



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# MUNICIPAL REGULATIONS ON A STANDARD CHART OF ACCOUNTS *[SCOA for MUNICIPALITIES]*

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## Project Detail Document

*November 2017 (Version 6.1)*

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# PROJECT DETAIL DOCUMENT - PROJECT EXECUTIVE SUMMARY

## Project Overview

1. This section provides a summary of the research, development and consultation phase leading to the compilation of a chart of accounts for local government based on the process outline below. This process directly informed the drafting of the Municipal Regulations on a Standard Chart of Accounts, 2014 (mSCOA).
2. The draft mSCOA Regulation was published for public comments by the Minister of Finance, on 02 September 2014. Subsequent to this a formal consultation and awareness campaign was facilitated by the National Treasury. Comments received following this process informed the finalisation of Version 5 of the mSCOA Tables, the project detail document and comments register.
3. The detailed project document includes a section on each segment including a discussion on the preliminary observations from the initial research, design principles defined for the development of the segments and defined detail accounts for consultation with diverse stakeholders.

## Background to the mSCOA Project Initiative

### National and Provincial

4. In 1999, the National Treasury embarked on a budget reform programme for national and provincial government departments, with the objectives of improving accountability and modernising the accounts of government by aligning reporting with international leading practices. The ultimate aim of this reform process was to provide better quality information to legislatures to assist in the policy-making process as a vital input into expanding service delivery, and to reinforce parliament's oversight role.
5. An important component of the budget reform programme was initiated in 1998 when National Treasury started a process of reclassifying the existing expenditure items of national and provincial government in line with the requirements of the Government Finance Statistics (GFS) developed by the International Monetary Fund (IMF). This was to ensure compliance with the requirements of the Special Data Dissemination

Standard (SDDS), a minimum reporting standard set by the IMF, to which South Africa is a signatory.

6. During this process many inconsistencies in the application of existing classification standards were identified. This was mainly due to the classification rules being inconsistently applied and limited control over their application. Furthermore, departments were allowed to create their own accounting codes on the systems, leading to a vast number of codes and hundreds of duplications.
7. While the project was initiated to develop a new budget format, it soon became clear that the new reporting format would only be effective with an appropriately amended Chart of Accounts (CoA). While the budget formats outline the broad categories of planned expenditure, the chart of accounts is used to capture the detailed spending items when the budget gets implemented. Thus any change to the budget format must be supported by a corresponding change to the chart. The scope of the project was therefore expanded to include the development and implementation of a new standard chart of accounts.
8. Since 2004, the Economic Reporting Format (ERF) and SCOA are fully operational and used by all national and provincial departments. Overall, the implementation process has proceeded smoothly without any major hurdles or impediments. The successful implementation of SCOA contributed to growing positive public perception, locally and internationally, and strengthened public sector accountability and reporting.

## Local Government

9. Although the National Treasury has made significant progress in so far as the collection of municipal financial data is concerned, there still exists enormous challenges before national government will be in position to claim that the quality of municipal information is reliable, credible and relevant.
10. These challenges can be summarised as follows:
  - At a municipal level, National Treasury does not have access to the operating and financial systems on the same basis as National Treasury officials have access to the BAS system at a national and provincial level. As a result, National Treasury is unable to technically verify municipal information as it relates to credibility, reliability and accuracy. Consequently, National Treasury has obliged the municipal accounting officer and chief financial officer to sign-off the municipality's information, prior to publication of any municipal financial information. Furthermore,

the One Public Service debate could provide National Treasury with a unique opportunity to migrate smaller municipalities to BAS or a suitable uniform system;

- The National Treasury does not have the equivalent of the mSCOA for local government; consequently, the classification of municipal information at a transaction level across 278 municipalities is not necessarily consistent. This challenge will be partly addressed as the accounting standards and reforms unfold and once the National Treasury prescribed an mSCOA for local government;
- Multi-year budgeting at a municipal level is still a relatively new concept. The ability to plan and articulate communities' needs and policy intent into plans and budgets are particularly weak. Most municipal budgets still focus on the first year of the medium-term revenue and expenditure framework (MTREF) period instead of a multi-year horizon;
- The inability to consistently use information for decision-making purposes is one of the prevalent challenges. Owing to the complexity, this objective will take time to perfectly implement and master by all 278 municipalities; and
- Finally, the actual budget documents produced by municipalities should correspond with the electronic version posted on a municipality's website. The numbers contained in these documents should further correspond and balance with the information submitted as part of the standard budget return forms submitted to the National Treasury. In some cases, several different sets of numbers are received, and this obviously has an impact on the ability of the National Treasury to streamline accurate and credible publications.

11. Substantial and continuous changes in the structure of municipalities compromise the comparison of performance over time.
12. The National Treasury ultimately has the responsibility for compiling national whole-of-government accounts, including consolidated local government information for national policy and other purposes. This information is obtained from all municipalities, each of which operates according to their own organisational framework. It is necessary for National Treasury to specify a national standard for the collection of local government budget and financial information. Municipalities need to appreciate the benefit of whole of government data collection as it informs national reporting, benchmarking and fosters an improved understanding of the contribution of the local government sphere. This will be one of the key benefits of getting municipalities to budget and report according to the Government Finance Statistics

(GFS) categories, since these categories transcend any structural changes in a dynamic local government environment.

13. The Municipal Budget and Reporting Regulations, 2009 (MBRR) became effective on 1 July 2009. The main objective of the MBRR is to formalise norms and standards which are envisaged to improve the credibility, sustainability, transparency, accuracy and reliability of municipal budgets.
14. The budget formats prescribed in the Municipal Budget and Reporting Regulations, 2009 go a long way in identifying the categories of municipal information required in developing a municipality's budget. The next step is to ensure that the detailed information captured in the implementation of the budget is properly and credibly aligned. Although Local Government has its own peculiarities, the success achieved at the National and Provincial level from implementing the SCOA could be equally beneficial for Local Government in improving data quality, achieving a greater level of standardisation and uniform data sets. These are critical for 'whole-of-government' reporting.

### Legislative Mandate

15. Section 216 of the Constitution of the Republic of South Africa (Act 108 of 1996, substituted by section 1(1) of Act 5 of 2005) deals with treasury control and determines that national legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing generally recognised accounting practices, uniform expenditure classifications and uniform treasury norms and standards.
16. Section 168(1) of the Municipal Finance Management Act, 2003 (MFMA), determines that the Minister of Finance, acting with the concurrence of the Cabinet member responsible for local government, may make regulations or guidelines applicable to municipalities and municipal entities, regarding any matter that may be prescribed in terms of the Act.

### Overall Objective

17. The primary objective is to achieve an acceptable level of uniformity and quality from the collection of Local Government (Municipality and Municipal Entity) data. This will require a classification framework specific to Local Government.

### Specific Objective(s)

18. To achieve this main objective will require a classification framework specific to Local Government incorporating all transaction types, appropriation of funds, spending on service delivery, capital and operating spending, policy outcomes and legislative reporting requirements to the maximum extent possible.
19. The development of this framework must give recognition to:
  - international standards, guidance and best practices;
  - labels and accounts defined to have readily available the information needed for local government budgeting (annual budget, adjustment budget and the service delivery- and budget implementation plan (SDBIP)) and reporting (monthly, mid-year performance assessment and annual financial statements);
  - general alignment of financial reporting formats and the annual financial statements to key budget format reforms;
  - alignment of budget and reporting formats with the Standards of GRAP and principles within the provisions of the transitional arrangements applicable to the different categories of municipality, especially recognising that local government uniquely operates in an accrual accounting and budgeting environment;
  - consistent use of terminology across all municipalities by defining all accounts and labels in simple terms to support appropriate classification of transactions throughout all municipalities;
  - standardisation across local government by clearly outlining the information requirements which will enable municipalities and their information system suppliers to develop software and report writing formats that are automated and compliant to reporting requirements governing Local Government;
  - reporting on the “whole-of-local government”, and thus contribute to “whole-of-government” monitoring and evaluation;
  - finding a solution for the separation of the general government sector, which “consists of entities that fulfil the functions of government as their primary activity” and business activities that sell services at market prices within a local government environment, especially where the management of these functions tend to be closely interrelated with general government activities;
  - minimising the cost of compliance and information gathering; and
  - the classification framework must be kept simple and avoid unnecessary complexities to the maximum extent possible; this while ensuring the reform intent is maintained.

20. The mSCOA will be applicable to all Municipalities, Municipal Entities and “Utilities” clearly indicating their applicability and relevance to a specific environment to assist customisation.
21. The improved quality of data will enhance the budget, financial reporting and other decision-making processes impacting on local government. The classification framework was formalised by issuing the mSCOA Regulation, 2014 in terms of the Municipal Finance Management Act, 2003 (MFMA).

## Challenges and Risks

22. Excluded from the scope of this project is system development and implementation at a user level. The Project: Financial Systems and Business Processes specifically focuses on the implementation of mSCOA through a system solution. Representatives from the various categories of municipalities were engaged at specific points in the project life cycle. Prior to implementation, the framework was piloted at a selection of cross-cutting municipalities representing all systems (used in local government as at project start date) and categories of municipalities. Workshops were held to share information with users to bring across a proper understanding of the framework.
23. Implementing the mSCOA might require “system re-implementation” for some users for whom conversion might not be easy and could become costly. The best possible conversion solutions were explored by National Treasury in consultation with the system vendors. Systems currently in use by some municipalities might not be able to accommodate for mSCOA segments nor will it be cost effective to upgrade and reconfigure. Please refer in this regard the subsequent MFMA Circular 80, Municipal SCOA Circulars No. 5 and 6 that were issued in this regard and the RT25-2016 transversal contract.
24. It is recognised that the implementation of an mSCOA in municipalities may be subject to resource and other constraints such as systems, timing, capacity and skills. Obvious systems challenges requiring further consideration include:
  - The length of characters of the recommended standard chart may be beyond the technical capabilities of existing municipal data systems, for example, the standard chart may require a 13 segments containing 3 digits each, alpha or numeric code, whereas an existing system might be limited to a lesser number of characters.

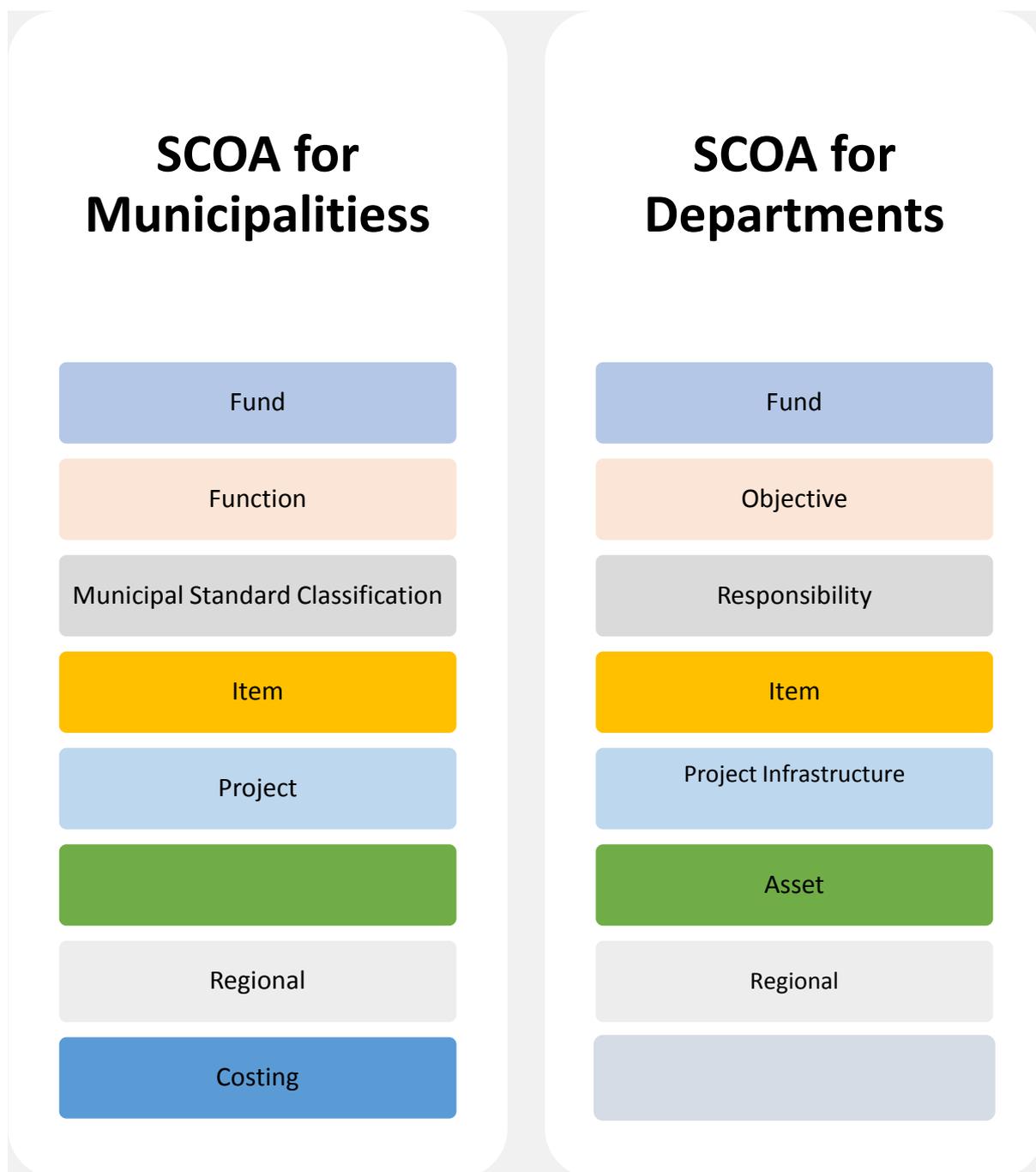
- The multi-dimensional chart consisting of various segments might not be easy to accommodate by the systems presently utilised by the municipality.
  - The timing of mSCOA implementation will be critical. Whilst a simultaneous change to all systems at the beginning of a financial year may be advocated by many, from a financial reporting and control perspective, the municipal budget cycle will commence many months before the start of the financial year and, depending on the municipality, may require systematic support to its development.
25. Therefore, because of these constraints, it is intended to provide a standard guidance framework to alleviate the wasteful burden of all municipalities having to discover these issues and challenges individually.
26. Critical to the feasibility of the project is aligning the classification, terminology and principles between the SCOA for Departments, Annual Financial Statement Template and Budget Reform Tables (Documents and Supporting Documents)
27. The “entity” classification used frequently in the SCOA for Departments might not be information currently retained in the financial systems of the Municipality.
28. Standardisation of the “Property, Plant and Equipment” detail specific to the Item Segment might be extremely costly and an extent of flexibility may need to be provided over a transitional period.
29. The reporting framework comprises the Standards of GRAP, Interpretations of the Standards of GRAP, guidelines and directives issued by the Accounting Standards Board (ASB) and standards and pronouncements of other standard setters that should be applied when entities prepare and present their financial statements in accordance with Standards of GRAP, referred to as the GRAP Reporting Framework in Directive 5 issued by the ASB.
30. The extent to which transitional arrangements and non-compliance related requirements will need to be provided for will be determined during the workshops to be held with interested parties during the duration of the project development phase.
31. Excluded from the scope of the SCOA for Municipalities’ project is “non-financial information” such as that required for reporting on performance information. The mSCOA therefore only deals with “financial information”.

### Aligning the MSCOA for Municipalities to the SCOA for Departments

32. At the outset, the SCOA project team had committed that “as far as possible the SCOA for Municipalities will be aligned to the SCOA for Departments”. In the table below,

the first column depicts the segments proposed following the initial research and the second column the segments used in the SCOA for Departments.

33. The proposal for Municipalities includes all segments except the Asset and Infrastructure Segments as used in the SCOA for Departments. The purpose of the Asset Segment is to identify asset classes and provide details of the economic classification. Conceptually the Asset Segment should not be necessary for Municipalities, as the capitalisation principles for recognising Property, Plant and Equipment should be well vested in the accounts set-up and supporting systems presently utilised by Municipalities. The Infrastructure Segment captures information relating to Infrastructure for reporting purposes. This detail is dealt with in the Project Segment as defined for municipalities.



## Process followed and Scope of Research Conducted to date

34. The initial research on the mSCOA project commenced in October 2009 marked by three continuous and integrated phases of development. These stages in the development process are described as distinct phases as outlined below.

## Phase 1

### •SCOA VERSION 1 - INITIAL RESEARCH

- Studied and identified potential changes between the SCOA for Departments and the then National Treasury Annual Financial Statement Template for Municipalities;
- Studied and identified potential changes between the SCOA for Departments and the Municipal Budget and Reporting Regulations, 2009 and Return Forms;
- Selected 5 Pilot Municipalities for collecting information to populate the mSCOA;
- Requested clarification of information from the selected Pilot Municipalities;
- Formulate Version 1 of the mSCOA, agreed on the segments collectively being the mSCOA for Municipalities and the Overall Design Principles.

## Phase 2

### •SCOA VERSION 2 - STAKEHOLDER INVOLVEMENT

- First external stakeholder information sessions;
- Meeting with Pilot Municipalities selected in Phase 1;
- More potential municipalities involved for piloting of the mSCOA;
- First interactions with identified system vendors.

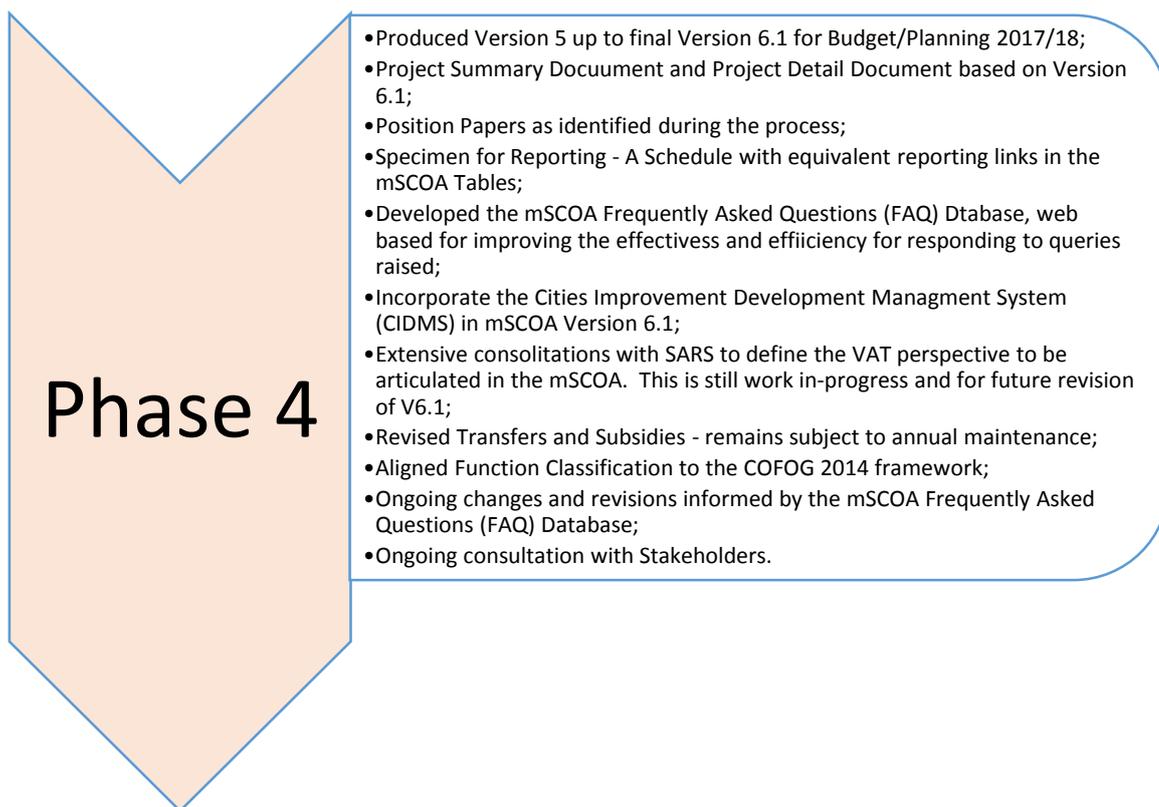
## Phase 3

### • VERSION 3 - INTERACTION WITH SPECIFIC STAKEHOLDERS

- Intervention with System Developers;
- User Group Meetings;
- Identified and interacted with more potential pilot municipalities;
- NERSA Meetings and provision in mSCOA;
- National Department Interactions: Water and Sanitation, Trade and Industry and Human Settlements;
- Set-up of SQL Database and Illustration;
- Roadshows and Workgroups;
- Internal to National Treasury consultation with stakeholders.

### •VERSION 4 - PRE-SCOA REGULATION

- Align Budget Reporting Format and Annual Financial Statement Template;
- Complete detail accounts for mSCOA classification tables;
- Define all levels and labels;
- Add "posting levels" and "account numbers";
- Standard Terminology List;
- Further develop SQL Database for testing the classification framework;
- Identify potential tests for building illustrations in SQL Database;
- Draft Regulation for "formal consultation" process for finalising the SCOA Regulation.



35. Extensive stakeholder consultation was undertaken during the development process, as required in the MFMA. Furthermore, financial practitioners are supported by the National Treasury's mSCOA Technical Committee and the respective provincial treasuries post implementation. Preliminary indications were that the stakeholder groups would include those tabulated below.

### Phase I

36. During Phase 1 initial research were conducted by collecting information from municipalities, the National Treasury legislation, regulations, circulars and guidance to formulate the legislative framework and extract compliance criteria for guiding the mSCOA development. Updating the legislative framework is an ongoing activity due to new guidance provided throughout the development period. As indicated in the overview this framework was updated and checked for compliance prior to concluding on Phase 3.

37. The departure point for defining a classification framework for municipalities was the SCOA for Departments. The Economic Reporting Format defined for national and provincial Departments set the principles for moving towards the whole of government budget and annual financial statement reporting in the future. Critical to this consideration is that the SCOA for Departments are based on the cash basis of

accounting whilst the municipalities need to be based on accrual accounting principles and in compliance with the GRAP Reporting Framework.

38. Specific attention has been given to the accounts required to bridge the differences between the cash basis of accounting and accruals basis of accounting in compliance with the GRAP Reporting Framework. To the maximum extent possible, the high level classification defined by the Economic Reporting Framework was retained for consolidation purposes.
39. Given the impact of providing for the high level classification identified by the Economic Reporting Format, the impact of this approach had to be reflected in the annual financial statements, reporting tables and the budget reporting formats.
40. Five municipalities were engaged for their participation into this research. Financial practitioners from these municipalities then participated in consultations, workgroups and sharing of information. Selected municipalities included:
  - Steve Tshwete;
  - Knysna;
  - City of Cape Town;
  - Polokwane; and
  - eThekweni.
41. These municipalities provided their chart of accounts to assist in the development of Version 1 of mSCOA.
42. Account descriptions and definitions were only available from one of the above Municipalities – the City of Cape Town.
43. The research conducted in this Phase predominantly resulted in concluding on the segments collectively being the mSCOA for municipalities and the overall design principles to be adhered to throughout the detailed development of mSCOA.

## Phase II

44. Phase 2 commenced with meeting all external stakeholders. The table below shows a summary of all engagements with brief comments on the activity.

Stakeholder Group	Date	Description and Remarks
<p><b>A. Provincial Treasuries</b></p> <ul style="list-style-type: none"> <li>• Eastern Cape</li> <li>• Free State</li> <li>• Gauteng</li> <li>• Kwazulu-Natal</li> <li>• Mpumalanga</li> <li>• North West</li> <li>• Northern Cape</li> <li>• Limpopo</li> </ul>	<p>26 January 2011</p> <p>07 March 2011</p>	<p><i>The MFMA Coordinators and Head of Departments are responsible for the coordination and communication with the municipalities in the province.</i></p> <ul style="list-style-type: none"> <li>• Information session held followed by a workshop on the detail accounts provided for in the chart of accounts.</li> <li>• Requested comments to be provided following the detail discussions.</li> <li>• Next interaction: to be scheduled post April 2012.</li> </ul>
<p><b>B. National Departments</b></p> <ul style="list-style-type: none"> <li>• Agriculture, Forestry and Fisheries</li> <li>• Cooperative Governance and Traditional Affairs</li> <li>• Energy</li> <li>• Home Affairs</li> <li>• Human Settlements</li> <li>• Mineral Resources</li> <li>• National Treasury</li> <li>• Public Works</li> <li>• Rural Development and Land Reform</li> <li>• Statistics South Africa</li> <li>• The Presidency</li> <li>• Tourism</li> <li>• Transport</li> <li>• Water Affairs</li> </ul>	<p>14 February 2011</p>	<p><i>The national departments having an interest in the chart of accounts are invited to the Introduction/ Information Session. Depending on their interest and information requirements it was foreseen that separate meetings with some or all of the departments might be needed due to the diverse nature of those invited.</i></p> <ul style="list-style-type: none"> <li>• Not well attended and no feedback or response on call for forwarding information requirements from local government.</li> <li>• Communication received from STATS SA and discussion meeting held in March 2011.</li> </ul>

Stakeholder Group	Date	Description and Remarks
<p><b>C. Professional and Oversight Bodies</b></p> <ul style="list-style-type: none"> <li>• IMFO</li> <li>• AGSA</li> <li>• ASB</li> <li>• SAICA</li> <li>• SALGA</li> </ul>	15 February 2011	<p><i>A meeting will be held to inform these professional and oversight bodies on the project and project activities and seek their comments/ input on the standard chart of accounts. Depending on the involvement of the 'stakeholder' separate workshops may be required.</i></p> <ul style="list-style-type: none"> <li>• Attended by SARB, AGSA, IMFO, ASB and CQS.</li> </ul>
<p><b>D. Regulators</b></p> <ul style="list-style-type: none"> <li>• NERSA</li> <li>• SARB</li> </ul>	23 February 2011	<p><i>"NERSA" and the "SARB" have unique and specific requirements that might pose challenges to accommodate in the standard chart of accounts. It was foreseen that intensive interactions to address the requirements of these stakeholders may be needed:</i></p> <ul style="list-style-type: none"> <li>• Attended by NERSA. Awaiting information to be considered for chart and follow-up meeting confirmation.</li> </ul>
<p><b>E. Municipalities</b></p> <ul style="list-style-type: none"> <li>• Pilots</li> <li>• Wider Group</li> </ul>	28 February 2011 17 to 18 March 2011	<p><i>At the initial research phase five municipalities were selected for participation in the development of the standard chart of accounts. Broadly the selection consisted of metros, high/medium capacity municipalities and a district municipality. Further to the selection participation was requested from some of the City of Johannesburg Agencies due to their expertise and experience in some specialised areas.</i></p> <p><i>Phase 3 consultations involved the "wider group" of municipalities. The Provincial Treasuries assisted in</i></p>

Stakeholder Group	Date	Description and Remarks
		<p><i>engaging the municipalities within the provinces.</i></p> <ul style="list-style-type: none"> <li>• The meeting was attended by the selected municipalities and Ekurhuleni volunteered. The City of Johannesburg was also invited for purposes of gleaning views from agencies during the design process.</li> <li>• Collecting updated chart of accounts information for mapping to Version 1 of the Chart of Accounts and resolving accounts where further clarity is required from municipalities. The outcome of the mapping process informed the update of the Chart of Accounts and revised Project Summary Document end of May 2011.</li> <li>• Further engagements were undertaken with the City of Cape specifically relating to their chart of accounts, structure of their integrated processing system and potential impact of MSCOA on the Metro. Interactive workshops were also conducted to clarify certain mismatches in relation to MSCOA.</li> </ul>
<p><b>F. System Vendors</b></p>		<p><i>Introducing the chart of accounts to the system vendors was integrated with the Special Project on the Local Government System Specification.</i></p>

Stakeholder Group	Date	Description and Remarks
		<ul style="list-style-type: none"> <li>Phase I and II dedicated meetings were held with the system vendors at the inception of the project.</li> </ul>
<b>G. Internal Stakeholders – National Treasury</b>		stakeholders were briefed on the development to date and the way forward to seek their comments on their field of interest. A comprehensive list of representatives was compiled.
<b>H. Advisory and Consulting Firms</b>		Consulting firms functional within the municipal environment were involved in information session(s) to share the MSCOA development.

45. The municipalities identified in Phase I as potential pilot sites have been visited to discuss the analysis of their account information and seeking further explanations and clarity in understanding the use of a specific account. The information gathered assisted in defining all the accounts provided for in mSCOA.
46. eThekweni Metropolitan Municipality declined the invitation to participate in the development of the mSCOA for municipalities.
47. Some additional municipalities expressed an interest to participate in the development and piloting process through their respective system vendors. Critical to the successful implementation were to ensure that 'pilots' are broadly representative of at least the System Vendors in the market. As a result a comparison of the municipal chart of accounts and version 1 of mSCOA for the following municipalities were done:
- Overberg Municipality;
  - Saldanha Municipality;
  - Umahlathuze Municipality; and
  - eThekwini Metro Municipality.
48. Phase II of the mSCOA for municipalities represented completion of a more refined version of the chart of accounts after having undertaken specific consultation. Version II of the mSCOA was completed during the third quarter of 2011.

### Phase III

*Interaction with Specific Stakeholders*

49. During this phase consultations, amongst other, included the following:

Stakeholder	Entity	Period	Purpose
System Vendors	Samras User group	September 2011 February 2012	To discuss the proposals for segments for mSCOA and presented to their user groups on envisaged changes.
	Fujitso User group	October 2011 November 2011	
	Sebata	February 2012	
	Vesta	November 2011	
	SAP SA and City of Cape Town	February 2012	
Municipalities	Overstrand	November 2011	To discuss mSCOA proposal and map account detail.
	Saldanha	February 2012	To discuss MSCOA proposal
	eThekweni	October 2011	To discuss mSCOA proposal and do mapping of account detail. This municipality subsequently decided to withdraw as a pilot.
	Umahlutze	October 2011	To discuss mSCOA proposal and do mapping of account detail.
	City of Cape Town	February 2012	Follow-up meeting from April 2011 to get views from SAP as introduced

Stakeholder	Entity	Period	Purpose
			at the City of Cape Town during March 2011.
National Departments	Water Affairs	December 2011	Quarterly meeting to update and discuss the progress made on the development of mSCOA.
	Trade and Industry	February 2012	To introduce the principles of mSCOA and discuss the requirements. Waiting for input on the requirements of the department.
	Human Settlement	February 2012	To introduce the principles of mSCOA and discuss the requirements. Waiting input on the requirements of the department.
Professional Bodies	IMFO	September 2011	High level presentation given at the IMFO Conference on mSCOA
Regulators	NERSA	September 2011 – February 2012	Held various meetings to address the NERSA Regulatory Reporting Requirements in mSCOA. Resulted in a discussion document to resolve differences that will be the subject of a future meeting with NERSA to agree on the

Stakeholder	Entity	Period	Purpose
			Principles for including their requirements.

50. Version 3 of the mSCOA was completed to the end of July 2012. This version was then broadly consulted with external stakeholders through a series of information sessions, workshops and stakeholder-specific workgroups.
51. Specific attention was directed towards engagements with all stakeholders utilising local government financial information. The focus on National and Provincial Departments has yielded mixed results to date. At this point in time the project team only had ongoing engagements with the Department of Water Affairs, Human Settlement and Trade and Industry. Attempts to work with provincial departments yielded limited success.
52. Definitions had been added to accounts to clarify the use and assist in clearly defining the accounts and the use thereof.
53. Initial work commenced to prepare a SQL database for the purpose of testing the completeness of the classification framework and testing report extraction based on the fields populated within the sample database. This database will assist in ensuring that the classification framework provides for all dimensions required by stakeholders and specifically focus attention on the extraction of the budget reporting tables, annual financial statements, secondary cost allocation reports and management account information.

### *Pre-mSCOA Regulation*

54. Phase III represents the final phase prior to implementation of the mSCOA for local government; hence requiring intensive consultation with a wider audience. These engagements included system developers, potential 'pilot' sites, users of local government information, regulators, professional bodies, advisors and consultants and other stakeholders active in the local government sphere.
55. Information sessions with key-stakeholders and practitioners were hosted between August and October 2012.
56. Specific attention was given in providing SALGA and COGTA with the progress and outcomes of the mSCOA development process.

57. All advisors and consultants providing services to local government were given the opportunity to directly engage with National Treasury; this session was well attended.
58. The main objective for hosting these sessions was to seek specific and general comments from practitioners and other stakeholders in finalising and concluding the mSCOA tables to inform the drafting of the regulation.
59. The comments received were considered and resulted in mSCOA Version 4 informing the drafting of the regulation, developing the SQL Database and testing the classification framework as it relates to the extraction of reporting information. Annexure A, attached, summarises the comments received, actions taken and revision made to mSCOA where applicable.
60. The successful testing of the SQL Database by simulating a small and medium size municipality from a budget, accounting and financial modelling perspectives is the first step towards formulating the specifications for the system implementation of mSCOA.
61. This “simulation” will assist in bringing more specific information to practitioners, stakeholders and advisors as part of the “formal consultation process” to finalise the regulation.
62. This phase of the project further resulted in finding “alignment” between the Budget Reporting Formats and the annual financial statements (AFS) template resolving some concerns raised by practitioners through the comments process. This principle contributed to significant changes being made to mSCOA Version 3 being the subject of the pre-engagement information sessions.
63. The Financial Modelling Project advanced to the stage where the outcomes resulted in an outline for classification and recording “secondary costing” in a uniform manner through introducing a further segment in mSCOA, referred to at that stage of the project as the “Financial Modelling Segment”/ (the Costing segment).
64. During this period the following information sessions were undertaken:

Stakeholder Group	Date	Stakeholder	Information Session/ Direct Engagement
A. Provincial Treasuries and Municipalities	20 August 2012	Free State Municipalities and Provincial Treasury	mSCOA Version 3 Information Session
	4 September 2012	North West Municipalities and Provincial Treasury	
	5 September 2012	Gauteng Municipalities and Provincial Treasury	
	6 September 2012	Northern Cape Municipalities and Provincial Treasury	
	11 September 2012	Western Cape Municipalities and Provincial Treasury	
	27 September 2012	Mpumalanga Municipalities and Provincial Treasury	
	1 October 2012	Kwazulu-Natal Municipalities and Provincial Treasury	
	2 October 2012	Limpopo Municipalities and Provincial Treasury	
	3 October 2012	Eastern Cape Municipalities and Provincial Treasury	

B. National Departments	24 September 2012	All national departments invited but limited attendance at the session	mSCOA Version 3 Information Session
	13 September 2012	Cooperative Governance and Traditional Affairs	mSCOA Version 3 Information Session
C. Professional and Oversight Bodies	17 September 2012	SALGA	mSCOA Version 3 Information Session
	21 September 2012	IMFO, ASB and SAICA	
	25 October 2012	AGSA	
	8 October 2012	IMFO Conference	Overview of Information Sessions
D. Regulators	20 October 2012	NERSA and SARB	mSCOA Version 3 Information Session
E. Municipalities	<i>See A above</i>	Wider Group	
	29 – 30 October 2012	City of Cape Town	mSCOA Version 3 Workshop Invitation from the municipality
F. System Vendors	26 October 2012	Invited all “vendors” known to National Treasury and engaged through the “Business Process Project”.	mSCOA Version 3 Information Session
G. Internal Stakeholders – National Treasury	After National Budget announcement		Meeting pending draft regulation, updated tables and project summary document.
I. Advisory and Consulting Firms	25 October 2012	All known to National Treasury and from ASB Forum attendance list	Consulting firms functional within the municipal environment to be involved information session to share the

			mSCOA development.
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*Public Participation on the Municipal Regulations on a Standard Chart of Accounts (mSCOA)*

*Structure of the consultation process subsequent to publication*

65. As part of the formal consultation and awareness campaign, engagements were hosted as follows:

Engagement Date	Stakeholder / Role-player
<b>25 September 2013</b>	National Treasury and respective chief directorates
<b>26 September 2013</b>	Provincial treasuries, national departments and the Technical Committee of Finance (TCF) Working Committee
<b>3 October 2013</b>	Consultants, advisors and professional bodies
<b>4 October 2013</b>	System vendors
<b>7 October 2013</b>	Metropolitan municipalities
<b>8 October to 11 November 2013</b>	District level engagement with municipalities
<b>6 to 13 November 2014</b>	Engagement with the respective pilot municipalities and system vendors

66. The formal sessions hosted in the districts (local and district municipalities) between 8 October and 11 November 2013 were each held for an entire day and the agenda included a formal briefing session on the Regulation, Project Detail Document and classification framework.

67. The Chief Directorate: Local Government Budget Analysis (LGBA) also hosted all the IT system vendors currently operating in the space of local government from the 6 to 13 November 2013. In addition to discussing and presenting the mSCOA classification framework, these engagements were structured to evaluate the technical

readiness of the various technologies applied by the system vendors in piloting the mSCOA classification framework; these engagements were well attended by both the vendors and identified pilot municipalities. There is no doubt that some of the IT system vendors may struggle to comply to the minimum requirements of the Regulations. Although the Regulations will place pressure on the IT system of vendors and their respective technical solutions, this can however not be used as an excuse not to implement this strategic reform.

68. The following table provides a breakdown of each of the respective district engagements as well as attendance numbers:

District Municipality	Date of Workshop	Attendance	District Municipality	Date of Workshop	Attendance
<b>Alfred Nzo</b>	9 Oct 2013	14	Ngaka Modiri Malema	29 Oct 2013	
<b>Amajuba</b>	Joint session	n/a	Nkangala	Joint session	
<b>Amathole</b>	21 Oct 2013	25	OR Tambo	8 Oct 2013	
<b>Bojanala</b>	4 Nov 2013	53	Overberg	Joint session	
<b>Cacadu</b>	4 Nov 2013	25	PixleyKaSeme	17 Oct 2013	
<b>Cape Winelands</b>	22 Oct 2013	57	Sedibeng	6 Nov 2013	
<b>Capricorn</b>	17 Oct 2013	32	Sekhukhune	11 Oct 2013	
<b>Central Karoo</b>	Joint session	n/a	Sisonke	Joint session	
<b>Chris Hani</b>	22 Oct 2013	21	Siyanda	10 Oct 2013	
<b>Dr Kenneth Kaunda</b>	14 Oct 2013	24	Thabo Mofutsanyane	21 Oct 2013	
<b>Dr Ruth Segomotsi Mompoti</b>	30 Oct 2013	21	Ugu	Joint session	
<b>Eden</b>	28 Oct 2013	50	Umgungundlovu	10 Oct 2013	

<b>Ehlanzeni</b>	31 Oct 2013	37	Umkhanyakude	Joint session
<b>Fezile Dabi</b>	8 Oct 2013	8	Umzinyathi	22 Oct 2013
<b>Frances Baard</b>	16 Oct 2013	23	Uthukela	Joint session
<b>Gert Sibande</b>	25 Oct 2013	17	uThungulu	29 Oct 2013
<b>iLembe</b>	16 Oct 2013	18	Vhembe	16 Oct 2013
<b>Joe Gqabi</b>	23 Oct 2013	22	Waterberg	18 Oct 2013
<b>John TaoloGaetsewe</b>	31 Oct 2013	18	West Coast	23 Oct 2013
<b>Lejweleputswa</b>	15 Oct 2013	19	West Rand	11 Nov 2013
<b>Mopani</b>	15 Oct 2013	19	Xhariep	25 Oct 2013
<b>Namakwa</b>	9 Oct 2013	32	Zululand	Joint session

69. In total 1,071 officials attended the engagements. While participation and interaction varied between engagements, the general attitude of local government finance practitioners was that the mSCOA is a welcomed reform. Salient concerns during these engagements included:

- Relatively short timeframes for implementation being 1 July 2016;
- Inability of some of the current system vendors to accommodate the technical specifications of the mSCOA classification framework;
- Capacity and skill constraints on the part of the municipalities to absorb the reform shock associated with change management;
- Funding constraints; and
- Technical complexity of the mSCOA classification framework.

*Comments received and impact on the mSCOA classification framework*

70. In total 995 comments were received; if these comments are unpacked into individual comment items, submissions exceed 2,000. Stakeholders that commented, made recommendations and raised concerns included:
- 35 municipalities. Importantly, of the 8 metropolitan municipalities, 7 commented and the remaining municipalities included both local and district municipalities. This provides for coverage across all categories of municipalities;
  - Professional bodies included the South African Local Government Association (SALGA), Accounting Standards Board, and Institute of Municipal Finance Officers (IMFO);
  - Five system vendors that are active within the local government space; and
  - Four consulting and advisory service providers.
71. The following table provides for the detail of stakeholders that provided comments, made recommendations and raised concerns.

<b>Municipalities</b>	
<b>eThekweni Metropolitan Municipality</b>	City of Johannesburg Metropolitan Municipality
<b>Nelson Mandela Bay Metropolitan Municipality</b>	City of Tshwane Metropolitan Municipality
<b>Mangaung Metropolitan Municipality</b>	City of Cape Town Metropolitan Municipality
<b>Buffalo City Metropolitan Municipality</b>	Emakhazeni Local Municipality
<b>Cacadu District Municipality</b>	Mafikeng Local Municipality
<b>uMhlathuze Local Municipality</b>	Thaba Chweu Municipality
<b>Sol Plaatjie Local Municipality</b>	Nkangala District Municipality
<b>Mogale City Local Municipality</b>	Witzenberg Local Municipality
<b>Midvaal Local Municipality</b>	Joe Gqabi District Municipality
<b>Thembisile Hani Local Municipality</b>	Gert Sibande District Municipality
<b>Mossel Bay Local Municipality</b>	Bitou Local Municipality
<b>Msunduzi Local Municipality</b>	Witzenberg Local Municipality

<b>Stellenbosch Local Municipality</b>	Saldanha Bay Local Municipality
<b>Theewaterskloof Local Municipality</b>	Breede Valley Local Municipality
<b>Langeberg Local Municipality</b>	Overstrand Local Municipality
<b>Knysna Local Municipality</b>	George Local Municipality
<b>Beaufort West Local Municipality</b>	Drakenstein Local Municipality
<b>City of Cape Town International Convention Centre (CTICC)</b>	
<b>Professional Bodies</b>	
<b>South African Local Government Association</b>	Accounting Standards Board
<b>Institute of Municipal Finance Officers</b>	
<b>System Vendors (Financial Applications)</b>	
<b>Business Connexion</b>	
<b>Payday</b>	
<b>SAMRAS</b>	
<b>Consultants and Advisory Services</b>	
<b>Altimax – Accounting, Advisory and Training</b>	Mubesko Africa
<b>CQS Caseware</b>	Ducharme Consulting

72. In summary, the 995 comments were sorted and categorised as follows:

- 10 comments were categorised as possibly impacting on the formal Regulations;
- 217 comments were categorised as possibly impacting on the classification framework (mSCOA tables);
- 277 comments were related to the Project Summary Document (PSD);
- 404 comments categorised as frequently asked questions; and
- 87 were general observations relating to the policy intent of the reform.

