Levy Allocation to Metropolitan Municipalities  Compensation to District Municipalities through the RSC Levies Replacement Grant  *Guidance on Specific Issues*  Budgeting for Revenue and Revenue Foregone  Budgeting by GFS and “Internal Charges”  Budgeting for Free Basic Services  Budgeting for capital  *National Treasury’s Special Focus Area*  Focus on Repairs and Maintenance | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 51 Municipal Budget Circular for the 2010/11 MTREF, 19 February 2010 | *Revising Rates, Tariffs and Other Charges*  Eskom Bulk Tariff Increases  Water Tariffs must be Cost-reflective  Budgeting by GFS and “Internal Charges”  Budgeting for Free Basic Services | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 54 Municipal Budget Circular for the 2011/12 MTREF, 10 December 2010 | *Revising Rates, Tariffs and Other Charges*  NERSA’s approval of Municipal Electricity Tariffs  Water Tariffs must be cost-reflective | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 55 Municipal Budget Circular for the 2011/12 MTREF, 7 March 2011 | *Revising Rates, Tariffs and Other Charges*  Eskom Bulk Tariff Increases  Introduction of Inclining Block Tariffs  Water Tariffs must be cost-reflective  *Municipal Budget and Reporting Regulations*  Municipal Budget and Internal Charges  MBRR issues dealt with in previous MFMA Circulars:   * Budgeting for Revenue and “Revenue Foregone” * Budgeting for Free Basic Services | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 58 Revenue Management, November 20114 December 2011 | *Taking the 2011 Local Government and Expenditure Review Forward*  Pricing Service Correctly  *Revising Rates, Tariffs and Other Charges*  NERSA’s Process to approve Electricity Tariffs  Eskom Bulk Tariff Increase  Introduction of Inclining Block Tariffs for Electricity  Water and Sanitation Tariff must be Cost-reflective  Solid Waste Tariffs  Revaluations in terms of GRAP 17 and the Treatment of Depreciation in the Budget | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 59 Municipal Budget Circular for the 2012/13 MTREF, 16 March 2012 | *Revising Rates, Tariffs and Other Charges*  Eskom Bulk Tariff Increases  Process for NERSA approval of Municipal Electricity Tariffs | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 64 Revenue Management, November 2012 | *Key Focus areas for the 2013/14 budget process*  The Local Government Budgets and Expenditure Review published in September 2011 contain both financial and non-financial information pertaining to municipal key functions. In the revenue and expenditure trends chapter the issues relevant to municipal revenue management include; amongst others, debt collection and correct pricing of municipal trading services.  National Treasury’s Circular 58 advises municipalities to pay attention to ensuring the collection of revenue; “municipalities need to ensure that the billing systems are accurate; send out accounts to residents and follow-up to collect revenues owed”. The Circular also guides municipalities on factors to consider when determining their annual tariffs; these include amongst others, the input costs of trading services, financial sustainability, local economic conditions, affordability of municipal services; the municipal indigent policy and the relevant sector specific policies.  *Sources of Funding for Municipalities*  Furthermore, section 75 of the Act, makes it a necessity for municipalities to adopt bi-laws to give effect to the implementation and enforcement of their *tariff policies*; in fact, all policies and supporting decisions taken by the municipal council must be supported by a bi-law to make it legally enforceable. Failure to comply with the necessary bi-law requirements may expose the municipality to litigation.  *Protecting the Municipal Revenue Base*  Tariffs for trading service should be determined in relation to the cost of providing such services.  Municipalities are encouraged to table ‘surplus’ budgets. Achieving budget surpluses is dependent on several factors such as cost reflective tariffs; operational efficiencies; maximising the revenue regenerating potential of own revenue sources amongst others. In addition, a productive workforce and sound decision-making will ensure that the municipalities’ limited financial resources are spent wisely so that value for money is achieved. | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 66 Municipal Budget Circular for the 2013/14 MTREF, 11 December 2012 | *Taking the 2011 Local Government Budgets and Expenditure Review forward*  Pricing Services Correctly  Regulation of a Standard Chart of Accounts (mSCOA) for Local Government  Financial Applications (Systems) and the Impact of mSCOA  Management Accounting and Tariff Setting  Revising Rates, Tariffs and Other Charges  NERSA’s Process to approve Electricity Tariffs  Eskom Bulk Tariff Increases  Inclining Block Tariffs for Electricity  Water and Sanitation Tariffs must be Cost-reflective  MBRR issues dealt with in Previous MFMA Circulars  Budgeting for Revenue and “Revenue Foregone*”* | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 67 Municipal Budget Circular for the 2013/14 MTREF, 12 March 2013 | *Revising Rates, Tariffs and Other Charges*  Eskom Bulk Tariff Increases  Inclining Block Tariffs for Electricity  Process for NERSA approval of Municipal Electricity Tariffs | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 70 Municipal Budget Circular for the 2014/15 MTREF, 3 December 2013 | *Local Government Budget and Financial Management Reforms*  Regulation of a Standard Chart of Accounts (mSCOA) for Local Government  Financial Applications (Systems) and the Impact of mSCOA  Management Accounting and Tariff Setting  *Revising Rates, Tariffs and Other Charges*  Operating Revenue  NERSA’s Process to approve Electricity Tariffs  Eskom’s Bulk Tariff Increases  Inclining Block Tariffs for Electricity  Water and Sanitation Tariffs must be cost-reflective  Solid Waste Tariffs  Non-revenue Water and Electricity  *Budget Management issues dealt with in previous MFMA Circulars*  Water and Sanitation Tariffs must be cost reflective | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 70 Municipal Budget Circular for the 2014/15 MTREF, 3 December 2013 | *Revising Rates, Tariffs and Other Changes*  Operating Revenue  NERSA’s process to approve electricity Tariffs  Eskom’s Bulk Tariff Increases | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 72 Municipal Budget Circular for the 2014/15 MTREF, 17 March 2014 | Revising Rates, Tariffs and Other Changes  Operating Revenue  NERSA’s process to approve electricity Tariffs  Eskom’s Bulk Tariff Increases | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 74 Municipal Budget Circular for the 2015/15 MTREF | Regulation of a Standard Chart of Accounts (SCOA) for Local Government  Operating Revenue  Management Accounting and Tariff Setting  Interpretation of Section 43 of the MFMA (NERSA) (Deals with the applicability of Tax and Tariff Capping on Municipalities and the NERSA process to approve Electricity Tariffs)  Eskom Bulk Tariff Increases  Water and Sanitation Tariffs must be Cost Effective  Budgeting for Revenue Foregone and Free Basic Service to Indigents  Tabling Funded Budgets | Segments set-up to assist in the extraction of information to use in the rates assessment process. |
| MFMA Circular No. 75 Municipal Budget Circular for the 2015/15 MTREF | The Medium Term Budget Review 2015  Shaping Urban Development to Support Growth in Cities  Headline Inflation Forecasts  Eskom Bulk Tariff Increases  Electricity Levy Increase | Segments set-up to assist in the extraction of information to use in the rates assessment process, |