**Key issues raised, and changes made to the regulations**

73. Many of the comments were valuable for refining the mSCOA classification framework (mSCOA tables). The categorisation of frequently asked questions will also assist immensely with the upcoming change management and implementation phase (Phase 4) of mSCOA Project.
74. In terms of the 10 comments received directly impacting on the Regulations, most of the comments were related to grammatical considerations; only two comments required consideration in terms of the design principles.
75. Several matters of a technical nature emanated from the comments received. These have been summarised in the table below:

Technical Consideration	Direct impact on MSCOA classification framework (MSCOA Tables)
Impact of IAS 12 on MSCOA	Yes
Overall compliance to accounting framework pending finalisation of reporting tables	Yes
Consultation with SARS in relation to VAT	Yes
Technical discussion and resultant position papers:	
•Accrued Leave	Yes
•Agency Services	Yes
•Bad debt written-off	Yes
•Capitalisation Threshold	Yes
•Catering versus Entertainment	Yes
•Correction of prior period errors	Yes
•Detail to be included in the general ledger	Yes
•Discount received	Yes
•Self-Insurance reserve and related transactions	Yes
•Reserves and funds	Yes

•Transfers and subsidies	Yes
•External stakeholders i.e. NERSA, DWA etc.	Yes
•Month and year-end closure	No
•Portal access	No
•Transitional arrangements ✓ Comparative and historical Information ✓ Reporting requirements – phased approach	No

76. The above technical issues will be addressed as part of mSCOA Phase 4 (change management and piloting of the mSCOA classification framework) in consultation with the Office of the Accountant General. It needs to be noted that although the technical considerations will in most cases impact on the mSCOA classification framework (mSCOA tables), it's not envisaged to have a material impact. In most instances it's envisaged that the position papers will provide guidelines for the consistent application by all municipalities and not result in extensive changes to the actual classification framework.

## Preliminary Observations

77. The detail substantiating the overall observation can be found in the detailed project document. In summary, the following broad observations were made by the Project team when considering the charts of accounts from the selected municipalities:

- As a result of not making use of a multi-dimensional chart, information such as funds utilised, vote (functions and sub-functions), cost collectors, and project, is not readily available.
- In order to compensate for some of these shortcomings labels are not always clear and have been developed based on “projects or activities” rather than “who or what gets paid”.
- Labels are found duplicated in many instances.
- Different municipalities are classifying similar transactions under different headings.

- Numerous inter-departmental accounts were identified resulting from the absence of a defined organisational vote or sub-vote segment.
- Asset detail information are either condensed throughout the classification or summarised with limited detail, for example operating leases, asset specific accounts and repairs and maintenance.
- Reserves, funds and provisions together with the transfers to/ from are not in compliance with GRAP.

## Overall Design Principles

78. The mSCOA for Municipalities will operate on the basis of a “standard list of all available accounts” in an Excel Spreadsheet from which the municipality can select the relevant accounts from the respective segments.
79. Indicators will be added to guide practitioners on the use of accounts, for example some accounts might be required for all municipalities whilst other more detailed accounts might be optional depending on the data available or to be determined by the financial recording system in use.
80. The final product will include definitions for the key group of accounts to assist practitioners in achieving consistency in recording transactions of a similar type or nature between municipalities to enhance the comparability of information.
81. Inherent to the design of the classification to be applied within the segments of mSCOA the following principles need to be applied:
  - consideration to be given to international standards, guidance and best practices;
  - 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);
  - general alignment of financial reporting formats and the annual financial statements to key budget format reforms;
  - alignment of budget and reporting formats with the Standards of GRAP;
  - consistent use of terminology across all municipalities by defining all accounts and labels in simple terms to support appropriate classification of transactions throughout all municipalities;

- standardisation across local government clearly outlining the information requirements that will enable municipalities and their information system suppliers to develop software and report writing formats that are automated and compliant to reporting requirements governing local government;
- reporting on the “whole-of-local government”, and thus contribute to “whole-of-government” monitoring and evaluation;
- finding a solution for the separation of the general government sector, which “consists of entities that fulfil the functions of government as their primary activity” and business activities that sell services at market prices within a local government environment. Especially where the management of these functions tend to be closely interrelated with general government activities;
- minimising the cost of compliance and information gathering; and
- the classification framework must be kept simple and avoid unnecessary complexities to the maximum extent possible, while ensuring the policy intent and overall objectives are achieved.

## Upcoming Activities - Post-regulation

82. Version 5 of the chart of accounts were completed based on the outcome of the formal consultation process on the draft mSCOA Regulation and comments received.
83. The mSCOA Technical Committee is to be established to continue with the responsibilities as envisage in the mSCOA Regulation, 2014.
84. Any changes, revisions, clarification, concerns and additions of MSCOA Version 5 would need to be addressed to the MSCOA Technical Committee through a process to be developed by National Treasury for this purpose.
85. Phase 4 initiated the next phase of the project to achieve an acceptable level towards meeting the reporting requirements prior to “release” of a final version for budget and planning 2017/18. This has been done on 4 November 2016.

## Segment Detail

### The MSCOA Segments

86. The design is based on the use of seven segments, being:
  - Costing

- Funding;
- Functions;
- Municipal Standard Classification;
- Project;
- Costing
- Regional Indicator; and
- Item.

87. When recording a transaction, a selection must be made from each of these segments, meaning that all segments must be used for recording a single transaction.

### Understanding the mSCOA Tables

88. The details supporting the mSCOA Segments are presented in the mSCOA tables developed in Microsoft Excel.

89. Due to the size of the Item Segment the detail are presented in four separate tables featuring revenue, expenditure, gains and losses, assets, liabilities and net assets.

90. The mSCOA tables contains valuable information to understand the segment detail and assist the municipality to set-up an account structure unique to their requirements while maintaining a standard classification framework informing various reports to be customised as required by National Treasury, External Stakeholders such as NERSA, the Department of Water Affairs, annual financial statements, etc.

91. In summary the tables contain the following information with a description thereof:

- Posting Level: Contains the account posting level based on a “string” providing a relative link to the reporting levels.
- VAT (Value Added Tax) Status<sup>1</sup>: Include an abbreviation giving guidance on the VAT implications generally associated with the type of transaction. The explanations on the VAT Indicators will be provided in the Position Papers and Project Detail Document dealing with VAT. At time of finalising Version 6.1 this initiative had not reached its logical conclusion.

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<sup>1</sup> The Project Document to contain a section on VAT and how the SCOA Classification will assist in complying with the requirements in submitting VAT 401 to SARS.

- Account Number: The account number is based on the levels presented in the hierarchical structure of the classification within the segment. Provision is made for expansion and adding account numbers for posting level detail included by the municipality.
- Posting Level: This indicator informs if the account is a posting level or reporting level. If “Yes” this account is the posting level and “No” indicates a non-posting level.
- Breakdown Required: This indicator guides if “additional detail on a posting level” is required by National Treasury. If detail is provided for this will become the default posting level.
- Principle: The “principle” gives guidance on the detail to be added and the context with in which expansion need to be considered. Depending on the Segment the additional information would be required to set the posting level.
- Applicability: This indicator provides detail on the relevance of the account to municipalities, district municipalities and municipal entities. Further, also indicating detail added to be able to extract reporting information required by NERSA and the Department of Water Affairs.

## Code Structure

92. The code structure assigned to the various MSCOA Segments contains an alphanumerical character to define the segments followed by a numerical structure representing the various levels within the reporting structure. Summary of these could be found in the Register of Design Principles.

## Stakeholder Information required in terms of legislation other than National Treasury Legislation and Regulation

93. Inherent to the compilation of the mSCOA Classification Framework is the aim to provide in as far as possible for the information required by various stakeholders for reporting purposes.
94. The mSCOA Classification Framework Version 6.1 has identified in the mSCOA tables the information required for reporting purposes by the Department of Water Affairs, NERSA and SARS<sup>2</sup>. We do believe as the piloting and pending implementation of

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<sup>2</sup> The detail of this reporting requirements to be taken-up in the SCOA Project Document for the sake of completeness.

mSCOA evolves, more stakeholders will be identified realising the value of the mSCOA Classification Framework to enhance municipal compliance, quality of reported information and standardisation across the local government sector and their requirements incorporated in the mSCOA tables in a similar way.

95. The tables include indicators to identify the reporting requirements of NERSA and the Department of Water and Sanitation. The mSCOA Classification Framework makes provision for the information requirements of these stakeholders however, the mSCOA Regulation does not enforce compliance to these requirements. Accordingly the chart of accounts are set-up to accommodate those municipalities opting to comply with the stakeholder requirements and those not in a position to comply. These indicators are contained in the information column included in the excel tables on “applicability”.

## Costing Segment (Project Detail Document Section 1)

96. 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.
97. 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.
98. Accrual accounting forms the basis for municipal budgeting and management information. Recognition of the need for cost accounting in “right sizing, eliminating inefficiencies and privatisation” triggered the increased use of cost accounting and the development of systems to support cost accounting. This will also motivate municipalities to use cost accounting more, which will result in more cost accounting systems being developed.
99. 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 some of the municipalities, it is clear that

these municipalities have a far more advanced costing system (based on “activity based costing”). mSCOA enables these municipalities to continue transacting on its advanced costing module yet meet the minimum requirements provided for in mSCOA.

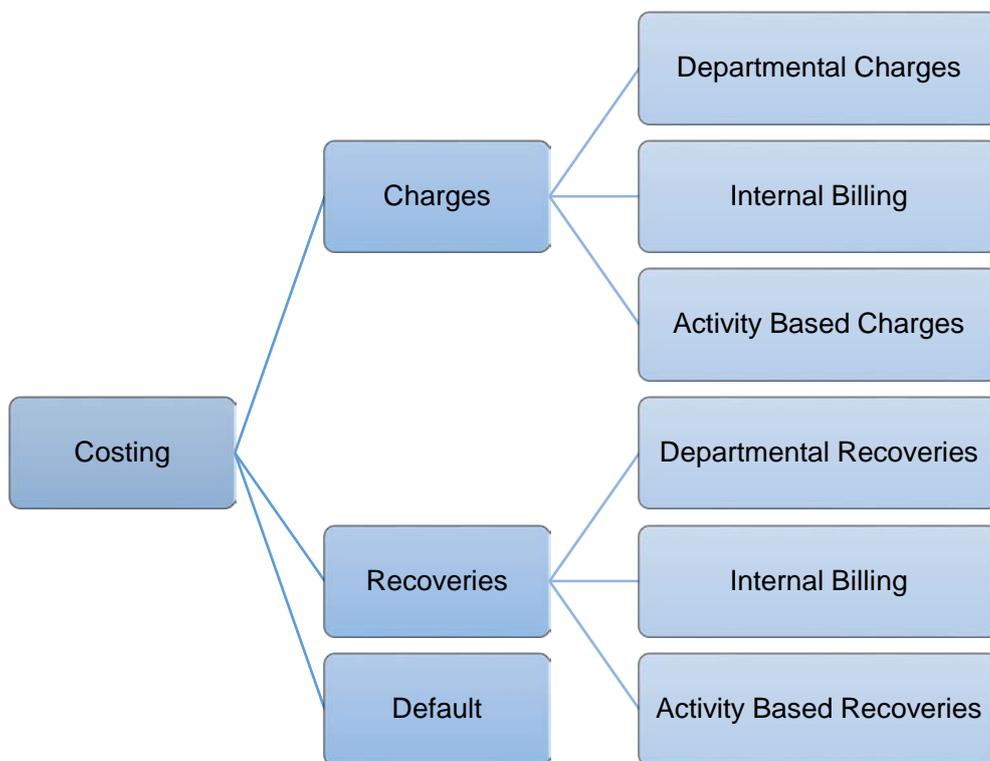
100. When considering how to improve the quality of available information, the National Treasury (mSCOA Project Team) considered the advantages of using cost accounting for management purposes in addition to accrual accounting for financial reporting. In theory and research there are a number of approaches 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.
101. 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.
102. 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.
103. 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. To benefit from this capacity, the needed data must be inputted to the system and the rules for capturing, distributing, and calculating the information must be there.
104. 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.

- 105. 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.
- 106. 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.

**Management Accountants/ Tariff modelling. The Design Principles acknowledge a gradual approach, for example “administrative functions to commercial services will suffice”.**

- 107. 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.
- 108. 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/Recoveries:** Distinction is made between "charges to receiving departments and recoveries made by sending departments". The "sending department" provide goods or services to the "receiving department" based on rates/ tariffs determined internally by the municipality in terms of the municipalities costing methodology. Recording of the transaction in mSCOA thus impacts on the Function, Costing and Municipal Standard Classifications. Default will be applicable within the Regional Indicator, Funding and Item segment. The illustration below attempts to explain the concept in a simplified version not dealing with specific accounts in mSCOA.

**Department providing the service/ goods:** Debit to the "receiving department" by selecting the appropriate account from the Function and Municipal Standard Classification with the account from "Charges" from the Costing Segment.

**Department receiving the service/ goods:** Credit to the "sender department" by selecting the appropriate account from the Function and Municipal Standard Classification with the account from "Charges" from the Costing Segment.

**Departmental Charges/ Recoveries (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. The "receiving department" is charged by the "department providing the support services".

**Charges:** This classification provides for the recording of the "charge-out" recognised by the receiving department.

**Recoveries:** The "provisioning department" effect a charge to the receiving department, resulting in a recovery to the department, classified as a recovery.

**Activity Based Charges/ 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. The "provisioning department" charges the user or receiving department and accordingly make a recovery.

**Charges:** This account provides for recording the "charge-out" to the receiving department.

**Recoveries:** This account provides for recording the "recovery" made by the provisioning department.

**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.

**Charges:** The classification provides for the department receiving the service or goods.

**Recoveries:** This classification provides for the department providing the service or goods.

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

## Function Segment (Project Detail Document Section 2)

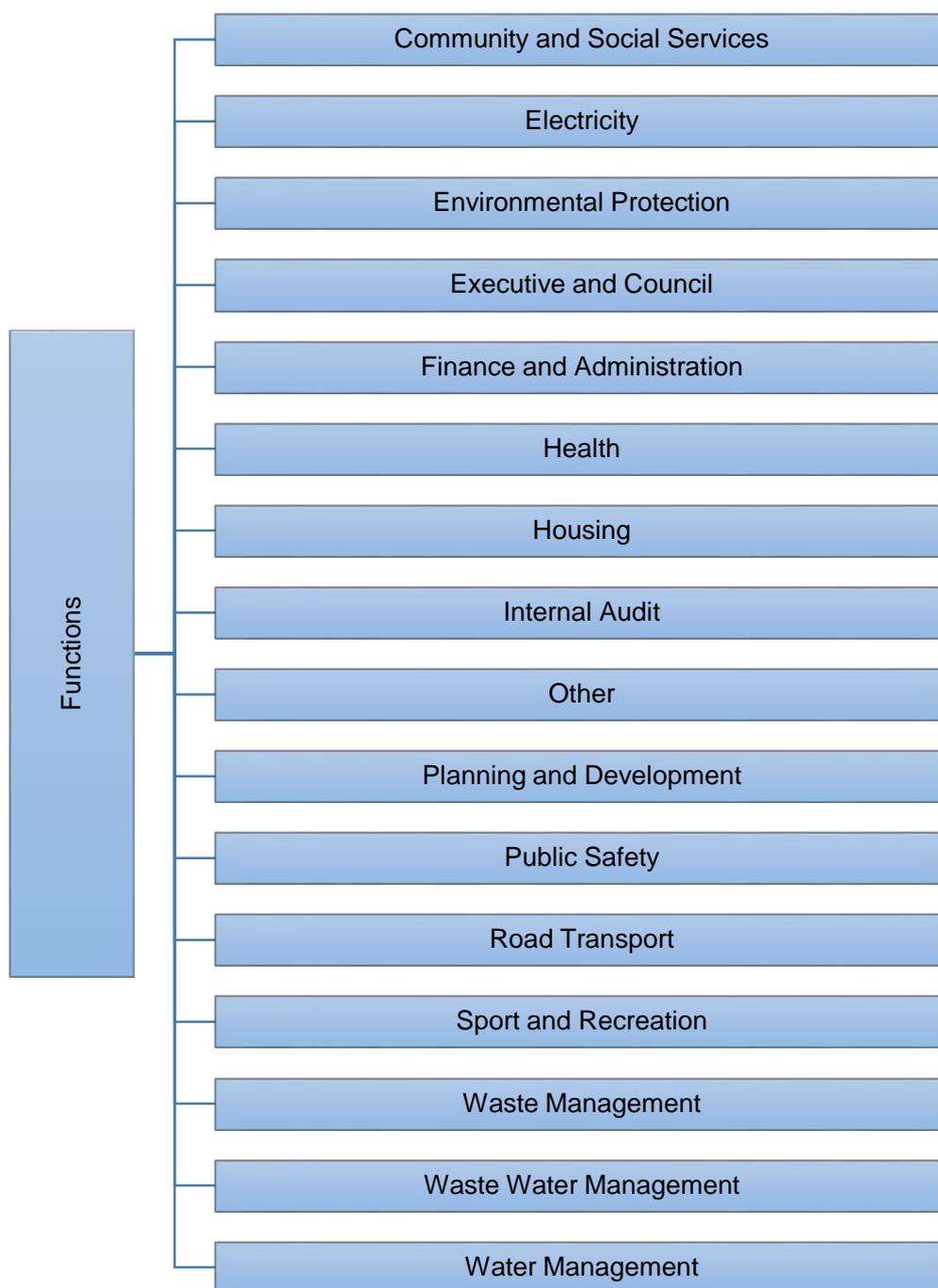
109. The "Function Segment" is the location within mSCOA for creating a standardised "vote" structure throughout municipalities. In addition, the segment makes distinction between "core-" and "non-core functions" or also known as "funded" or "un-/ underfunded mandates" and agency services.
110. The South African Cities Network defines an unfunded/ underfunded mandate as: "when municipalities perform the functions of other spheres of government and bear significant cost out of their own revenue sources". These unfunded/ underfunded mandates pose an institutional and financial risk to the municipality as substantial amounts of own funding is being allocated to non-core functions at the expense of basic service delivery which is the core mandate of the municipality.
111. One of the main objectives of local government is to ensure the provision of basic services to communities. Section 153 of the Constitution requires that budgeting processes must prioritise the basic needs of the community. MFMA Circular 74 urges municipalities to prioritise the provision of basic services such as electricity, water, sanitation and refuse removal in their medium term revenue and expenditure framework (MTREF) budgets. Based on the guidance contained, municipalities may only budget for non-core functions such as nurseries, sports fields, libraries, museums, health services, etc. if:
- the function is listed in Schedule 4B and 5B of the Constitution;
  - the function is assigned to municipality in terms of national and provincial legislation;
  - the municipality has prioritised the provision of basic services; and

- it does not jeopardise the financial viability of the municipality.

112. Municipalities are urged to sign service level agreements and recover costs where unfunded/ underfunded mandates are performed on behalf of other spheres of government. However, it will not constitute an unfunded/ underfunded mandate if the municipality provides non-core services beyond what is stipulated in the service level agreement.
113. The guidance provided in MFMA Circular 74 (as discussed in the preceding paragraphs) supports the design principles adopted in the classification structure adopted for this segment within the mSCOA classification framework.

***The key question to answer in classifying transactions within this segment is “against which function or sub-function” should the transaction be recorded?***

114. The high-level functions included in the mSCOA classification are summarised in the table below:



115. The classification structure for the Function segment distinguishes between “Core Functions” (Section 145(1) functions as per the Constitution) and “Non-core Functions” (Section 145(4) functions as per the Constitution).
116. Essentially the functions provided are based on the MFMA Circular 12 functional classification, which is based on the international Government Finance Statistics (GFS) classification 2011.
117. The function/ sub-function approach has been adopted by municipalities for a substantial period as a reporting framework and is included in the Municipal Budget

and Reporting Regulations, 2009. At present this segment is implemented mostly through the use of mapping tables designed by the system vendors, with a few municipalities adopting the function/ sub-function as their organisational structure. This approach results in the municipal standard classification being obsolete for these municipalities.

118. The general provision is contained in the Constitution, section 156, determining the powers and functions of municipalities.
119. Section 156 (1): “A municipality has executive authority in respect of, and has the right to administer a) the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5 and any other matter assigned to it by national or provincial legislation and b) any other matter assigned to it by national or provincial legislation.
120. Section 156 (4): “The national government and provincial government must assign to a municipality, by arrangement and subject to any conditions, the necessary administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which relates to local government, if a) that matter would most effectively be administered locally and the municipality has the capacity to administer it.
121. Core Functions provides for the matters in terms of sections 156 (1) of the Constitution. These are functions performed by local government and constitutionally assigned to local government in terms of Part B of Schedule 4 and Part B of Schedule 5.
122. Non-core Function refers to the functions performed by local government that are constitutionally assigned to provincial government in terms of section 156(4) of the Constitution. Local Government are compensated for delivering these functions on behalf of provincial government and typically receive a management fee from the provincial department.
123. Non-core Functions are in certain instances commonly referred to as “Agency Services” and may contribute to unfunded or underfunded mandates. The principle underlying agency services is that the municipality performs a function (service) on behalf of another sphere of government.
124. The agency fee received by the municipality to compensate it for the cost of providing the agency service should be recognised by the municipality as receipts and not set-off against the expenditure.
125. The actual expenditure incurred to deliver the agency services must be recognised by the sphere of government (provincial) on whose behalf the function is rendered, municipality as expenses. This functional classification is therefore used for the

recording of transactions relating to the provision of “agency services” by the municipality.

126. In applying the legislative requirements to the mSCOA table the provisions of section 84 of the Local Government: Municipal Structure Act, 1998 (Act No. 117 of 1998), have been used to set-up the “application indicators” to distinguish between either all or a combination of “metro, local and district” municipalities depending on the guidance available. District municipalities have indicated that some functions need to be added to the current mSCOA as non-core based on the principle that district municipalities have been assigned the function and powers for a sub-function where the local municipality in that district is defaulting on its assigned function and powers.
127. It is important to the budget and planning process and inherent to the nature of municipal services to determine tariffs for services such as waste collection, sanitation, water and electricity.
128. Providing for these services as separate functions within this segment facilitate that the revenue, expenditure, assets, liabilities and net assets underlying and supporting these functions, are linked through the Item Segment. In simple terms it facilitates the extraction of financial information specific to the functions provided for in this segment.
129. Conditional to accurate information is the internal control policies and procedures instituted by the municipalities to oversee the initiation, input, processing and output of transaction data through the financial system.
130. The two elements inherent to cost reflective tariffs is to have a collective view of not only direct-cost relating to these tariff services but also secondary (indirect) cost associated to the tariff service. For example, to provide water to the community would require meter-reading to capture the periodic use from the installed meters to the financial system to bill users. This cost adds to the value of the water provided to the community and thus needs to be reflected in the tariffs used to bill users.

## Funding Segment (Project Detail Document Section 3)

131. The Funding segment in the financial system identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational spending.

***The key question in finding the appropriate classification code for this segment is: “against which source of funding is the payment allocated and against which source is revenue received?”***

132. The introduction of this dimension in the mSCOA will facilitate the accumulation of information within the financial system to be able to report on information such as how a specific source of funding, for example “the Local Government Financial Management Grant” has been spent by extracting this specific source of funding from the Funding segment and the detail on spending items, such as employee costs, consultants, etc. from the Item segment.
133. The primary source of funding for a municipality is property rates, service charges, equitable share and other own revenue. Further to these sources of revenue a municipality also spends funds transferred from other spheres of government , namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DoRA). In order to monitor expenditure (operational and capital) against the source of fund utilised - this segment contains the sources of funds available to the municipality.
134. In addition to internally generated funds and transfers and subsidies municipalities may make use of external borrowings to finance capital projects.
135. A further source of funds available for utilisation is “cash backed reserves” as directed by the municipality’s financial policy on the introduction and utilisation of a specific reserve.
136. The source of funds available and utilised for operational and capital spending according to the approved budget, are summarised in the table below with the definitions included for the high-level categories.
137. At the highest level the segment structure distinguishes between “Non-funding Transactions, Operational and Capital”. The distinction between “operational and capital” funding sources has been introduced in Version 6.1 of the mSCOA Tables:

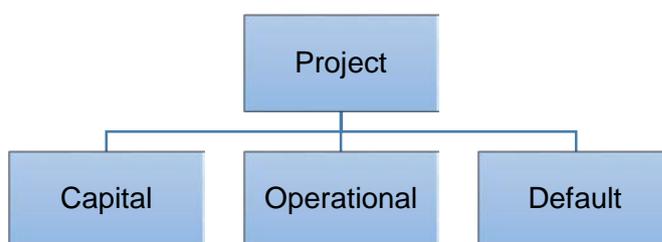


## Project Segment (Project Detail Document Section 4)

138. Municipalities have to use the Integrated Development Plan (IDP) as the bases to strategically plan for future development in the municipal area, drawing the IDP from the municipality's longer term spatial development plans of 20 plus years. This planning approach involves the entire municipality as well as the public and other stakeholders in finding the best options to achieve good and sustainable long-term development.
139. The IDP has a lifespan of 5 years that is linked directly to the term of office for local councillors. After every local government election, the new council has to decide on the future of the IDP in the context of the municipality's longer term spatial development plans. The council can adopt the existing IDP or develop a new IDP that takes into consideration these existing plans.
140. At a district municipality-level, the framework will be developed in consultation with all local municipalities within the district. This framework will ensure co-ordination, consultation and alignment between the district council and local municipalities. The framework will guide the development of the IDP process plan for each local municipality.
141. The review of information received from selected municipalities highlighted the need for a segment containing the information on the various projects. The detailed accounts included various accounts for project-related expenditure combined in a single line-item is most properly the only way in the existing account structure to accumulate financial information on important or strategic projects. The accumulation of project-related transactions in a single posting-level account results in a classification not relating to "what is bought".
142. This segment is structured to link all operational and capital expenditure to a project whether it is a specific capital project, operational initiative or running the municipality.
143. The Project segment distinguishes projects according to the nature of the expense whether it is capital or an operational expense.

***The key question to be asked in finding the appropriate classification for a transaction is: "does the transaction relate to a specific project and if so, what type of project"? This segment is to ensure that all projects in the IDP is aligned to the municipality's budget.***

144. Setting-up projects in the “Project” segment, the objective must be to link the IDP to the budget and ultimately report on each of the projects identified in the IDP. All activities of the municipality would therefore need to be aligned to “Projects” segment, including institutional costs associated with the functioning of the municipality such as cost for the administrative and staff; this allows for planning and budgeting on a project level.
145. The “Project” segment together with the “Funding”, “Regional” and “Function” segments contribute in reporting on strategies and putting into actions projects by providing for it in the budget. The “Fund” segment assists in the allocation of funding to the projects. The regional indicator provides information on “Who is going to benefit from the project”. The “Project” segment together with the “Item” segment assists in costing the project and to hold people accountable for delivery within the budget. The “Function” segment assigns responsibility to managing the project.
146. The project lifecycle will not be informed by the mSCOA; as a principle to facilitate proper planning and reporting, the system application needs to assist in providing this information. Indirectly, if it is a “multi-year project”, it will be derived from budgeting for the project over multiple periods. Refer to “Discussion of the segment” for more detail on the IDP.
147. The table presented below provides a high-level overview of the Project segment with a discussion on the classification given in the paragraphs as referenced:



**Definitions:**

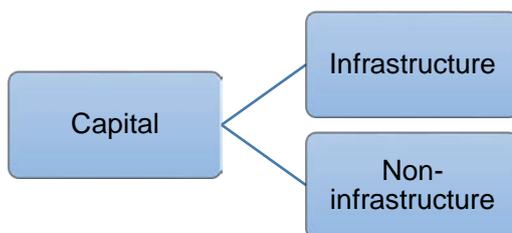
**Capital:** Capital usually applies to expenditure of a "long term nature" and capitalised to the Property, Plant and Equipment group of accounts in the financial statements. Projects are therefore created along this definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects. Expenditure used to create new assets, increase the capacity of assets beyond their original design capacity or service potential, or to

return the service potential of the asset or expected useful life of the asset to that which it had originally. CAPEX increases the value of capital stock.

**Operational:** Operational projects refer to current and short-term projects for which the cost is immediately recognised as an expense and funded from the municipalities' operational budget. Included in this category is “infrastructure projects” done by the municipality for transfer to another municipality, entity or households.

**Default Transactions:** Default account for transaction not relating to either capital or operational expenditure and of no specific interest in the context of this segment.

148. The “Project” segment distinguishes projects according to the nature of the expense, whether it is capital or an operational expense.
149. Transactions other than expenses (capital and operational) are recorded as “Default Transactions”. This group of accounts provide for the transaction types not specifically recorded within the capital and operational project structures for example receipts, billing-run accruals, money transfers between the primary bank account and specific purpose bank accounts and so on.
150. The definitions and explanations provided intend to clarify the use of the account contributing towards standardisation of allocations in this segment. Consideration has been given to retain the classification used in the “Project” segment for the mSCOA designed for departments for standardisation of information throughout all tiers of government.
151. “Capital” applies to expenditure of “long-term nature” and capitalised to property, plant and equipment in the financial statements. Projects are therefore created along the definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects.
152. Capital projects relates to spending from the capital budget and thus implying the debit transaction for capitalisation cost within the fixed and intangible asset section of the statement of financial position to the “Construction Work-in-progress Accounts” within the “Item: Asset” segment of the mSCOA Classification Structure. These costs would consist of primary and secondary cost elements qualifying for capitalisation in terms of the supporting Standards of GRAP.
153. At the highest-level capital projects distinguish between infrastructure projects and non-infrastructure projects:



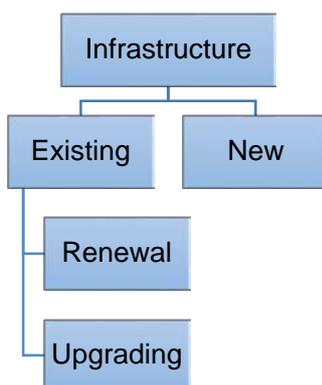
154. Projects are classified in this category if complying with the definition of an “Infrastructure Asset”. Some assets are commonly described as “infrastructure assets” – while there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specific in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints at disposal.

**Definition from the CIDMS: Infrastructure Assets**

Stationary systems forming a network and serving whole communities, where the system as a whole, is intended to be maintained indefinitely at a particular level of service potential by the continuing replacement and refurbishment of its components.

155. Infrastructure projects provide for existing and new:



**Definitions:**

**Existing:** Capital expenditure on existing infrastructure assets consist of renewal and upgrades.

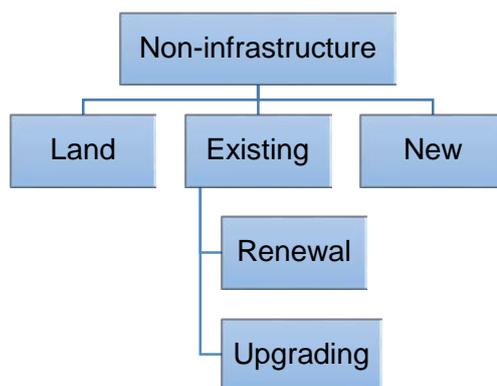
- **Renewal:** Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally. Rehabilitation and

Refurbishment used in earlier versions up to V5.4 and then replaced with Renewal to align to the CIDMS.

- Upgrading: The replacement of an asset or addition/ replacement of an asset component, which materially improves the original service potential of the asset.

**New:** Projects of a capital nature undertaken to create "new-infrastructure assets" as per definition of an "infrastructure asset".

156. Projects are created along the definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects.
157. Non-infrastructure project provides for transactions of a capital nature relating to key projects as identified by management such as the procurement of a new bus fleet for use as urban transport but not qualifying as "infrastructure assets" and thus provided for under "projects non-infrastructure".
158. The next level within the above categories (except for land) provides for "Land, Existing and New". Existing Non-infrastructure make further distinction between "Renewal and Upgrading".
159. The outline for this group of accounts are summarised in the table below and the accounts discussed in more detail as indicated by references provided.



**Definitions:**

**Existing:** Capital expenditure on existing infrastructure assets consist of renewal and upgrades.

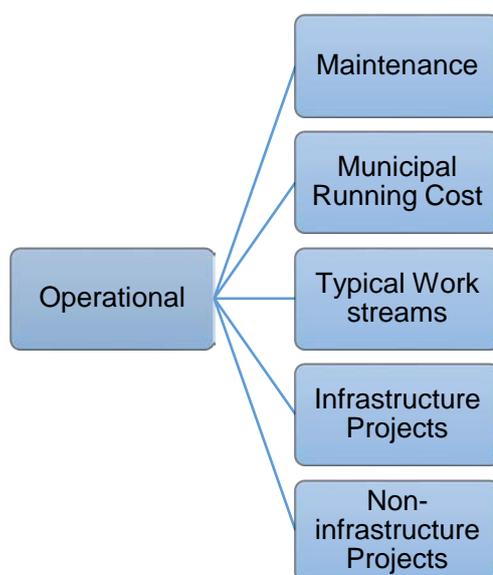
- **Renewal:** Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally. Rehabilitation and Refurbishment used in earlier versions up to mSCOA V5.4 and then replaced with Renewal to align to the CIDMS.
- **Upgrading:** The replacement of an asset or addition/ replacement of an asset component, which materially improves the original service potential of the asset.

**New:** Projects of a capital nature undertaken to create "new-infrastructure assets" as per definition of an "infrastructure asset".

160. Default transactions are the classification required to record a transaction within all the segments of the mSCOA. Revenue, assets (excluding capitalised expenditure), liabilities and net assets need to be captured to this account.

161. "Operational projects" refer to current and short-term projects for which the cost is "immediately recognised as an expense and funded from the municipality's operational budget".

162. The high-level classification for operational projects is as illustrated below:



- 163. Operational projects relate to spending from the operational budget and thus implying the debit transaction to the Item classification for the statement of financial performance.
- 164. Projects need to be set-up as guided by the integrated development plan (IDP) and provide for multi-year spending if required.

**Definitions:**

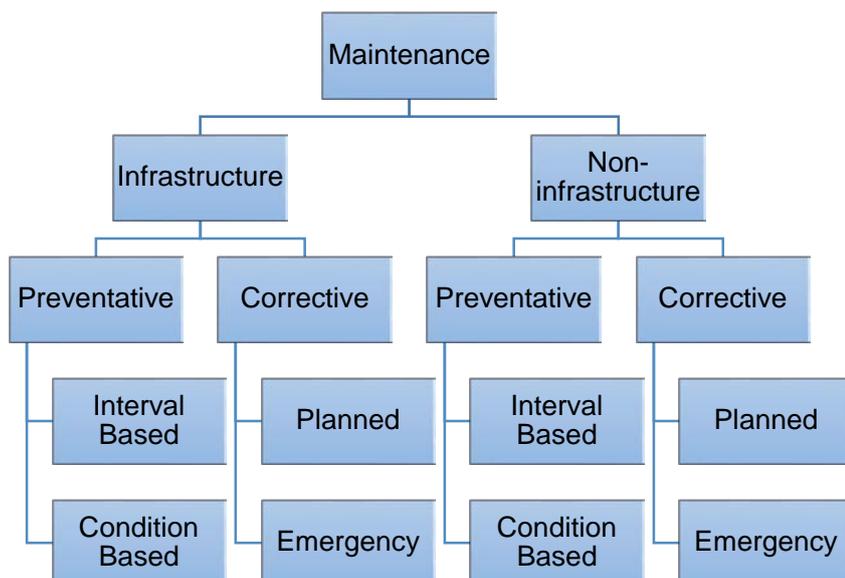
**Maintenance:** All actions intended to ensure that an asset performs a required function to a specific performance standard(s) over its expected useful life by keeping it in as near as practicable to its original condition, including regular recurring activities to keep the asset operating, but specifically excluding renewal. Maintenance also specifically excludes restoring the condition or performance of an asset following a recognised impairment event, which would be classified as either renewal or upgrading, depending on the circumstances.

**Municipal Running Cost:** Any other expenditure not relating to a specific project for example general expenses relating to the daily running and operation of the municipality.

**Typical Work Streams:** Projects are created under this group for “operational projects” for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically, these “projects” consist of various expense-items contributing to the outcome or objective of an initiative. Default projects are included for guidance, but the Municipality could expand these as considered necessary.

**Infrastructure Projects:** Infrastructure projects undertaken by the District Municipality on behalf or for the Local Municipality/ National or Provincial Government.

- 165. The outline for this group of accounts is summarised in the table below:



**Definitions:**

**Preventative Maintenance:** Maintenance carried out at predetermined intervals, or corresponding to prescribed criteria, and intended to reduce the probability of failure or the performance degradation of an item. Preventative maintenance is planned or carried out on opportunity.

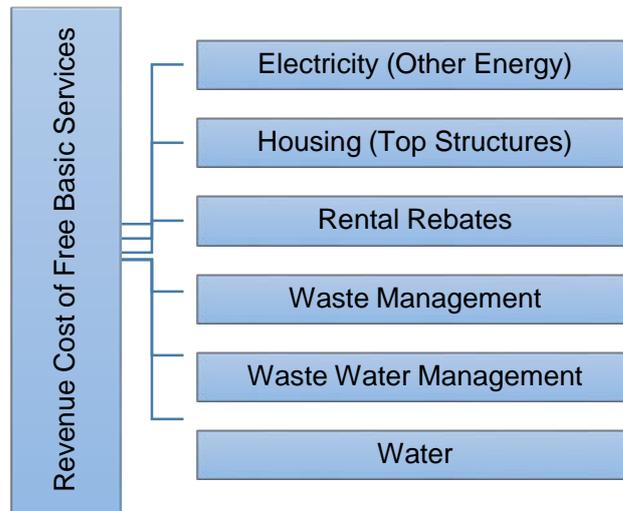
- Interval Based: Maintenance carried out at predetermined intervals.
- Condition Based: Maintenance carried out based on prescribed criteria.

**Corrective Maintenance:** Maintenance carried out after a failure has occurred and intended to restore an item to a state in which it can perform its required function. Corrective maintenance can be planned or unplanned.

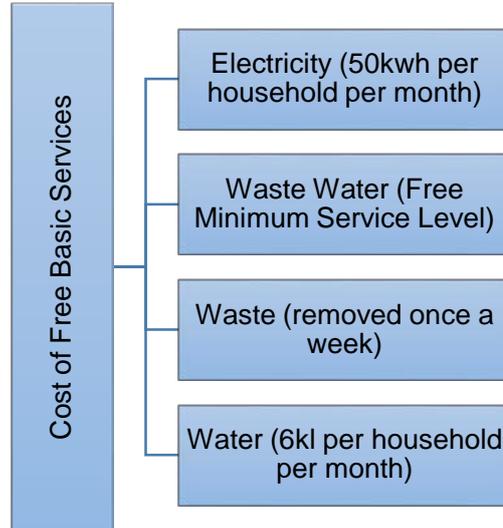
- Planned: Corrective Maintenance Planned
- Emergency: Corrective Maintenance Emergency.

166. Municipal Running Cost - Operational cost typical to the day-to-day running of the municipality, for example cleaning of office buildings, security, administrative staff cost, building rental, telephone, stationery, postage, etc.
167. Typical Work Stream Projects - Projects are created under this group for “operational projects” for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically, these “projects” consist of various expense-items contributing to the outcome or objective of an initiative. Default projects are included for guidance but the municipality could expand these as considered necessary.
168. MFMA Circular 58 - Municipal Budget Circular for the 2012/13 MTREF provides guidance on free basic services versus revenue cost of free services as provided for in Table A10 of the Budget Reform Returns.
169. In Table A10 municipalities are required to provide information on (i) the estimated cost of free basic services and (ii) the estimated revenue cost of free services.
170. The estimated cost of free basic services:
- Covers only the free basic services according to national policy, for example 6 kl water, 50 kWh electricity, free sewerage and free weekly refuse removal;
  - Must be the actual cost to the municipality and not the revenue cost to the municipality of providing these services;

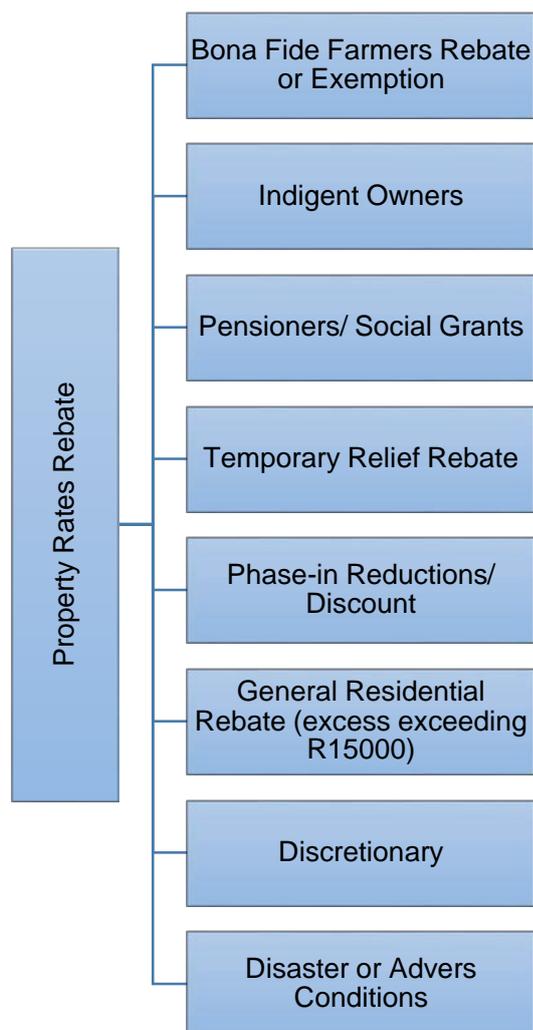
- Includes the actual cost to the municipality of providing the free basic services to all households (which would be reflected as 'revenue foregone' on SA1); and
  - Includes the actual cost to the municipality of providing free basic services to targeted households (which would be reflected as 'transfers and grants' on SA21).
171. The estimated revenue cost of free services:
- Covers all rates rebates, exemptions and discounts given to households and other customer groups either in general or specifically;
  - Covers all free services or service discounts given to households and other customer groups in relation to services for which the municipality normally charges;
  - Must be the revenue cost to the municipality of providing these rebates, discounts and free services;
  - Includes the revenue cost to the municipality of providing the free basic services to households according to national policy; and
  - Must not include the cost of debt write-off.
172. This group of accounts was previously included as "Contra Accounts" within the Item Segment Revenue and Expenditure for the purpose of including the budgeted and actual information within the mSCOA Classification Structure. The initial views on recording the underlying information in mSCOA created confusion. Subsequently the mSCOA Project Steering Committee approved the recommendation to consider the recognition of transaction values in this classification to be a movement from "municipal running cost".
173. Revenue Cost of Free Basic Services - Covers all rates rebates, exemptions and discounts given to households and other customer groups either in general or specifically. Covers all free services or service discounts given to households and other customer groups in relation to services for which the municipality normally charges. Must be the revenue cost to the municipality of providing these rebates, discounts and free services and includes the revenue cost to the municipality of providing the free basic services to households according to national policy and must not include the cost of debt write-offs. Entry: debit cost of free basic services (expenditure), credit transfers households.



174. Cost of Free Basic Services - Covers the free basic services according to national policy, for example 6 kl water, 50 kWh electricity, free sewerage and free weekly refuse removal. Must be the actual cost to the municipality and not the revenue cost to the municipality of providing these services. Refer to the operational cost for the equal deduction for cost of free basic services.



175. At the highest level the mSCOA classification for “Property Rates Rebate” consists of the following posting-level accounts:



## Regional Indicator Segment (Project Detail Document Section 5)

176. National Treasury introduced the regional indicator on 1 April 2008 with the re-implementation of the SCOA for Departments. As part of the budget reform process and for purposes of evaluating resource allocations in government, National Treasury started to monitor the allocation of resources and actual spending at a regional level. The aim was to capture details of national and provincial government resource allocation and spending at the regional level.
177. As directed by the *Position Paper: Reporting* attention will be given in Phase 2 of the report development process on specific reporting requirements to provide emphasises on regional indicators. The local government budget reform process will further

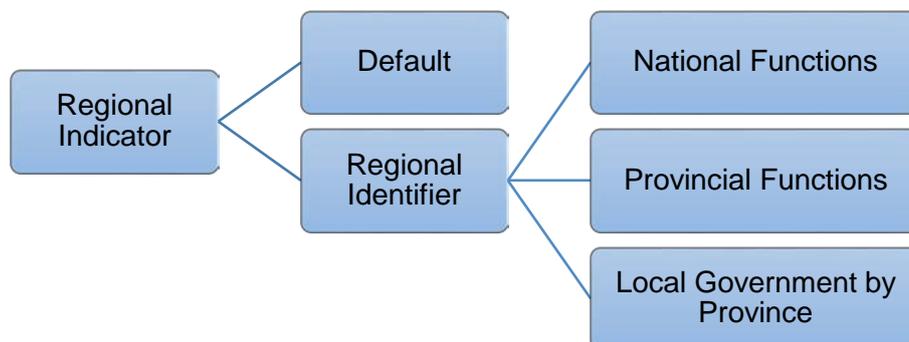
expand on the regional indicator to monitor resource allocation and spending at the local sphere of government along the same design principles for national and provincial government. This perspective is not fully provided for by the analysis of the “Function” and “Item” segments in mSCOA.

***Communities need to feel and see delivery, only through planning and physical delivery can this be communicated effectively.***

178. The Service Delivery and Budget Implementation Plan (SDBIP) details the implementation of service delivery and the budget for the financial year, in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). The SDBIP serves as a contract between the administration, the Council and the community; expressing the objectives set by the Council as quantifiable outcomes that can be implemented by the administration over the next twelve months. The SDBIP facilitates the process of holding management accountable for their performance. It provides the basis for measuring performance in the delivery of services.
179. The MFMA requires the following to be included in the SDBIP of a municipality:
- The monthly projection of each source of revenue earmarked for collection;
  - The monthly projection of each vote’s expenditure (operating and capital) and revenue;
  - The quarterly projection of each vote’s service delivery targets and performance indicators;
  - The information on expenditure and service delivery in each ward; and
  - The detailed capital works plans allocated by the wards over three years; etc.
180. The MFMA requires the Municipality to compile a SDBIP for submission to the Executive mayor. MFMA Circular No. 13 further states that “... Being a management and implementation plan (and not a policy proposal), the SDBIP is not required to be approved by Council”.
181. The Regional Indicator segment provides the mechanism for classifying municipal transactional information according to “regional indicators” for reporting in terms of the MFMA on planned and actual capital and operational expenditure on a “ward basis” in the SDBIP.

182. In addition to the SDBIP requirements, one of the key outcomes envisaged with the mSCOA Classification is the ability to extract information on financial performance/ position from the transactional database at the lowest geographical level, being wards.
183. The Regional Indicator segment facilitates the planning and recording of municipal expenditure, revenue, assets, liabilities and net assets at the lowest relevant geographical level (ward). Classification at this level provides information on communities specific to:
- Spending on capital and operational projects;
  - Contributions made towards the SDBIP by the community by paying municipal bills; and
  - Projects directed towards providing indirect benefits to the community, for example local economic development, improvement of living (health, food, housing, services); etc.
184. “The lowest relevant geographical region is depicted in this Segment as “regional indicators”. Similar communities are defined based on the geographical region and represented in the mSCOA Regional Indicator segment by “regional indicators”.
185. This implies that all transactions must be recorded so that the final impact of spending, revenue collections, capital investment and wealth creation can be measured by regional indicator in order to get a geographical view of the economic impact of government activities that are focussed on beneficiaries.
186. It is envisaged that this information will enable and support enhanced analysis of:
- Whether services are being provided impartially, fairly, equitably and without bias, as required by the Constitution;
  - Whether progress is being made in addressing regional backlogs in social infrastructure and the access to services;
  - Whether government spending by different departments and municipalities are being properly sequenced and coordinated; and
  - Whether actual spending by government is aligned to the relevant plans of the three spheres of government; etc.
- The information will also:
- Assist councilors and mayors to account to the communities for resources allocated and actual spending of the municipality to communities and wards; and
  - Provide specific ward information to councilors to assist in decision-making; etc.

187. At the highest level the segment structure distinguishes between “Default and Regional Identifier”. Regional Identifier consists of National/ Provincial Functions, followed by Local Government per Province:



**Definition:**

**Default:** This classification is used for the recording of transactions not relevant to this segment.

**Regional Identifier:** This classification provides “regional” indicators, in order to distinguish at the highest-level between National/ Provincial Functions and Local Government by Province.

- **National Functions:** This is the posting level for all transaction made within the borders of the Republic of South Africa of which the “whole of the country” is the beneficiary.
- **Provincial Functions:** This is the group of accounts providing for posting levels for the nine provinces. Transactions providing benefit to the community within the whole of the province is reflected at this level.
- **Local Municipality:** Municipalities within the District Municipality’s demarcation.

188. The “Default” label provides for the recording of transactions not contributing to a regional indicator. Subsequent to the revision of transactions to be allocated in this Segment (explained in the discussion of this segment), being a requirement for the implementation of mSCOA V6.1, the use of this account may be limited. As part of the maintenance of the mSCOA Tables the relevance of this account will have to be reassessed.

189. The core-principle of assigning transactions in line with the purpose of the Regional Indicator segment is: “to identify the lowest relevant geographical regional indicator of the intended beneficiaries/ contributor of the service”.

190. It is important to note that the location of the service provider is not relevant when it comes to capturing information in relation to the regional indicator, for example consider a payment that is made by a municipality in the Eastern Cape to a service provider situated in Gauteng for the supply of chemicals for a water treatment works. In this instance the regional indicator will not be Gauteng, where the supplier is located but the region or ward or whole of the metro/ district/ local municipality benefiting from the water treatment works.
191. At the highest-level a distinction is made between national and provincial functions; and in Local Government by Province. Agency Services defined within Item: Revenue for Agency Services provided on behalf of National Departments specifically require allocation to this indicator, as well as the cost incurred by the municipality for providing this service.
192. The Provincial Function category provides for recording transactions having an impact on the province within which the municipality resides. Agency Services defined within Item: Revenue for Agency Services provided on behalf of Provincial Departments specifically require allocation to this indicator as well as the cost incurred by the municipality for providing this service.
193. Municipalities are arranged according to their respective provinces in this category of the segment. Distinction is made by province between “metros and district municipalities” according to the list, names and numbering system used by the Demarcation Board.
194. The classification structure provides for all “district municipalities” within the specific province. The regional indicators specific to district municipalities provides for “Administrative or Head Office, Whole of the Municipality and Regions”.

**Definition:**

**Administrative or Head Office:** Transactions directly relating to the administration of the district municipality and not to the direct benefit of the community.

**Whole of the Municipality:** Services provided benefiting the whole of the district where detailed information is not available to allocate to the lower levels.

**Regions:** Providing for district municipalities to classify transactions specifically for local municipalities within the district.

195. In addition to the above noted regional indicators the municipalities within the district are provided with posting level accounts for “Administrative or Head Office, Wards or Regions (per information received from municipalities) and Whole of the Municipality”.
196. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.
197. The classification structure provides for all “metros” within the specific province. The regional indicators specific to metros provides for “Administrative or Head Office, Whole of the Metro and Regions/ Ward”.
198. Wards are to be included by province and municipality according to the Demarcation Board Classification for 2016. Recognition is given to the fact that these boundaries might change according to the demarcation done for municipal elections every 5 years.
199. An alternative to using “ward” may be to use the logistical area defined by the municipality for providing services to the community.
200. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.

## Item Segment - Introduction (Project Detail Document Section 6)

201. The decisions that are taken by users of financial statements require an evaluation of the ability of the municipality to implement sustainable service-delivery as informed by the timing and certainty of the service delivery.
202. Information about the financial performance of the municipality provides an account of stewardship of management and is useful in assessing the past and anticipated financial performance of the municipality. Information about variability of financial performance is important in this respect.
203. Information about financial performance is useful in holding management accountable for the safekeeping of the municipality’s resources and for the proper and efficient use thereof. It is also useful in forming judgements about the effectiveness with which the municipality might employ additional resources.

204. The financial position of the municipality is affected by the resources it controls, its financial structure, its liquidity and sustainability, and its capacity to adapt to changes in the environment in which it operates.
205. Information about the resources controlled by the municipality and its capacity in the past to modify these resources is useful in predicting the ability of the municipality to sustain its service-delivery in the future. Information about financial structure is useful in predicting future financing and borrowing needs; it is useful in assessing the municipality's ability to raise further finance. Sustainability refers to the ability to continue to provide the services in the longer term.
206. The liquidity and sustainability of a national or provincial department is very much dependent on their budget allocation. Their financial position is therefore primarily affected by the budget whereas a municipality relies largely on their own revenue in the form of rates and taxes and other service charges.
207. Information concerning changes in the cash flows of the municipality is useful in order to assess its investing, financing and operating activities during the reporting period.
208. This information is useful in providing the user with a basis to assess the ability of the municipality to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
209. Information about financial position is primarily provided in a statement of financial position. Information about financial performance is primarily provided in a statement of financial performance. Information about cash flows is provided in the financial statements by means of a statement of cash flows. Changes in the residual (after deducting liabilities from assets) are provided in the statement of net assets.
210. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, a statement of financial performance provides an incomplete picture of financial performance unless it is used in conjunction with the statement of changes in net assets and the statement of cash flows.
211. The Item Segment of SCOA consists of four parts being:
- Revenue [Section 6.1]
  - Expenditure [Section 6.2]

- Gains and Losses [Section 6.3]
  - Assets, Liabilities and Net Assets Section [6.4]
212. At the highest-level, the Item Segment supports the reporting done in terms of the budget reporting format and annual financial statements. The detail levels in this segment provide the more detailed information presented in supporting schedules and notes to the budget reporting format and annual financial statements.
213. This project resulted in alignment between the budget reporting format and annual financial statements that will greatly assist the reporting on budgeted versus actual information.
214. Important to note is that the accounting policies, methodologies and principles applied in determining budgetary information need to be consistent to those applied in preparing annual financial statements.
215. The components to the Item Segment are discussed in separate sections in the body of the sections.
216. The use of the information collected through the standard classification process is not confined to budget and annual financial statements but need to address the needs of a wide group of users of local government information.
217. Consultation with various users took place throughout the research and development phase resulting in populating the charts to assist in extracting required information.
218. The expansion of detail within the mSCOA will continue as more “users” appreciate the value from this process. Standardisation of classifications adds immense value to the quality of information and consistency in reporting.
219. Because municipal functions and activities vary and consequently transactions and other events differ in terms of the impact on its ability to meet its service-delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results.
220. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance.
221. Factors considered include materiality and the nature and function of the components of revenue and expenses.

## Item Segment - Revenue (Project Detail Document Section 6-1)

222. This component of the Item segment contains the classifications structure for revenue to inform the extraction of reporting information in various formats, for example the Budget Reporting Tables, In-year Reporting, Annual Financial Statements, the NERSA Regulatory Reporting Tables, the Department of Water Affairs reporting requirements, etc.

**Definition:**

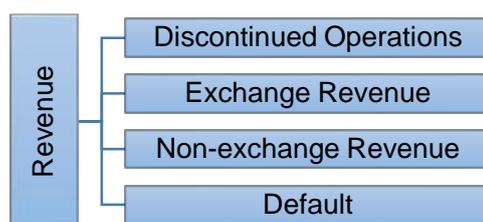
The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

223. The surplus attributable to minorities; surplus contributed from associates and joint ventures are not “revenue”; however by definition these are included in this component. By definition “revenue” includes “gains”. The mSCOA Classification provides for “gains” within the component of the Item Segment for “Gains and Losses”.

**Definition:**

The key question in finding the appropriate classification code for this segment is: “*what is the type and nature of the revenue accrued?*”

224. The illustration of the high-level classification structure for this segment directly relates to the main classifications required in the Statement of Financial Position in accordance with the requirements of the *Standards of GRAP 1 Presentation of Financial Statements*.
225. At the highest level this component distinguishes between:

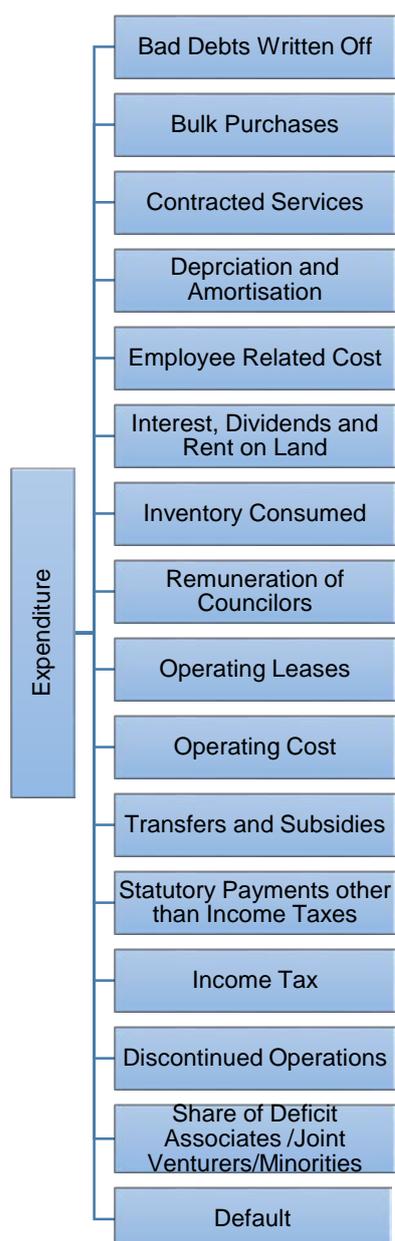


## Item Segment - Expenditure (Project Detail Document Section 6-2)

226. This component of the Item segment contains the classifications structure for expenditure to inform extracting reporting information in various formats, for example the Budget Reporting Tables, In-year Reporting, Annual Financial Statements, the NERSA Regulatory Reporting Tables, the Department of Water and Sanitation reporting requirements, etc.

***The key question in finding the appropriate classification code for this segment is: “what is the type and nature of the expenditure incurred”***

227. At the highest level this component distinguishes between:



**Definition:**

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or the incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

## Item Segment - Gains And Losses (Project Detail Document Section 6-3)

228. The *Standards of GRAP 1 Presentation of Financial Statements* determines that gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
229. Accounts are defined within this component of the “Item” Segment, based on the above requirements from the Standard of GRAP. Accounts defined give consideration to separate reporting whether material or not. Consideration will be given to the separate disclosure of gains and losses if material in the setting up of reporting information and how this type of transaction will be dealt with in the preparation of annual financial statements.
230. The definition of revenue includes both revenue and gains. Revenue arises in the course of the operating activities of the municipality, and includes the items presented in “Item” Segment: Revenue. However, gains are categorised in this component separate from revenue. The classification of accounts within the components of the “Item” Segment does not drive the presentation in the budget reporting tables, in-year reporting and annual financial statements.
231. Gains represent other items that meet the definition of revenue and may, or may not arise in the course of the operating activities of the municipality. Gains represent increases in economic benefits or service potential and as such are no different in nature from revenue.
232. Gains include for example those arising on the disposal of non-current assets. The definition of revenue also includes unrealised gains; for example, those arising on the revaluation of financial instruments and those resulting from increases in the carrying amount of long-term assets.
233. When gains are recognised in the statements of financial performance or the statement of changes in net assets, they are usually displayed separately, because knowledge of them is useful for the making of economic decisions.
234. The definition of expenses encompasses losses as well as those expenses that arise in the course of the operating activities of the entity. Expenses that arise in the course of the operating activities of the entity include, for example, cost of sales or cost of

services rendered, wages and depreciation refer to the “Item” Segment: Expenditure. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. However, losses are categorised in this component separate from expenditure. The classification of accounts within the components of the “Item” Segment does not drive the presentation in the budget reporting tables, in-year reporting and annual financial statements.

235. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the operating activities of the entity. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses.
236. Losses include for example those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of the municipality in that currency.
237. When losses are recognised in the statement of financial performance, they are usually displayed separately because knowledge of them is useful for the making of economic decisions. Losses are often reported net of related revenue to reflect the substance of the transaction or event.
238. Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or the incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.
239. At the highest-level “gains and losses” provided for the following groups of accounts:

**Definitions:**

**Gains and Losses:** Gains and losses are treated as a separate group of accounts due to the nature of these transaction. Gains arise from the proceeds of the transaction exceeding the recognised value and losses from the recognised value exceeding the proceeds realised from the transaction.

**Discontinued Operations and Disposals of Non-Current Assets:** The gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operations. [GRAP 100.35(b)(iv) and .22 to .27]

**Disposal of Fixed and Intangible Assets:** The gain or loss arising from the derecognition of an asset determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in surplus or deficit when the asset is derecognised.

**Fair Value Adjustment:** The loss arising from the change in the fair value of a financial asset or liabilities measured at fair value recognised in surplus or deficit. Included in this account would be loss on financial instruments and discounting of debtors.

**Foreign Exchange:** This item is for the recognition of a gain/ loss incurred in foreign exchange transactions.

**Impairment Loss:** Impairment is a decrease in the value of an asset to an amount that is less than the amount under the cost basis.

**Reversal of Impairment Loss:** Reversal of impairment losses recognised in surplus/ deficit in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Asset. [GRAP103.83(c)]

**Inventory:** The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

**Water Losses:** Water losses are calculated as the difference between the system input volume and the authorised consumption. Water losses are broken down into commercial or apparent and physical or real losses.

## Item Segment - Assets, Liabilities and Net Assets (Project Detail Document Section 6-4)

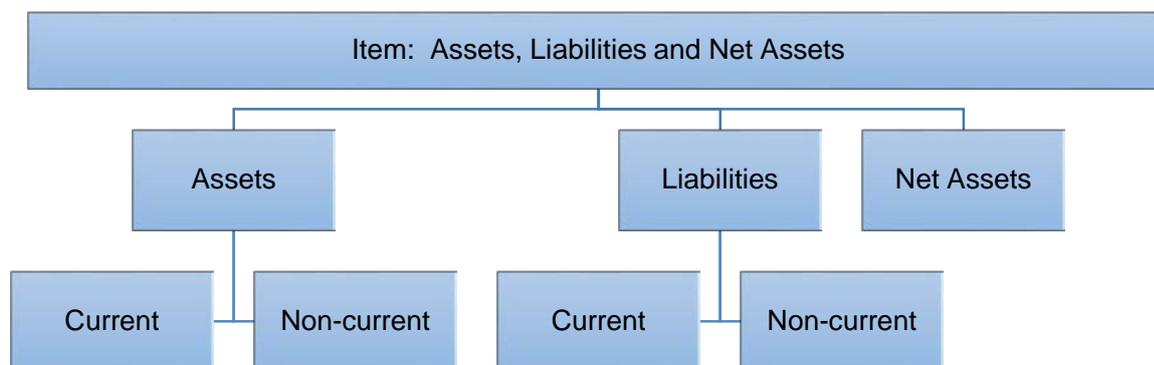
240. The content of the Item Segment – Assets, Liabilities and Net Assets is presented in different tables due to the size and detail contained in the respective spreadsheets and should still be seen as a single segment. The components making up the Item Segment presented in the mSCOA Tables are:

- Assets;
- Liabilities; and
- Net Assets.

241. The financial position of the municipality is affected by the resources it controls, its financial structure, its liquidity and sustainability, and its capacity to adapt to changes in the environment in which it operates. The Item Segment with its components for assets, liabilities and net assets hosts the classification structure for providing this information.

242. The sequence of accounts depicted in the code structure defined in the mSCOA Tables does not indicate the order or format in which items are to be presented in the annual financial statements, resulting in a contradiction to the presentation requirements provided for in the Standards of GRAP 1<sup>1</sup>.

243. In addition, the requirement to apply judgement on whether additional items are separately presented based on an assessment of the nature and liquidity of assets, the function of assets within the municipality; and the amounts, nature and timing of liabilities does not change at the implementation of mSCOA.
244. Illustrative Financial Statements will be prepared as part of the project deliverable to provide guidance on linking the mSCOA accounts to the financial statement presentations.
245. The illustration of the high-level classification structure for this segment directly relates to the main classifications required in the Statement of Financial Position in accordance with the requirements of the *Standards of GRAP 1 Presentation of Financial Statements*.
246. The determination on classifying assets and liabilities as current or non-current need to be guided by the requirements set-out in the above Standard of GRAP read with any other requirements set-out in a Standard of GRAP. The definitions provide brief explanations in the context of mSCOA, but might not be sufficient in determining the current versus non-current classifications.



**Definitions:**

**Assets:** Assets are resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

**Current Assets:** An asset shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;

(c) it is expected to be realised within twelve months after the reporting date; or

(d) it is cash or a cash equivalent asset (as defined in the Standard of GRAP on Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

**Non-current Assets:** All other assets not classified as current according to the definition above shall be classified as non-current.

**Liabilities:** Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

**Current Liabilities:** A liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the entity's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. (Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification).

**Non-current Liabilities:** All other liabilities not within the above definition shall be classified as non-current

**Net Assets:** The residual interest in the assets of the municipality after deducting all its liabilities.

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<sup>i</sup> The *Standards of GRAP 1 on the Presentation of Financial Statements* requires that the municipality presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of its financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of their liquidity.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[mSCOA for MUNICIPALITIES]*

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## Project Detail:

## Section 1 – Costing Segment

*November 2017 – mSCOA Version 6.1*

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## SECTION 1 - COSTING SEGMENT

### Background to the Costing 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 methodologies 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.

4. Interest in performance measures is increasing, resulting 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.
5. Managers of programs, (if they understand the managerial advantages of measuring their performance), are likely to put pressure on 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.
6. 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.
7. 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.
8. Accrual accounting forms the basis for municipal budgeting and management information. Recognition of the need for cost accounting in “right sizing, eliminating inefficiencies and privatisation” triggered the increased use of cost accounting and the development of systems to support cost accounting. This will also motivate municipalities to use cost accounting more, which will result in more cost accounting systems being developed.

9. 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 some of the municipalities, it is clear that these municipalities have a far more advanced costing system (based on “activity based costing”). mSCOA enables these municipalities to continue transacting on its advanced costing module yet meet the minimum requirements provided for in mSCOA.
10. 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.
11. 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 together with financial accounting data; and
  - the cost efficiency of generating the cost data (based on, or integrated with an existing system of accounting).
12. 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.
13. Determination of the values for inventory; property, plant and equipment; and in terms of the Standards of GRAP can briefly be summarised as follows:
  - 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.
  - 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.
  - 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.
14. 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.
  15. 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.
  16. 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.
  17. 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.
  18. 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.

19. 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.
20. 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. To benefit from this capacity, the required data must be captured in the system and the rules for capturing, distributing, and calculating the information must be pre-defined.
21. Cost accounting explained in the cost of accrual accounting budgeting (with some examples):
  - It is 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.
  - It redefines reporting, following the implementation of mSCOA within the Local Government to give justice to the implementation of 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.
22. 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.

23. Indirect cost (secondary cost) is initially recorded as primary cost within the “Item” segment and funded according to the indicator selected in the “Funding segment”.
24. 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. The “Item”, “Fund” and “Region” Segments are recorded as “Default” in the case of cost distribution. As such the Costing segment facilitates management accounting and improved tariff modelling/ setting.

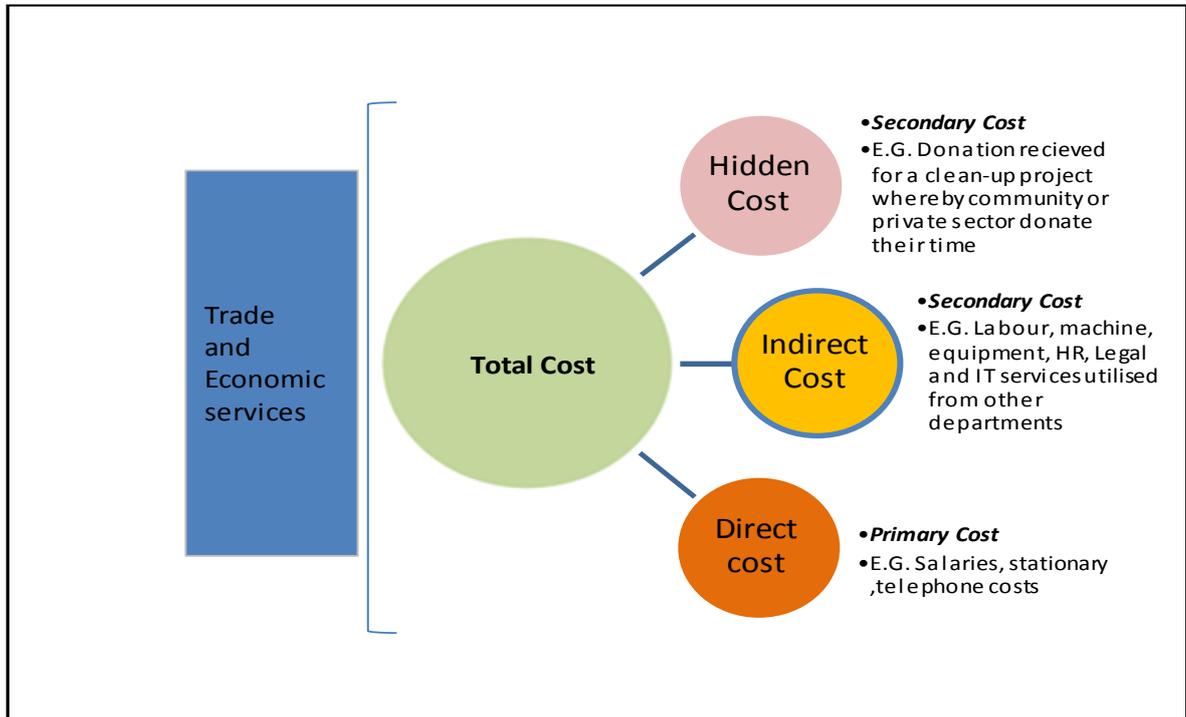
## Purpose of this Segment

**Management Accountants/ Tariff modelling. The Design Principles acknowledge a gradual approach, for example “administrative functions to commercial services” will suffice.**

25. 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.
26. The direct (primary cost) is accommodated in the account set-up within the “Item” segment: Expenditure.
27. The introduction of the Costing segment is responding to the demand by local government practitioners for guidance and tools to identifying the cost (see the table below) of providing a service to their customers.
28. 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.

## Elements of Accounting for Costs

29. 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.



30. The adopted 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 the municipality to improve its understanding of the principles and techniques of cost allocation, across the municipality, functions, projects and so allow for cost comparison and benchmarking.
31. This classification framework provides to local government, “a common cost architecture approach” to ascertain costs, as this will enable the municipality to compare service costs by clarifying the actual cost drivers in the whole chain of events for the provision of a particular municipal service.
32. Extracting information from the “Cost” segment 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 “Costing” segment is used to derive the full cost dimension.

## Cost Recovery Approach

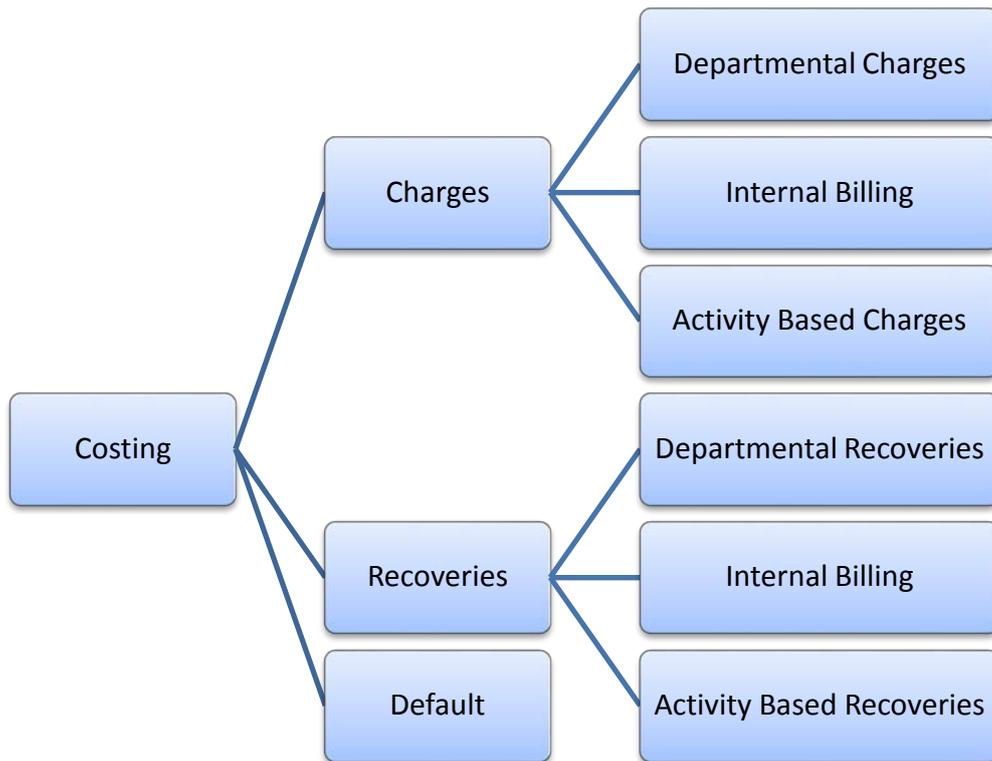
33. The typical “cost recovery approach” is explained in the table below. The National Treasury is not at present concerned with which method or even a combination of methods the municipality adopts. National Treasury do however, at this stage suggest that the municipality use a hybrid approach, but if a municipality has the capacity and it is cost efficient, a simplified activity based costing method (usage or benefit approach) is recommended.
34. Standardisation of “cost recovery approaches” will 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.
35. The table below 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
<b>Pro Rata Approach</b>	<p>Use this approach where it is not possible or too costly to identify actual resource usage.</p> <p>The approach starts with the cost data as found in the municipality’s general ledger.</p> <p>In the context of mSCOA the function in combination with the primary cost depicted in the “Item segment: Expenditure” component.</p> <p>The costs are allocated on a proportionate allocation basis to outputs by using measures such as:</p> <ul style="list-style-type: none"> <li>• number of staff involved in production of the output as percentage of total staff;</li> </ul>

Classification	Definitions
	<ul style="list-style-type: none"> <li>• direct resource use in the production of the output as a percentage of total resource use; and</li> <li>• the budget consumed for the output as a percentage of the total budget.</li> </ul>
<p><b>The “Usage” or “Benefit” Approach</b></p>	<p>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.</p> <p>Costs are then attributed to these activities, which in turn can be summed to calculate the cost to serve an end-to-end process. Actual resource usage may be estimated in several ways.</p> <p>Examples of methods of apportioning the indirect cost pool include direct observation, time sheets (in the case of indirect staff costs) and log sheets (in the case of vehicle and plant and equipment).</p> <p>The method used must be well documented, verifiable and efficient.</p> <p>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.</p>

## Illustration - High-level Classification

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



**Definitions:**

**Charges/ Recoveries:** Distinction is made between "charges to receiving departments and recoveries made by sending departments". The "sending department" provides goods or services to the "receiving department" based on rates/ tariffs determined internally by the municipality in terms of the municipality's costing methodology. Recording of the transaction in mSCOA thus impacts on the Function, Costing and Municipal Standard Classification segments. Default will be applicable within the Regional Indicator, Project, Funding and Item segments. The illustration below attempts to explain the concept in a simplified version not dealing with specific accounts in mSCOA.

*Department providing the service/ goods: **Debit** to the "receiving department" by selecting the appropriate account from the Function and Municipal Standard Classification with the account from "Charges" for the Costing segment.*

*Department receiving the service/ goods: **Credit** to the "sender department" by selecting the appropriate account from the Function and Municipal Standard Classification with the account from "Charges" for the Costing segment.*

**Departmental Charges/ Recoveries (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. The “receiving department” is charged by the “department providing the support services”.

- *Charges:* This classification provides for the recording of the “charge-out” recognised by the receiving department.
- *Recoveries:* The “provisioning department” effect a charge to the receiving department, resulting in a recovery to the department, classified as a recovery.

**Activity Based Charges/ 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. The “provisioning department” charges the user or receiving department and accordingly makes a recovery.

- *Charges:* This account provides for recording the “charge-out” to the receiving department.
- *Recoveries:* This account provides for recording the “recovery” made by the provisioning department.

**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. The services are measurable or quantifiable, for example a water meter at the electricity depot.

- *Charges:* The classification provides for the department receiving the service or goods.
- *Recoveries:* This classification provides for the department providing the service or goods.

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

## Design Principles

37. The following design principle(s) have been used in preparing the segment outline:
38. *Principle 1: mSCOA* - The segment outline and detail classification provide for all possibilities as a “master mSCOA” from which each municipality selects the accounts needed to “populate” their chart of accounts.
39. *Principle 2: Municipal Entities and Agencies* - Recording of transactions in this segment will be done according to the principles determined for municipalities.

References made to “municipality” must be read as also referring to “municipal entity”, unless indicated otherwise.

40. *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 the National Treasury and summarised in the table below. Furthermore, brief comments on any changes to a circular or guideline (issued by the National Treasury) following the mSCOA Regulation are provided in the “Proposed Changes Column” of the table.
41. *Principle 4: Linking Transaction by Business Process to mSCOA* - Business processes are 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 process ultimately resulting in the transaction to be captured within a financial model in the system and updating the municipality’s general ledger. mSCOA provides a classification structure within the general ledger to “record” transaction information within “fields” within the database functioning in the background of the municipality’s financial application.
42. *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 are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of this project, and might need to be enhanced as the consultation with the various stakeholder groups evolves.
43. *Principle 6: mSCOA Detail Accounts* - Labels and accounts are defined to have readily available the information needed for local government budgeting (annual budgets, adjustment budgets and the service delivery- and budget implementation plans (SDBIP’s)) and reporting (monthly, mid-year performance assessment and annual financial statements).
44. *Principle 7: mSCOA Definitions* - The master mSCOA provides definitions 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.

45. 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.
46. Principle 9: *The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework<sup>1</sup> (2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.
47. Principle 10: *Reporting* - The Position Paper on Reporting defines the phased approach envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined by the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The collective reference made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
48. Principle 11: *Economic Reporting Format* - The Economic Reporting Format of 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 Municipal Budget and Reporting Regulations, further distinguish between transfers recognised operational and capital, contributions and public donations and contributed assets replaced in mSCOA with these categories.
49. Principle 12: *NERSA Regulatory Reporting Requirements* - NERSA as explained in the *Regulatory Reporting Manual Volume 2: Electricity* prescribes and provides

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<sup>1</sup> Compliance to the Standard of GRAP in terms of presentation to be confirmed through Phase 2 described in the Position Paper on Reporting.

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 enable NERSA to perform its functions. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and this principle will oversee and enforce their requirements included in the relevant sets of legislation.

50. *Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements –* The Department has 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 municipality's readiness to comply with the DWS Reporting Requirements. DWS is the custodian of the Reporting Requirements and thus will oversee and enforce their requirements included in the relevant sets of legislation.

1. *Principle 14: Level of Detail –* A municipality may add detail breakdown-levels in addition to that provided for in the mSCOA chart of accounts at their discretion. However, adding detail needs to be carefully considered, being the exception rather than the principle. The indicators provided to guide on the posting level and breakdown required reflect the minimum requirements from the National Treasury's perspective.

Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus cannot be part of the string downloaded for upload by the National Treasury: Local Government Database and Reporting System.

Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest therein.

The table below explains the indicators used in the columns provided for in the mSCOA Tables for the Regional segment:

Indicator	Yes	No
<b>Posting Level</b>	Defines the level of capturing the transaction.	Not a posting level, therefore follow the guidance for breakdown

		required and the principle as explained for detail to be added.
<b>Breakdown Required</b>	The municipality is required to define the level for capturing the transaction, expand the parent-child code structure and adopt the guide of the parent.	National Treasury is not interested in further detail, but the municipality may add detail at its own discretion. This will not be extracted for reporting to the National Treasury.

51. *Principle 15: Charges and Recoveries* - Distinction is made between charges and recoveries in separate groups of accounts. Cost allocation transactions contain both these elements in processing the **debit and credit components of the transaction**. At any given point in time “recoveries and charges” must be equal in value (The nett of costing must always be zero). Recoveries refer to allocation of cost by the sender to the receiving department, being the recipient of the service or allocation. Charges indicate the cost allocated to the recipient of the services by the sender department.
52. *Principle 16: National Treasury Costing Methodology Guideline for Local Government* - This Guideline addresses the gap in the local government 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 provides for the cost elements to enable recording of the transactions inherent to reflecting the charge out to the receiving department and the recovery for the sender department. The content of the guideline serves as the basis for the design reflected in this segment.
53. *Principle 17: Secondary Costing* – The mSCOA Classification provides the “minimum requirements” for municipalities to do cost allocations or re-allocations between departments (municipal standard classification) and functions within the mSCOA Classification Framework. National Treasury recognised the complex nature of cost allocation methodologies, inability of municipal systems pre-mSCOA in providing for costing methodology applications and the lack of uniform practices supported by reference material peculiar to the municipal environment offering practitioners support. Municipalities are in various stages of implementing the National Treasury Guidance and therefore the classification structure provides for municipalities to expand the

account structure at own discretion to provide for specific peculiarities associated with the methodology adopted by the municipality. However, this is not for reporting to National Treasury, but only for internal municipal analysis and reporting.

54. *Principle 18: The Cost of Individual Service* – A key objective is 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 (for example the finance department recharge). Recharges typically come from support departments to trading operations, but could also be between two front-line services within a municipality.
55. *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 require that for certain disclosures (for example staff costs), the true total of an item be shown, excluding recharges. mSCOA also aims to produce useful data for policy and national account 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 with its expenditure nature. Therefore, internal cost recovery is dealt with in the “Function” and “Costing” segments, as not to interfere with the nature of spending for annual financial statement reporting purposes. At a posting level distinction is made between “recharges (charges) and recoveries”.
56. *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 multiple methodologies. The end-result is that the operation must be as simple as possible but still provide 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

57. *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”. Reallocation of primary cost to fixed assets is achieved with journal transactions and NOT the costing segment.
58. *Principle 22: Account Number Structure* – The account structure comprises 13 levels of which the first level contains alphanumeric data to identify the Costing segment, followed by the identification of “charges” and “recoveries”, and the methodology which is being used, namely “Departmental Charges”, “Internal Billing”, and “Activity Based Costing”. The prefix “CO” identifies the Costing segment.