## Category Links and Business Rules

1. Category links and business rules refer to programming rules that system developers of financial and business applications for local government would be required to provide for in the application. The considerations listed may not be complete considering the development stage of this project and might need to be enhanced as this consultation with the various stakeholder groups evolves.
2. Proposals identified at this stage of the development of mSCOA:

* The “Cost” segment to default for any transaction other than the allocation of secondary costing, for example primary entries for expenditure, transactions in assets, liabilities and net assets, etc.
* Prevent cost allocation to capital project if in contradiction of the requirements of the Standards of GRAP.

## Classification Structure

1. The classification provided in this segment is the minimum requirements for reflecting full cost for the four municipal functions being electricity, water**,** waste water management and waste management services. Should the municipality adopt a more sophisticated costing methodology such as activity based costing, a request may be made to the mSCOA Technical Committee following the due process, to provide for the alternative structure in mSCOA.
2. As discussed in the design principles (see paragraph 57) specific provision has been made for accounts unique to certain situations and is indicated in the column for “Applicability” within the mSCOA Version 5.4 Costing Segment Table. The accounts indicated as “minimum requirements” provide guidance on what is presently being set as the minimum requirements to be met in the implementation of this segment of the mSCOA classification structure. Based on the guidance provided in the “principle column” and at the discretion of the municipality more details could be added at a “breakdown level” and the existing account structure expanded to provide for this information.
3. Care needs to be taken in adding detail. It is the responsibility of the municipality to ensure that if detail is added at the posting level that this classification complies with the definition of the higher level account used as the parent. This is imperative to maintain the standard, data integrity and comparability throughout the sector ensconced in the prescribed standard classification. If in doubt call on the mSCOA Technical Committee for guidance and assistance in this regard.
4. Distinction is made in Version 5.4 between "charges to receiving departments” and “recoveries made be sending departments". Earlier versions assumed “set-off” within the posting level accounts. Based on user request this change was introduced to rather indicate “set-off” at consolidation than implying this at the earlier posting level. In the table below for the purpose of simplification “charge/recoveries” are explained together although in Version 5.4 distinction is made between “charges and recoveries” and posting level accounts separately coded.
5. The costing classification is further divided into the following posting-level accounts (only minimum requirements included):