## Legislative and Regulatory Requirements

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

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>LEGISLATION</b>		
<b>Local Government Municipal Property Rates Act, 2004 (Act No. 6 of 2004) as amended</b>	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.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<p><b>Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b></p>	<p>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”.</p> <p>Section 41: Monitoring of Prices and Payments for Bulk Resources</p> <p>Section 42: Price Increases of Bulk Resources for Provision of Municipal Services</p> <p>Section 43: Applicability of Tax and Tariff Capping on Municipalities</p>	<p>Considered in the set-up of the mSCOA segments.</p>
<p><b>Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000)</b></p>	<p>Section 74(2): Tariff Policy</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<p><b>Water Services Act, 1997 (Act No. 108 of 1997)</b></p>	<p>Section 10: Norms and Standards for Tariffs</p>	<p>mSCOA Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>The Constitution</b>	<p>Section 216: Treasury Control</p> <p>2. National legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing:</p> <ul style="list-style-type: none"> <li>a. Generally, recognised accounting practice</li> <li>b. Uniform expenditure classification; and</li> <li>c. Uniform treasury norms and standards</li> </ul> <p>3. The National Treasury must enforce compliance with the measures established in terms of sub-section (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.</p>	Segments set-up to assist in the extraction of information to use in the rates assessment process.
<b>Local Government Transition Second Amendment Act, 1996 (Act No. 97 of 1996)</b>	<p>Section 5: Sewerage</p> <p>(j): the determination of a uniformly structured bulk tariff for the purification and bulk conveyance of sewerage;</p>	Segments set-up to assist in the extraction of information to use in the rates assessment process.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	(k): the development of a uniform basis for the structuring of user tariffs	
<b>Electricity Regulation Act, 2006 (Act No. 4 of 2006)</b>	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.
<b>Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007)</b>	Definition for “municipal base tariff”	Segments set-up to assist in the extraction of information to use in the rates assessment process.
<b>REGULATIONS</b>		
<b>Municipal Regulations on a Standard Chart of Accounts (mSCOA), 2014</b>	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 on recoveries for purposes of recording specific activities and	Segments set-up to assist in the extraction of information to use in the rates assessment process.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	functions in terms of their unit costs and cost categories.	
<b>CIRCULARS:</b>		
<b>MFMA Circular No. 42 Funding a Municipal Budget, 30 March 2007</b>	<p>Accrual based Financial Management</p> <p>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. The information will also assist in the review of ratepayers'/ consumers' contributions towards services, for the years covered by the medium-term revenue and expenditure framework (MTEF).</p>	Segments set-up to assist in the extraction of information to use in the rates assessment process.
<b>MFMA Circular No. 48 Municipal Budget Circular for the 2009/10 MTREF, 2 March 2009</b>	<p><i>Revising Rates, Tariffs and Other Charges</i></p> <p>Eskom Bulk Tariff Increases</p> <p>Impact of the 2 cents per kWh Environmental Electricity Levy</p>	Segments set-up to assist in the extraction of information to use in the rates assessment process.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<p>Implementation of the Municipal Property Rates Act, 2004.</p> <p>Verification of Existing Municipal Taxes in terms of the Municipal Fiscal Powers and Functions Act, 2007.</p> <p>Fuel Levy Allocation to Metropolitan Municipalities</p> <p>Compensation to District Municipalities through the RSC Levies Replacement Grant</p> <p><i>Guidance on Specific Issues</i></p> <p>Budgeting for Revenue and Revenue Foregone.</p> <p>Budgeting by Government Finance Statistics (GFS) and "Internal Charges."</p> <p>Budgeting for Free Basic Services</p> <p>Budgeting for capital</p> <p><i>National Treasury's Special Focus Area</i></p> <p>Focus on Repairs and Maintenance</p>	
<p><b>MFMA Circular No. 51 Municipal Budget Circular for the 2010/11 MTREF, 19 February 2010</b></p>	<p><i>Revising Rates, Tariffs and Other Charges</i></p> <p>Eskom Bulk Tariff Increases</p> <p>Water Tariffs must be Cost-reflective</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	Budgeting by Government Finance Statistics (GFS) and "Internal Charges"  Budgeting for Free Basic Services	
<b>MFMA Circular No. 54 Municipal Budget Circular for the 2011/12 MTREF, 10 December 2010</b>	<i>Revising Rates, Tariffs and Other Charges</i>  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.
<b>MFMA Circular No. 55 Municipal Budget Circular for the 2011/12 MTREF, 7 March 2011</b>	<i>Revising Rates, Tariffs and Other Charges</i>  Eskom Bulk Tariff Increases  Introduction of Inclining Block Tariffs  Water Tariffs must be cost-reflective  <i>Municipal Budget and Reporting Regulations</i>  Municipal Budget and Internal Charges  Municipal Budget and Reporting Regulations, 2009 (MBRR) issues dealt with in previous MFMA Circulars: <ul style="list-style-type: none"> <li>• Budgeting for Revenue and "Revenue Foregone"</li> </ul>	Segments set-up to assist in the extraction of information to use in the rates assessment process.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<ul style="list-style-type: none"> <li>Budgeting for Free Basic Services</li> </ul>	
<b>MFMA Circular No. 58 Revenue Management, 14 December 2011</b>	<p><i>Taking the 2011 Local Government and Expenditure Review Forward</i></p> <p>Pricing Services Correctly</p> <p><i>Revising Rates, Tariffs and Other Charges</i></p> <p>NERSA's Process to approve Electricity Tariffs</p> <p>Eskom Bulk Tariff Increase</p> <p>Introduction of Inclining Block Tariffs for Electricity</p> <p>Water and Sanitation Tariff must be Cost-reflective</p> <p>Solid Waste Tariffs</p> <p>Revaluations in terms of GRAP 17 and the Treatment of Depreciation in the Budget</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<b>MFMA Circular No. 59 Municipal Budget Circular for the 2012/13 MTREF, 16 March 2012</b>	<p><i>Revising Rates, Tariffs and Other Charges</i></p> <p>Eskom Bulk Tariff Increases</p> <p>Process for NERSA approval of Municipal Electricity Tariffs</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<b>MFMA Circular No. 64 Revenue Management, November 2012</b>	<p><i>Key Focus areas for the 2013/14 budget process</i></p>	<p>Segments set-up to assist in the extraction of information to use in the</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<p>The Local Government Budgets and Expenditure Review published in September 2011 contains 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.</p> <p>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.</p>	<p>rates assessment process.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<p><i>Sources of Funding for Municipalities</i></p> <p>Furthermore, section 75 of the Property Rates Act, 2004, compels municipalities to adopt By-Laws to give effect to the implementation and enforcement of their <i>tariff policies</i>; in fact, all policies and supporting decisions taken by the municipal council must be supported by a By-Law to make it legally enforceable. Failure to comply with the necessary By-Law requirements may expose the municipality to litigation.</p> <p><i>Protecting the Municipal Revenue Base</i></p> <p>Tariffs for trading service should be determined in relation to the cost of providing such services.</p> <p>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-</p>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<p>making will ensure that the municipality's limited financial resources are spent wisely so that value for money is achieved.</p>	
<p><b>MFMA Circular No. 66 Municipal Budget Circular for the 2013/14 MTREF, 11 December 2012</b></p>	<p><i>Taking the 2011 Local Government Budgets and Expenditure Review forward</i></p> <p>Pricing Services Correctly</p> <p>Regulation on a Standard Chart of Accounts (mSCOA) for Local Government, 2014</p> <p>Financial Applications (Systems) and the Impact of mSCOA</p> <p>Management Accounting and Tariff Setting</p> <p>Revising Rates, Tariffs and Other Charges</p> <p>NERSA's Process to approve Electricity Tariffs</p> <p>Eskom Bulk Tariff Increases</p> <p>Inclining Block Tariffs for Electricity</p> <p>Water and Sanitation Tariffs must be Cost-reflective</p> <p>Municipal Budget and Reporting Regulations, 2009 (MBRR) issues dealt with in Previous MFMA Circulars</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	Budgeting for Revenue and "Revenue Foregone"	
<p><b>MFMA Circular No. 67</b>  <b>Municipal Budget Circular for the 2013/14 MTREF, 12 March 2013</b></p>	<p><i>Revising Rates, Tariffs and Other Charges</i>                      Eskom Bulk Tariff Increases                      Inclining Block Tariffs for Electricity                      Process for NERSA approval of Municipal Electricity Tariffs</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<p><b>MFMA Circular No. 70</b>  <b>Municipal Budget Circular for the 2014/15 MTREF, 3 December 2013</b></p>	<p><i>Local Government Budget and Financial Management Reforms</i>                      Regulation of a Standard Chart of Accounts (mSCOA) for Local Government, 2014                      Financial Applications (Systems) and the Impact of mSCOA                      Management Accounting and Tariff Setting  <i>Revising Rates, Tariffs and Other Charges</i>                      Operating Revenue                      NERSA's Process to approve Electricity Tariffs                      Eskom's Bulk Tariff Increases                      Inclining Block Tariffs for Electricity</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<p>Water and Sanitation Tariffs must be cost-reflective</p> <p>Solid Waste Tariffs</p> <p>Non-revenue Water and Electricity</p> <p><i>Budget Management issues dealt with in previous MFMA Circulars</i></p> <p>Water and Sanitation Tariffs must be cost reflective</p>	
<p><b>MFMA Circular No. 70</b>  <b>Municipal Budget Circular for the 2014/15 MTREF, 3 December 2013</b></p>	<p><i>Revising Rates, Tariffs and Other Changes</i></p> <p>Operating Revenue</p> <p>NERSA's process to approve electricity Tariffs</p> <p>Eskom's Bulk Tariff Increases</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<p><b>MFMA Circular No. 72</b>  <b>Municipal Budget Circular for the 2014/15 MTREF, 17 March 2014</b></p>	<p><i>Revising Rates, Tariffs and Other Changes</i></p> <p>Operating Revenue</p> <p>NERSA's process to approve electricity Tariffs</p> <p>Eskom's Bulk Tariff Increases</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<p><b>MFMA Circular No. 74</b>  <b>Municipal Budget Circular for the 2015/16 MTREF, 12 December 2014</b></p>	<p>Regulation of a Standard Chart of Accounts (SCOA) for Local Government, 2014</p> <p>Operating Revenue</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	<p>Management Accounting and Tariff Setting</p> <p>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)</p> <p>Eskom Bulk Tariff Increases</p> <p>Water and Sanitation Tariffs must be Cost Effective</p> <p>Budgeting for Revenue Foregone and Free Basic Service to Indigents</p> <p>Tabling Funded Budgets</p>	
<p><b>MFMA Circular No. 75 Municipal Budget Circular for the 2015/16 MTREF, 9 March 2015</b></p>	<p>The Medium-Term Budget Review 2015</p> <p>Shaping Urban Development to Support Growth in Cities</p> <p>Headline Inflation Forecasts</p> <p>Eskom Bulk Tariff Increases</p> <p>Electricity Levy Increase</p>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process,</p>

## Transactions by Business Process to be allocated in this Segment

60. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting is a source document from an activity within a business process, initiating the activity to flow through a defined business processes, ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
61. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the municipality’s financial application.
62. Identification of transactions by typical business processes would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
63. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee during October 2010, and again confirmed by the mSCOA Project Steering Committee (without making any changes) during October 2016. This classification applies to primary transactions and all secondary transactions, recorded in the “Costing” segment, are classified according to the costing methodology applied and not the nature of the related primary - or secondary transaction.

Transaction Type	Allocate Yes/ No	Comments
Assets	N/a	
Liabilities	N/a	
Revenue	N/a	
Net Assets	N/a	
Expenditure	N/a	

## Category Links and Business Rules

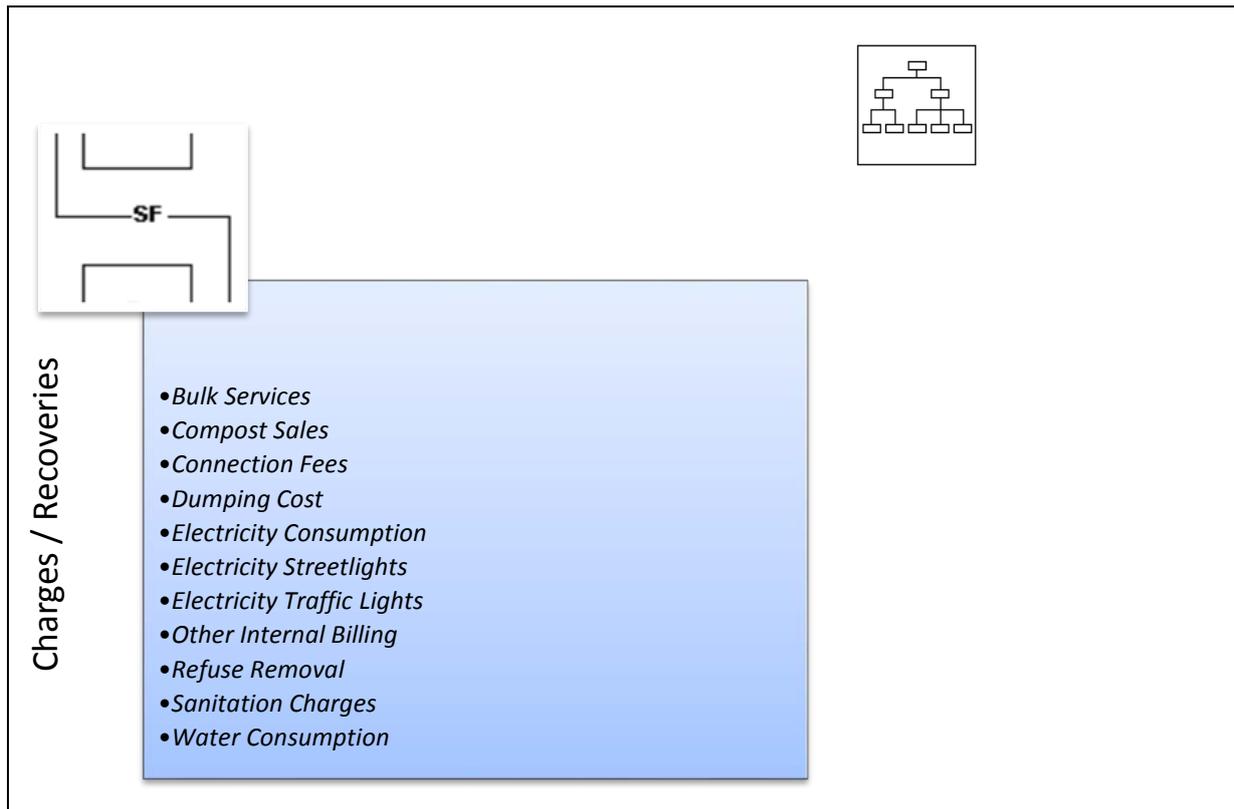
64. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of this project and might need to be enhanced as consultation with the various stakeholder groups evolves.
65. Proposals identified at this stage of the development of mSCOA Version 6.1:
- The “Costing” segment to default for all transactions, *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 a capital project if in contradiction with the requirements of the Standards of GRAP.

## Discussion of the Costing Segment

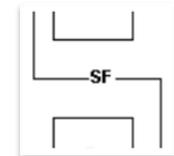
66. The classification provided in this segment is the minimum requirements for reflecting full cost for the four municipal trading functions being electricity, water, waste water management and waste management services. Should the municipality adopt a more sophisticated costing methodology such as activity based costing, a request may be made to the mSCOA Technical Committee following the due process, to provide for the alternative structures in mSCOA.
67. Care needs to be taken when considering the addition of detail. It is the responsibility of the municipality to ensure that if detail is added below 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 envisaged in the prescribed standard classification. If in doubt, call on the mSCOA Technical Committee for guidance and assistance in this regard.
68. Distinction is made in mSCOA Version 6.1 between "charges to receiving departments" and "recoveries made by sending departments". Earlier versions

assumed “set-off” within the posting level accounts. Based on user requests this change was introduced to indicate “set-off” at consolidation, rather than applying this at the earlier posting level. In the table below, for the purpose of simplification “charge/ recoveries” are explained together, although distinction is made between “charges and recoveries”, and posting level accounts are separately coded.

## Internal Billing

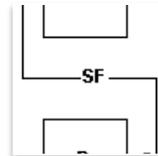


## Departmental Charges/ Recoveries



### Charges / Recoveries

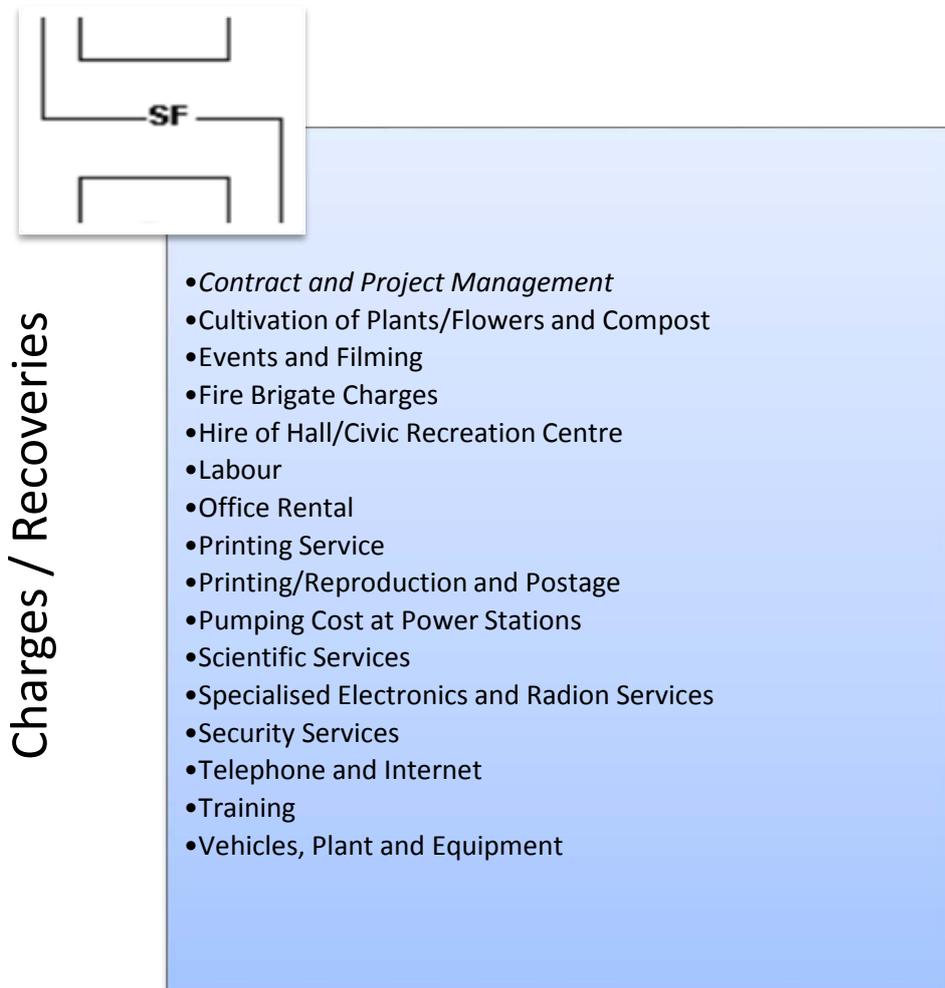
- Accounting
- Asset Management
- Audit Fees (External)
- Internal Audits, Investigation and Risks
- Budgets
- Cleaning Services
- Communication, Information and External Relations
- Communication
- Cross Subsidisation
- Democratic Process
- Directorate
- Employee Benefits
- Expenditure
- Event Management
- General Administration
- Green Electricity
- Human Resource Recruitment
- Insurance Fees
- Integrated Development Planning
- Indigent
- Insurance Assets
- Internal Interest
- Internal Laboratory Fees



### Charges / Recoveries

- Labour Relations
- Legal Services
- Management Support
- Meter Readers
- Municipal Management
- Occupational Health and Safety and Employee Wellness
- Office Rentals
- Other Internal Billings
- Payroll
- Plot Cleaning
- Personnel Related Internal Insurance
- Postal Service
- Procurement
- Project Management
- Rates Charges
- Resource and Planning
- Revenue Management
- Security
- Specialist Financial Management
- Telephone
- Telephone: Maintenance
- Training and Development
- Valuations
- Internally Manufactured Materials

## Activity Based Recoveries



## Preparation for mSCOA Conversion

69. Bringing about effective conversion to an mSCOA compliant chart of accounts from the municipality's perspective is vital in achieving success. Paramount to the "Costing" segment is the municipalities' Cost Allocation Policy and Methodology.
70. The system developers responsible for applications commonly used by the municipalities are 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.

71. 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 included in the mSCOA Classification Framework. It is advisable to involve the responsible officials from National Treasury in resolving fundamental differences revealed from this exercise.
72. The next step would 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 Frequently Asked Questions (FAQ) Database, to the mSCOA Technical Committee to either expand the classification or assist in finding the appropriate classification.
73. 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 taking into consideration 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.
74. The cost allocation structure presented in this mSCOA Costing 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 in the larger cities may require additional detail to supplement the existing mSCOA structure. Should municipalities find themselves in this position the issue(s) should be raised by the municipality to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database for assistance and consideration.

## Annual Maintenance and Matters Pending

### Annual Maintenance

75. None identified at the time of completing the Project Detail Document.

### Matters Pending

76. None identified at the time of completing the Project Detail Document.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[SCOA for MUNICIPALITIES]*

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**Project Detail:**

**Section 2 – Function Segment**

*November 2017 (Version 6.1)*

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## SECTION 3: FUNCTION SEGMENT

### Background to the Segment

#### Relevance of the Functional Segment, Methodologies and the Application thereof within the Context of mSCOA

1. In Municipal SCOA, the Function Segment provides the perspective for aggregated reporting across the three (3) spheres of government. This section, by providing background information, aims to facilitate better understanding of the purpose of this Segment. It is therefore important to note that the National Treasury MFMA Circular 12 on the Definition of a 'Vote' in the MFMA forms the basis for this discussion and is available on the National Treasury web page <http://mfma.treasury.gov.za/Circulars>. It is crucial that a person using this project detail document is therefore familiar with MFMA Circular 12 beforehand. The municipal 'organisational structure' (as unique to and defined by every individual municipality) determines the "vote" structure whereas 'function/ sub-function' is the standardised equivalent of "votes" directly aligned to functions and sub-functions.
2. The "vote" in a municipal context provides, at the highest-level of the administration, a budget structure for appropriate service-delivery and performance. Budget appropriations and subsequent reporting by "vote" allow for effective administration, policy-setting and measurement of service-delivery performance.
3. The structure of a "vote" is key to the development and preparation of various processes and priority setting in the municipality to enhance consultation, budgeting, service-delivery implementation (as outlined in the SDBIP), monthly, quarterly and annual reports (in-year and end-of-year reporting), and to determine matters that relate to irregular and unauthorised expenditure. The Function / Sub-function (or the vote as defined) is therefore an important classification to record a transaction within the mSCOA classification structure.
4. The definition of a "vote" included in section 1 of the MFMA provides the initial point of reference and defines a "vote" as: "(a) *one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality and (b) which specifies the total*

*amount that is appropriated for the purposes of the department or functional area concerned*".

5. The term "vote" is used to divide the budget into segments and the municipal council then approves the budget according to the votes (segments) by means of a council resolution. The definition requires "votes" to be defined at the departmental or functional-level. The reason being that municipalities are structured around departments, which in most instances tend to be linked to specific functions. The main driver of all municipal transactions is therefore "function".
6. Senior managers head departments/ functions, which makes it easier for the "vote" of a department to be used to facilitate accountability for service-delivery and- budget implementation as well as performance management in accordance with annual performance agreements. In structuring accountability, senior managers form part of top management and report directly to the municipal manager (MFMA section 77).
7. Apart from facilitating accountability, the "vote" at functional level, allows for comparisons between municipal budgets; a comparison of the annual budget year-on-year (even if the organisational structure is amended by a shift of departments/ functions); and a comparison and benchmarking of the budgets of different municipalities in South Africa and other countries. These comparisons are however, only possible if there are consistent definitions for "votes, departments and functions".

## Definitions of "Vote" in terms of Departments or Functions

8. The first point to note is that every department in the municipality needs to be defined in terms of one or more broad functions (e.g. electricity, water and sanitation, etc.). Additionally, to facilitate comparisons, functions in government must be related to an international classification system like the Government Finance Statistics (GFS) system.
9. GFS functions provide a reasonably high-level grouping of related service-delivery activities for local government, and it is important that whatever organisational structure a municipality has, it can relate them to GFS sub-functions to the extent that this is possible.

10. The classification framework provided for in Version 6.1 of the mSCOA Tables considered the functional classification for expenditure, provided for in the 2014 release of the GFS Manual.
11. The municipal strategic goals as articulated in the municipal integrated development plan (IDP) should also be linked to the function / sub-functions, which will ensure that managers are aware of how their organisation's budget and plans are all linked to the IDP of the municipality.
12. The structure of a vote (within the Municipal Standard Classification (MSC) segment) should therefore not require a re-organisation or restructuring of the municipality, as long as a municipality largely defines its departments around key functions or sub-functions.
13. Departments may also perform cross-functional activities such as centralised revenue management and collection; one department may collect revenue for functions such as electricity, water, waste removal and so on while other departments may be responsible for the distribution of electricity and water.
14. A further example is the department of roads within the municipality which may also be responsible for street lighting. In this regard the electricity function and the vote is divided between two different departments as the department of roads will have two votes – one for roads, and one for electricity (sub-function street-lighting).
15. This example illustrates that the (classification structure at the functional level) is flexible and can be adjusted to accommodate any organisational structure. Such flexibility will be possible as long as each "vote" or department is broken down for reporting into functions (or sub-functions and sub-sub-functions), according to the organisation structure and management requirements of the municipality.
16. Considering the reporting complexities created by municipalities using the municipal organisational structure and managerial refinements as the vote structure, it is highly recommended that the "functional classification" be adopted by all municipalities as their respective "vote" structure.
17. The format of the budget introduced with the implementation of the Municipal Budget and Reporting Regulations, 2009 focuses on outputs, and is meant to be a reasonably high-level strategic document. On the other hand, the service-delivery

and- budget implementation plan (SDBIP) is a more detailed management implementation plan for the annual budget.

18. By requiring the “vote” to be at a high-level (department and functional area), the MFMA enables councillors to focus on policy and strategy while providing the mechanisms to hold management accountable for service-delivery and- budget implementation.
19. The level of the “vote” for the purposes of the MFMA should therefore be arranged around functions and sub-functions, and aligned to senior managers. This principle was followed through to the design principles applied in the classification structure for the Function segment. Note that in most instances this does not require organisational changes, as the vote format is flexible.
20. One of the key reforms required by the MFMA is to link measurable performance objectives to each “vote”, to ensure that municipalities are accountable to the community for service delivery as well as expenditure and revenue (See National Treasury MFMA Circular No. 13 on the Service Delivery and Budget Implementation Plan (SDBIP)).
21. The measurable performance objectives must be broken-down into specific objectives for sub-functions, to be published in the budget or SDBIP, and incorporated into the performance agreements of all managers in the municipality. It is therefore possible for a function to be shown under more than one senior manager (department). This requirement for non-financial information will not immediately be met through the mSCOA regulation but cannot be ignored.
22. It should be noted that within a vote, some categories of expenditure are required to be exclusively appropriated. This includes, for each vote, capital and operating expenditure, as well as key sub-functions. Measurable performance objectives are to be included for each vote; and they will generally also be required for all or most sub-functions.
23. The municipality needs to allocate the activities carried-out by each senior manager’s department to one or more of the sub-functions. This approach recognises the dynamism of any organisation, although allowing for reporting in the functional manner.

24. Ensuring the “vote” is always at the function-level will assist with comparing budgets across years for the same municipality, even if its organisational form changes over time. Furthermore, it will assist with comparisons across municipalities and support the setting of benchmarks across the sectors e.g. water, electricity, etc.
25. The SDBIP should provide a matrix that links the departments and the responsibilities of each senior manager within that department, with the relevant sub-function and include the budget for each sub-function. If more than one senior manager contributes to a function, this function will need to be shown separately under each senior manager for their component.

## The Budget Resolution

26. The definition of “vote” in the MFMA talks of appropriating (assigning/ allocating) money. MFMA sections 17 and 24 requires approval of operating expenditure, capital expenditure and measurable performance objectives for each “vote”. Revenue forms an integral part of this process and requires the approval of appropriate tariffs and charges. This ensures that service-delivery targets can be achieved if allocated to specific functions of the municipality and each senior manager can be held accountable for service-delivery and budget implementation within their area(s) of responsibility.
27. Budget documents supporting the budget resolution should set-out operating expenditure, capital expenditure, tariffs, revenue, service-delivery targets and other performance indicators for each function and sub-function for each senior manager (though the council resolution does not have to formally include or be approved in such detail).

## Adjusting Revenue, Expenditure and Service-delivery Targets

28. Following the previous discussions, it is clear that management can only incur expenditure, collect revenue and deliver services according to the budget resolution approved by the municipal council. Any expenditure incurred that is not in accordance with a vote (or exceeds the amount of a vote) approved by council is

classified as unauthorised expenditure, which sets-off corrective and disciplinary mechanisms against the accounting officer and / or responsible official(s).

29. The municipal administration may not at will move funds between votes (approved by the municipal council). Any movement of funds between “votes” and alteration of service-delivery targets or performance indicators therefore requires an adjustment budget and a further council resolution. This means, a municipal council resolution is required to deviate from the original council resolution that approved the budget.
30. Keeping the “vote” at a high-level (when council approves such) allows senior managers to move expenditure and revenue as necessary within a “vote” without an adjustments budget provided the overall revenue, expenditure and performance objectives for that “vote” are not negatively affected.
31. Furthermore, in-year reporting (monthly, quarterly, mid-year) and annual reporting requires comparison between projections and actual results achieved. Managers are expected to manage service-delivery and budget implementation within the bounds of the budget resolution and will be accountable for performance in this regard. They are expected to report on service-delivery outputs linked to their budgets.
32. In terms of the requirements of section 17 of the MFMA, expenditure is determined by vote as well as revenue for the current and following two years, funds are thus appropriated by vote.

## Agency-principle Relationship

33. A municipality is a creature of statute and only has those functions assigned to it in terms of the Constitution. There are however circumstances where a municipality may perform functions (that are not core to its Constitutional mandate) on behalf of another sphere of government or even another municipality. These non-core functions are commonly known as “agency services”. The Function segment’s structure provides for a classification of “non-core services” per function provided for in the Constitution.
34. The arrangement depends on the municipality to agree with a national, provincial department or district municipality to perform the administration of the function.

Similar arrangements may exist between district and local municipalities. It is important in these arrangements to consider any potential VAT implications.

### *VAT 419 Guide for Municipalities*

35. The VAT 419 guide concerns the application of the value-added tax (VAT) law in respect of municipalities. Although fairly comprehensive, the guide does not deal with all the legal detail associated with VAT and is not intended for legal reference. Technical and legal terminology has also been avoided wherever possible. For details in respect of the general operation of VAT, refer to the Guide for Vendors (VAT 404) which is available on the South African Revenue Service (SARS) website.
36. Chapter 3 of the VAT 419 Guide for Municipalities provides some important information on “agent versus principal” in determining the VAT consequences of a transaction.
37. In order to correctly apply the VAT legislation to the concept of agents, it is necessary to identify and understand the concept of an “agent” as understood in common law.
38. An agency is a contract whereby one person (the agent) is authorised and required by another person (the principal) to contract or to negotiate a contract with a third person, on the latter’s behalf.
39. The agent in representing the principal, creates, alters or discharges legal obligations of a contractual nature between the principal and the third party. The agent therefore provides a service to the principal and normally charges a fee (generally referred to as a “commission” or an “agency fee”) but does not acquire ownership of the goods and/ or services supplied to, or by, the principal.
40. This agent/ principal relationship may be expressly construed from the wording of a written agreement or contract concluded between the parties. Where a written agreement or contract does not exist, the onus of proof is on the person who seeks to bind the principal and demonstrate that the relationship was that of a principal and agent.
41. An understanding of the relationship between the parties is therefore a requirement in understanding the VAT treatment of supplies made by the parties. The differences between an agent and a principal can be summarised as follows:

Agent	Principal
The agent will not be the owner of any goods or services acquired on behalf of the principal.	The principal is the owner of the goods or services acquired on the principal's behalf by the agent.
The agent will not alter the nature or value of the supplies made between the principal and third parties.	The principal may alter the nature or value of the supplies made between the principal and third parties.
Transactions on behalf of the principal do not affect the agent's turnover, except to the extent of the commission or fee earned on such transactions.	The total sales represent the principal's turnover. The commission or fee charged by the agent forms part of the principal's expenses.
An agent only declares the commission or fee for Income Tax and VAT purposes.	The principal declares gross sales as income for Income Tax and VAT purposes, and may be allowed to claim a deduction for the commission or fee charged by the agent.

42. In essence, the differences indicate that the principal is ultimately responsible for the commercial risks associated with a transaction, and that the agent is trading for the principal's account. The agent is appointed by and takes instruction from the principal regarding the facilitation of transactions as per the principal's requirements and generally charges a fee or earns a commission for that service.
43. To correctly apply the VAT legislation, it is necessary to identify and understand the contractual relationship between the parties. The VAT treatment of supplies proceeds from the fact of whether a person is acting on their own behalf, or on behalf of another person. In essence, section 54 provides that where a vendor employs the services of an agent to acquire goods or services, or to make supplies on the vendor's behalf, the supplies are made to, or acquired by, the principal (as the case may be). There are also special provisions dealing with the receipt and issuing of tax invoices.
44. As an agent merely acts on behalf of the principal, any output tax and input tax in relation to the underlying supplies made or received on behalf of the principal must

be accounted for on the VAT return of the principal (if the principal is a vendor). The agent will only declare output tax and input tax in relation to the agency services supplied (if the agent is a vendor).

### *Standards of GRAP*

45. The Accounting Standards Board (ASB) issued the Standard of GRAP 109 on Accounting Principles and Agents in July 2015. The effective date of GRAP 109 was not yet announced by the Minister of Finance. Practitioners are advised to refer to this Standard of GRAP for the full context and requirements. Specific paragraphs are extracted from GRAP 109 in this document to enable comments/ understanding thereof in the context of the Function segment discussion.
46. The scope of the standard indicates that if financial statements are prepared and presented based on the accrual basis of accounting this shall be applied in determining whether it is a principal or an agent in a principal-agent arrangement.
47. Considering the distinction between “core versus non-core” introduced in the Function segment; “non-core” provides for the municipality being an agent in respect of activities taking place. The following terms are used in this Standard with the meanings specified:
  - An *agent* is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.
  - A *principal* is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.
  - A *principal-agent arrangement* results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).
  - The definition of an agent and principle uses the term “entity” to broadly describe a party to an arrangement. An individual person may also be a principle or agent.

48. The accounting treatment explained in paragraphs 42 – 44 of this Standard of GRAP are not changed in any way by the implementation of mSCOA. The principles as defined are maintained within the classification tables:
- A principal recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement.
  - An agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.
  - An entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of other Standards of GRAP.

## Purpose of the Function Segment

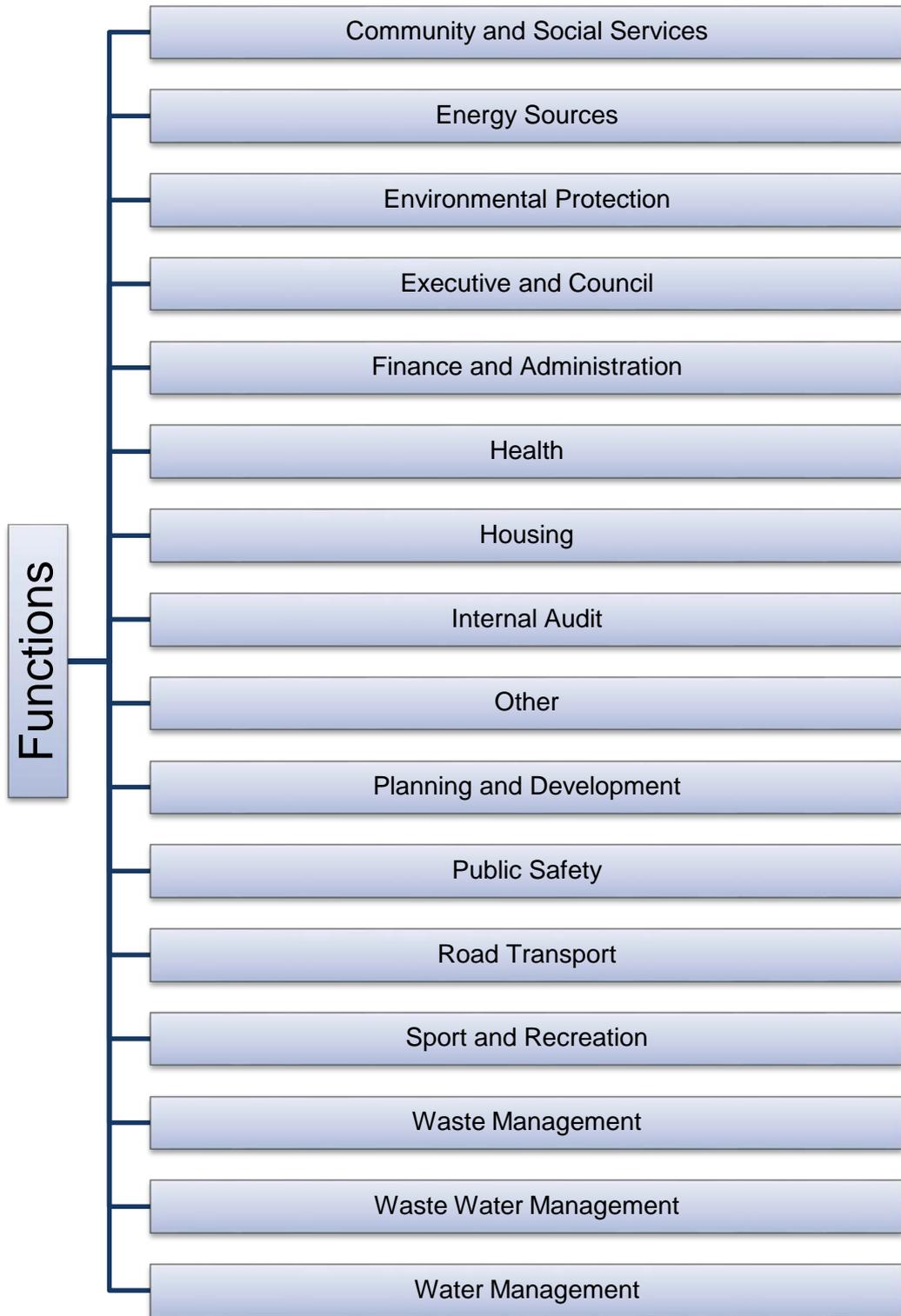
49. In the context of the discussion above, the “Function segment” is the location within mSCOA for creating a standardised “vote” structure throughout municipalities. In addition, the segment makes distinction between “core-” and “non-core functions” or also known as “funded-” or “unfunded/ under funded mandates” and agency services.
50. The South African Cities Network defines an unfunded / underfunded mandate as: “when municipalities perform the functions of other spheres of government and bear significant cost out of their own revenue sources”. These unfunded / underfunded mandates pose an institutional and financial risk to the municipality as substantial amounts of municipal own funding is being allocated to non-core functions at the expense of basic service delivery which is the core mandate of the municipality.
51. One of the main objectives of local government is to ensure the provision of basic services to communities. Section 153 of the Constitution requires that the municipality’s budgeting processes must prioritise the basic needs of the community. MFMA Circular 74 urges municipalities to prioritise the provision of basic services such as electricity, water, sanitation and refuse removal in their medium term revenue and expenditure framework (MTREF) budgets. Based on the guidance contained, municipalities may only budget for non-core functions such as nurseries, sports fields, libraries, museums, health services, etc. if:
- the function is listed in Schedule 4B and 5B of the Constitution;

- the function is assigned to the municipality in terms of national and/ or provincial legislation;
  - the municipality has prioritised the provision of basic services; and
  - it does not jeopardise the financial viability of the municipality.
52. Municipalities are urged to sign service level agreements (SLA's) and recover costs where unfunded / underfunded mandates are performed on behalf of other spheres of government. However, it will not constitute an unfunded / underfunded mandate if the municipality provides non-core services beyond what is stipulated in the service level agreement (SLA).
53. The guidance provided in MFMA Circular 74 (as discussed in the preceding paragraphs) supports the design principles adopted in the classification structure adopted for this segment within the mSCOA classification framework.

*The key question to answer in classifying transactions within the Function segment is “against which function or sub-function” should the transaction be recorded?*

## Illustration: High-level Classification

54. The high-level functions included in the Function Segment are summarised in the table below.



55. The classification structure for the Function segment distinguishes between “Core Functions” (Section 145(1) functions as per the Constitution) and “Non-core Functions” (Section 145(4) functions as per the Constitution).
56. Essentially the functions provided are based on the MFMA Circular 12 functional classification, which is based on the international Government Finance Statistics (GFS) classification, 2011.
57. The function/ sub-function approach has been adopted by municipalities for a substantial period as a reporting framework and is also entrenched/ embedded in the Municipal Budget and Reporting Regulations, 2009. The SCOA project research phase revealed that this Function segment is implemented mostly through the use of mapping tables designed by the system vendors, with a few municipalities adopting the function/ sub-function as their organisational structure. This approach results in the municipal standard classification being obsolete for these municipalities.

## Design Principles

58. The following design principle(s) have been used in preparing the Function segment outline:
59. *Principle 1: mSCOA* - The segment outline and detail classification provides for all possibilities as a “master mSCOA” from which each municipality selects the accounts needed to “populate” their individual chart of accounts.
60. *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.
61. *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 proposed changes to a circular or guideline (issued by the National Treasury)

following the mSCOA regulation, 2014 are included in the “Proposed Changes Column” of the table.

62. *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 process and ultimately resulting in the transaction to be captured within a financial model in the system and updating the general ledger. 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).
63. *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 are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of this project and might need to be enhanced as the consultation with the various stakeholder groups evolves.
64. *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).
65. *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.
66. *Principle 8: Annual Financial Statements and Budget Reporting Formats* – mSCOA aligns with the budget and reporting formats and 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.
67. *Principle 9: The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual

financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework<sup>1</sup> (2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.

68. *Principle 10: Reporting* - The Position Paper on Reporting defines the phased approach envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and the Budget Reporting Tables as defined by the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The “collective reference” made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
69. *Principle 11: Economic Reporting Format* - The Economic Reporting Format, September 2009 identifies the categories for transfers as being transfers received from other government 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 Municipal Budget- and Reporting Regulations, 2009 distinguish between transfers recognised operational and capital, contributions and public donations and contributed assets. The categories in earlier versions were replaced in mSCOA v6.1 with these categories.
70. *Principle 12: 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. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and will oversee and enforce their requirements included in the relevant sets of legislation.

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<sup>1</sup> Compliance to the Standard of GRAP in terms of presentation to be confirmed through mSCOA.

71. *Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements –* The Department (DWS) was 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 municipality's readiness to comply with the DWS Reporting Requirements. DWS is the custodian of the Reporting Requirements and thus will oversee and enforce their requirements included in the relevant sets of legislation.
72. *Principle 14: Level of Detail –* Municipalities may NOT add additional information within the "Function segment". Breakdown required provides for information that **MUST BE ADDED BY THE MUNICIPALITY** and National Treasury has an interest therein.

The table below explains the indicators used in the columns provided in the mSCOA Tables for the Function segment:

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

73. *Principle 15: Applicability -* This column indicates the minimum requirements a municipality needs to comply with in the implementation of the Function segment. If the municipality requires more information than what is currently provided, the municipality must consult with the mSCOA Technical Committee to expand the existing Function segment detail to accommodate specific needs in this regard.

74. *Principle 16: Integrated Development Planning (The IDP)* – Through the strategic planning process, the municipality defines strategies to respond to its assessed challenges and problems. The municipality then identifies “projects” to address these strategic challenges and problems. The mSCOA “Project segment” together with the “Funding Segment” and “Regional Indicator (in the Regional segment)” and the “Municipal Standard Classification” segment assist the municipality to convert its strategies into actions. The Function segment provides the mechanism to compare the municipality with other municipalities based on the alignment of sub-sub-functions to the equivalent activity provided for in the Municipal Standard Classification segment across the district, province and/or at national level.
75. *Principle 17: Core versus Non-Core Function* - The structure for the “Function” segment distinguishes within the various functions between “Core and Non-core Functions”. **Core functions** are those functions assigned to local government in terms of section 156 (1) of the Constitution. These are functions performed by local government and constitutionally assigned to local government in terms of Part B of Schedule 4 and Part B of Schedule 5. **Non-core functions** refer to the functions performed by local government that are constitutionally assigned to provincial government in terms of section 156(4) of the Constitution. For example: Local Government are compensated for delivering these functions on behalf of provincial government and typically would receive management/ agency fees from the provincial department for performing these functions on its behalf.
76. *Principle 18: Budget Reporting Format* - Provide for a municipality to include in mSCOA the information presented in Table A3 and A5 of the Municipal Budget- and Reporting Regulations, 2009 (Budget Formats). Thereby showing the functional vote structure aligned to its organisational structure. This is because a municipality is not required but encouraged by MFMA Circular 12 to adopt the function/ sub-function as its organisational structure, but irrespective of which one is used, their totals should equal.
77. *Principle 19: Legislative Framework* - The MFMA describes a “vote” as the “main segments” into which a municipal budget is divided and specifies the “total amounts” to be appropriated for the department or functional area concerned. Currently, municipal votes generally correspond to the names of the municipal departments or programmes and not functions/ sub-functions.

78. *Principle 20: Legislative Framework* - The functional classification as adopted in the Municipal Budget- and Reporting Regulations, 2009 and supported by MFMA Circular 12 (with subsequent changes) serves as the basis for the “Function segment”.
79. *Principle 21: Account Number Structure* – The account structure comprises 13 levels of which the first level contains alphanumerical characters to identify the segment followed by the functions and sub-functions. The prefix “FX” identifies the Function segment. The mSCOA Version 6.1 tables define the posting level.
80. *Principle 22: The Government Finance Statistics Manual, 2014* – The Classification of Functions of Government (COFOG) is a detailed classification of the functions, or socio-economic objectives, that government units, in general, aim to achieve through various kinds of expenditure. COFOG is integral to the Government Finance Statistics (GFS) presentation. COFOG is one of a family of four classifications referred to as a ‘**classification of expenditure according to purpose**’. COFOG provides a classification of government outlays by function that experience has shown to be of general interest and useful to a wider variety of analytic applications. The ‘Project Segment Detail Document’ in Annexure B (CIDMS Classification), provides the Function classification with reference to the equivalent classification in COFOG supported by the definitions. These definitions may assist in providing further assistance to users in understanding the context of the respective classifications included in the mSCOA classification framework.
81. *Principle 23: MFMA Definition of Vote* - The functions are based on the provisions contained in MFMA Circular 12 (GFS Manual 2001) and provided for in the Budget Reporting Formats in terms of the Municipal Budget- and Reporting Regulations, 2009. As the mSCOA regulative process evolves, external stakeholders may necessitate that further standard sub-classifications are included in the reporting requirements, for example assisting in refining the VAT Indicators provided for in the Item segment. It is important in the budget and planning process and inherent to the nature of municipal services to determine tariffs for services such as waste collection, sanitation, water and electricity. Providing for these services as separate functions within the Function segment facilitate that the revenue, expenditure, assets, liabilities and net assets underlying and supporting these functions, are linked through the Item segment. In simple terms **it facilitates the extraction of financial information**

**specific to the functions provided for in the Function segment.** Conditional to accurate information is the internal control policies and procedures instituted by the municipality to oversee the initiation, input, processing and output of transaction data through the financial system. The two elements inherent to cost reflective tariffs are to (i) have a collective view of not only direct-cost relating to these tariff services but also (ii) secondary (indirect) cost associated to the tariff service. For example, to provide water to the community would require meter-reading to capture the periodic use from the installed meters to the financial system to bill users. This cost adds to the value of the water provided to the community and thus needs to be reflected in the tariffs used to bill users.

82. Principle 24: The Accounting Standards Board (ASB) issued the Standard of GRAP 109 on Accounting Principles and Agents in July 2015 - The Minister of Finance must still announce the effective date thereof. Practitioners are advised to refer to this Standard of GRAP for the full context and requirements. Specific paragraphs are extracted for the purpose of this document requiring comments in the context of the Function segment discussion. The scope of the standard indicates that if financial statements are prepared and presented based on the accrual basis of accounting this shall be applied in determining whether it is a principal or an agent in a principal-agent arrangement. GRAP Standard 109 specifies the following meanings:

- An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.
- A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.
- A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

The definition of an agent and principle uses the term “entity” to broadly describe a party to an arrangement. An individual person may also be a principle or agent. The accounting treatment explained in paragraphs 42 – 44 of this Standard of GRAP are not changed in any way by the implementation of mSCOA. The principles as defined are maintained within the classification tables to the effect that:

- A principal recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement.
- An agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.
- An entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of other Standards of GRAP.

83. Principle 25: Chapter 3 of the VAT 419 Guide for Municipalities provides some important information on “agent versus principal” arrangements when determining the VAT consequences of a transaction. In order to correctly apply the VAT legislation to the concept of agents, it is necessary to identify and understand the concept of an “agent” as understood in common law:

An agency is a contract whereby one person (the agent) is authorised and required by another person (the principal) to contract or to negotiate a contract with a third person, on the latter’s behalf. The agent in representing the principal, creates, alters or discharges legal obligations of a contractual nature between the principal and the third party.

The agent therefore provides a service to the principal and normally charges a fee (generally referred to as a “commission” or “agency fee”) but does not acquire ownership of the goods and/ or services supplied to, or by, the principal. This agent/ principal relationship may be expressly construed from the wording of a written agreement or contract concluded between the parties.

Where a written agreement or contract does not exist, the onus of proof is on the person who seeks to bind the principal and demonstrate that the relationship was that of a principal and agent.

An understanding of the relationship between the parties is therefore a requirement in understanding the VAT treatment of supplies made by the parties. In essence, the differences indicate that the principal is ultimately responsible for the commercial risks associated with a transaction, and that the agent is trading for the principal’s account.

The agent is appointed by and takes instruction from the principal regarding the facilitation of transactions as per the principal’s requirements and generally charges a fee or earns a commission for that service.

To correctly apply the VAT legislation, it is necessary to identify and understand the contractual relationship between the parties. The VAT treatment of supplies proceeds from the fact of whether a person is acting on their own behalf, or on behalf of another person. In essence, section 54 provides that where a vendor employs the services of an agent to acquire goods or services, or to make supplies on the vendor's behalf, the supplies are made to, or acquired by, the principal (as the case may be). There are also special provisions dealing with the receipt and issuing of tax invoices.

As an agent merely acts on behalf of the principal, any output tax and input tax in relation to the underlying supplies made or received on behalf of the principal must be accounted for on the VAT return of the principal (if the principal is a vendor). The agent will only declare output tax and input tax in relation to the agency services supplied (if the agent is a vendor).

## Legislative and Regulatory Requirements

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on Function Segment
<b>LEGISLATION</b>		
Municipal Finance Management Act, 2003 (Act No. 56 of 2003)	Section 15: Appropriation of Funds for Expenditure Section 17: Contents of Annual Budgets and Supporting Documents	<b><u>Functions and Sub-functions</u></b> provide the "votes" for setting limits for appropriations within an approved budget.
	Section 30: Unspent Funds	<b><u>Information</u></b> retained in this segment to assist in managing spending of funds within the context of the approved budget.

	<p>Section 62(1)(b): General Financial Management Functions</p>	<p>Full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed <b><u>norms and standards</u></b> – The mSCOA Regulation provides for the “Function segment” as part of the mSCOA Classification.</p>
	<p>Section 71: Monthly Reporting Section 72: Mid-year Budget and Performance Assessment</p>	<p>The basis for <b><u>reporting</u></b> on “votes” is derived from the information contained in this “Function segment”.</p>
	<p>Section 123: Disclosures on Intergovernmental and Other Allocations</p>	<p>The projects as defined within the “Project segment” together with the funding and item segments provide information on how <b><u>funds have been spent</u></b> and on what.</p>
<p><b>Local Government Transition Act, 1993 (Act No 209 of 1993)</b></p>	<p>Provide for functions in the following sections: 5: Sewerage 6: Electricity 7: Roads 8: Passenger Transport Service 9: Traffic Matters</p>	<p>Considered in the set-up of functions and sub-functions in this segment.</p>

	<p>10: Fresh Produce Markets</p> <p>11: Waste Disposal Facilities</p> <p>12: Cemeteries and Crematoria</p> <p>13: Airports</p> <p>14: Sport Facilities</p> <p>15: Promotion of Tourism</p> <p>16: Municipal Health Services</p> <p>17: Abattoirs</p> <p>18: Fire-fighting Services and Disasters</p> <p>19: Libraries</p> <p>20: Museums</p> <p>21: Environmental Management</p> <p>22: Municipal Law Enforcement</p> <p>Schedule 2 A:</p> <ul style="list-style-type: none"> <li>• Water</li> <li>• Sewerage</li> <li>• Electricity</li> <li>• Roads</li> <li>• Traffic Mattes</li> <li>• Waste Disposal</li> <li>• Cemeteries and Funeral Parlours</li> </ul>	
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	<ul style="list-style-type: none"> <li>• Airports</li> <li>• Libraries</li> <li>• Amusement Facilities and Beaches</li> <li>• Public Nuisance</li> <li>• Environmental Affairs</li> <li>• Tourism</li> <li>• Municipal Health Service</li> <li>• Billboards and Advertisements</li> <li>• Building Control</li> <li>• Cleansing</li> <li>• Business Licensing</li> <li>• Animals</li> <li>• Markets</li> <li>• Pontoons, Ferries, Jetties, Piers and Harbours</li> <li>• Street Trading</li> <li>• Lighting</li> <li>• Public Places</li> <li>• Fireworks</li> <li>• Child Care Facilities</li> <li>• Municipal Law Enforcement Agency</li> </ul>	
<p><b>The Constitution</b></p>	<p>Section 216: Treasury Control</p>	<p>This Segment, as provided for in the mSCOA</p>

		Regulation, confirms the responsibility of National Treasury in prescribing measures to ensure both transparency and expenditure control in each sphere of government, by introducing <b><u>uniform expenditure classifications and treasury norms and standards.</u></b>
<b>Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998)</b>	Section 84 - Division of Functions and Powers between District and Local Municipalities  Section 85 - Adjustment of Division of Functions and Powers between District and Local Municipalities.	Informing the classification of core versus non-core with the applicability indicators as per the table included in paragraph 97.
<b>REGULATIONS</b>		
<b>Municipal Budget- and Reporting Regulations, 2009</b>		Reporting tables to be expanded.
<b>CIRCULARS</b>		.
<b>MFMA Circular 12: Definition of Vote in MFMA</b>		Content considered in the classifications provided for in this segment.

<p><b>MFMA Circular 45: MTREF Budget</b></p>	<p>Budget by Vote</p>	<p>Content considered in the classifications provided for in this segment.</p>
<p><b>MFMA Circular 74: MTREF Municipal Budget Circular for the 2015/16</b></p>	<p>Budgeting for unfunded/underfunded mandates</p>	<p>Content emphasised in the “background to the segment”.</p>
<p><b>GUIDELINES</b></p>		
<p><b>VAT 419 Guide for Municipalities</b></p>	<p>Guidance on VAT</p>	<p><b>Function</b> is key in determining the VAT classification of revenue and expenditure transactions.</p>
<p><b>STANDARDS OF GRAP</b></p>		
<p><b>ASB Research Paper on Accounting for City Improvement Districts</b></p>	<p>City Improvement Districts (CIDs) have been formed in recent years as a local business response to declining municipal budgets and services. CIDs are defined geographic areas in which the majority of property owners determine and agree to fund supplementary and complementary services in addition to those normally provided by a municipality to maintain and manage the public environment at a superior level and thus maintaining or increasing their</p>	<p>Provided for as a sub-function to planning and development. <b><u>In terms of this guideline City Improvement Districts (CIDs) might meet the requirements of significant influence, resulting therein that the municipality may be required to prepare consolidated financial statements in terms of section 122(3) of the MFMA. Further to note is that the “sub-function” provides for the</u></b></p>

	<p>investment. These supplementary services might include safety and security patrol officers, pavement cleaning, litter collection, maintenance of public spaces, removal of illegal posters etc. The type and the scope of services that are delivered by the CID are based on the needs of the area and the property owners within the area, which can result in improved sales, rents and increased property value.</p>	<p><b>department within the municipality dealing with City Improvement Districts and does not deal with the CID's as a separate legal entity as such.</b></p>
<p><b>Standards of GRAP 109 Accounting by Principles and Agents</b></p>	<p>The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.</p> <p>This Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/ or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue,</p>	

	<p>expenses, assets and/ or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.</p>	
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## Transactions to be allocated by Business Process in this Segment

84. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting, is a source document from an activity (within a business process) initiating the activity to flow through a defined business process. This ultimately results in the transaction being captured within a financial model in the system and updating the general ledger.
85. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information. The transactional information is captured within “fields” within the database that is functioning in the background of the financial application.
86. Identification of transactions by typical business processes would therefore provide a standardisation of specific transactional types for recording within the various segments of mSCOA:

Transaction Type	Allocate Yes/ No	Comments
Assets	Yes	mSCOA does not differ from/ change in principle from current practices. The links provided in the mSCOA Tables provide guidance on linking posting level accounts within the item segment to the respective sub-functions.
Liabilities	Yes	
Revenue	Yes	
Net Assets	Yes	
Expenditure	Yes	

87. Pending the outcome of the Standard Operating Procedures (SOP's) Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

## Category Links and Business Rules

88. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in the application. The considerations listed may not be complete considering the development stage of this mSCOA project and might need to be enhanced as consultation with the various stakeholder groups evolves.
89. Proposals identified at this stage of the development of mSCOA, include:
- Specific functions to be linked to specific accounts within the Item, Fund, and Project segments;
  - Provision needs to be made for setting-up “sub-functions and sub-sub-functions”;
  - Detail provided for in the vote structure as per the Municipal Standard Classification to be linked to the equivalent function/ sub-function in the Function segment; and

- Item segment detail to be linked to functions to simplify classification of transactions and to eliminate misclassifications.

## Classification Structure

### Core and Non-core Function

90. The general provisions as contained in the Constitution, section 156, determines the powers and functions of a municipality:
- Section 156 (1): “A municipality has executive authority in respect of, and has the right to administer a) the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5 and any other matter assigned to it by national or provincial legislation and b) any other matter assigned to it by national or provincial legislation.
  - Section 156 (4): “The national government and provincial government must assign to a municipality, by arrangement and subject to any conditions, the necessary administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which relates to local government, if a) that matter would most effectively be administered locally and the municipality has the capacity to administer it.
91. **Core Functions** provides for the matters in terms of sections 156 (1) of the Constitution. These are functions performed by local government and constitutionally assigned to local government in terms of Part B of Schedule 4 and Part B of Schedule 5.
92. **Non-core Function** refers to the functions performed by local government that are constitutionally assigned to provincial government in terms of section 156(4) of the Constitution. Local Government are compensated for delivering these functions on behalf of provincial government and typically receive a management fee from the provincial department.
93. Non-core Functions are in certain instances commonly referred to as “Agency Services” and may contribute to unfunded or underfunded mandates. The principle underlying agency services is that the municipality performs a function (service) on behalf of another sphere of government.

94. The agency fee received by the municipality to compensate it for the cost of providing the agency service should be recognised by the municipality as receipts and not set-off against the expenditure.
95. The actual expenditure incurred to deliver the agency services must be recognised by the sphere of government (provincial) on whose behalf the function is rendered, and NOT by the municipality as municipal expenses. This functional classification (Function segment) is therefore used for the recording of transactions relating to the provision of “agency services” by the municipality.
96. In applying the legislative requirements to the mSCOA table the provisions of the Local Government: Municipal Structure Act, 1998 (Act No. 117 of 1998), section 84 have been used to set-up the “application indicators” to distinguish between either all or a combination of “metro, local and district” municipalities depending on the guidance available. District municipalities have already indicated that some functions must be added to the current mSCOA V6.1 as ‘non-core’, based on the principle that district municipalities have been assigned the function and powers for a sub-function where the local municipality in that district is defaulting on its assigned functions and powers.
97. The table below provides a list of the functions assigned to municipalities in terms of Section 156(1) of the Constitution (Schedules 4 and 5 Part B) in the columns dealing with core functions. The responsibilities assigned to District Municipalities in terms of section 84 of the Local Government: Municipal Structures Act, No 117 of 1998 were also included in the table. The *column dealing with non-core functions* reflects those functions that must be assigned to municipalities in terms of the Constitution by national or provincial government in terms of Section 156 (4) (Schedules 4 and 5 Part A). Column A indicates the function as per mSCOA associated with the administration of these requirements:

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
N/a	<b>Community and Social Services</b>						
N/a	<b>Core Function</b>						
Refer explanation in footnote	<sup>2</sup> Aged Care	Community and Social Services: Aged Care					
Metro and Local	Animal Care and Diseases	Community and Social Services: Other Community		Facilities for the Accommodation, Care and Burial of Animals			
All	Cemeteries, Funeral Parlours and Crematoriums	Community and Social Services: Other Community		Cemeteries, Funeral Parlours and Crematoria	The establishment conduct and control of cemeteries and crematoria		

<sup>2</sup> No specific reference was found in the legislation in this regard, however the GFS Functional Classification (pre-mSCOA) includes this reference. Accordingly, the classification had to be retained.

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					<p>serving areas of the major proportion of municipalities in the district.</p>		
<b>Metro and Local</b>	Child Care Facilities	Community and Social Services: Child Care	Child Care Facilities				
<b>Metro and Local</b>	Community Halls and Facilities	Community and Social Services: Community Halls and Facilities		Public Places			
	Libraries and Archives	Community and Social Services: Libraries and Archives					

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
	Literacy Programmes	Community and Social Services: Other Social					
	Museums and Art Galleries	Community and Social Services: Museums and Art Galleries					
<b>Metro and Local</b>	Theatres	Community and Social Services: Other Community		Public Places			
<b>Metro and Local</b>	Zoo's	Community and Social Services: Other Community		Public Places			
<b>N/a</b>	<b>Non-core Functions</b>						

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Aged Care	Community and Social Services: Aged Care				Welfare Services	
All	Agricultural	Community and Social Services: Other Community				Agriculture	
All	Animal Care and Diseases	Community and Social Services: Other Community				Animal Control and Diseases	Veterinary Services, excluding Regulation of the Profession
All	Child Care Facilities	Community and Social Services: Child Care				Welfare Services	
District	Community Halls and Facilities	Community and Social Services:					

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Community Halls and Facilities					
All	Consumer Protection	Community and Social Services: Other Community				Consumer Protection	
All	Cultural Matters	Community and Social Services: Other Community				Cultural Matters	
All	Disaster Management	Community and Social Services: Other Community				Disaster Management	
All	Education	Community and Social Services:				Education at all Levels, excluding	

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Other Community				Tertiary Education	
All	Indigenous and Customary Law	Community and Social Services: Other Community				Indigenous and Customary Law	
All	Industrial Promotion	Community and Social Services: Other Community				Industrial Promotion	
All	Language Policy	Community and Social Services: Other Community				Language policy and regulation of official languages	
All	Libraries and Archives	Community and Social Services:					Archives other than National Archives/

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Libraries and Archives					Libraries other than National Libraries
All	Literacy Programmes	Community and Social Services: Other Community					
All	Media Services	Community and Social Services: Other Community				Media Services	
All	Museums and Art Galleries	Community and Social Services: Museums and Art Galleries					Museums other than National Museums
3All	Population Development	Community and Social Services:				Population Development	

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Other Community					
All	Provincial Cultural Matters	Community and Social Services: Other Community					Provincial Cultural Matters
District	Theatres	Community and Social Services: Other Community					
District	Zoo's	Community and Social Services: Other Community					
N/a	<b>Energy Sources</b>						
N/a	<b>Core Function</b>						

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Electricity	Electricity: Distribution	Electricity and Gas Reticulation		Bulk supply of electricity that affects a significant proportion of municipalities in the district, which included for the purposes of such supply, the transmission, distribution and where applicable the generation of electricity.		
Metro and Local	Street Lighting and Signal Systems	Public Safety: Street Lighting		Street Lighting			

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
All	Non-electric Energy	Electricity: Distribution	Electricity and Gas Reticulation		Bulk supply of electricity that affects a significant proportion of municipalities in the district, which included for the purposes of such supply, the transmission, distribution and where applicable the generation of electricity.			
N/a	<b>Non-core Function</b>							
All	Electricity	Electricity: Generation						

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
All	Non-electric Energy	Electricity: Distribution	Electricity and Gas Reticulation		Bulk supply of electricity that affects a significant proportion of municipalities in the district, which included for the purposes of such supply, the transmission, distribution and where applicable the generation of electricity.			
N/a	<b>Environmental Protection</b>							
N/a	<b>Core Function</b>							

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Biodiversity and Landscape	Environmental Protection: Biodiversity and Landscape					
All	Coastal Protection	Environmental Protection: Other - Coastal Protection					
Metro and Local	Pollution Control	Environmental Protection: Pollution Control		Air Pollution	Noise Pollution		
N/a	<b>Non-core Function</b>					Environment	
All	Indigenous Forests	Environmental Protection: Biodiversity and Landscape				Administration of Indigenous Forests	

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Nature Conservation	Environmental Protection: Biodiversity and Landscape				Nature Conservation	
District	Pollution Control	Environmental Protection: Pollution Control				Pollution Control	
All	Soil Conservation	Environmental Protection: Biodiversity and Landscape				Soil Conservation	
N/a	<b>Executive and Council</b>						
N/a	<b>Core Function</b>						
All	Mayor and Council	Executive and Council: Mayor and Council					

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
All	Municipal Manager, Town Secretary and Chief Executive	Executive and Council: Municipal Manager (Town Secretary and Chief Executives)						
N/a	<b>Finance and Administration</b>							
N/a	<b>Core Function</b>							
All	Administrative and Corporate Support							
All	Asset Management	Corporate Services: Other Admin - Asset Management Services						

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Budget and Treasury Office	Budget and Treasury Office			The receipt, allocation and if applicable the distribution of grants made to the district municipality.		
All	Finance	Budget and Treasury Office			The imposition and collection of taxes, levies and duties as related to the above functions or as may be assigned to the district municipality in terms of national legislation.		

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
All	Fleet Management	Corporate Services: Other Admin - Fleet Management Services						
All	Human Resources	Corporate Services: Human Resources						
All	Information Technology	Corporate Services: Information Technology						
All	Legal Services	Corporate Services: Other Admin - Legal Services						

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures	Act	Constitution	Constitution
			4B	5B	s84		4A	5A
All	Marketing, Customer Relations, Publicity and Media Co-ordination	Corporate Services: Marketing, Publicity and Media Coordination (Other than Tourism)						
All	Property Services	Corporate Services: Property Services						
All	Risk Management	Corporate Services: Other Admin - General Risk Management						

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures	Act	Constitution	Constitution
			4B	5B	s84		4A	5A
All	Security Services	Corporate Services: Other Admin - Security Services						
All	Supply Chain Management	Corporate Services: Other Admin - Procurement (Orders, Tenders, Contract Management, etc.)						
All	Valuation Service	Corporate Services: Property Services						

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
<b>N/a</b>	<b>Non-core Function</b>							
<b>District</b>	Asset Management	Corporate Services: Other Admin - Asset Management Services						
<b>District</b>	Fleet Management	Corporate Services: Other Admin - Fleet Management Services						
<b>District</b>	Human Resources	Corporate Services: Human Resources						
<b>District</b>	Information Technology	Corporate Services:						

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Information Technology					
District	Legal Services	Corporate Services: Other Admin - Legal Services					
District	Marketing, Customer Relations, Publicity and Media Co-ordination	Corporate Services: Publicity and Media Coordination (Other than Tourism)					
District	Property Services	Corporate Services:					

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Property Services					
<b>District</b>	Risk Management	Corporate Services: Other Admin - General Risk Management					
<b>District</b>	Security Services	Corporate Services: Other Admin - Security Services					
<b>N/a</b>	<b>Health</b>						
<b>N/a</b>	<b>Core Function</b>						
<b>All</b>	Health Services	Health: Clinics	Municipal Health Services		Municipal Health Services serving the area of the		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					District Municipality		
All	Laboratory Services	Health: Other	Municipal Health Services		Municipal Health Services serving the area of the District Municipality		
District Municipalities (DM's)	Food Control	Health: Other	Municipal Health Services		Municipal Health Services serving the area of the District Municipality		
District Municipalities (DM's)	Health Surveillance and Prevention of Communicable Diseases	Health: Other	Municipal Health Services		Municipal Health Services serving the area of the District Municipality		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
	including Immunisations						
<b>District Municipalities (DMs)</b>	Vector Control <sup>3</sup>	Health: Other	Municipal Health Services		Municipal Health Services serving the area of the District Municipality		
<b>District Municipalities (DM's)</b>	Chemical Safety	Health: Other	Municipal Health Services		Municipal Health Services serving the area of the District Municipality		
<b>N/a</b>	<b>Non-core Function</b>						
<b>All</b>	Ambulance	Health: Ambulances					Ambulance Services

<sup>3</sup> Vector control is any method to limit or eradicate the mammals, birds, insects or other arthropods (collectively called vectors) which transmit disease pathogens. For example, mosquito control.

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Health Services	Health: Other				Health Services	
N/a	<b>Housing</b>						
N/a	<b>Core Function</b>						
	Housing	Housing					
	Informal Settlements	Housing					
N/a	<b>Non-core Function</b>						
	Housing	Housing				Housing	
	Informal Settlements	Housing					
N/a	<b>Internal Audit</b>						
N/a	<b>Core Function</b>						
All	Governance Function	Corporate Services: Other -					

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
		Risk Management					
<b>N/a</b>	<b>Non-core Function</b>						
<b>All</b>	Governance Function	Corporate Services: Other - Risk Management					
<b>N/a</b>	<b>Other</b>						
<b>N/a</b>	<b>Core Function</b>						
<b>All</b>	Abattoirs	Other: Abattoirs		Municipal Abattoirs	Municipal Abattoirs serving the Area of the District Municipality as a whole.		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Air Transport	Other: Air Transport	Municipal Airports		Municipal Airports serving the Area of the District Municipality as a whole.	Airports other than international and National Airports	
All	Forestry	Other: Forestry					
All	Licensing and Regulation	Planning and Development: Licensing and Regulation	Trading Regulations	Control of Undertakings that Sell Liquor to the Public/ Licensing and Control of Undertakings that Sell Food to the Public			

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures	Act	Constitution	Constitution
			4B	5B	s84		4A	5A
All	Markets	Other: Markets		Markets/ Street Trading	The establishment, conduct and control of fresh produce markets and abattoirs serving the area of a major proportion of the municipalities in the district.			
All	Tourism	Other: Tourism	Local Tourism		Promotion of local tourism for the area of the district municipality.			
N/a	<b>Non-core Function</b>							

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Abattoirs	Other: Abattoirs					Abattoirs
Metro and Local	Air Transport	Other: Air Transport				Airports other than international and National Airports	
All	Forestry	Other: Forestry					
All	Licensing and Regulation	Planning and Development: Licensing and Regulation				Vehicle Licensing	Liquor Licences
Metro and Local	Markets	Other: Markets				Trade	
Metro and Local	Tourism	Other: Tourism				Tourism	
N/a	<b>Planning and Development</b>						
N/a	<b>Core Function</b>						

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
<b>Metro and Local</b>	Billboards	Planning and Development: Economic Development/ Planning - IDPs, LEDs		Billboards and the display of Advertisements in Public Places			
<b>All</b>	Corporate Wide Strategic Planning	Planning and Development: Economic Development/ Planning - IDPs, LEDs	Municipal Planning		Integrated development planning for the district municipality , including a framework for integrated development plans of all municipalities in the area of the		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					district municipality, taking into account the integrated development plans of those local municipalities.		
<b>Metro and Local</b>	Central City Improvement District	Planning and Development: Economic Development/ Planning - IDPs, LEDs	Municipal Planning				
<b>District</b>	Development Facilitation	Planning and Development: Economic			Integrated development-planning for the		

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
		Development/ Planning - IDPs, LEDs			district municipality as a whole, including a framework for integrated development plans of all municipalities in the area of the district municipality, taking into account the integrated development plans of those local municipalities.			

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution
			4B	5B	s84	4A	5A
<b>All</b>	Economic Development / Planning	Planning and Development: Economic Development/ Planning - IDPs, LEDs	Municipal Planning		Integrated development-planning for the district municipality as a whole, including a framework for integrated development plans of all municipalities in the area of the district municipality, taking into account the integrated development plans of those		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					local municipalities.		
<b>Metro and Local</b>	Town Planning, Building Regulations and Enforcement, and City Engineer	Planning and Development: Town Planning/ Building Enforcement	Municipal Planning				
<b>All</b>	Project Management Unit	Planning and Development: Town Planning/ Building Enforcement	Municipal Public Works				
<b>District</b>	Support to Local Municipalities	Planning and Development: Town Planning/			Integrated development-planning for the district municipality as a		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution
			4B	5B	s84	4A	5A
		Building Enforcement			whole, including a framework for integrated development plans of all municipalities in the area of the district municipality, taking into account the integrated development plans of those local municipalities.		
<b>N/a</b>	<b>Non-core Function</b>						

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
All	Provincial Planning	Planning and Development: Economic Development/ Planning - IDPs, LEDs					Provincial Planning	
All	Regional Planning and Development	Planning and Development: Economic Development/ Planning - IDPs, LEDs				Regional Planning and Development/ Urban and Rural Development		
District and Local	City Improvement District	Planning and Development: Economic Development/ Planning - IDPs, LEDs						

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
N/a	<b>Public Safety</b>						
N/a	<b>Core Function</b>						
All	Civil Defence	Public Safety: Civil Defence				Police	
Metro and Local	Cleansing	Public Safety: Other		Cleansing			
Metro and Local	Control of Public Nuisances	Public Safety: Other		Control of Public Nuisances			
Metro and Local	Fencing and Fences	Public Safety: Other		Fencing and Fences			
All	Fire Fighting and Protection	Public Safety: Fire	Fire-fighting Services		Firefighting and protection which includes planning, co-ordination and regulation of fire-		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					services, specialised firefighting services such as mountain, veld and chemical fire services, co-ordination of the standardisation of infrastructure, vehicles, equipment and procedures and training of fire officers.		
<b>Metro and Local</b>	Licensing and Control of Animals	Public Safety: Other		Licensing of Dogs/ Control of Public			

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A	
				Nuisances/ Pounds				
<b>N/a</b>	<b>Non-core Function</b>							
<b>District</b>	Cleansing	Public Safety: Other						
<b>District</b>	Fire Fighting and Protection	Public Safety: Fire						
<b>N/a</b>	<b>Road Transport</b>							
<b>N/a</b>	<b>Core Function</b>							
<b>Metro and Local</b>	Police Forces, Traffic and Street Parking Control			Traffic and Parking				
<b>Metro and Local</b>	Pounds	Public Safety: Police		Pounds				

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures	Act	Constitution	Constitution
			4B	5B	s84		4A	5A
All	Public Transport	Road Transport: Public Buses	Municipal Public Transport		Regulation of passenger transport services.			
All	Roads	Road Transport: Roads		Municipal Roads	Municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole.			
All	Taxi Ranks	Road Transport: Parking Garages						
N/a	<b>Non-core Function</b>							

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
<b>Metro and Local</b>	Road and Traffic Regulation	Road Transport: Vehicle Licensing and Testing				Road Traffic Regulation	Provincial Roads and Traffic
<b>All</b>	Public Transport	Road Transport: Public Buses				Public Transport	
<b>All</b>	Roads	Road Transport: Roads					Provincial Roads and Traffic
<b>All</b>	Taxi Ranks	Road Transport: Parking Garages					
<b>N/a</b>	<b>Sport and Recreation</b>						
<b>N/a</b>	<b>Core Function</b>						
<b>Metro and Local</b>	Beaches and Jetties	Sport and Recreation	Pontoons, Ferries, Piers and Harbours, excluding the	Beaches and Amusement Facilities			

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
			regulation of international and national shipping and matters related thereto				
<b>Metro and Local</b>	Community Parks	Sport and Recreation		Municipal Parks and Recreation			
<b>Metro and Local</b>	Recreational Facilities	Sport and Recreation		Municipal Parks and Recreation			
<b>Metro and Local</b>	Sports Grounds and Stadiums	Sport and Recreation		Local Sport and Facilities			
<b>N/a</b>	<b>Non-core Function</b>						
<b>All</b>	Casinos, Racing, Gambling, Wagering	Sport and Recreation				Casinos, Racing, Gambling and Wagering, excluding	

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
						Lotteries and Sports Pools	
<b>District</b>	Community Parks	Sport and Recreation					
<b>All</b>	Recreational Facilities	Sport and Recreation					Provincial Recreation and Amenities
<b>All</b>	Sports Grounds and Stadiums	Sport and Recreation					Provincial Sport
<b>N/a</b>	<b>Waste Management</b>						
<b>N/a</b>	<b>Core Function</b>						
<b>Metro and Local</b>	Recycling	Waste Management: Solid Waste		Refuse Dumps and Solid Waste Disposal	Solid waste disposal sites serving the area of the district municipality as a		

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					<p>whole, in so far as it related to the determination of a waste disposal strategy, the regulation of waste disposal, the establishment, operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality in the district.</p>		

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
All	Solid Waste Disposal (Landfill Sites)	Waste Management: Solid Waste		Refuse Dumps and Solid Waste Disposal	Solid waste disposal sites serving the area of the district municipality as a whole, in so far as it relates to the determination of a waste disposal strategy, the regulation of waste disposal, the establishment, operation and control of waste disposal sites, bulk waste transfer facilities			

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					and waste disposal facilities for more than one local municipality in the district.		
<b>Metro and Local</b>	Solid Waste Removal	Waste Management: Solid Waste		Refuse Removal			
<b>Metro and Local</b>	Street Cleaning	Waste Management: Solid Waste		Cleansing			
<b>N/a</b>	<b>Non-core Function</b>						
<b>District</b>	Recycling	Waste Management: Solid Waste					

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A	
District	Solid Waste Disposal (Landfill Sites)	Waste Management: Solid Waste						
District	Solid Waste Removal	Waste Management: Solid Waste						
District	Street Cleansing	Waste Management: Solid Waste						
N/a	<b>Waste Water Management</b>							
N/a	<b>Core Function</b>							
Metro and Local	Public Toilets	Waste Water Management: Public Toilets		Public Amenities				

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Sewerage	Waste Water Management: Sewerage	Water and Sanitation Management		Bulk sewerage purification works and main sewage disposal that affects a significant proportion of municipalities in the district - domestic waste-water and sewage disposal systems.		
Metro and Local	Storm Water Management	Waste Water Management: Storm Water Management	Storm water Management Systems in Built-up Areas				

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
All	Waste Water Treatment	Waste Water Management: Sewerage	Water and Sanitation Management		Bulk sewerage purification works and main sewage disposal that affects a significant proportion of municipalities in the district - domestic waste-water and sewage disposal systems.		
N/a	<b>Non-core Function</b>						
District	Public Toilets	Waste Water Management: Public Toilets					

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution	Constitution	Structures Act	Constitution	Constitution	
			4B	5B	s84	4A	5A	
District	Sewerage	Waste Water Management: Sewerage	Domestic Waste-water and Sewage Disposal Systems					
District	Storm Water Management	Waste Water Management: Storm Water Management						
District	Waste Water Treatment	Waste Water Management: Sewerage						
N/a	<b>Water</b>							
N/a	<b>Core Function</b>							
All	Water Treatment	Water: Distribution	Water and Sanitation Management		Bulk supply of water that affects a significant proportion of			

Applicability	mSCOA Classification	GFS	Core Functions			Non-core Functions	
			Constitution 4B	Constitution 5B	Structures Act s84	Constitution 4A	Constitution 5A
					municipalities in the district - potable water systems.		
All	Water Distribution	Water: Distribution	Potable Water Supply Systems		Bulk supply of water that affects a significant proportion of municipalities in the district - potable water systems.		
All	Water Storage	Water: Storage	Water and Sanitation Management		Bulk supply of water that affects a significant proportion of municipalities in the district -		

Applicability	mSCOA Classification	GFS	Core Functions				Non-core Functions	
			Constitution 4B	Constitution 5B	Structures s84	Act water	Constitution 4A	Constitution 5A
					potable water systems.			
<b>N/a</b>	<b>Non-core Function</b>							
<b>District</b>	Water Treatment	Water: Distribution						
<b>District</b>	Water Distribution	Water: Distribution						
<b>District</b>	Water Storage	Water: Storage						

## Sub-functions

98. The sub-functions are based on the provisions contained in MFMA Circular 12 (GFS Manual 2001) and provided for in the Budget Reporting Formats in terms of the Municipal Budget- and Reporting Regulations, 2009.
99. Further sub-sub-functions may be added to the high-level function at the discretion of the municipality. As the mSCOA regulative process evolves, external stakeholders may necessitate that further standard sub-classifications are included in the reporting requirements, for example assisting in refining the VAT Indicators provided for in the Item / Project / Function segments.
100. It is important to the budget and planning process and inherent to the nature of municipal services to determine tariffs for services such as waste collection, sanitation, water and electricity.
101. **Providing for these services as separate functions within this Function segment** facilitate that the revenue, expenditure, assets, liabilities and net assets underlying and supporting these functions, are linked through the Item segment. In simple terms it **facilitates the extraction of financial information specific to the functions provided for in this segment.**
102. Conditional to accurate information is the internal control policies and procedures instituted by the municipality to oversee the initiation, input, processing and output of transaction data through the municipality's integrated financial system.
103. The two elements inherent to cost reflective tariffs are (i) to have a collective view of not only direct-cost relating to these tariff services but also (ii) secondary (indirect) cost associated to the tariff service. For example, to provide water to the community would require meter-reading to capture the periodic use from the installed meters to the financial system to bill users. This cost adds to the value of the water provided to the community and thus needs to be reflected in the tariffs used to bill users.

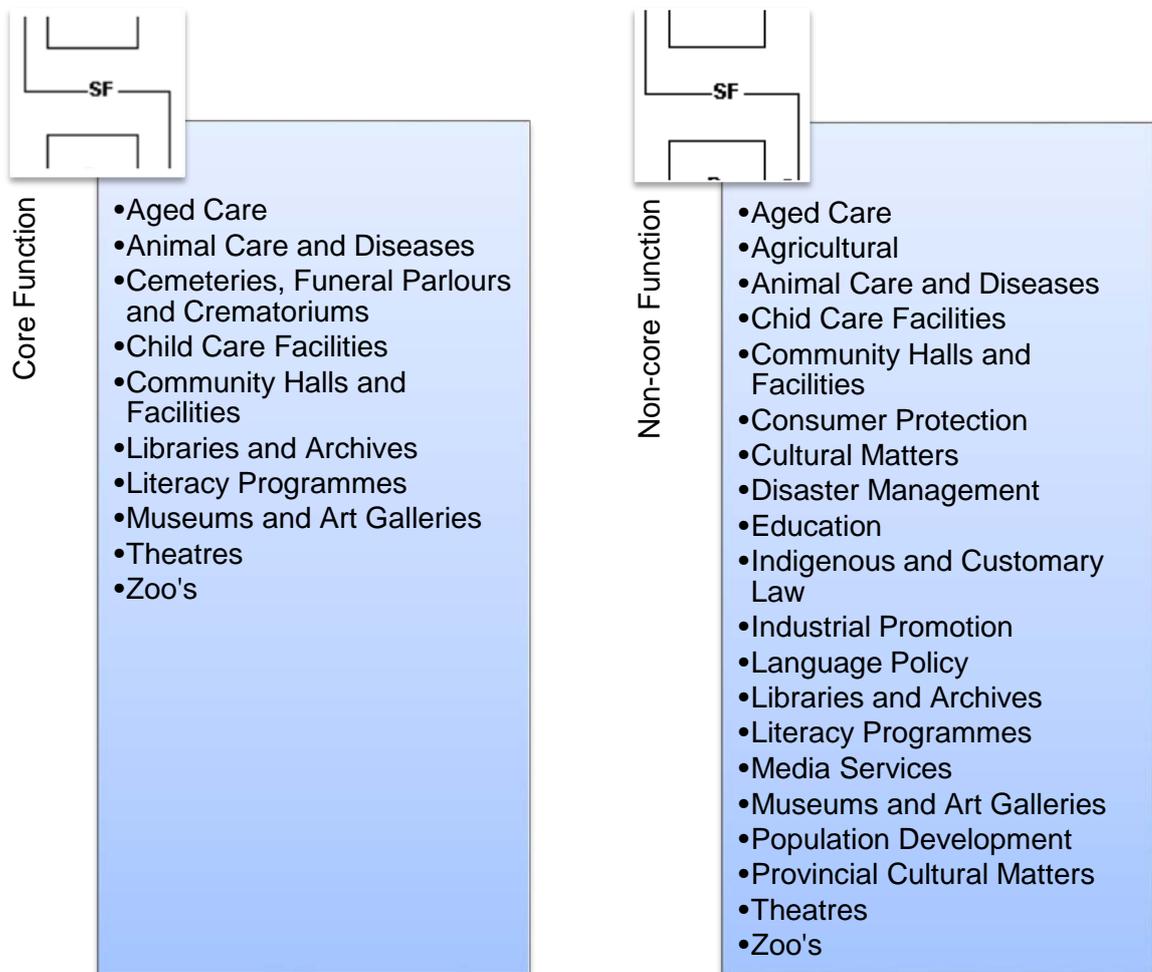
## Community and Social Services

**Definition:**

**Community service** is a service or activity that is performed by the municipality for the benefit of the public or its institutions.

**Social services** seeks to improve the quality of life and wellbeing of an individual, group, or community by intervening through research, policy, community organising, direct practices, and teaching on behalf of those afflicted with poverty or any real or perceived social injustices and violations of their human rights. Research is often focused on areas such as human development, social policy, public administration, psychotherapy, program evaluation, and international and community development.

104. Community and Social Services provides for both core and non-core functions. Refer to the table below for a summary of the “core and non-core sub-functions” available from the mSCOA table for this function.
105. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this segment.



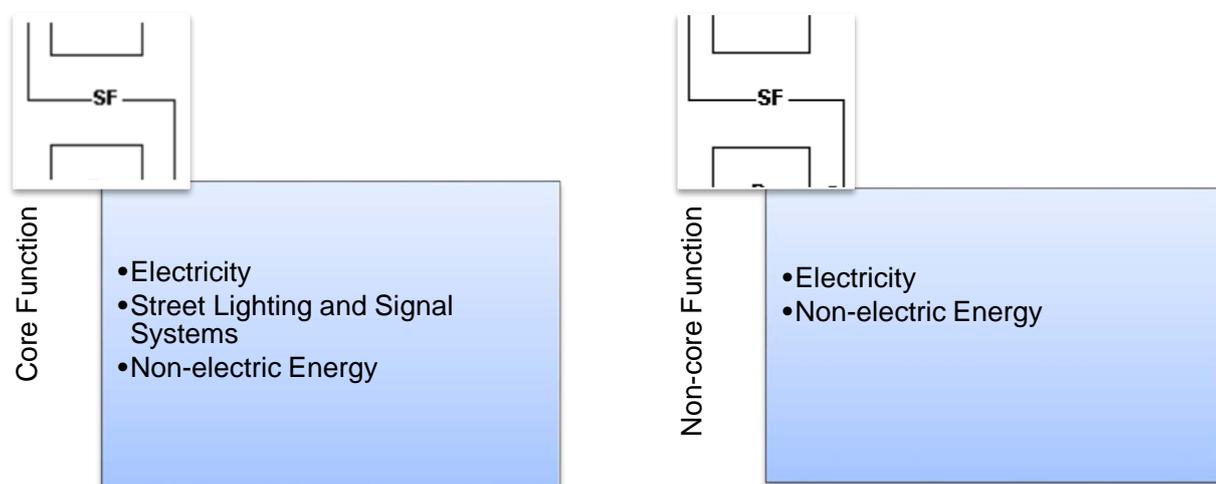
## Energy Sources

### Definition:

**Electricity distribution** is the final stage in the delivery of electricity to end users. The distribution system's network carries electricity from the transmission system and delivers it to consumers. Included also is gas distribution to consumers and all related activities.