| Account Description | | | | Definitions |
| --- | --- | --- | --- | --- |
| Charges/(Recoveries) | | | | Distinction is made at this level between "charges to receiving departments and “recoveries made be sending departments". |
|  | Departmental Charges/(Recoveries) | | | This refers to the allocation of overheads (charges) by the receiving department and recoveries by the sender department to a cost centre used by multiple functions, such as Information Technology; for example, pro rata allocations based on the number of service points or users such as the electricity department. |
|  |  | Accounting | | Accounting overheads charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Asset Management | | Asset management overheads charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Audit Fees | | Audit fees overheads charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Internal Audit Fees | | Performance of Internal audits, special investigations, forensic audits and risk management charge-out to the receiving departments within a cost recovery agreement. |
|  |  | Budgets | | Budgets overheads charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Cleaning Services | | Cleaning services charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Communication, Information and External Relationships | | Internal and external communication functions charge-out to receiving departments within a cost recovery agreement. |
|  |  | Communication | | Internal and external communication functions charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  |  | Information Technology System Application | Information Technology System Application charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  |  | Information Technology Data Ware | Information Technology Data Ware charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  |  | Information Technology Data Lines | Information Technology Data Lines charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  |  | Information Technology Radio Maintenance | Information Technology Radio Maintenance charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Cross Subsidisation | | Cross Subsidisation charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Democratic Process | | Political structure and committees (e.g. mayor's office, sub council offices) of the City charge-out to the organisation based on identified activities and agreed to in a cost recovery agreement between the sender and receiver of cost. |
|  |  | Directorate | | Directorate charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Employee Benefits | | Employee benefits charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Employment Equity | | Municipality's functions relating to employment equity e.g. convening EE forums, facilitating diversity workshops charge-out to the rest of the organisation based on identified activities and agreed to in a cost recovery agreement between the sender and receiver of cost. |
|  |  | Expenditure | | Any other expenditure charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Event Management | | Charges relating to the costs of providing planning and logistical support for city initiated events 'charge-out" to the rest of the organisation based on identified activities and agreed to in a cost recovery agreement between the sender and receiver of cost. |
|  |  | General Administration | | Costs of providing general administrative functions across the organisation e.g. maintaining a record management system and providing a courier function charge-out/recovered to the rest of the organisation based on identified activities and agreed to in a cost recovery agreement between the sender and receiver of cost. |
|  |  | Green Electricity | | Cost of providing green electricity purchases within the organisation charge-out to users. |
|  |  | Human Resource Recruitment | | Human Resource Recruitment charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Insurance Fees | | Insurance Fees charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Integrated Development Planning | | Integrated Development Planning charge-out to receiving departments within a cost recovery agreement. |
|  |  | Indigent | | Indigent charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Insurance Assets | | Insurance of Assets charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Internal Interest | | Internal interest charges to the various directorates based on their funding requirements (primary external interest paid corporately from a finance cost centre) charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Internal Laboratory Fees | | Internal laboratory fees charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Labour Relations | | Labour Relations fees charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Legal Services | | Legal services fees charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Management Support | | Management support fees charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Meter Readers | | Meter readers charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Municipal Management | | Municipal manager charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Occupational Health Safety and Employee Wellness | | Occupational health and safety including employee wellness charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Office Rentals | | Office rentals charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Payroll | | Payroll charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Plot Cleaning | | Charge-out from the billing system for plot cleaning on City's properties.2 |
|  |  | Personnel Related Internal Insurance | | Personnel related internal insurance charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Postal Services | | Postal services charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Procurement | | Procurement charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Project Management | | Project management charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Rates Charges | | Rates charge-out to user departments. |
|  |  | Resource and Planning | | Resource planning charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Revenue Management | | Revenue management charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Security | | Security charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  |  | Services | Security services charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  |  | System Maintenance | Security system maintenance charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Specialised Financial Management | | Specialist financial management charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Telephone | | Telephone charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Telephone Maintenance | | Telephone maintenance charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Training and Development | | Training and Development charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Valuations | | Valuations charge-out/recovered to receiving departments within a cost recovery agreement. |
|  |  | Internally Manufactured Materials | | Internally manufactured materials charge-out/recovered to receiving/from departments within a cost recovery agreement. |
|  | Internal Billing | | | This refers to departmental use of internal services such as electricity, water, waste water management and waste management, for example cost allocation for the electricity department’s water. |
|  |  | Bulk Services | | Charge-out/recovered from the billing system for the bulk provision of refuse, waste water, water and the water research levy by the various services to the applicable cost centres. |
|  |  | Compost Sales | | Charge-out/recovered from the billing system for compost sales by the Solid Waste department to City users or maintenance depots e.g. Parks depots. |