106. Electricity as explained in the definition paragraph is also a tariff service and thus the direct and indirect cost relating to providing this service to the community need to be readily available for tariff-setting purposes and management accounting information.

107. The National Energy Regulator of South Africa (NERSA) as explained in the ‘Regulatory Reporting Manual Volume 2: Electricity’, prescribes and provides guidance to regulated entities in the electricity supply industry on the format, content, preparation and submission of the required information to the Energy Regulator to enable NERSA to perform its functions.
108. In an attempt to avoid a dual accounting process for recording transactions for NERSA (regulatory reporting) and another set of accounts for financial and budgetary reporting to the National Treasury, the information needs of NERSA is provided for in mSCOA.
109. This function covers both traditional sources of electricity such as thermal or hydro supplies and newer sources such as wind or solar heat.
110. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
111. The following diagram summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

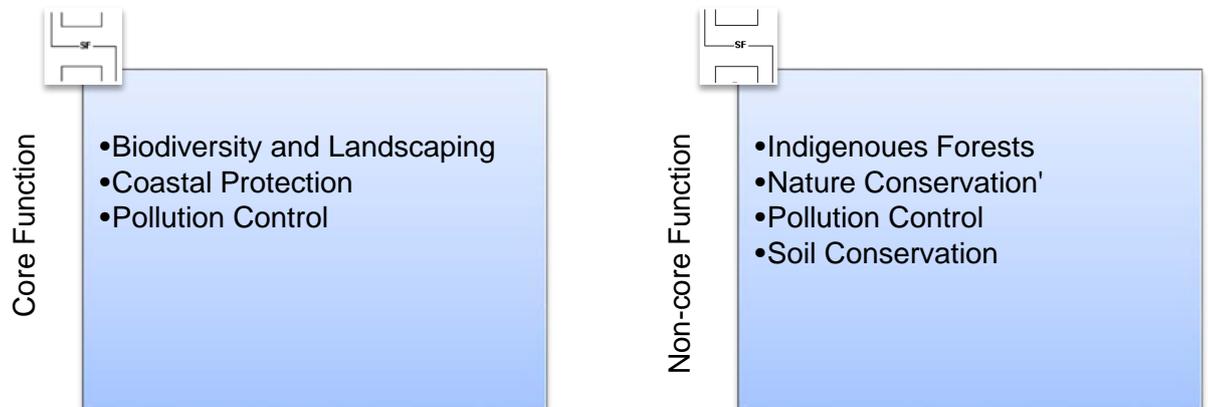


## Environmental Protection

**Definition:**

**Environmental Protection** refers to the various combinations of scientific, technical, and advisory activities (including modification processes, for example, the influence of manmade and natural factors) required to acquire, produce, and supply information on the past, present, and future states of space, atmospheric, oceanographic, and terrestrial surroundings for use in decision-making processes, or to modify those surroundings to enhance operations.

- 112. Environmental Protection provides for both core and non-core functions.
- 113. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
- 114. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:



## Executive and Council

**Definition:**

**Executives** are the person(s) or group of persons having administrative or supervisory authority in the municipality.

**The council** is the legislative body that governs a municipality.

115. The Core Functions provided for in mSCOA, includes:
- Mayor and Council
  - Municipal Manager, Town Secretary and Chief Executive.
116. Municipal Manager, Town Secretary and Chief Executive costs include the costs of providing physical amenities for these activities. For example the cost not directly attributable to specific functions such as water, electricity, sanitation. This sub-function provides for appointments made in terms of section 57 of the Local Government Municipal Systems Act, 2000. [Included in GFS ~ Executive and Council: Municipal Manager]. Staff supporting the specific functions of the municipality needs to be allocated as such either as a primary transaction or as part of the secondary cost allocation process through the Costing segment.
117. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.

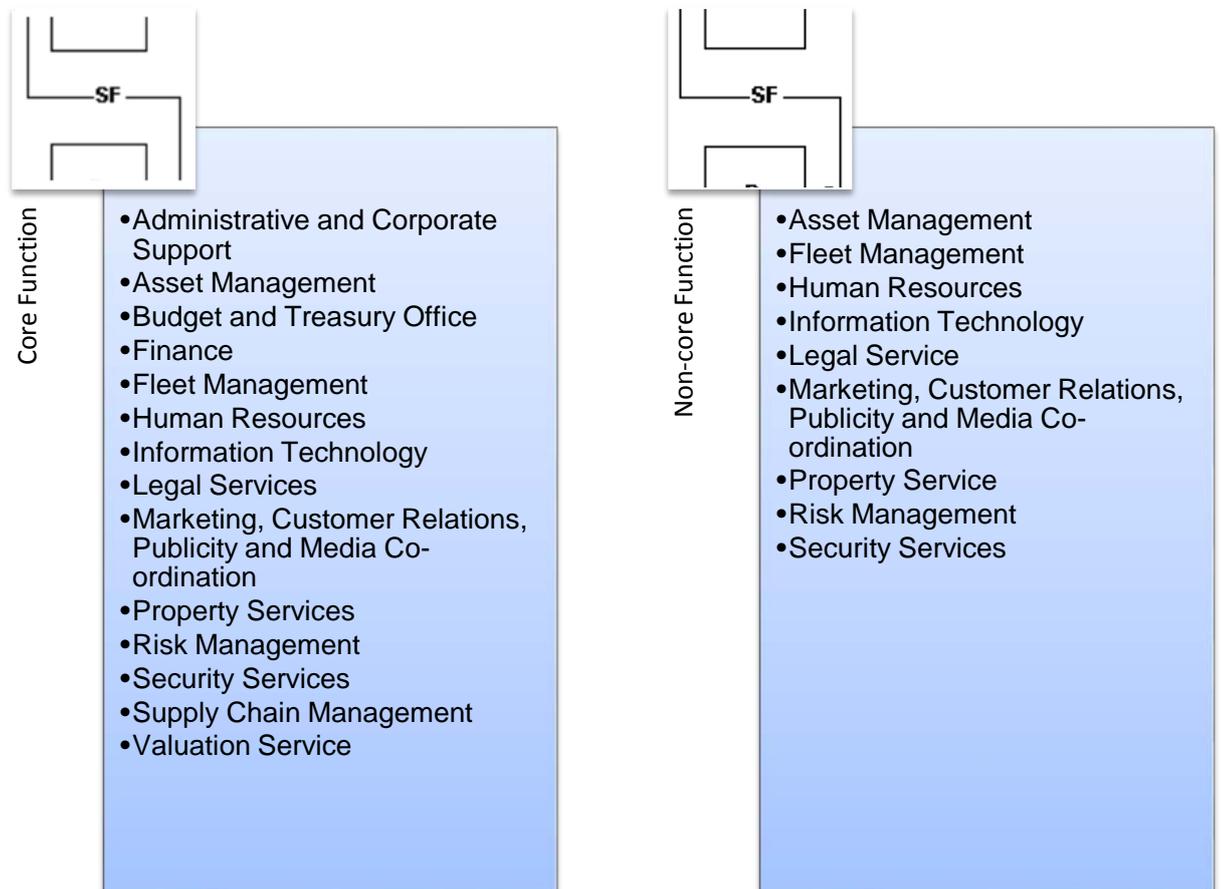
## Finance and Administration

**Definition:**

**Finance and Administration** - All activities relate to the finance function such as the cost of the Chief Financial Officer, financial statements, budgets, management reporting, revenue collection (credit control), financial asset and liability management (treasury and cash

management), rates, procurement (orders, tenders, contract management etc.), levies, audit, creditors etc.

- 118. Finance and Administration provides for both core and non-core functions.
- 119. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
- 120. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:



## Health

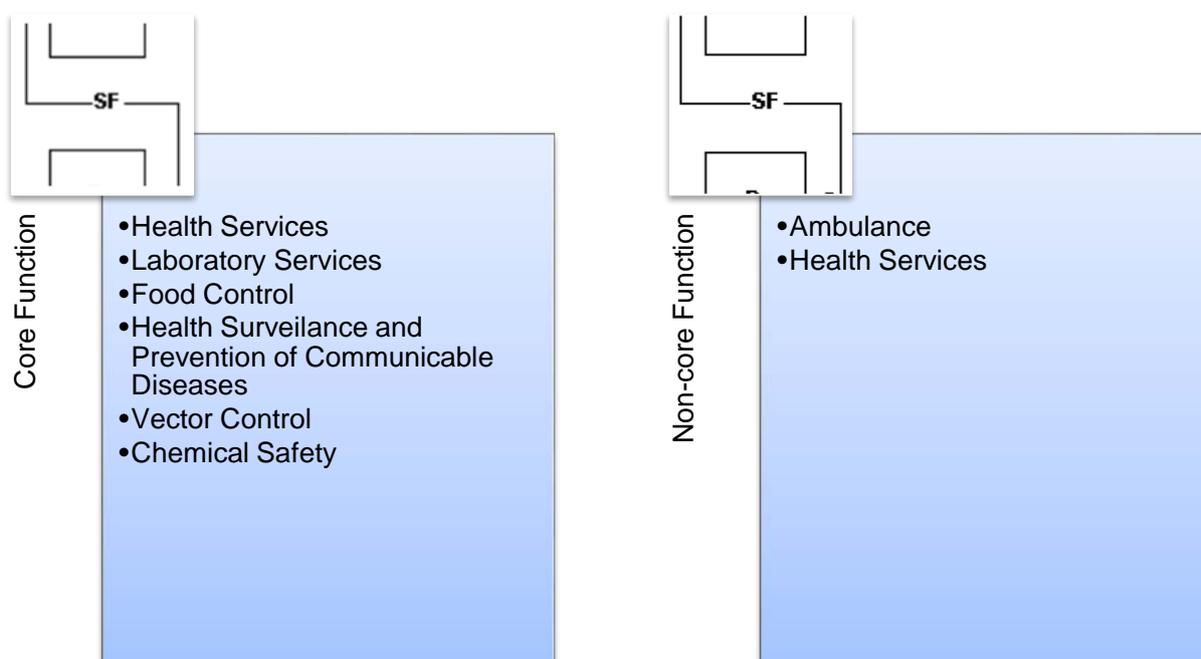
**Definition:**

Section 24 of the Constitution entrenches the right of all citizens to live in an environment that is not harmful to their health or well-being. Section 83 of the National Health Act, 2003 (Act No. 61 of 2003), defines municipal health services and clearly stipulates the responsibilities of municipalities in the performance of such services.

**Environmental health** comprises those aspects of human health, including quality of life, that are determined by physical, chemical, biological, social and psychosocial factors in the environment. It also refers to the theory and practices of assessing, correcting, controlling and preventing factors in the environment that can adversely affect the health of present and future generations.

**Environmental health services** are services that implement environmental health policies through monitoring and controlling, which improve environmental parameters and encourage the use of environmentally friendly and healthy technologies and behaviors. Controlling and monitoring also play a leading role in suggesting and developing new policy areas. (These definitions are in line with the definitions of the World Health Organization.)

121. Health provides for both core and non-core functions.
122. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
123. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

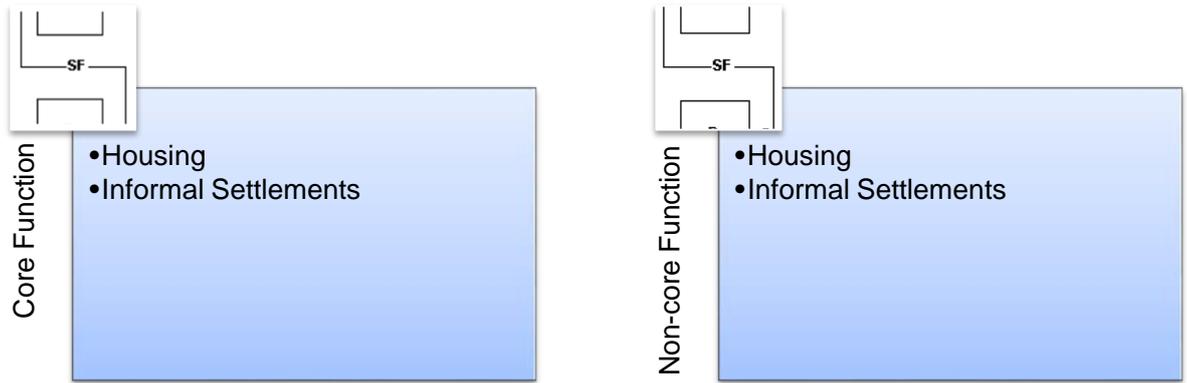


## Housing

### Definition:

**Housing** generally refers to the social problem of ensuring that members of society have a home to live in, whether this is a house, or some other kind of dwelling, lodging, or shelter

124. Housing provides for both core and non-core functions.
125. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
126. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

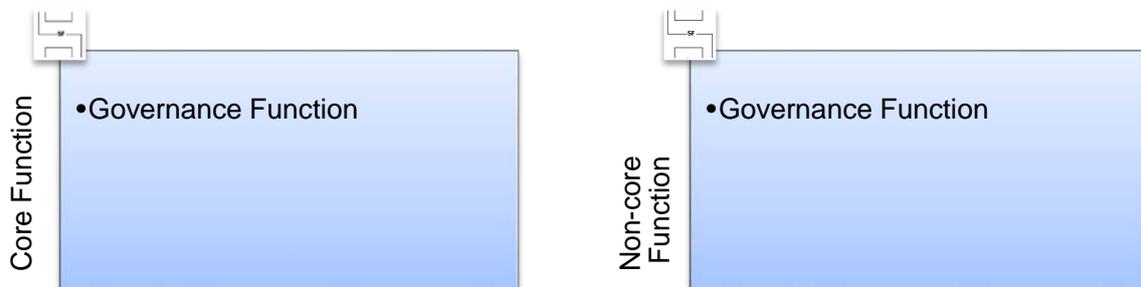


## Internal Audit

### Definition

This function provides for **internal audit** as required in terms of the Municipal Finance Management Act, 2003 (MFMA Section 62(c)).

127. The “governance functions” for internal audit is provided for as a core-function.
128. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
129. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:



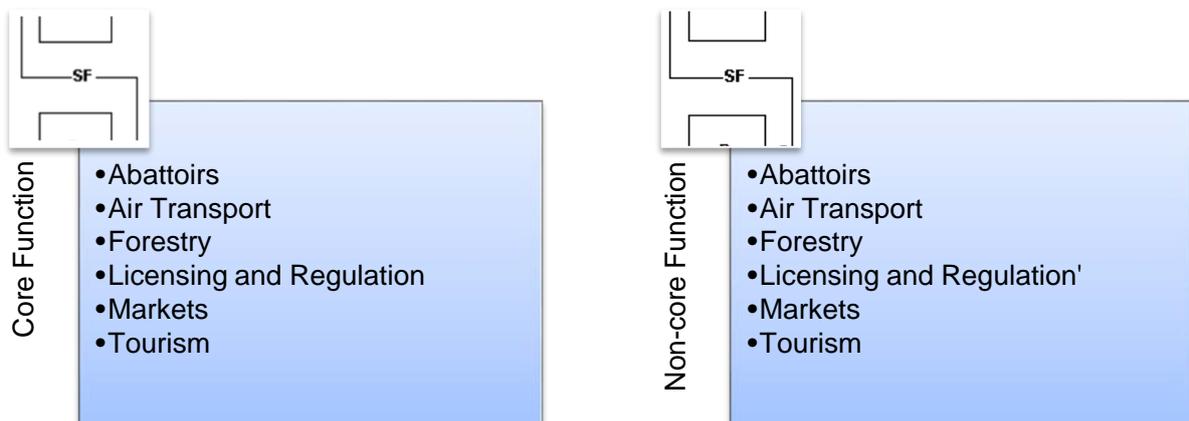
## Other

### Definition:

**Other** - This function provides for "core and non-core functions" specifically listed as determined in the Constitution section 156 read in conjunction with Schedule 4/ 5 A/ B with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998 but not separately specified in the classification framework.

130. Other provides for both core and non-core functions.

131. The diagram below summarises the "core and non-core sub-functions" available in the mSCOA table for this function:



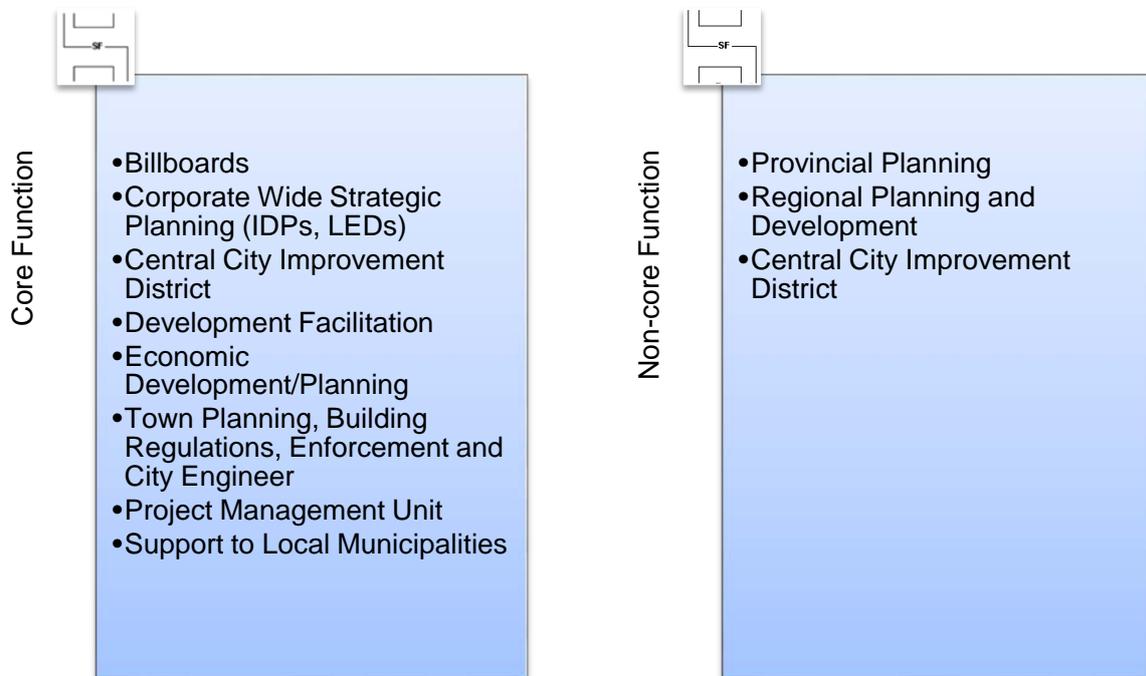
## Planning and Development

### Definition:

**Planning** operates within a legal framework, which strives to ensure that municipalities deliver their developmentally oriented planning objectives in terms of Section 152 and 153 of the Constitution. A balance is required to be struck between the various and often competing social, economic and environmental interests, and public and private interests, situated between national, provincial, district and local spheres.

**Municipal Planning** is a function assigned to municipalities in terms of section 156 of the Constitution read with Part B of Schedule 4. In terms of the Constitution municipalities have both executive authority and a right to administer this function to the extent set out in Section 155. This result in municipalities having a role ranging from the formulation and approval of the integrated development plan (IDP) and the spatial development framework for the municipality, to adopting land use schemes enshrining individual property rights, to the judgement of development applications and thereby ultimately promoting sustainable development, balancing economic, social, and environment interests ensuring inclusive development and the management of South African unique natural resources.

132. Planning and Development provides for both core and non-core functions.
133. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
134. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

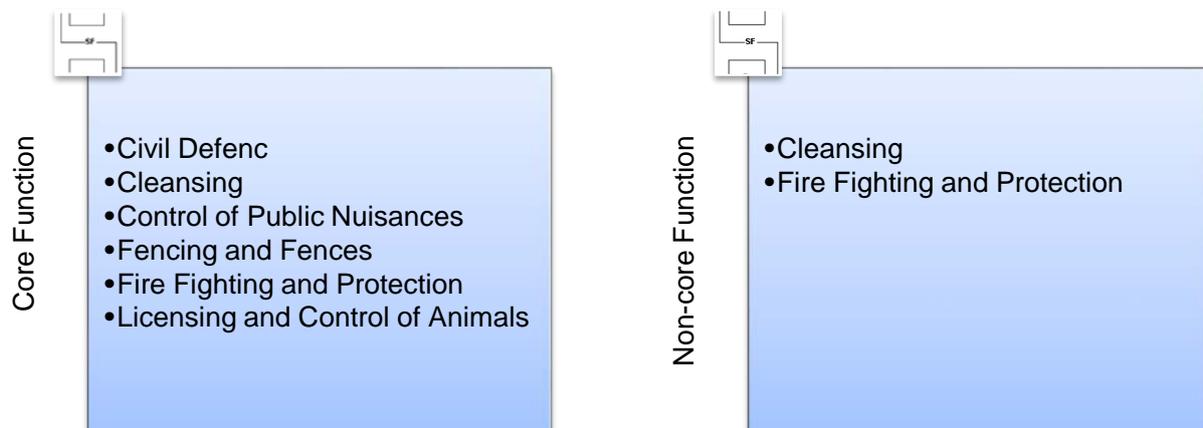


## Public Safety

### Definition:

**Public safety** involves the prevention of and protection from events that could endanger the safety of the general public from significant danger, injury/ harm, or damage, such as crimes or disasters (natural or man-made).

135. Public Safety provides for both core and non-core functions.
136. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this segment.
137. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:



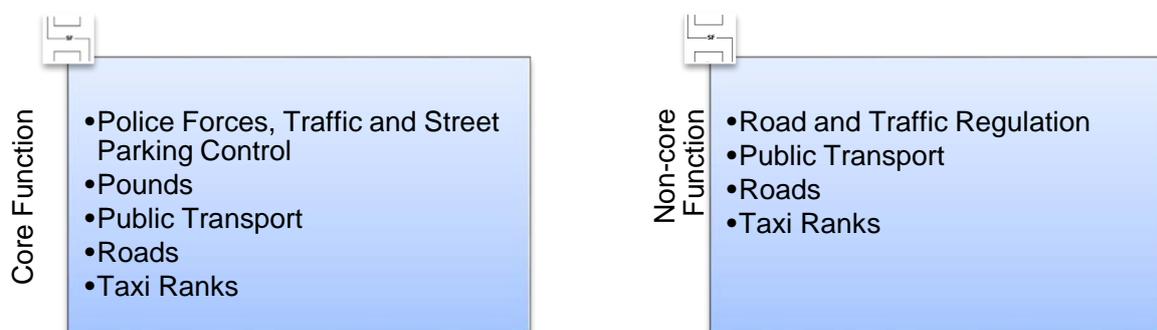
## Road Transport

### Definition:

**Road transport** is transport on roads of passengers or goods including roads infrastructure within the municipal area.

138. Road Transport provides for both core and non-core functions.

139. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
140. The diagram below summarises the “core and non-core sub-functions” available from the mSCOA table for this function:



## Sport and Recreation

### Definition:

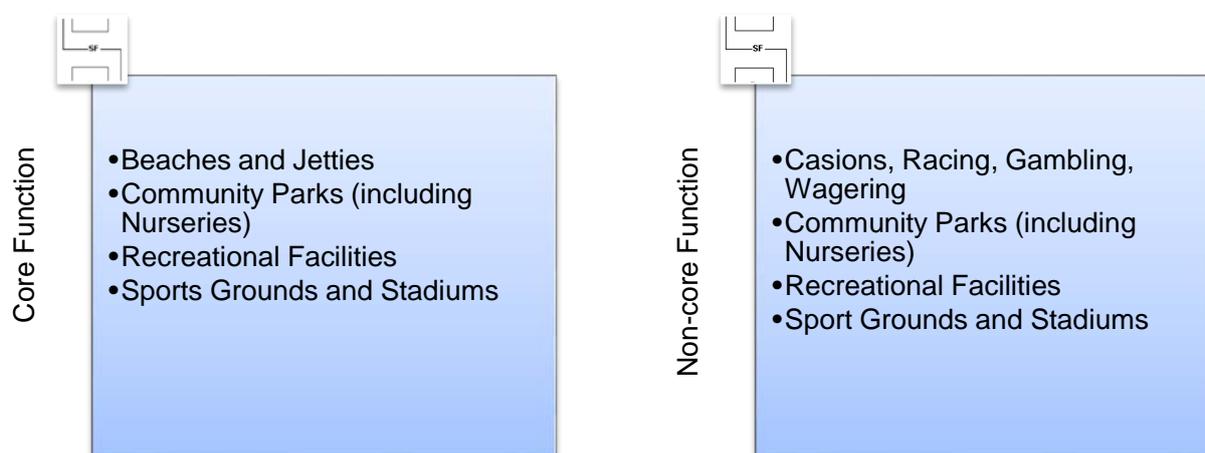
The definition of **sport** usually includes a broad and inclusive spectrum of activities in which people of all ages and abilities can participate, with an emphasis on the positive values of sport. In 2008, the United Nations Inter-Agency Task Force on Sport for Development and Peace defined sport, for the purposes of development, as ‘all forms of physical activity that contribute to physical fitness, mental well-being and social interaction, such as play, recreation, organised or competitive sport, and indigenous sports and games’.

**Recreation** encompasses diverse experiences with the following characteristic: “in leisure time, not rule-bound, non-competitive, overlap with other areas e.g. arts and culture; education, purely for fun and enjoyment, examples: knitting; sewing; bird watching; listening to music; watching movies; playing computer games, etc.

141. Sport and Recreation provides for both core and non-core functions.
142. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal

standard classification to the prescribed function/ sub-function classification within this segment.

143. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

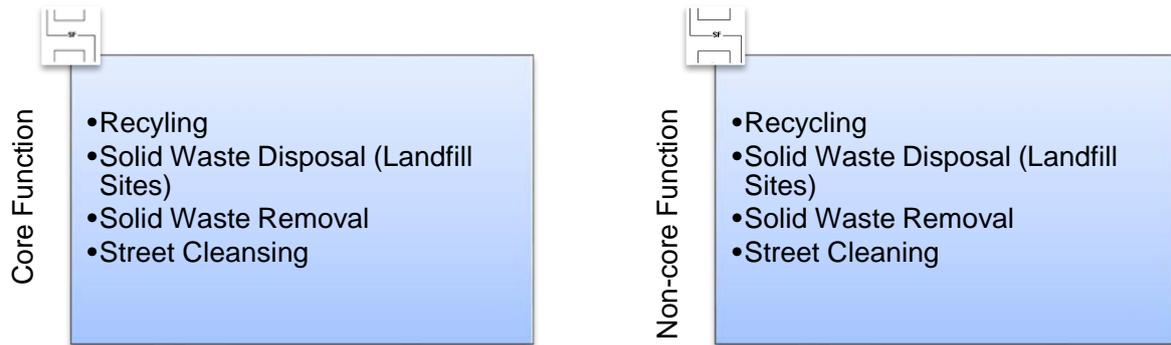


## Waste Management

### Definition:

**Waste Management** is the collection, transportation, disposal of garbage, and other waste products. Waste management encompasses management of all processes and resources for proper handling of waste materials, from maintenance of waste transport trucks and dumping facilities to compliance with health codes and environmental regulations.

144. Waste Management provides for both core and non-core functions.
145. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
146. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

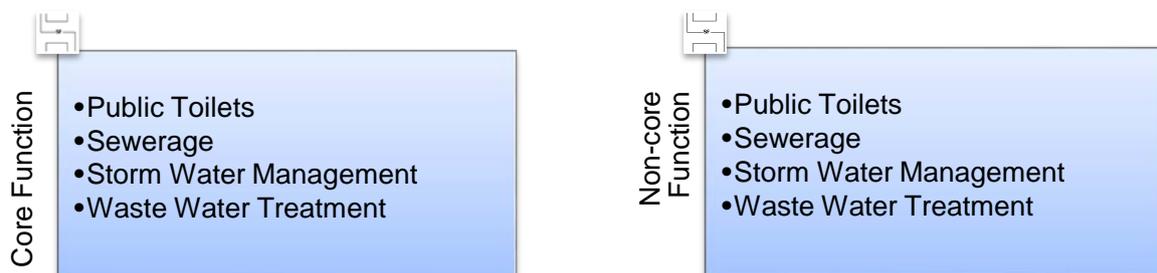


## Waste Water Management

### Definition:

**Waste water management** encompasses a broad range of tasks that promote effective and responsible water use, treatment, and disposal and encourage the protection and restoration of watersheds.

147. Waste Water Management provides for both core and non-core functions.
148. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this segment.
149. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:

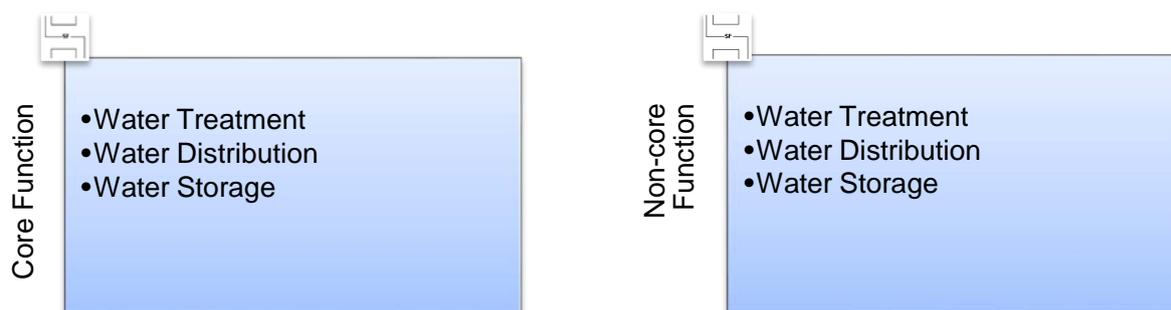


## Water Management

### Definition:

**Water resource management** is the activity of planning, developing, distributing and managing the optimum use of water resources. It is a sub-set of water cycle management. Water resource management planning has regard to all the competing demands for water and seeks to allocate water on an equitable basis to satisfy all uses and demands.

150. Water Management provides for both core and non-core functions.
151. The sub-functions are at the posting level. Municipalities may add further detail at their discretion at the sub-sub-function level to assist in aligning the municipal standard classification to the prescribed function/ sub-function classification within this Function segment.
152. The diagram below summarises the “core and non-core sub-functions” available in the mSCOA table for this function:



## Preparation for mSCOA Conversion

153. Bringing about effective conversion to an mSCOA complaint chart of accounts from the municipalities perspective is vital in achieving success.
154. The system developers responsible for applications (commonly used by municipalities) are responsible for developing software within the context of and compliant with the package of local government legislation, including the Municipal Regulations on a Standard Chart of Accounts, 2014 (mSCOA). This software is to

be driven by business process and subject to customisation based on the unique requirements of client municipalities. The primary objective of this software is to assist municipalities in achieving compliance with the SCOA classification framework and derive utmost benefit from implementing mSCOA successfully. However National Treasury recognises the complexities inherent to the implementation of the mSCOA requirements.

155. The first step for a municipality preparing for mSCOA “Function segment” implementation, would be to complete a comparison between the existing municipal standard classification and the functions (mSCOA Function segment) giving particular attention to the definitions included in the mSCOA table.
156. The next step would be to resolve the difference where an exact match between sub-function and the existing classification within the municipal standard classification could not be found. Various options may need to be considered for example adding more detail to the municipal standard classification, or even adding sub-sub-functions to the mSCOA Function table within the allowed breakdown option.
157. The function structure presented in this mSCOA Function segment provides for a high-level classification to be applied throughout the local government section and apply to district-, local- and metropolitan municipalities including their municipal entities. Some costing systems used by more sophisticated metropolitan municipalities and the larger cities may require additional detail to supplement the existing structure within the Function segment. This is provided for within the option for breakdown allowed.
158. Should a municipality find itself in this position the issue or issues should be raised by the municipality to the National Treasury mSCOA Frequently Asked Questions (FAQ) Database for assistance and consideration and a final decision by the mSCOA Technical Committee.

## Annual Maintenance and Matters Pending

### Annual Maintenance

159. At the time of preparing this Function Segment Detail Document, there were no issues noted for consideration in the annual maintenance of the Function segment.

## Matters Pending

160. The Accounting Standard Board (ASB) Comment April 2016: In reading paragraphs 39, 41 and 43, we noted that these requirements (which were assumable extracted from the VAT Guide) are inconsistent with the concepts outlined in GRAP 109 on *Accounting by Principals and Agents*. In particular, applying these paragraphs may give rise to inconsistent interpretation of when an entity is a principal or an agent when compared to the guidance in GRAP 109. Our detailed comments on these paragraphs are noted in the PDF document. It is proposed that SARS consider deleting the contradicting paragraphs from the VAT Guide and that only GRAP 109 be considered.

**Response:** The VAT 419 Guide is an interpretation of the VAT Act. Deleting the quotes as per the Project Summary Document does not resolve the apparent contradiction. The guidance contained in the VAT 419 guide sets the design principles for providing VAT indicators in the next release of mSCOA. ***This matter requires further research and consultation with all stakeholders involved.***

## ANNEXURE 1 - MSCOA FUNCTION SEGMENT INCLUDING REFERENCES AND DEFINITIONS TO COFOC

161. The Classification of Functions of Government (COFOG) is a detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditure. COFOC is integral to the Government Finance Statistics (GFS) presentation. It is one of a family of four classifications referred to when classifying expenditure according to purpose. COFOG provides a classification of government outlays by function that experience have shown to be of general interest and useful to a wider variety of analytic applications. The table below provides references between COFOG definitions and the mSCOA Function Segment definitions. Additionally, users should note that **the Project Detail Document (Annexure B\_CIDMS classification) provides the Function classification with reference to the equivalent classification in COFOG** supported by the definitions as applied in the Cities Infrastructure Development Management System (CIDMS). These definitions may assist in providing further assistance to users in understanding the context of the respective classifications included in the mSCOA classification framework:

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS				
			Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government				
Community and Social Services							

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>Community service is a service or activity that is performed by the municipality for the benefit of the public or its institutions. Social services seek to improve the quality of life and wellbeing of an individual, group, or community by intervening through research, policy, community organising, direct practices, and teaching on behalf of those afflicted with poverty or any real or perceived social injustices and violations of their human rights. Research is often focused on areas such as human development, social policy, public administration, psychotherapy, program evaluation, and international and community development.</p>								
	Core Function							
<p>Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4B and 5B read with Sections 83 and 84 of the Local Government Municipal Structures Act, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].</p>								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Aged Care	710	Social Protection	7102	Old Age	71020	Old Age (IS)
<p>Aged care includes old age homes, home assistance and transport facilities, etc. [Included in the Government Finance Statistics (GFS) – Community and Social Services: Aged Care. No reference made in the Constitution Schedule 4/ 5 Tables A/B neither in the Local Government Municipal Structures Act Sections 83 and 84.]</p>			<p>Provision of social protection in the form of cash benefits and benefits in kind against the risks linked to old age. Benefits in-kind, such as lodging and sometimes board provided to elderly persons either in specialised institutions or staying with families in appropriate establishments, assistance provided to elderly persons to help them with daily tasks (home help, transport facilities etc.), allowances paid to the person who looks after an elderly person and miscellaneous services and goods provided to elderly persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.</p>					
		Animal Care and Diseases	706	Housing and Community Amenities	7066	Housing and Community Amenities not elsewhere classified	70660	Housing and Community Amenities not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Facilities for the accommodation, care and burials of animals. [Included in GFS - Community and Social Services: Other Community. The Constitution Schedule 5 Tables B provide for facilities for the accommodation, care and burials of animals. No specific reference in the Local Government Municipal Structures Act Sections 83 and 84]			Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets relating to housing and community amenities; preparation and enforcement of legislation and standard relating to housing and community; production and dissemination of general information, technical documentation, and statistics relating to housing and community amenities. Includes: administration, operation, or support activities relating to housing and community amenities that cannot be assigned to 7061, 7062, 7063, 704 or 7065.					
		Cemeteries, Funeral Parlours and Crematoriums	706	Housing and Community Amenities	7066	Housing and Community Amenities not elsewhere classified	70660	Housing and Community Amenities not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		All costs relating to cemeteries, funeral parlours and crematoriums. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 5B (Core) provides for cemeteries, funeral parlours and crematoria. Further to this the Local Government Municipal Structures Act, 1998 in Section 84 indicates the functions and powers assigned to the District Municipality. Section 84(l) of this Act provides for "the establishment, conduct and control of cemeteries and crematoria serving the area of a major proportion of municipalities in the district. Reference to "funeral parlours" is limited to the Constitution Schedule 5B]	Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets relating to housing and community amenities; preparation and enforcement of legislation and standards relating to housing and community; production and dissemination of general information, technical documentation, and statistics relating to housing and community amenities. Includes: administration, operation, or support activities relating to housing and community amenities that cannot be assigned to 7061, 7062, 7063, 704 or 7065.					
		Child Care Facilities	710	Social Protection	7104	Family and Children	71040	Family and Children (IS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>Child Care Facilities for example facilities for providing early child hood development, for example, play grounds, educational facilities but not providing education or teaching, etc. [Included in GFS ~ Community and Social Services: Child Care. The Constitution Schedule 4B (Core) provide for child care facilities. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]</p>			<p>Benefits in kind, such as shelter and board provided to preschool children during the day or part of the day, financial assistance toward payment of a nurse to look after children during the day, shelter and board provided to children and families on a permanent basis (orphanages, foster families, etc.), goods and services provided at home to children or to those who care for them, and miscellaneous services and goods provided to families, young people, or children (holiday and leisure centres)</p>					
		Community Halls and Facilities	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government					
<p>Exhibition halls and places for community gatherings. Refers to the integrated management of multiple and interdisciplinary technologies, personnel, systems, security, access control, space and other related processes. Facility management (or facilities management or FM) is an interdisciplinary field devoted to the coordination of space, infrastructure, people and the organization, associated with the administration of office blocks, workshops, and executive office space. [Included in GFS - Public Places. The Constitution Schedule 5B (Core) provide for public places. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.</p>				
		Libraries and Archives	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
All activities relating to libraries and archives. [Included in GFS - Community and Social Services: Libraries and Archives. The Constitution Schedule 5B (Core) provides for "public places." Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.; production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.					
		Literacy Programmes	709	Education	7095	Education not definable by level	70950	Education not definable by level (IS)
Including literacy programmes, etc. [Included in GFS - Community and Social Services: Other Social. No reference made in the Constitution Schedule 4/ 5 Tables A/ B neither in the Local Government Municipal Structures Act, 1998 Sections 83 and 84]			1) Provision of education not definable by level (for example, educational programs, generally for adults, that do not require and special prior instruction, in particular, vocational training and cultural developments).					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups		Classes
2	3	4	Broad Objectives of Government					
		Museums and Art Galleries	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)
Including monuments, historic houses and sites. [Included in GFS - Community and Social Services: Other Social. The Constitution Schedule 5B (Core) provides for "public places." Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.					
		Theatres	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups	Classes		
2	3	4		Broad Objectives of Government					
<p>This function provides for theatres. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 5B (Core) provides for "public places." Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.</p>					
		Zoo's		708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
<p>This function provides for zoo's. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 5B (Core) provides for "public places." Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.</p>			
	Non-core Function					
<p>Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]</p>						

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Aged Care	710	Social Protection	7102	Old Age	71020	Old Age (IS)
<p>Including old age homes, home assistance and transport facilities, etc. as provided by district municipalities. [Included in GFS ~ Community and Social Services: Aged Care. The Constitution Schedule 4A (non-core) provides for "welfare services." Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>Provision of social protection in the form of cash benefits and benefits in kind against the risks linked to old age. Benefits in-kind, such as lodging and sometimes board provided to elderly persons either in specialised institutions or staying with families in appropriate establishments, assistance provided to elderly persons to help them with daily tasks (home help, transport facilities etc.), allowances paid to the person who looks after an elderly person and miscellaneous services and goods provided to elderly persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life.</p>					
		Agricultural	704	Economic Affairs	7042	Agriculture, Forestry, Fishing, and Hunting	70421	Agriculture

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
All activities included in agricultural. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 4A (non-core) provides for "agriculture." Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				1) Operation or support of programs or schemes to stabilize or improve farm prices and farm incomes; operation or support of extension services or veterinary services to farmers, pest control services, crop inspection services, and crop grading services. 2) Production and dissemination of general information, technical documentation, and statistics on agricultural affairs and services. 3) Compensation, grants, loans, or subsidies to farmers in connection with agricultural activities, including payments for restricting or encouraging output of a particular crop or for allowing land to remain non-cultivated. Excluded multipurpose development projects (70474).					
		Animal Care and Diseases		706	Housing and Community Amenities	7066	Housing and Community Amenities not elsewhere classified	70660	Housing and Community Amenities not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>Facilities for the accommodation, care and burials of animals. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 4A (Non-core) refers to "animal control and diseases" and Schedule 5A (Non-core) refers to "veterinary services, excluding regulation of the profession". Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]</p>			<p>Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets relating to housing and community amenities; preparation and enforcement of legislation and standard relating to housing and community; production and dissemination of general information, technical documentation, and statistics relating to housing and community amenities. <i>Includes: administration, operation, or support activities relating to housing and community amenities that cannot be assigned to 7061, 7062, 7063, 704 or 7065.</i></p>					
		Child Care Facilities	710	Social Protection	7104	Family and Children	71040	Family and Children (IS)
<p>Child Care Facilities for example facilities for providing early child hood development, for example, play grounds, educational facility but not providing education or teaching, etc. [Included in GFS ~ Community and Social Services: Child Care. The Constitution Schedule 4A (Non-core) refers to welfare services. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local</p>			<p>Benefits in kind, such as shelter and board provided to preschool children during the day or part of the day, financial assistance toward payment of a nurse to look after children during the day, shelter and board provided to children and families on a permanent basis (orphanages, foster families, etc.), goods and services provided at home to children or to</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]			those who care for them, and miscellaneous services and goods provided to families, young people, or children (holiday and leisure centres)					
		Community Halls and Facilities	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)
Exhibition halls and places for community gatherings. Refers to the integrated management of multiple and interdisciplinary technologies, personnel, systems, security, access control, space and other related processes. Facility management (or facilities management or FM) is an interdisciplinary field devoted to the coordination of space, infrastructure, people and the organization, associated with the administration of office blocks, workshops, and executive office space. [Included in GFS ~ Community and Social Services: Community Halls and Facilities. Not specifically defined being within			Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]								
		Consumer Protection	704	Economic Affairs	7041	General Economic, Commercial, and Labour Affairs	70411	General Economic and Commercial Affairs

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
All activities relating to consumer protection. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 4A (Non-core) refers to consumer protection. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]				1) Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and commercial policies, liaison among different branches of government and between government and business. 2) Regulation or support of general economic and commercial activities such as export and import trade as a whole, commodity and equity markets, overall income controls, general trade promotion activities, general regulation of monopolies and other restraints on trade and market entry, etc., supervision of the banking industry. 3) Grants, loans, or subsidies to promote general economic and commercial policies and programs. <i>Includes:</i> consumer education and protection. <i>Excludes:</i> Economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate.					
		Cultural Matters		708	Recreation, Culture and Religion	7086	Recreation, Culture, and Religion not elsewhere classified	70860	Recreation, Culture, and Religion not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>Non-core functions as determined in terms of the Constitution section 156(4) with Schedule 4A providing for all activities related to consumer protection. [Included in GFS ~ Community and Social Services: Other Community. The Constitution Schedule 4A (Non-core) refers to cultural matters. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets for the promotion of sport, recreation, culture, and religion; preparation and enforcement of legislation and standards for the provision of recreational and cultural services; production and dissemination of general information, technical documentation, and statistics on recreation, culture and religion. <i>Includes:</i> affairs and services relating to recreation, culture and religion that cannot be assigned to (7081), (7082), (7083), (7084) or (7085).</p>					
		Disaster Management	710	Social Protection	7109	Social Protection (not elsewhere classified)	71090	Social Protection (not elsewhere classified).