|  |  | Connection Fees | | Charge-out/recovered for connections passed on to internal users. |
|  |  | Dumping Cost | | Charge-out/recovered from the billing system for dumping or disposal of waste at landfill sites. |
|  |  | Electricity Consumption | | Charge-out/recovered from the billing systems for electricity consumption by internal users. |
|  |  | Electricity Streetlights | | Charge-out/recovered from the billing systems for electricity consumption specific to "streetlights". |
|  |  | Electricity Traffic Lights | | Charge-out/recovered from the billing systems for electricity consumption specific to "traffic lights". |
|  |  | Other Internal Billings | | Charge-out/recovered from the billing systems for other internal billings. |
|  |  | Refuse Removal | | Charge-out/recovered from the billing systems for refuse removal |
|  |  | Sanitation Charges | | Charge-out/recovered from the billing systems for sanitation charges. |
|  |  | Water Consumption | | Charge-out/recovered from the billing systems for water consumption. |
|  | Activity Based Recoveries | | | This refers to the actual allocation of resources utilised by various departments, for example allocation of labour is based on time sheets, and the allocation of vehicles and plant equipment are based on log sheets. |
|  |  | Contract and Project Management | | Charge-out/recovered of contract and project management based on allocation principles as agreed on in a cost recovery agreement. |
|  |  | Cultivation of Plants/Flowers and Compost | | Charge-out/recovered for cultivation of plant/flowers in administrative offices/buildings by departments within the municipality based on predefined rates/cost. All services e.g. watering, pruning, plant swopping etc. are included in the predefined rate in terms of a cost recovery agreement. |
|  |  | Events and Filming | | Charge-out/recovered for services rendered to events and films for example guards attending special events to ensure the safety of the people present based on a predefined rate/cost in terms of a cost recovery agreement |
|  |  | Fire Brigade Charges | | Charge-out/recovered to internal services for fire patrol duties at special events, installation and building audits to ensure adherence to regulations based on predefined rate/cost in terms of a cost recovery agreement. |
|  |  | Hire of Hall/Civic/Recreation Centre | | Charge-out/recovered for the hire of hall/civic/recreation centres for use by departments based on a predetermined rate for usage e.g. per day or per hour and based on size of venue in terms of a cost recovery agreement. |
|  |  | Labour | | Charge-out/recovered of labour cost to internal users based on time and log sheets in terms of a cost recovery agreement. |
|  |  |  | Capital | Charge-out/recovered of labour cost to capital to internal users based on time and log sheets in terms of a cost recovery agreement. |
|  |  |  | Operating | Charge-out/recovered of labour to operating cost for maintenance and operating projects. The recovery will be done for example on actual hours worked at an agreed rate (including direct and indirect costs) in terms of a cost recovery agreement. |
|  |  | Office Rental | | Charge-out/recovered based on floor space occupying per building/depot/workshop. Costs are allocated against the cost centre and the monthly actual expense are assessed electronically according to the predefined proportion or on a predetermined rate per m² (activity price) in terms of a cost recovery agreement. |
|  |  | Printing Service | | Charge-out/recovered of printing or reproduction cost for work done by or at another cost centre or department. Activities in this regard will include copies, litho printing, binding and laminating etc. As well as franking machines in terms of a cost recovery agreement. |
|  |  | Printing/Reproduction and Postage | | Charge-out/recovered of printing, reproduction and postage cost for work done by or at another cost centre or department. Activities in this regard will include copies, litho printing, binding and laminating etc. As well as franking machines in terms of a cost recovery agreement. |
|  |  | Pumping Cost at Power Station | | Charge out of pumping cost at power station based on an agreed rate in terms of a cost recovery agreement. |
|  |  | Scientific Services | | Charge-out/recovered for scientific services with relevance to testing of water, monitor air pollution, testing swimming pool water and other scientific related tests based on a predetermined rate in terms of a cost recovery agreement. |
|  |  | Security Services | | Charge-out/recovered of security services required by departments/sections or buildings (fixed assets) for access control, cash in transit etc, based on a predetermined rate in terms of a cost recovery agreement. |
|  |  | Specialised Electronic and Radio Services | | Charge-out/recovered of services provided by the specialised electronic and radio section for radio maintenance and the support of CCTV equipment, public address systems, access control systems, smoke detection equipment, etc. by the various departments within the municipality. This includes the use of radio tracking instead of conventional radios. Allocation is based on predetermined rates in terms of a cost recovery agreement. |
|  |  | Telephone and Internet | | Charge-out/recovered of telephone expenses incurred per extension per cost centre. These extensions are on the internal telephone system and managed corporately. Cost includes infrastructure network cost and call cost. Call costs are the costs incurred to make an external call via an external service provider for example Telkom, MTN, and Vodacom. Infrastructure network costs are the costs to have a telephone instrument and the facility to make internal calls on the internal network without incurring an external expense. Telephones and fax extensions are also included in this item. Allocation is based on predetermined rates in terms of a cost recovery agreement. |
|  |  | Training | | Charge-out/recovered of cost for training provided to staff from internal resources based on predetermined rates in terms of a cost recovery agreement. |
|  |  | Vehicles, Plant and Equipment | | Charge-out/recovered of vehicle, plant and equipment to internal users based on a predetermined rate in terms of a cost recovery agreement. |
|  |  |  | Capital | Charge out of plant and equipment to capital - allocation of plant and equipment utilised in capital projects based on actual measurement of usage for example per hour or km at an agreed rate (only including direct costs) in terms of a cost recovery agreement. |
|  |  |  | Operating | Charge-out/recovered of plant and equipment to operating - allocation of plant and equipment utilised in maintenance and general operations. The recovery will be done on actual measurement of usage for example per hour or km at an agreed rate (including direct and indirect costs) in terms of a cost recovery agreement. |
|  |  |  | Rental | Charge-out/recovered of fleet and equipment rental - rental of vehicles, plant and equipment from a centralised fleet management. Rates will include a fixed rate and a running rate component in terms of a cost recovery agreement. |
|  |  |  | Vehicles to Capital | Charge-out/recovered of vehicle to capital - allocation of vehicles utilised in Capital projects. The recovery will be done on actual measurement of usage for example per hour or km at an agreed rate (only including direct costs) in terms of a cost recovery agreement. |
|  |  |  | Vehicles to Operating | Charge out of vehicle to operating - allocation of vehicles utilised in maintenance and general operations. The recovery will be done on actual measurement of usage for example per hour or km at an agreed rate (including direct and indirect costs) in terms of a cost recovery agreement. |

|  |  |
| --- | --- |
|  | ***How does mSCOA accommodate the revenue “billed” from the use of municipal services by internal departments?***  The recovery of internal charges 1s provided for in mSCOA in the Costing segment under the category of accounts for “Recoveries”. |

## Preparation for mSCOA Conversion

1. Bringing about effective conversion to a mSCOA compliant chart of accounts from the municipalities perspective is vital in achieving success. Paramount to the “Cost” segment is the municipalities Cost Allocation Policy and Methodology.
2. The system developers responsible for applications commonly used by the municipalities is responsible for enhancing their software to be operated by business processes and subject to customisation based on the unique requirements of client municipalities with one of the primary objectives to assist municipalities in achieving compliance with the mSCOA classification framework. However, National Treasury does recognise the complexities inherent to the implementation of the mSCOA requirements.
3. The first step in performing a “GAP-analysis” between the current allocations and mSCOA expectations is to find strategic alliance between the municipalities’ Cost Allocation Policy and Methodology and the principles ensconced in the mSCOA Classification Framework. It is advisable to involve the responsible officials from National Treasury in resolving fundamental differences revealed from this exercise.
4. The next step would to be to consider the minimum requirements prescribed in the mSCOA structure for the allocation of secondary costing elements. Any detail required by the municipality may be added at a “breakdown-level” within the existing structure if this corresponds to the account definition. If not covered in the ambit of the definition, the municipality should raise a request through the mSCOA Team/Helpdesk to either expand the classification or assist in finding the appropriate classification.
5. After the abovementioned steps are performed a detailed functional and technical specification needs to be developed, with a detailed implementation plan as to how this will be implemented considering the budget cycles and financial year-end process. Care should be taken that the process is started in the budget cycle on the system and synchronised with the financial year following. Since cost recovery methodologies are complex, simulation of the planned methodologies is imperative to ensure that recoveries of cost are correctly applied.
6. The cost allocation structure presented in this mSCOA segment provides for “minimum requirements” to facilitate a full cost recovery mechanism for the four main trading services, being water, electricity, waste water and waste management. Some costing systems used by more sophisticated metropolitan municipalities and the larger cities may require additional detail to supplement the existing structure. Should municipalities find themselves in this position the issue or issues should be raised by the municipality to the mSCOA helpdesk for assistance and consideration.