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS		
			Divisions	Groups	Classes
2	3	4	Broad Objectives of Government		
<p>Disaster management is dealing with and avoiding both natural and man-made disasters. It involves preparedness, response and recovery in order to lessen the impact of disasters including preparedness training. All aspects of emergency management deal with the processes used to the community from the consequences of disasters, wars and acts of terrorism. Disaster management doesn't necessarily avert or eliminate the threats themselves, although the study and prediction of the threats is an important part of the field. The basic level of emergency management are the various kinds of search and rescue activity. [Included in GFS ~ Community and Social Services: Other Community. Non-core functions as determined in terms of the Constitution section 156(4) with Schedule 4A and provides for disaster management. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this act.]</p>			<p>Administration, operation, or support of activities such as formulation, administration, coordination and monitoring of overall social protection policies, plans, programs, and budgets; preparation and enforcement of legislation and standards for the provision of social protection; production and dissemination of general information, technical documentation, and statistics on social protection. <i>Includes:</i> Provision of social protection in the form of cash benefits and benefits in kind to victims of fires, floods, earthquakes, and other peacetime disasters; purchase and storage of food, equipment and other supplies for emergency use in the case of peacetime disasters; other social protection affairs and services that cannot be assigned to (7101), (7102), (7103), (7104), (7105), (7106), (7107) or (7108).</p>		

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Education	709	Education	7098	Education not definable by level	70950	Education not definable by level (IS)
All activities relating to education (see Core - Literacy Programmes), etc. [Included in GFS ~ Community and Social Services: Other Community. Education at all levels, excluding tertiary education as per Schedule 4A (Non-core) of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			Provision of education not definable by level (for example, educational programs, generally for adults, that do not require any special prior instruction, in particular, vocational training and cultural developments).					
		Indigenous and Customary Law	703	Public Order and Safety	7036	Public Order and Safety not elsewhere classified.	70360	Public Order and Safety not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
[Included in GFS ~ Community and Social Services: Other Community. Indigenous and Customary Law as per Schedule 4A (Non-core) of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans and programs, and budgets relating to public order and safety; preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation, and statistics on public order and safety. <i>Includes:</i> public order and safety affairs and services that cannot be assigned to (7031), (7032), (7033), (7034) or (7035).					
		Industrial Promotion		704	Economic Affairs	7041	General Economic, Commercial, and Labour Affairs	70411	General Economic and Commercial Affairs (CS)
[Included in GFS ~ Community and Social Services: Other Community. Industrial Promotion as per Schedule 4A (Non-core) of the Constitution. Not specifically defined				1) Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			commercial policies, liaison among different branches of government and between government and business. 2) Regulation or support of general economic and commercial activities such as export and import trade as a whole, commodity and equity markets, overall income controls, general trade promotion, activities, general regulation of monopolies and other restrains on trade and market entry, etc. supervision of the banking industry. 3) Grants, loans, or subsidies to promote general economic and commercial policies and programs. Includes: Consumer Education and Protection Excludes: Economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate).					
		Language Policy	708	Recreation, Culture and Religion	7086	Recreation, Culture, and Religion not elsewhere classified	70860	Recreation, Culture, and Religion not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
[Included in GFS ~ Community and Social Services: Other Community. Language policy as per Schedule 4A (Non-core) of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			Administration, operation, or support of activities such as information, administration, coordination, and monitoring of overall policies, plans, programs, and budgets for the preparation of sport, recreation, culture, and religion; preparation and enforcement of legislation and standards for the provision of recreational and cultural services; production and dissemination of general information, technical documentation, and statistics on recreation, culture, and religion. Includes: Affairs and services relating to recreation, culture, and religion that cannot be assigned to (7081), (7082), (7083), (7084) or (7085).					
		Libraries and Archives	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
All activities relating to libraries and archives. [Included in GFS ~ Community and Social Services: Library and Archives. Archives other than National Archives/ Libraries as per Schedule 5A (Non-core) of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.					
		Literacy Programmes		709	Education	7095	Education not definable by level	70950	Education not definable by level (IS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
All activities relating to education (literacy programmes?), etc. [Included in GFS ~ Community and Social Services: Other Community. Education at all levels, excluding tertiary education as per Schedule 4A (Non-core) of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				1) Provision of education not definable by level (i.e., educational programs, generally for adults, that do not require any special prior instruction, in particular, vocational training and cultural developments).					
		Media Services		708	Recreation, Culture and Religion	7083	Broadcasting and Publishing Services	70830	Broadcasting and Publishing Services (CS)
All activities relating to media services, etc. [Included in GFS ~ Community and Social Services: Other Community. Media Services as per Schedule 4A (Non-core) of the Constitution. Not specifically defined being within the powers and functions of a district				1) Operation or support of broadcasting and publishing services 2) Grants, loans, or subsidies to support the construction or acquisition of facilities for television or radio broadcasting the construction or acquisition of plant, equipment, or materials for newspapers, magazine, or book publishing; the production of material for, and its presentation,					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			broadcasting the gathering of news or other information; the distribution of published works. excludes: government printing offices and plants (70133), provision of education by radio or television broadcasting (709).					
		Museums and Art Galleries	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)
All activities relating to museums and art galleries. [Included in GFS ~ Community and Social Services: Museums and Art Galleries. Non-core functions as determined in terms of the Constitution section 156(4) with Schedule 5A and provides for museums other than national museums. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Population Development	706	Housing and Community Amenities	7062	Community Development	70620	Community Development (CS)
<p>All activities relating to population development. [Included in GFS ~ Community and Social Services: Other Community. Non-core functions as determined in terms of the Constitution section 156(4) with Schedule 5A and provides for population development. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc. for communities; preparation of schemes for financing planned developments. Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to functions); agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Provincial Cultural Matters	708	Recreation, Culture and Religion	7082	Cultural Services		
All activities relating to provincial cultural matters. [Included in GFS ~ Community and Social Services: Other Community. Non-core functions as determined in terms of the Constitution section 156(4) with Schedule 5A and provides for museums other than national museums. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or for organisations engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.					
		Theatres	708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups	Classes		
2	3	4		Broad Objectives of Government					
<p>This function provides for theatres. [Included in GFS ~ Community and Social Services: Other Community. Public places in terms of the Constitution section 156(4) with Schedule 5B. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or for organisations engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.</p>					
		Zoo's		708	Recreation, Culture and Religion	7082	Cultural Services	70820	Cultural Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
<p>This function provides for zoo's. [Included in GFS ~ Community and Social Services: Other Community. Public places in terms of the Constitution section 156(4) with Schedule 5B. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>1) Provision of cultural services; administration of cultural affairs; supervision and regulation of cultural facilities 2) Operation or support of facilities for cultural pursuits (libraries, museums, art galleries, theatres, exhibition halls, monuments, historic houses and sites, zoological and botanical gardens, aquaria, arboreta, etc.); production, operation, or support of cultural events (concerts, stage and film productions, art shows, etc.) 3) Grants, loans, or subsidies to support individual artists, writers, designers, composers, and others working in the arts or to organisation engaged in promoting cultural activities, <b>NB</b> - Inclusions and Exclusions as per GFS 2014 not included here.</p>			
Energy Sources						
<p>This function covers both traditional sources of electricity such as thermal or hydro supplies and newer sources such as wind or solar heat.</p>						
	Core Function					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
				Broad	Objectives of Government				
2	3	4							
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].									
		Electricity		704	Economic Affairs	7043	Fuel and Energy	70435	Electricity
Including bulk purchase and distribution infrastructure, etc. [Included in GFS ~ Electricity: Distribution. The Constitution defines in Schedule 4B electricity and gas reticulation and the Local Government Municipal Structures Act, 1998, in section 84(c) provides for the function and power for the district municipality, being bulk supply of Electricity and Gas, which includes for the purpose of supply, the transmission, distribution and, where applicable, the generation of Electricity and Gas.				This class covers both traditional sources of electricity such as thermal or hydro supplies, and newer sources, such as wind or solar heat. 1) Construction or operation of non-enterprise type electricity supply systems. Excludes non-electric energy produced by wind or solar heat (70436).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Street Lighting and Signal Systems	706	Housing and Community Amenities	7064	Street lighting	70640	Street Lighting
<p>Operating, maintenance and capital expenditure on the infrastructure category street lighting, including highway lighting for traffic, fire alarm, police and other signal systems. [Included in GFS ~ Public Safety: Street Lighting. The Constitution defines in Schedule 5B street lighting. Strictly according to the Local Government Municipal Structures Act, section 84(c) provides for the function and power for the district municipality, being bulk supply of Electricity and Gas, which includes for the purpose of supply, the transmission, distribution and, where applicable, the generation of Electricity and Gas.]</p>			<p>Installation, operation, maintenance, upgrading, etc. of street lighting. Excludes: lighting affairs and services associated with the construction and operation of highways (70451).</p>					
		Nonelectric Energy	704	Economic Affairs	7043	Fuel and Energy	70436	Non-electric Energy

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>This function deals with the administration of energy affairs and services which chiefly concern the production, distribution and utilisation of heat in the form of steam, hot water or hot air. Includes non-electric energy produced by wind or solar heat as well as the conversion of methane gas (extracted from landfill sites) to electricity.</p>			<p>Construction or operation of non-enterprise type systems supplying non-electric energy. Includes: geothermal resources, nonelectric energy produced by wind or solar heat.</p>					
<p>Non-core Function</p>								
<p>Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]</p>								
		Electricity	704	Economic Affairs	7043	Fuel and Energy	70435	Electricity

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Including bulk purchase and distribution infrastructure, etc. [Included in GFS ~ Electricity: Distribution. The Constitution defines in Schedule 4B electricity and gas reticulation and the Local Government Municipal Structures Act, 1998, in section 84(c) provides for the function and power for the district municipality, being bulk supply of Electricity and Gas, which includes for the purpose of supply, the transmission, distribution and, where applicable, the generation of Electricity and Gas.			This class covers both traditional sources of electricity such as thermal or hydro supplies, and newer sources, such as wind or solar heat. 1) Construction or operation of non-enterprise type electricity supply systems. Excludes non-electric energy produced by wind or solar heat (70436).					
		Nonelectric Energy	704	Economic Affairs	7043	Fuel and Energy	70436	Non-electric Energy
This function deals with the administration of energy affairs and services which chiefly concern the production, distribution and utilisation of heat in the form of steam, hot water or hot air. Includes non-electric energy produced by wind or solar heat.			Construction or operation of non-enterprise type systems supplying non-electric energy. Includes: geothermal resources, nonelectric energy produced by wind or solar heat.					
Environmental Protection								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Environmental Protection refers to the various combinations of scientific, technical, and advisory activities (including modification processes, for example, the influence of manmade and natural factors) required to acquire, produce, and supply information on the past, present, and future states of space, atmospheric, oceanographic, and terrestrial surroundings for use in decision-making processes, or to modify those surroundings to enhance operations.								
	Core Function							
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Biodiversity and Landscape	705	Environmental Protection	7054	Protection of Biodiversity and Landscape	70540	Protection of Biodiversity and Landscape (CS)
<p>Includes activities relating to the protection of flora and fauna species, the protection of habitats and the protection of landscapes for their aesthetic values (for example, rehabilitation of abandoned mines and quarry sites) [Included in GFS ~ Environmental Protection: Biodiversity and Landscape. environment, administration of indigenous forests, and nature conservation included in Schedule 4A of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]</p>			<p>This group covers activities relating to the protection of fauna and flora species (including the reintroduction of extinct species and the recovery of species menaced by extinction), the protection of habitats (including the management of natural parks and reserves), and the protection of landscapes for their aesthetic values (including the reshaping of damaged landscapes for the purpose of strengthening their aesthetic value and the rehabilitation of abandoned mines and quarry sites.1) Administration, supervision, inspection, operation, or support of activities relating to the protection of biodiversity and landscape. 2) Grants, loans, or subsidies to support activities relating to the protection of biodiversity and landscape.</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Coastal Protection	705	Environmental Protection	7056	Environmental Protection not elsewhere classified	70560	Environmental Protection not elsewhere classified
Includes coastal protection, etc. [Included in GFS ~ Environmental Protection: Other - Coastal Protection. Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto included in Schedule 4B of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]			Administration, management, regulation, supervision, operation and support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans, programs, and budgets for the promotion of environmental protection; preparation and enforcement of legislation and standards for the provision of environmental protection services, production and dissemination of general information, technical documentation, and statistics on environmental protection.					
		Pollution Control	705	Environmental Protection	7053	Pollution Abatement	70530	Pollution Abatement (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS			
				Divisions		Groups	Classes
2	3	4	Broad Objectives of Government				
<p>Air pollution and climate protection, soil and groundwater protection, noise and vibration abatement, protection against radiation, etc. [Included in GFS ~ Environmental Protection: Pollution Control. Schedule 4B of the Constitution includes air pollutions and Schedule 5B of the Constitution noise pollution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]</p>				<p>This group covers activities relating to ambient air and climate protection, soil and groundwater protection, noise and vibration abatement, and protection against radiation. These activities include construction, maintenance and operation of monitoring systems and stations (other than weather stations); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways or railways with noise reducing surfaces; measures to clean pollution in water bodies; measures to control or prevent the emissions of greenhouse gases and pollution that adversely affect the quality of the air, construction, maintenance, and operation of installations for the decontamination of polluted soils and for the storage of pollutant products; transportation of pollutant products.</p> <p>1) administration, supervision, inspection, operation, or support of activities relating to pollution abatement and control. 2) Grants, loans or subsidies to support activities relating pollution abatement and control.</p>			
	Non-core Function						

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
				Broad Objectives of Government					
2	3	4							
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]									
		Indigenous Forests	705	Environmental Protection	7054	Protection of Biodiversity and Landscape	70540	Protection of Biodiversity and Landscape (CS)	
Administration of indigenous forests. [Included in GFS ~ Environmental Protection: Biodiversity and Landscape. The Constitution Schedule 4A provides for Administration of indigenous forests. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				This group covers activities relating to the protection of fauna and flora species (including the reintroduction of extinct species and the recovery of species menaced by extinction), the protection of habitats (including the management of natural parks and reserves), and the protection of landscapes for their aesthetic values (including the reshaping of damaged landscapes for the purpose of strengthening their aesthetic value and the rehabilitation of					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				abandons mines and quarry sites.1) Administration, supervision, inspection, operation, or support of activities relating to the protection of biodiversity and landscape. 2) Grants, loans, or subsidies to support activities relating to the protection of biodiversity and landscape.					
		Nature Conservation		705	Environmental Protection	7054	Protection of Biodiversity and Landscape	70540	Protection of Biodiversity and Landscape (CS)
Nature conservation excluding national parks, national botanical gardens and marine resources. [Not included in GFS ~ Nature conservation in terms of the Constitution section 156(4) read with Schedule 4A. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act,1998, however the MEC may alter these functions in terms of section 85 of this Act.]				Included from the Introduction to 7054 Protection of Biodiversity and Landscape: "This group covers activities relating to the protection of fauna and flora species (including the reintroduction of extinct species and the recovery of species menaced by extinction), the protection of habitats (including the management of natural parks and reserves), and the protection of landscape for their aesthetic values (including the reshaping of damaged					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				landscapes for the purpose of strengthening their aesthetic value and the rehabilitation of abandoned mines and quarry sites).  1) Administration, supervision, inspection, operation, or support of activities relating to the protection of biodiversity and landscape. 2) Grants, loans, or subsidies to support activities relating to the protection of biodiversity and landscape.					
		Pollution Control		705	Environmental Protection	7053	Pollution Abatement	70530	Pollution Abatement (CS)
Air pollution and climate protection, soil and groundwater protection, noise and vibration abatement, protection against radiation, etc. [Included in GFS ~ Environmental Protection: Pollution Control. Schedule 4A of the Constitution includes pollution control. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]				This group covers activities relating to ambient air and climate protection, soil and groundwater protection, noise and vibration abatement, and protection against radiation. These activities include construction, maintenance and operation of monitoring systems and stations (other than weather stations); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways or railways with noise reducing surfaces; measures to clean pollution in water bodies; measures to control or					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				prevent the emissions of greenhouse gases and pollution that adversely affect the quality of the air, construction, maintenance, and operation of installations for the decontamination of polluted soils and for the storage of pollutant products; transportation of pollutant products. 1) administration, supervision, inspection, operation, or support of activities relating to pollution abatement and control. 2) Grants, loans or subsidies to support activities relating to pollution abatement and control.					
		Soil Conservation		705	Environmental Protection	7053	Pollution Abatement	70530	Pollution Abatement (CS)
Soil conservation. [Included in GFS ~ Environmental Protections: Biodiversity and Landscape. Soil conservation included in Schedule 4A of the Constitution. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]				This group covers activities relating to ambient air and climate protection, soil and groundwater protection, noise and vibration abatement, and protection against radiation. These activities include construction, maintenance and operation of monitoring systems and stations (other than weather stations); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways or railways with noise reducing surfaces; measures to clean pollution in water bodies; measures to control or					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				prevent the emissions of greenhouse gases and pollution that adversely affect the quality of the air, construction, maintenance, and operation of installations for the decontamination of polluted soils and for the storage of pollutant products; transportation of pollutant products. 1) administration, supervision, inspection, operation, or support of activities relating to pollution abatement and control. 2) Grants, loans or subsidies to support activities relating pollution abatement and control.					
Executive and Council									
Executives are the person(s) or group of persons having administrative or supervisory authority in the municipality. The council is the legislative body that governs a municipality.									
	Core Function								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups	Classes		
2	3	4	Broad Objectives of Government					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].								
	Mayor and Council		701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70111	Executive and Legislative
All costs for Mayoral, Councillor and committee expenses. Including the costs of providing physical amenities for these activities. [Included in GFS: Executive and Council: Mayor and Council]			Administration, operation or support of executive and legislative organs: <i>Includes: office of the chief executive at all levels of government. Excludes: ministerial offices, offices of the heads of departments of local governments, interdepartmental committees, etc. concerned with a specific function.</i>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Municipal Manager, Town Secretary and Chief Executive	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70111	Executive and Legislative
All costs for the Municipal Manager, Town Secretary and Chief Executive Costs, including the costs of providing physical amenities for these activities. Cost not directly attributable to specific functions such as water, electricity, sanitation. This sub-function provides for appointments made in terms of section 57 of the Local Government Municipal Systems Act, 2000. [Included in GFS ~ Executive and Council: Municipal Manager]			Administration, operation or support of executive and legislative organs: Includes: office of the chief executive at all levels of government. Excludes: ministerial offices, offices of the heads of departments of local governments, interdepartmental.					
Finance and Administration								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
All activities relate to the finance function such as the cost of the Chief Financial Officer, financial statements, budgets, management reporting, revenue collection (credit control), financial asset and liability management (treasury & cash management), rates, procurement (orders, tenders, contract management etc.), levies, audit, creditors etc.								
	Core Function							
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].								
	Administrative and Corporate Support		701	General Public Services	7013	General Services	70133	Other General Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups	Classes		
2	3	4		Broad Objectives of Government					
Administration includes providing centralised administrative, office support, legal services, managing departmental, personnel and financial administration, determining working methods and procedures; and exercising managerial and administrative control. Corporate services are activities that combine or consolidate certain "municipal"-wide needed support services, provided based on specialised knowledge, best practices, and technology to serve internal (and sometimes external) customers and business partners.				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).					
		Asset Management		701	General Public Services	7013	General Services	70133	Other General Services (CS)
This function provides for asset management being the systematic process of operating, maintaining, upgrading, and disposing of assets cost-effectively. The Municipal Finance Management Act, 2003, in Section 63(1) provides that: The accounting officer of a municipality is responsible for the management of (a) the assets of the municipality, including the safeguarding and the maintenance of those assets.				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Budget and Treasury Office	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112	Financial and Fiscal Affairs (CS)
<p>This function gives recognition to the requirement set-out in the Municipal Finance Management Act, 2003, in Section 80 that every municipality must have a budget and treasury office. See the separate function provided for as "finance".</p>			<p>1) Administration of financial and fiscal affairs and services, management of public funds and public debt; operation of taxation schemes. 2) Operation of the treasury or ministry of finance; the budget office; the inland revenue agency; the customs authorities; the accounting and auditing services. 3) production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: Financial and fiscal affairs and services at all levels of government. Excludes: underwriting or flotation charges and interest payments on government loan (70170), supervision of the banking industry (70411).</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Finance	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112	Financial and Fiscal Affairs (CS)
<p>The finance function such as the cost of the Chief Financial Officer, financial statements, management reporting, revenue collection (credit control), rates, levies, audit coordination, creditors etc. The Municipal Finance Management Act, 2003, in Section 62 sets out the general financial management functions.</p>			<p>1) Administration of financial and fiscal affairs and services, management of public funds and public debt; operation of taxation schemes. 2) Operation of the treasury or ministry of finance; the budget office; the inland revenue agency; the customs authorities; the accounting and auditing services. 3) production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: Financial and fiscal affairs and services at all levels of government. Excludes: underwriting or flotation charges and interest payments on government loan (70170), supervision of the banking industry (70411).</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Fleet Management	701	General Public Service	7013	General Services	70133	Other General Services (CS)
<p>This function provides for fleet management being the management of the municipality's transportation fleet. This function is not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.</p>			<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).</p>					
		Human Resources	701	General Public Services	7013	General Services	70133	Other General Services (CS)
<p>All activities related to the human resources function such as selection and recruitment, induction, career development, counselling, payroll, occupational health and safety, etc.</p>			<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools,</p>					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).					
		Information Technology		701	General Public Services	7013	General Services	70133	Other General Services (CS)
All activities relating to information technology services.				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).					
		Legal Services		701	General Public Services	7013	General Services	70133	Other General Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS			
				Divisions		Groups	Classes
2	3	4	Broad Objectives of Government				
This function provides for legal services being the services involving legal or law related matters like issue of legal opinion, filing, pleading and defending of law suits etc. by a lawyer or attorney practicing law related services within the municipality.				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).			
		Marketing, Customer Relations, Publicity and Media Co-ordination	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112 Financial and Fiscal Affairs (CS)
The function provides for marketing, publicity, customer relations (call centres) and media co-ordination.				1) Administration of financial and fiscal affairs and services, management of public funds and public debt; operation of taxation schemes. 2) Operation of the treasury or ministry of finance;			

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				the budget office; the inland revenue agency; the customs authorities; the accounting and auditing services. 3) production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: Financial and fiscal affairs and services at all levels of government. Excludes: underwriting or flotation charges and interest payments on government loan (70170), supervision of the banking industry (70411).					
		Property Services		701	General Public Services	7013	General Services	70133	Other General Services (CS)
Municipality owned and operated (including leased properties) - the operation, control and oversight of real estate as used in its broadest terms.				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
		Risk Management		701	General Public Services	7013	General Services	70133	Other General Services (CS)
<p>This function provides for risk management within the municipality being the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/ or impact of unfortunate events or to maximise the realisation of opportunities. Risk management is required in terms of the Municipal Finance Management Act, 2003, in Section 62 (1)(c).</p>				<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).</p>					
		Security Services		701	General Public Services	7013	General Services	70133	Other General Services (CS)
<p>This function provides for security services within the municipality being the protection of personnel and/ or municipal assets. Other security services such as roving patrol, bodyguard, and guard dog services are also included.</p>				<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools,</p>					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).					
		Supply Chain Management		701	General Public Services	7013	General Services	70133	Other General Services (CS)
This function relates to procurement including orders, tenders and contract management. Supply Chain Management is required in terms of the Municipal Finance Management Act, 2003, Section 110.				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connect with a specific function (classified according to function).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Valuation Service	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112	Financial and Fiscal Affairs (CS)
Municipal valuation services as required in terms of Section 33 of the Local Government Municipal Property Rates Act, 2004.			1) Administration of financial and fiscal affairs and services, management of public funds and public debt; operation of taxation schemes. 2) Operation of the treasury or ministry of finance; the budget office; the inland revenue agency; the customs authorities; the accounting and auditing services. 3) production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: Financial and fiscal affairs and services at all levels of government. Excludes: underwriting or flotation charges and interest payments on government loan (70170), supervision of the banking industry (70411).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
	Non-core Function							
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
	Asset Management		701	General Public Services	7013	General Services	70133	Other General Services (CS)
This function provides for asset management being the systematic process of operating, maintaining, upgrading, and disposing of assets cost-effectively. The Municipal Finance Management Act, 2003, provides in Section 63(1) that: The accounting officer of a municipality is responsible for the management of (a) the assets of the municipality, including the safeguarding and the maintenance of those assets. [This sub-function provides for activities done by district municipality to assist local municipalities.]			Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Fleet Management	701	General Public Services	7013	General Services	70133	Other General Services (CS)
This function provides for fleet management being the management of the municipality's transportation fleet. [This sub-function provides for activities done by the district municipality to assist local municipalities.]			Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).					
		Human Resources	701	General Public Services	7013	General Services	70133	Other General Services (CS)
All activities related to the human resources function such as selection and recruitment, induction, career development, counselling, payroll, occupational health and safety, etc.			Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools,					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
[This sub-function provides for activities done by the district municipality to assist local municipalities.]			government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).					
		Information Technology	701	General Public Services	7013	General Services	70133	Other General Services (CS)
All activities relating to information technology services. [This sub-function provides for activities done by the district municipality to assist local municipalities]			Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).					
		Legal Services	701	General Public Services	7013	General Services	70133	Other General Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government					
<p>This function provides for legal services being the services involving legal or law related matters like issue of legal opinion, filing, pleading and defending of law suits etc. by a lawyer or attorney practicing law related services within the municipality. [This sub-function provides for activities done by the district municipality to assist local municipalities.]</p>				<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).</p>				
		Marketing, Customer Relations, Publicity and Media Co-ordination	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112	Financial and Fiscal Affairs (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
The function provides for marketing, publicity, customer relations (call centres) and media co-ordination. [This sub-function provides for activities done by the district municipality to assist local municipalities.]				1) Administration of financial and fiscal affairs and services, management of public funds and public debt; operation of taxation schemes. 2) Operation of the treasury or ministry of finance; the budget office; the inland revenue agency; the customs authorities; the accounting and auditing services. 3) production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: Financial and fiscal affairs and services at all levels of government. Excludes: underwriting or flotation charges and interest payments on government loan (70170), supervision of the banking industry (70411).					
		Property Services		701	General Public Services	7013	General Services	70133	Other General Services (CS)
Municipality owned and operated (including leased properties) - the operation, control and oversight of real estate as used in its broadest terms. [This sub-function provides for activities done by the district municipality to assist local municipalities.]				Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services,					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS				
			Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government				
			etc. Excludes: other general services connected with a specific function (classified according to function).				
		Risk Management	701	General Public Services	7013	General Services	70133 Other General Services (CS)
<p>This function provides for risk management within the municipality being the identification, assessment, and prioritisation of risks (defined in ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimise, monitor, and control the probability and/ or impact of unfortunate events or to maximize the realisation of opportunities. Risk management is required in terms of the Municipal Finance Management Act, 2003 (Section 62 (1) (c)). [This sub-function provides for activities done by the district municipality to assist local municipalities.]</p>			<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).</p>				

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Security Services	701	General Public Services	7013	General Services	70133	Other General Services (CS)
<p>This function provides for security services within the municipality being the protection of personnel and/ or municipal assets. Other security services such as roving patrol, bodyguard, and guard dog services are also included. [This sub-function provides for activities done by the district municipality to assist local municipalities.]</p>			<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).</p>					
Health								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups	Classes	
2	3	4	Broad Objectives of Government			
<p>Section 24 of the Constitution of the Republic of South Africa entrenches the right of all citizens to live in an environment that is not harmful to their health or well-being. Section 83 of the National Health Act, 2003 (Act 61 of 2003), defines municipal health services and clearly stipulates the responsibilities of municipalities in the performance of such services. Environmental health comprises those aspects of human health, including quality of life, that are determined by physical, chemical, biological, social and psychosocial factors in the environment. It also refers to the theory and practices of assessing, correcting, controlling and preventing factors in the environment that can adversely affect the health of present and future generations. Environmental health services are services that implement environmental health policies through monitoring and controlling, which improve environmental parameters and encourage the use of environmentally friendly and healthy technologies and behaviours. Controlling and monitoring also play a leading role in suggesting and developing new policy areas. (These definitions are in line with the definitions of the World Health Organization.)</p>						
	Core Function					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].									
		Health Services		707	Health	7074	Public Health Services	70740	Public Health Services (IS)
This function includes food control, health inspections, surveillance and prevention of communicable diseases, etc. Section 24 of the Constitution of the Republic of South Africa entrenches the right of all citizens to live in an environment that is not harmful to their health or well-being. Section 83 of the National Health Act, 2003 (Act 61 of 2003), defines municipal health services and clearly stipulates the responsibilities of municipalities in the performance of such services. [Included in GFS ~ Health: Clinics. Schedule 4B of the Constitution includes municipal health services. Specifically defined being within the powers and functions of a district municipality by section 83 and 84 of				1) Provision of public health services. 2) Administration, inspection, operation, or support of public health services such as blood bank operation (collecting, processing, storing, shipping), disease detection (cancer, tuberculosis, venereal disease), prevention (immunization, inoculation), monitoring (infant nutrition, child health), epidemiological data collection, family planning services and so forth. 2) Preparation and dissemination of information on public health matters. Includes: public health services delivered by special teams to groups of clients, most of whom are in good health, at workplaces, schools, or other non-medical settings, public health services not connected with a hospital, clinic, or					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS						
			Divisions		Groups		Classes		
2	3	4	Broad Objectives of Government						
the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - "municipal health services serving the area of the district".]			practitioners, public health services not delivered by medically qualified doctors, public health service laboratories. Excludes: medical analysis laboratories (70724), laboratories engaged to determining the abuses of disease (70750).						
		Laboratory Services	707	Health	7075	R&D Health	70750	R&D (CS)	Health
		Food Control	707	Health	7075	R&D Health	70750	R&D (CS)	Health
		Health Surveillance and Prevention of Communicable Diseases including Immunisation.	707	Health	7075	R&D Health	70750	R&D (CS)	Health
		Vector Control <sup>4</sup>	707	Health	7075	R&D Health	70750	R&D (CS)	Health

<sup>4</sup> Vector control is any method to limit or eradicate the mammals, birds, insects or other arthropods (collectively called vectors) which transmit disease pathogens. For example, mosquito control.

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Chemical Safety	707	Health	7075	Research & Development (R&D) Health	70750	Research & Development (R&D) Health (CS)
[Included in GFS ~ Health: Other. Schedule 4B of the Constitution includes municipal health services. Specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act,1998, however the MEC may alter these functions in terms of section 85 of this Act - "municipal health services serving the area of the district".]			1) Administration and operation of government agencies engaged in applied research and experimental development related to health. 2) Grants, loans, and subsidies to support applied research and experimental development related to health undertaken by non-government bodies, such as research institutes and universities. Includes: Laboratories engaged in determining the causes of disease. Excludes: Basic Research (70140)					
	Non-core Function							
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government			-					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]									
		Ambulance		707	Health	7072	Outpatient Services	70724	Paramedics Services (IS)
Includes all costs relating to Ambulances. [Included in GFS ~ Health: Ambulance. Schedule 4A of the Constitution provides for health services, Schedule 5A for ambulance services. This function not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, .however the MEC may alter these functions in terms of section 85 of this Act.]				1) Provision of paramedical health services to outpatients. 2) Administration, inspection, operation, or support of health services delivered by clinics supervised by nurses, midwives, physiotherapists, occupational therapists, occupational therapists, speech therapists or other paramedical personnel and of health services delivered by nurses, midwives, and paramedical personnel in non-consulting rooms, patients homes, or other non-medical institutions Includes: acupuncturists, chiropodists, chiropractors, optometrists, practitioners of traditional medicine, etc.; medical analysis laboratories and x-ray centres; hire of therapeutic equipment; medically prescribed corrective gymnastic therapy; outpatient thermal bath or sea-water treatments; ambulance services other than ambulance services					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				operated by hospitals. Excludes: Public health services laboratories (70740) laboratories engaged in determining the causes of disease (70750)					
		Health Services		707	Health	7074	Public Health Services	70740	Public Health Services (IS)
<p>This function includes food control, health inspections, surveillance and prevention of communicable diseases, etc. Section 24 of the Constitution of the Republic of South Africa entrenches the right of all citizens to live in an environment that is not harmful to their health or well-being. Section 83 of the National Health Act, 2003 (Act 61 of 2003), defines municipal health services and clearly stipulates the responsibilities of municipalities in the performance of such services. [Included in GFS ~ Health: Other. Schedule 4A of the Constitution includes health services. ]</p>				<p>1) Provision of public health services. 2) Administration, inspection, operation, or support of public health services such as blood bank operation (collecting, processing, storing, shipping), disease detection (cancer, tuberculosis, venereal disease), prevention (immunization, inoculation), monitoring (infant nutrition, child health), epidemiological data collection, family planning services and so forth. 2) Preparation and dissemination of information on public health matters. Includes: public health services delivered by special teams to groups of clients, most of whom are in good health, at workplaces, schools, or other non-medical settings, public health services not connected with a hospital, clinic, or practitioners, public health services not delivered by medically qualified doctors, public health</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
			service laboratories. Excludes: medical analysis laboratories (70724), laboratories engaged to determining the abuses of disease (70750).					
	Housing							
	All activities associated with the provisioning of housing.							
	Core Function							
	Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].							
	Housing		706	Housing and Community Amenities		7061	70610	Housing Development (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups	Classes		
2	3	4		Broad Objectives of Government					
<p>This function provides for the management and eradication of housing backlogs, provides incremental low-cost housing opportunities for households below certain income brackets, provides opportunities for credit-link houses in mixed developments, provides special needs housing for the aged, the disabled, people with HIV and aids and children who are orphaned by HIV, provide rental housing options, etc. [Included in GFS ~ Schedule 4A of the Constitution includes housing. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>1) Administration of housing development affairs and services; promotion, monitoring, and evaluation of housing development activities regardless of whether the activities are under the auspices of public authorities, development and regulations of housing standards. 2) Slum clearance related to provision of housing acquisition of land needed for construction of dwellings, construction or purchase and remodelling of dwelling units for the general public or for people with special needs. 3) Production and dissemination of public information, technical documentation, and statistics on housing development affairs and services. 4) Grants, loans or subsidies to support the expansion, improvement, or maintenance of the housing stock. Excludes: development and regulation of construction standards (70443); cash benefits and benefits in-kind to help households meet the cost of housing (71060).</p>					
		Informal Settlements		706	Housing and Community Amenities		7062	70620	Housing Development (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups	Classes	
2	3	4	Broad Objectives of Government			
<p>The function assist in curbing land evasions and educated communities on the problems caused by land invasions, provides layout plans for informal settlements and identifies land than can be developed for the relocation of informal settlements. destigmatises hostels by converting them into family units and develops economic ventures, operates and effective waiting-list system and educates communities about the importance of the waiting list. [Included in GFS ~ Schedule 4A of the Constitution includes housing. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - "municipal health services serving the area of the district]</p>			<p>1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc., for communities; preparation of schemes for financing planned developments. 3) Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, health, cultural facilities, etc., (classified according to function), agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).</p>			
Non-core Function						
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government						

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4		Broad Objectives of Government				
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
		Housing		706	Housing and Community Amenities	7061	70610	Housing Development (CS)
This function provides for the management and eradication of housing backlogs, provides incremental low-cost housing opportunities for households below certain income brackets, provides opportunities for credit-link houses in mixed developments, provides special needs housing for the aged, the disabled, people with HIV and aids and children who are orphaned by HIV, provide rental housing options, etc. [Included in GFS ~ Schedule 4A of the Constitution includes housing. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]				1) Administration of housing development affairs and services; promotion, monitoring, and evaluation of housing development activities regardless of whether the activities are under the auspices of public authorities, development and regulations of housing standards. 2) Slum clearance related to provision of housing acquisition of land needed for construction of dwellings, construction or purchase and remodelling of dwelling units for the general public, or for people with special needs. 3) Production and dissemination of public information, technical documentation, and statistics on housing development affairs and services. 4) Grants, loans or subsidies to support the expansion, improvement, or maintenance of the				

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups		Classes
2	3	4		Broad Objectives of Government				
				housing stock. Excludes: development and regulation of construction standards (70443); cash benefits and benefits in kind to help households meet the cost of housing (71060).				
		Informal Settlements		706	Housing and Community Amenities	7062	70620	Housing Development (CS)
<p>The function assists in curbing land evasions and educate communities on the problems caused by land invasions, provides layout plans for informal settlements and identifies land than can be developed for the relocation of informal settlements. destigmatises hostels by converting them into family units and develops economic ventures, operates and effective waiting-list system and educates communities about the importance of the waiting list. [Included in GFS ~ Schedule 4A of the Constitution includes housing. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the</p>				<p>1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc., for communities; preparation of schemes for financing planned developments. 3) Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, health, cultural facilities,</p>				

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
MEC may alter these functions in terms of section 85 of this Act - "municipal health services serving the area of the district."			etc., (classified according to function), agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).			
Internal Audit						
This function provides for internal audit as provided for in the Municipal Finance Management Act, 2003, in Section 62(1)(c).						
	Core Function					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].						

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Governance Function	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112	Financial and Fiscal Affairs (CS)
		Non-core Function						
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Governance Function	701	General Public Services	7011	Executive and Legislative Organs, Financial and Fiscal Affairs, External Affairs	70112	Financial and Fiscal Affairs (CS)
This function provides for internal audit as provided for in the Municipal Finance Management Act, 2003, Section 62(1)(c).			1) Administration of financial and fiscal affairs and services, management of public funds and public debt; operation of taxation schemes. 2) Operation of the treasury or ministry of finance; the budget office; the inland revenue agency; the customs authorities; the accounting and auditing services. 3) production and dissemination of general information, technical documentation and statistics on financial and fiscal affairs and services. Includes: Financial and fiscal affairs and services at all levels of government. Excludes: underwriting or flotation charges and interest payments on government loan (70170), supervision of the banking industry (70411).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
	Non-core Function							
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
Other								
This function provides for "core and non-core functions" specifically listed as determined in terms of the Constitution section 156 with Schedule 4/ 5 A/ B with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, but not separately specific in the classification framework.								
	Core Function							

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups	Classes		
2	3	4		Broad Objectives of Government					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].									
		Abattoirs		704	Economic Affairs	7042	Agriculture, Forestry, Fishing, and Hunting	70421	Agriculture
Includes all activities relating to the establishment, conduct and control of municipal abattoirs. [Included in GFS ~ Other: Abattoirs. Schedule 5B of the Constitution includes municipal abattoirs. Specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act				1) Operation or support of programs or schemes to stabilize or improve farm prices and farm incomes; operation or support of extension services or veterinary services to farmers, pest control services, crop inspection services, and crop grading services. 2) Production and dissemination of general information, technical documentation, and statistics on agricultural affairs and services. 3) Compensation, grants, loans, or subsidies to farmers in connection with agricultural activities, including payments for restricting or encouraging output of a					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
- "the establishment, conduct and control of fresh produce markets and abattoirs serving the area of a major proportion of the municipalities in the district."				particular crop or for allowing land to remain non-cultivated. Excluded multipurpose development projects (70474).					
		Air Transport		704	Economic Affairs	7045	Transport	70454	Air Transport (CS)
Includes all activities relating to municipal airports. [Included in GFS ~ Schedule 4B of the Constitution includes municipal airports. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - Municipal Airports serving the Area of the District Municipality as a whole.]				1) Administration of affairs and services concerning operation, use, construction, and maintenance of air transport systems and facilities (airports, runways, terminals, hangars, navigation aids and equipment, air control amenities, etc.) 2) Supervision and regulation of air transport users (registration, licensing, and inspection of aircraft, pilots, crews, ground crews, regulations concerning passenger safety, investigation of air transport accidents, etc.), air transport system operations (allocations of routes, approval of freight tariffs and passenger fares, and of frequency and levels of service, etc.), and air transport facility construction and maintenance. 3) Construction or operation of non-enterprise type public air transport services and facilities. 4) Production and dissemination of general information, technical documentation, and statistics on air transport system operations and on air					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				transport facility construction. 5) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of air transport systems and facilities. Includes: radio and satellite navigation aids; emergency rescue services, schedules and non-scheduled freight and passenger services, regulation and control of flying by private individuals. Excludes: grants, loans and subsidies to aircraft manufactures (70442).					
		Forestry		704	Economic Affairs	7042	Agriculture, Forestry, Fishing, and Hunting	70422	Forestry
All activities associated with the forestry industry. [Included in GFS - Reference still to be included. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				1) Administration of forestry affairs and services; conservation, extension and rationalised exploitation of forest reserves; supervision and regulation of forest operations and issuance of tree-felling licenses. 2) Operation or support of reforestation work, pest and disease control, forest firefighting and fire presentation services, and extension services to forest operators. 3) Production and dissemination of general information, technical documentation					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				and statistics on forestry affairs and services. 4) Grants, loans or subsidies to support commercial forest activities. Includes: Forest crops in addition to timber.					
		Licensing and Regulation		704	Economic Affairs	7041	General Economic, Commercial and Labour Affairs	70411	General Economic, Commercial and Labour Affairs
Include licensing of food and liquor sales to the public and licensing of street traders (hawkers control) and business. Does not include building or planning regulation or vehicle licensing. [Included in GFS ~ Planning and Development: Licensing and Regulation. Core Function as determined in terms of the Constitution section 156(1) with Schedule 4B providing for trading regulations and 5B for licensing and control of undertakings that sell food to the public. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government				Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and commercial policies, liaison among different branches of government and between government and business.					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
				Broad	Objectives of Government				
2	3	4							
Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]									
		Markets	704	Economic Affairs	7041	General Economic, Commercial, and Labour Affairs	70411	General Economic and Commercial Affairs	
Includes all activities relating to the operation of markets – fresh produce, etc. [Included in GFS - Core Function as determined in terms of the Constitution section 156(1) with Schedule 5B providing for markets and street trading. Specifically, being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - the establishment, conduct and control of fresh produce markets and abattoirs serving the area of a major portion of municipalities in the district.]				1) Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and commercial policies, liaison among different branches of government and between government and business. 2) Regulation or support of general economic and commercial activities such as export and import trade as a whole, commodity and equity markets, overall income controls, general trade promotion, activities, general regulation of monopolies and other restrains on trade and market entry, etc. supervision of the banking industry. 3) Grants, loans, or subsidies to promote general economic and commercial policies and programs.					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				Includes: Consumer Education and Protection Excludes: Economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate).					
		Tourism		704	Economic Affairs	7047	Other Industries	70473	Tourism
Includes all activities relating to the promotion and development of tourism. [Included in GFS ~ Other: Tourism. Core Function as determined in terms of, the Constitution section 156(1) with Schedule 4B read with Section 84(m) of the Local Government Municipal Structures Act, 1998 - promotion of local tourism for the area of the district municipality.]				1) Administration of tourism affairs and services; promotion and development of tourism; liaison with the transport, hotel, and restaurant industries and other industries benefiting from the presence of tourists. 2) Operation of tourist offices at home and abroad, etc.; organisation of advertising, campaigns, including the production and dissemination of promotional literature and the like. 3) Compilation and publication of statistics on tourism.					
		Non-core Function							
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government									

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
		Abattoirs	704	Economic Affairs	7042	Agriculture, Forestry, Fishing, and Hunting	70421	Agriculture
Includes all activities relating to the establishment, conduct and control of municipal abattoirs. [Included in GFS ~ Other: Abattoirs. Schedule 5A of the Constitution includes abattoirs.]			1) Operation or support of programs or schemes to stabilise or improve farm prices and farm incomes; operation or support of extension services or veterinary services to farmers, pest control services, crop inspection services, and crop grading services. 2) Production and dissemination of general information, technical documentation, and statistics on agricultural affairs and services. 3) Compensation, grants, loans, or subsidies to farmers in connection with agricultural activities, including payments for restricting or encouraging output of a particular crop or for allowing land to remain non-cultivated. Excluded multipurpose development projects (70474).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Air Transport	704	Economic Affairs	7045	Transport	70454	Air Transport (CS)
Includes all activities relating to municipal airports. [Included in GFS ~ Schedule 4A of the Constitution includes airports other than international and national airports.]			1) Administration of affairs and services concerning operation, use, construction, and maintenance of air transport systems and facilities (airports, runways, terminals, hangars, navigation aids and equipment, air control amenities, etc.) 2) Supervision and regulation of air transport users (registration, licensing, and inspection of aircraft, pilots, crews, ground crews, regulations concerning passenger safety, investigation of air transport accidents, etc.), air transport system operations (allocations of routes, approval of freight tariffs and passenger fares, and of frequency and levels of service, etc.), and air transport facility construction and maintenance. 3) Construction or operation of non-enterprise type public air transport services and facilities. 4) Production and dissemination of general information, technical documentation, and statistics on air transport system operations, and on air transport facility construction. 5) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of air transport systems and facilities. Includes: radio and satellite navigation aids; emergency rescue services, schedules and non-					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				scheduled freight and passenger services, regulation and control of flying by private individuals. Excludes: grants, loans and subsidies to aircraft manufactures (70442).					
		Forestry		704	Economic Affairs	7042	Agriculture, Forestry, Fishing, and Hunting	70422	Forestry
All activities associated with the forestry industry. [Included in GFS - Reference still to be included. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]				1) Administration of forestry affairs and services; conservation, extension and rationalised exploitation of forest reserves; supervision and regulation of forest operations and issuance of tree-felling licenses. 2) Operation or support of reforestation work, pest and disease control, forest firefighting and fire presentation services, and extension services to forest operators. 3) Production and dissemination of general information, technical documentation and statistics on forestry affairs and services. 4) Grants, loans or subsidies to support commercial forest activities. Includes: Forest crops in addition to timber.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Licensing and Regulation	704	Economic Affairs	7041	General Economic, Commercial and Labour Affairs	70411	General Economic, Commercial and Labour Affairs
<p>Include licensing of food and liquor sales to the public and licensing of street traders (hawkers control) and business. Does not include building or planning regulation or vehicle licensing. [Included in GFS ~ Planning and Development: Licensing and Regulation. Non-core Function as determined in terms of the Constitution section 156(1) with Schedule 5A for liquor licences. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act]</p>			<p>Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and commercial policies, liaison among different branches of government and between government and business.</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Markets	704	Economic Affairs	7041	General Economic, Commercial, and Labour Affairs	70411	General Economic and Commercial Affairs
<p>Includes all activities relating to the operation of markets – fresh produce, etc. [Included in GFS ~ Other: Markets. Non-core Function as determined in terms of the Constitution section 156(1) with Schedule 4A for trade. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>1) Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and commercial policies, liaison among different branches of government and between government and business. 2) Regulation or support of general economic and commercial activities such as export and import trade as a whole, commodity and equity markets, overall income controls, general trade promotion, activities, general regulation of monopolies and other restrains on trade and market entry, etc. supervision of the banking industry. 3) Grants, loans, or subsidies to promote general economic and commercial policies and programs. Includes: Consumer Education and Protection Excludes: Economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate).</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Tourism	704	Economic Affairs	7047	Other Industries	70473	Tourism
Includes all activities relating to the promotion and development of tourism. [Included in GFS - Other: Tourism. Non-core function as determined in terms of the Constitution section 156(1) with Schedule 4A providing for tourism. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			1) Administration of tourism affairs and services; promotion and development of tourism; liaison with the transport, hotel, and restaurant industries and other industries benefiting from the presence of tourists. 2) Operation of tourist offices at home and abroad, etc.; organisation of advertising, campaigns, including the production and dissemination of promotional literature and the like. 3) Compilation and publication of statistics on tourism.					
Planning and Development								
		Core Function						
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government								

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].								
		Billboards	704	Economic Affairs	7041	General Economic, Commercial, and Labour Affairs	70411	General Economic and Commercial Affairs (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Billboards and the display of advertisements in public places. [Included in GFS - Planning and Development: Economic Development/ Planning. Core Function as determined in terms of the Constitution section 156(1) with Schedule 5B providing for billboards and the display of advertisements in public places. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				1) Administration of general economic and commercial affairs and services, including general foreign commercial affairs, formulation and implementation of general economic and commercial policies, liaison among different branches of government and between government and business. 2) Regulation or support of general economic and commercial activities such as export and import trade as a whole, commodity and equity markets, overall income controls, general trade promotion, activities, general regulation of monopolies and other restrains on trade and market entry, etc. supervision of the banking industry. 3) Grants, loans, or subsidies to promote general economic and commercial policies and programs. Includes: Consumer Education and Protection Excludes: Economic and commercial affairs of a particular industry (classified to (7042) through (7047) as appropriate).					
		Corporate Wide Strategic Planning (IDPs, LEDs)		701	General Public Services	7013	General Services	70132	Overall Planning and Statistical Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government					
<p>Provides for Corporate Wide Strategic Planning (IDPs, LEDs, etc.). [Included in GFS - Planning and Development: Economic Development/ Planning. Core Function as determined in terms of the Constitution section 156(1) with Schedule 4B providing for municipal planning. Specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - integrated development planning for the district municipality as a whole including a framework for integrated development plans of all municipalities in the area of the district municipality, taking into account the integrated development plans of those local municipalities.]</p>				<p>1) Administration and operation of overall economic and social-planning services and of overall statistical services; including formulation, coordination, and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: Economic and social planning services and statistical serviced connected with specific function (classified according to function).</p>				
		Central City Improvement District	706	Housing and Community Amenities	7062	Community Development	70620	Community Development (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups	Classes		
2	3	4	Broad Objectives of Government					
<p>The Central City Improvement District is a private–public partnership formed by the property owners of a defined geographical area to provide top–up or complementary services over and above what the Metropolitan Municipalities provide. These services help a City to be a clean, safe and caring city. [Included in GFS - Economic Development and Planning. Core Function determined in terms of the Constitution section 156(1) with Schedule 4B providing for municipal planning. Not-specifically defined being within the powers and functions of a district municipality by section 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.</p>			<p>1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc. for communicates; preparation of schemes for financing planned developments. Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to functions); agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).</p>					
		Development Facilitation	706	Housing and Community Amenities	7062	Community Development	70620	Community Development (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
<p>The Local Government Municipal Structures Act, Section 83(3) provides that a district municipality must seek to achieve the integrated, sustainable and equitable social and economic development of its area as a whole by (a) ensuring integrated development planning for the district as a whole; (b) promoting bulk infrastructural development and services for the district as a whole; (c) building the capacity of local municipalities in its area to perform their functions and exercise their powers where such capacity is lacking; and (d) promoting the equitable distribution of resources between the local municipalities in its area to ensure appropriate levels of municipal services within the area.</p>				<p>1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc. for communicates; preparation of schemes for financing planned developments. Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to functions); agrarian reform and land resettlement (70421); administration if construction standards (70443) and housing standards (70610).</p>					
		Economic Development/ Planning		701	General Public Services	7013	General Services	70132	Overall Planning and Statistical Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government					
<p>Provides for Economic Planning and Development. [Included in GFS - Planning and Development: Economic Development Planning. Core Function as determined in terms of the Constitution section 156(1) with Schedule 4B providing for municipal planning. Furthermore, this is required by the Municipal System Act, 2000 in Section 23. Specifically defined being within the powers and functions of a district municipality by section 84(6)a Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - Integrated development-planning for the district municipality as a whole, including a framework for integrated development plans for all municipalities in the area of the district municipality, taking into account the integrated development plans of those local municipalities.]</p>				<p>1) Administration and operation of overall economic and social-planning services and of overall statistical services; including formulation, coordination, and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: Economic and social planning services and statistical serviced connected with a specific function (classified according to function).</p>				
		Town Planning, Building Regulations and Enforcement, and City Engineer	706	Housing and Community Amenities	7062	Community Development	70620	Community Development (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Includes Town Planning, Building Regulations and Enforcement, City Engineer (from a town planning perspective), etc. [Included in GFS - Planning and Development: Town Planning and Building Enforcement. Core Functions as determined in terms of the Constitution section 156(1) with Schedule 4B Municipal Planning. Not specifically defined by section 84 of the Local Government Municipal Structures Act, 1998 to be a function of a district municipality.]			1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc. for communities; preparation of schemes for financing planned developments. Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to functions); agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).					
		Project Management Unit (PMU)	701	General Public Services	7013	General Services	70133	Other General Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>The Project Management Unit (PMU) is a unit established within the municipality that is dedicated to manage infrastructure capital projects. They are accountable to the council and management structure of the municipality in which they are established.</p>			<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).</p>					
		Support to Local Municipalities	701	General Public Services	7013	General Services	70133	Other General Services (CS)
<p>Specific for support by district municipalities to local municipalities for planning and development activities or requirements. [Included in GFS - Planning and Development.: Town Planning/ Building Enforcement. The Local Government Municipal Structures Act, Section 83(3) provides that a district municipality must seek to achieve amongst other requirements promoting bulk infrastructural development and services for the district as a whole, building the capacity of local municipalities in its area to perform their functions</p>			<p>Administration and operation of other general services, such as centralised supply and purchasing services, maintenance and storage of government records and archives, operation of government-owned or occupied buildings, central motor vehicle pools, government-operated printing offices, centralised computer and data processing services, etc. Excludes: other general services connected with a specific function (classified according to function).</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
and exercise their powers where such capacity is lacking; and (d) promoting the equitable distribution of resources between the local municipalities in its area to ensure appropriate levels of municipal services within the area.]								
	Non-core Function							
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
	Provincial Planning		701	General Public Services	7013	General Services	70132	Overall Planning and

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
								Statistical Services (CS)
<p>Non-core function as determined in terms of Schedule 5A read with Section 83 and 84 of the Local Government Municipal Structures Act, 1998. [Included in GFS ~ Planning and Development: Economic Development/ Planning. The Constitution section 156(4) with Schedule 5A of the Constitution provides for provincial planning. Not-specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>1) Administration and operation of overall economic and social-planning services and of overall statistical services; including formulation, coordination, and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: Economic and social planning services and statistical serviced connected with specific function (classified according to function).</p>					
		Regional Planning and Development	701	General Public Services	7013	General Services	70132	Overall Planning and Statistical Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
<p>Non-core function as determined in terms of Schedule 5A read with Section 83 and 84 of the Local Government Municipal Structures Act, 1998. [Included in GFS ~ Planning and Development: Economic Development/ Planning. The Constitution section 156(4) with Schedule 5A of the Constitution provides for regional planning and development. Not-specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>1) Administration and operation of overall economic and social-planning services and of overall statistical services; including formulation, coordination, and monitoring of overall economic and social plans and programs and of overall statistical plans and programs. Excludes: Economic and social planning services and statistical serviced connected with specific function (classified according to function).</p>					
		Central City Improvement District		706	Housing and Community Amenities	7062	Community Development	70620	Community Development (CS)
<p>The Central City Improvement District is a private–public partnership formed by the property owners of a defined geographical area to provide top–up or complementary services over and above what is provided by the municipality. These services help a City to be a clean, safe and caring city.</p>				<p>1) Administration of community development affairs and services, administration of zoning laws and land-use and building regulation. 2) Planning of new communities or of rehabilitated communities; planning the improvement and development of facilities such as housing, industry, public utilities, health, education, culture, recreation, etc. for</p>					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				communicates; preparation of schemes for financing planned developments. Production and dissemination of general information, technical documentation, and statistics on community development affairs and services. Excludes: plan implementation - that is, the actual construction of housing, industrial buildings, streets, public utilities, cultural facilities, etc. (classified according to functions); agrarian reform and land resettlement (70421); administration of construction standards (70443) and housing standards (70610).					
Public Safety									
Public safety involves the prevention of and protection from events that could endanger the safety of the general public from significant danger, injury/ harm, or damage, such as crimes or disasters (natural or man-made).									
	Core Function								

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
				Broad Objectives of Government					
2	3	4							
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].									
		Civil Defence	703	Public Order and Safety	7036	Public Order and Safety not elsewhere classified	70360	Public Order and Safety not elsewhere classified (CS)	
Includes municipal commandos (not policing), crime prevention and awareness such CCTV camera monitoring, running of campaigns in respect of drug and crime prevention awareness. [Included in GFS ~ Public Safety: Civil Defence. No specific reference found in Schedule 4B/ 5B.]				Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans and programs, and budgets relating to public order and safety; preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation, and statistics on public order and safety. <i>Includes:</i> public order					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
			and safety affairs and services that cannot be assigned to (7031), (7032), (7033), (7034) or (7035).					
		Cleansing	705	Environmental Protection	7053	Pollution Abatement	70530	Pollution Abatement (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government					
<p>The aggregation of services offered by a municipality in which resources for example decontamination of water, soil and other natural resources are kept clean. This function excludes street and public area cleaning for example by street sweeping, trash pick-ups, etc. [Included in GFS: Public Safety: Other. The Constitution section 156(4) with Schedule 5B of the Constitution provides for "cleansing". Not-specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>This group covers activities relating to ambient air and climate protection, soil and groundwater protection, noise and vibration abatement, and protection against radiation. These activities include construction, maintenance and operation of monitoring systems and stations (other than weather stations); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways or railways with noise reducing surfaces; measures to clean pollution in water bodies; measures to control or prevent the emissions of greenhouse gases and pollution that adversely affect the quality of the air, construction, maintenance, and operation of installations for the decontamination of polluted soils and for the storage of pollutant products; transportation of pollutant products.</p> <p>1) administration, supervision, inspection, operation, or support of activities relating to pollution abatement and control. 2) Grants, loans or subsidies to support activities relating pollution abatement and control.</p>				
		Control of Public Nuisances	703	Public Order and Safety	7036	Public Order and Safety not	70360	Public Order and Safety not

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
						elsewhere classified		elsewhere classified (CS)
<p>The term public nuisance covers a wide variety of minor crimes that threaten the health, morals, safety, comfort, convenience, or welfare of a community. [Included in GFS ~ Public Safety: Other - Control of Public Nuisance. The Constitution section 156(4) with Schedule 5B of the Constitution provides for "control of public nuisance". Not-specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans and programs, and budgets relating to public order and safety; preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation, and statistics on public order and safety. <i>Includes:</i> public order and safety affairs and services that cannot be assigned to (7031), (7032), (7033), (7034) or (7035).</p>					
		Fencing and Fences	703	Public Order and Safety	7036	Public Order and Safety not elsewhere classified	70360	Public Order and Safety not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
[Included in GFS ~ Public Safety: Other. The Constitution section 156(4) with Schedule 5B of the Constitution provides for "fencing and fences". Not-specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans and programs, and budgets relating to public order and safety; preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation, and statistics on public order and safety. <i>Includes:</i> public order and safety affairs and services that cannot be assigned to (7031), (7032), (7033), (7034) or (7035).					
		Fire Fighting and Protection		703	Public Order and Safety	7032	Fire Protection Services	70320	Fire Protection Services (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>Firefighting and protection which includes planning, co-ordination and regulation of fire-services, specialised firefighting services such as mountain, veld and chemical fire services, co-ordination of the standardisation of infrastructure, vehicles, equipment and procedures and training of fire officers. [Included in GFS ~ Public Safety: Fire. The Constitution section 156(4) with Schedule 4B of the Constitution provides for "fire-fighting services". Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - firefighting services serving the area of the district municipality as a whole].</p>			<p>1) Administration of fire prevention and firefighting affairs and services.</p> <p>2) Operation and repair and auxiliary fire brigades and of other fire prevention and firefighting services maintained by public authorities; operation or support of fire prevention and firefighting training programs. Includes: Civil protection services such as mountain rescue, beach surveillance, evacuation of flooded areas, etc. Excludes: Civil defence (70220), forces especially trained and equipped for fighting or preventing forest fires (70422).</p>					
		Licensing and Control of Animals	703	Public Order and Safety	7036	Public Order and Safety not elsewhere classified	70360	Public Order and Safety not elsewhere classified (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
<p>Includes licensing and control of animals. [Included in GFS ~ Public Safety: Other - Licensing and Control of Animals. The Constitution section 156(4) with Schedule 5B of the Constitution provides for "control of public nuisances/licensing of dogs/ pounds". Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>Administration, operation, or support of activities such as formulation, administration, coordination, and monitoring of overall policies, plans and programs, and budgets relating to public order and safety; preparation and enforcement of legislation and standards for the provision of public order and safety; production and dissemination of general information, technical documentation, and statistics on public order and safety. <i>Includes:</i> public order and safety affairs and services that cannot be assigned to (7031), (7032), (7033), (7034) or (7035).</p>			
<p>Non-core Function</p>						
<p>Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]</p>						

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Cleansing	705	Environmental Protection	7053	Pollution Abatement	70530	Pollution Abatement (CS)
<p>The aggregation of services offered by a municipality in which resources for example decontamination of water, soil and other natural resources are kept clean. This function excludes street and public area cleaning for example by street sweeping, trash pick-ups, etc. [Included in GFS ~ Public Safety: Other. The Constitution section 156(4) with Schedule 5B of the Constitution provides for "cleansing". Not-specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>This group covers activities relating to ambient air and climate protection, soil and groundwater protection, noise and vibration abatement, and protection against radiation. These activities include construction, maintenance and operation of monitoring systems and stations (other than weather stations); construction of noise embankments, hedges and other anti-noise facilities including the resurfacing of sections of urban highways or railways with noise reducing surfaces; measures to clean pollution in water bodies; measures to control or prevent the emissions of greenhouse gases and pollution that adversely affect the quality of the air, construction, maintenance, and operation of installations for the decontamination of polluted soils and for the storage of pollutant products; transportation of pollutant products.</p> <p>1) administration, supervision, inspection, operation, or support of activities relating to pollution abatement and control.</p>					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				2) Grants, loans or subsidies to support activities relating pollution abatement and control.					
		Fire Fighting and Protection		703	Public Order and Safety	7032	Fire Protection Services	70320	Fire Protection Services (CS)
<p>Firefighting and protection which includes planning, co-ordination and regulation of fire-services, specialised firefighting services such as mountain, veld and chemical fire services, co-ordination of the standardisation of infrastructure, vehicles, equipment and procedures and training of fire officers. [Included in GFS ~ Public Safety: Fire. The Constitution section 156(4) with Schedule 4B of the Constitution provides for "fire-fighting services". Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - firefighting services serving the area of the district municipality as a whole].</p>				<p>1) Administration of fire prevention and firefighting affairs and services.</p> <p>2) Operation and repair and auxiliary fire brigades and of other fire prevention and firefighting services maintained by public authorities; operation or support of fore prevention and firefighting training programs.</p> <p>Includes: Civil protection services such as mountain rescue, beach surveillance, evacuation of flooded areas, etc. Excludes: Civil defence (70220), forces especially trained and equipped for fighting or preventing forest fires (70422).</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
			Broad Government	Objectives of Government				
2	3	4						
		Road Transport						
		Road transport is transport on roads of passengers or goods including roads infrastructure within the municipal area.						
		Core Function						
		Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].						
		Police Forces, Traffic and Street Parking Control	704	Economic Affairs	7045	Transport	70451	Road Transport

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Includes police forces and traffic and street parking control. [Included in GFS ~ Public Safety: Police. The Constitution section 156(4) with Schedules 5B provides for "traffic and parking".]				Supervision and regulation of road users (vehicle and driver licensing, vehicle safety inspection, size and load specifications for passengers and freight road transport, regulation of hours of work of bus, coach and lorry drivers, etc.), road transport system operations (granting of franchising, approval of freight tariffs and passenger fares, and of hours and frequency of services, etc.), and road construction and maintenance.					
		Pounds		704	Economic Affairs	7045	Transport	70451	Road Transport
[Included in GFS ~ Public Safety/ Police. The Constitution section 156(4) with Schedules 4B of the Constitution provided for "pounds".]				Supervision and regulation of road users (vehicle and driver licensing, vehicle safety inspection, size and load specifications for passengers and freight road transport, regulation of hours of work of bus, coach and lorry drivers, etc.), road transport system operations (granting of franchising, approval of freight tariffs and passenger fares, and of hours and frequency of services, etc.), and road construction and maintenance.					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
		Public Transport		704	Economic Affairs	7045	Transport	70451	Road Transport
<p>All activities relating to the provision of public bus services. Included in GFS ~ Public Transport. The Constitution section 156(4) with Schedule 4B provides for municipal public transport. Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, includes the regulation of passenger transport services.</p>				<p>1) Administration of affairs and services concerning operation, use, construction, and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.)</p> <p>2) Construction or operation of non-enterprise type road transport systems and facilities.</p> <p>3) Production and dissemination of general information, technical documentation, and statistics on road transport system operations and on road construction activities.</p> <p>4) Grants, loans or subsidies to support the operation, constructions, maintenance, or upgrading of road transport systems and facilities.</p> <p>Includes: highways, urban roads, streets, bicycle paths and footpaths. Excludes: road traffic control (70310), grants, loans, and subsidies to road vehicle manufacturing (70442); street cleaning (70510), construction of noise embankments, hedges, and other anti-noise facilities,</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS						
			Divisions		Groups		Classes		
2	3	4	Broad Objectives of Government						
			including the resurfacing of sections of urban highways with noise reducing surfaces (70530), street lighting (70640).						
		Roads	704	Economic Affairs	7045	Transport	70451	Road Transport	
Operating, maintenance and capital expenditure on the major infrastructure category of roads. Included in GFS ~ Road Transport: Roads. Municipal Roads as per Schedule 5B of the Constitution read with Sections 83 and 84 of the Local Government Municipal			1) Administration of affairs and services concerning operation, use, construction, and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.) 2) Construction or operation of non-enterprise type road transport systems and facilities.						

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Structures Act, 1998 - municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole.]			3) Production and dissemination of general information, technical documentation, and statistics on road transport system operations and on road construction activities. 4) Grants, loans or subsidies to support the operation, constructions, maintenance, or upgrading of road transport systems and facilities.  Includes: highways, urban roads, streets, bicycle paths and footpaths.  Excludes: road traffic control (70310), grants, loans, and subsidies to road vehicle manufacturing (70442); street cleaning (70510), construction of noise embankments, hedges, and other anti-noise facilities, including the resurfacing of sections of urban highways with noise reducing surfaces (70530), street lighting (70640).					
		Taxi Ranks	704	Economic Affairs	7045	Transport	70451	Road Transport

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS		
			Divisions	Groups	Classes
2	3	4	Broad Objectives of Government		
Includes activities associated with taxi ranks.			1) Administration of affairs and services concerning operation, use, construction, and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.) 2) Construction or operation of non-enterprise type road transport systems and facilities. 3) Production and dissemination of general information, technical documentation, and statistics on road transport system operations and on road construction activities. 4) Grants, loans or subsidies to support the operation, constructions, maintenance, or upgrading of road transport systems and facilities. Includes: highways, urban roads, streets, bicycle paths and footpaths.  Excludes: road traffic control (70310), grants, loans, and subsidies to road vehicle manufacturing (70442); street cleaning (70510), construction of noise embankments, hedges, and other anti-noise facilities, including the resurfacing of sections of urban highways with noise reducing surfaces (70530), street lighting (70640).		

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS				
			Divisions		Groups		Classes
2	3	4	Broad Objectives of Government				
	Non-core Function						
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]							
	Road and Traffic Regulation		704	Economic Affairs	7045	Transport	70451 Road Transport
Providing of an agency service on behalf of Province and National for the regulation of road traffic, for example fines, vehicle licensing and testing, drivers licensing and testing, etc. [Included in GFS: Road Transport: Vehicle Licensing and Testing. The Constitution section 156(4) with Schedule 4A/ 5A provides for road traffic regulation and provincial roads and traffic. Not-specifically defined being within the powers and functions of a			Supervision and regulation of road users (vehicle and driver licensing, vehicle safety inspection, size and load specifications for passengers and freight road transport, regulation of hours of work of bus, coach and lorry drivers, etc.), road transport system operations (granting of franchising, approval of freight tariffs and passenger fares, and of hours and frequency of services, etc.), and road construction and maintenance.				

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]									
		Public Transport		704	Economic Affairs	7045	Transport	70451	Road Transport
[Included in GFS: Road Transport: Public Buses the Constitution section 156(4) with Schedule 4A provide for public transport. Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				<ol style="list-style-type: none"> <li>1) Administration of affairs and services concerning operation, use, construction, and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.)</li> <li>2) Construction or operation of non-enterprise type road transport systems and facilities.</li> <li>3) Production and dissemination of general information, technical documentation, and statistics on road transport system operations and on road construction activities.</li> </ol>					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				4) Grants, loans or subsidies to support the operation, constructions, maintenance, or upgrading of road transport systems and facilities. Includes: highways, urban roads, streets, bicycle paths and footpaths.  Excludes: road traffic control (70310), grants, loans, and subsidies to road vehicle manufacturing (70442); street cleaning (70510), construction of noise embankments, hedges, and other anti-noise facilities, including the resurfacing of sections of urban highways with noise reducing surfaces (70530), street lighting (70640).					
		Roads		704	Economic Affairs	7045	Transport	70451	Road Transport
Operating, maintenance and capital expenditure on the major infrastructure category of roads. [Included in GFS: Road Transport: Roads. Schedule 5A of the Constitution provide for provincial roads and traffic. Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government				1) Administration of affairs and services concerning operation, use, construction, and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.)  2) Construction or operation of non-enterprise type road transport systems and facilities.					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS							
				Divisions		Groups		Classes			
2	3	4		Broad Objectives of Government							
Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.				3) Production and dissemination of general information, technical documentation, and statistics on road transport system operations and on road construction activities.		4) Grants, loans or subsidies to support the operation, constructions, maintenance, or upgrading of road transport systems and facilities.		Includes: highways, urban roads, streets, bicycle paths and footpaths.		Excludes: road traffic control (70310), grants, loans, and subsidies to road vehicle manufacturing (70442); street cleaning (70510), construction of noise embankments, hedges, and other anti-noise facilities, including the resurfacing of sections of urban highways with noise reducing surfaces (70530), street lighting (70640).	
		Taxi Ranks		704	Economic Affairs	7045	Transport	70451	Road Transport		

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS		
			Divisions	Groups	Classes
2	3	4	Broad Objectives of Government		
<p>Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this act.</p>			<p>1) Administration of affairs and services concerning operation, use, construction, and maintenance of road transport systems and facilities (roads, bridges, tunnels, parking facilities, bus terminals, etc.)</p> <p>2) Construction or operation of non-enterprise type road transport systems and facilities.</p> <p>3) Production and dissemination of general information, technical documentation, and statistics on road transport system operations and on road construction activities.</p> <p>4) Grants, loans or subsidies to support the operation, constructions, maintenance, or upgrading of road transport systems and facilities.</p> <p>Includes: highways, urban roads, streets, bicycle paths and footpaths.</p> <p>Excludes: road traffic control (70310), grants, loans, and subsidies to road vehicle manufacturing (70442); street cleaning (70510), construction of noise embankments, hedges, and other anti-noise facilities, including the resurfacing of sections of urban highways with noise reducing surfaces (70530), street lighting (70640).</p>		

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS				
			Divisions		Groups	Classes	
			Broad Objectives of Government				
2	3	4					
Sport and Recreation							
<p>The definition of sport usually includes a broad and inclusive spectrum of activities in which people of all ages and abilities can participate, with an emphasis on the positive values of sport. In 2008, the United Nations (UN) Inter-Agency Task Force on Sport for Development and Peace defined sport, for the purposes of development, as ‘all forms of physical activity that contribute to physical fitness, mental well-being and social interaction, such as play, recreation, organised or competitive sport, and indigenous sports and games’. Recreation encompasses diverse experiences with the following characteristic: “in leisure time, not rule-bound, non-competitive, overlap with other areas for example arts and culture; education, purely for fun and enjoyment, examples: knitting; sewing; bird watching; listening to music; watching movies; playing computer games.</p>							
	Core Function						

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].								
		Beaches and Jetties	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)
Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto.			Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Community Parks (including Nurseries)	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)
Community parks including Nurseries. [Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 5B provide for municipal parks and recreation. Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).					
		Recreational Facilities	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
<p>This function includes lakes, dams, jetties, accommodation, camping sites, swimming pools, etc. used for recreation. [Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 5B provide for municipal parks and recreation. Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).</p>					
		Sports Grounds and Stadiums	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)
<p>Sports grounds and stadiums. Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 5B provide for local sport and facilities Not-specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>			<p>Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for</p>					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
				recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).					
Non-core Function									
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]									
		Casinos, Racing, Gambling, Wagering		708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)
Casinos, racing, gambling and wagering, excluding lotteries and sport pools. [Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 4A provide for casinos, racing, gambling and wagering excluding lotteries and				Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
sport pools. Not-specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).					
		Community Parks (including Nurseries)	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)
Community parks including Nurseries. [Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 5B provide for municipal parks and recreation.]			Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Recreational Facilities	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)
Lakes, Dams and Jetties for Recreation including Swimming Pools. [Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 5A provide for provincial recreation and amenities. Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).					
		Sports Grounds and Stadiums	708	Recreation, Culture and Religion	7081	Recreational and Sporting Services	70810	Recreational and Sporting Services (IS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
Sports grounds and stadiums. [Included in GFS ~ Sport and Recreation. The Constitution section 156(1) and 229 read with Schedule 5A provide for provincial sport. Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			Operation or support of facilities for active sporting pursuits or events (playing fields, tennis courts, squash courts, running tracks, golf courses, boxing rings, skating rinks, gymnast, etc.); operation or support of facilities for passive sporting pursuits or events (chiefly specially equipped venues for playing cards, board games, etc.); operation or support of facilities for recreational pursuits (parks, beaches, camping grounds and associated lodging places furnished on a non-commercial basis, swimming pools, public baths for washing, etc.).			
Waste Management						
The collection, transportation, and disposal of garbage, sewage, and other waste products. Waste management encompasses management of all processes and resources for proper handling of waste materials, from maintenance of waste transport trucks and dumping facilities to compliance with health codes and environmental regulations						
	Core Function					

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].									
		Recycling		705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)
Provides for the function of dealing with recycling. [Included in GFS ~ Waste Management: Solid Waste. The Constitution section 156(1) and 229 read with Schedule 5B provide for refuse dumps and solid waste disposal. Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - Solid waste disposal sites serving the area of the district municipality as a whole, in so far as it related to the determination of a waste				1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems. 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems. Includes: Collection, treatment and disposal of such systems. Includes: Collection, treatment and disposal of nuclear waste.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
disposal strategy, the regulation of waste disposal, the establishment, operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality in the district.]								
		Solid Waste Disposal (Landfill Sites)	705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
<p>Includes refuse removal, solid waste disposal (landfill sites), street cleaning, recycling, etc. [Included in GFS ~ Waste Management: Solid Waste. The Constitution section 156(1) and 229 read with Schedule 5B provide for refuse dumps and solid waste disposal. Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - Solid waste disposal sites serving the area of the district municipality as a whole, in so far as it related to the determination of a waste disposal strategy, the regulation of waste disposal, the establishment, operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality in the district.]</p>				<p>1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems.</p> <p>2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p> <p>Includes: Collection, treatment and disposal of such systems.</p> <p>Includes: Collection, treatment and disposal of nuclear waste.</p>					
		Solid Waste Removal		705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS				
				Divisions		Groups	Classes	
2	3	4	Broad Objectives of Government					
		Refuse removal, re-use dumps and solid waste disposal. [Included in GFS ~ Waste Management: Solid Waste. The Constitution section 156(1) and 229 read with Schedule 5B provide for refuse dumps and solid waste disposal. Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act - Solid waste disposal sites serving the area of the district municipality as a whole, in so far as it related to the determination of a waste disposal strategy, the regulation of waste disposal, the establishment, operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality in the district.]	1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems. 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems. Includes: Collection, treatment and disposal of such systems. Includes: Collection, treatment and disposal of nuclear waste.					
		Street Cleaning	705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
<p>Provides for the function of dealing with street cleaning. [Included in GFS ~ Waste Management: Solid Waste. The Constitution section 156(1) and 229 read with Schedule 5B provide for refuse dumps and solid waste disposal. Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act,1998, however the MEC may alter these functions in terms of section 85 of this Act - Solid waste disposal sites serving the area of the district municipality as a whole, in so far as it related to the determination of a waste disposal strategy, the regulation of waste disposal, the establishment, operation and control of waste disposal sites, bulk waste transfer facilities and waste disposal facilities for more than one local municipality in the district.]</p>				<p>1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems.</p> <p>2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p> <p>Includes: Collection, treatment and disposal of such systems.</p> <p>Includes: Collection, treatment and disposal of nuclear waste.</p>					
Non-core Function									
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government									

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
		Recycling	705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.			<p>1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems.</p> <p>2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p> <p>Includes: Collection, treatment and disposal of such systems.</p> <p>Includes: Collection, treatment and disposal of nuclear waste.</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Solid Waste Disposal (Landfill Sites)	705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)
<p>Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.</p>			<p>1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems.</p> <p>2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p> <p>Includes: Collection, treatment and disposal of such systems.</p> <p>Includes: Collection, treatment and disposal of nuclear waste.</p>					
		Solid Waste Removal	705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.			1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems. 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems. Includes: Collection, treatment and disposal of such systems. Includes: Collection, treatment and disposal of nuclear waste.					
		Street Cleaning	705	Environmental Protection	7051	Waste Management	70510	Waste Management (CS)
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.			1) Administration, supervision, inspection, operation, or support of waste collection, treatment and disposal systems.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
			2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems. Includes: Collection, treatment and disposal of such systems. Includes: Collection, treatment and disposal of nuclear waste.			
Waste Water Management						
Waste water management encompasses a broad range of tasks that promote effective and responsible water use, treatment, and disposal and encourage the protection and restoration watersheds.						
	Core Function					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government						

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].									
		Public Toilets		705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)
This includes all activities relating to Public Toilets. [Included in GFS ~ Waste Water Management: Public Toilet. The Constitution section 156(1) and 229 read with Schedule 5B provides for public amenities Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]				<ol style="list-style-type: none"> <li>1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment.</li> <li>2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</li> </ol>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Sewerage	705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)
<p>This does not include water purification for human consumption (refer water). [Included in GFS ~ Waste Water Management: Sewerage. The Constitution section 156(1) and 229 read with Schedule 4B provides for water and sanitation management. Specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. - bulk sewerage purification works and main sewage disposal that affects a significant proportion of municipalities in the district - domestic waste-water and sewage disposal systems.]</p>			<p>1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment.</p> <p>2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p>					
		Storm Water Management	705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
				Broad	Objectives of Government				
2	3	4							
<p>This includes construction, maintenance, operating, etc. Storm water management systems in built-up areas [Included in GFS ~ Waste Water Management: Storm Water Management. The Constitution section 156(1) and 229 read with Schedule 4B provides for storm water management systems in built-up areas. Not-specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]</p>				<p>1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment. 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.</p>					
		Waste Water Treatment		705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)
<p>This function provides for treatment as directed by the Department of Water Affairs. [Included in GFS ~ Waste Water Management: Sewerage. The Constitution section 156(1) and 229 read with Schedule 4B provides for water and sanitation management. Not-specifically defined being within the powers and functions of a district municipality</p>				<p>1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment.</p>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act.]			2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.					
Non-core Function								
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
		Public Toilets	705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups		Classes	
2	3	4		Broad Objectives of Government					
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. Added at request of district municipalities.				1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment. 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.					
		Sewerage		705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. Added at request of district municipalities.				1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment. 2 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
		Storm Water Management	705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. Added at request of district municipalities.			1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment. 2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.					
		Waste Water Treatment	705	Environmental Protection	7052	Waste Water Management	70520	Waste Water Management (CS)
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the			1) Administration, supervision, inspection, operation, or support of sewage systems and waste water treatment.					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS			
			Divisions	Groups		Classes
2	3	4	Broad Objectives of Government			
MEC may alter these functions in terms of section 85 of this Act. Added at request of district municipalities.			2) Grants, loans or subsidies to support the operation, construction, maintenance, or upgrading of such systems.			
Water Management						
Water resource management is the activity of planning, developing, distributing and managing the optimum use of water resources. It is a sub-set of water cycle management. Water resource management planning has regard to all the competing demands for water and seeks to allocate water on an equitable basis to satisfy all uses and demands.						
	Core Function					
Core Function as determined in terms of the Constitution section 156(1) and 229 with Schedule 4 and 5 Tabled B read with Sections 83 and 84 of the Local Government						

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Funded Mandates - MFMA Circular 74].								
		Water Treatment	706	Housing and Community Amenities	7063	Water Supply	70630	Water Supply (CS)
This function provides for treatment as directed by the Department of Water Affairs. [Included in GFS ~ Water: Distribution. The Constitution section 156(1) and 229 read with Schedule 4B provides for water and sanitation management. Specifically defined being within the powers and functions of a district municipality by section 84(6)j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. - bulk supply of water that affects a significant proportion of municipalities in the district - potable water systems.]			<ol style="list-style-type: none"> <li>1) Administration of water supply affairs; assessment of future needs and determination of availability in terms of such assessments; supervision and emulation of all facts of potable water supply including water purity, price and quantity controls.</li> <li>2) Construction or operation of non-enterprise type of water supply systems.</li> <li>3) Production and dissemination of general information, technical documentation and statistics on water supply affairs and services.</li> <li>4) Grants, loans or subsidies to support the operations, construction, maintenance, or upgrading of water supply systems.</li> </ol>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
			Excludes: Irrigation, systems (70421), multipurpose projects (70474), collection and treatment of waste water (70520).					
		Water Distribution	706	Housing and Community Amenities	7063	Water Supply	70630	Water Supply (CS)
Including bulk purchases and distribution infrastructure etc. [Included in GFS ~ Water: Distribution. The Constitution section 156(1) and 229 read with Schedule 4B provides for potable water supply systems. Specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. - bulk supply of water that affects a significant proportion of municipalities in the district - potable water systems.]			<ol style="list-style-type: none"> <li>1) Administration d water supply affairs; assessment of future needs and determination of availability in terms of such assessments; supervision and emulation of all facts of potable water supply including water purity, price and quantity controls.</li> <li>2) Construction or operation of non-enterprise type of water supply systems.</li> <li>3) Production and dissemination of general information, technical documentation and statistics on water supply affairs and services.</li> <li>4) Grants, loans or subsidies to support the operations, construction, maintenance, or upgrading of water supply systems.</li> </ol>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
			Excludes: Irrigation, systems (70421), multipurpose projects (70474), collection and treatment of waste water (70520).					
		Water Storage	706	Housing and Community Amenities	7063	Water Supply	70630	Water Supply (CS)
Including storage infrastructure such as dams and reservoirs as well as activities to prepare the water for use such as purification and water recycling. [Included in GFS ~ Water: Distribution. The Constitution section 156(1) and 229 read with Schedule 4B provides for potable water supply systems. Specifically defined being within the powers and functions of a district municipality by section 84(6) j of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. - bulk supply of water that affects a significant proportion of municipalities in the district - potable water systems.]			<ol style="list-style-type: none"> <li>1) Administration d water supply affairs; assessment of future needs and determination of availability in terms of such assessments; supervision and emulation of all facts of potable water supply including water purity, price and quantity controls.</li> <li>2) Construction or operation of non-enterprise type of water supply systems.</li> <li>3) Production and dissemination of general information, technical documentation and statistics on water supply affairs and services.</li> <li>4) Grants, loans or subsidies to support the operations, construction, maintenance, or upgrading of water supply systems.</li> </ol>					

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
			Divisions		Groups		Classes	
2	3	4	Broad Objectives of Government					
			Excludes: Irrigation, systems (70421), multipurpose projects (70474), collection and treatment of waste water (70520).					
Non-core Function								
Non-core functions as determined in terms of the Constitution section 156(4) and 229 with Schedule 4A and 5A read with Sections 83 and 84 of the Local Government Municipal Structures Act, 1998, directing on the functions and powers of district and local municipalities. [Potentially unfunded mandates - MFMA Circular 74]								
		Water Treatment	706	Housing and Community Amenities	7063	Water Supply	70630	Water Supply (CS)

mSCOA CLASSIFICATION AND DEFINITIONS				Classification of Functions of Government (COFOG) AND DEFINITIONS					
				Divisions		Groups	Classes		
				Broad Objectives of Government					
2	3	4							
Not specifically defined being within the powers and functions of a district municipality by section 83 and 84 of the Local Government Municipal Structures Act, 1998, however the MEC may alter these functions in terms of section 85 of this Act. Added at request of district municipalities.			1) Administration d water supply affairs; assessment of future needs and determination of availability in terms of such assessments; supervision and emulation of all facts of potable water supply including water purity, price and quantity controls. 2) Construction or operation of non-enterprise type of water supply systems. 3) Production and dissemination of general information, technical documentation and statistics on water supply affairs and services. 4) Grants, loans or subsidies to support the operations, construction, maintenance, or upgrading of water supply systems. Excludes: Irrigation, systems (70421), multipurpose projects (70474), collection and treatment of waste water (70520).						
		Water Distribution	706	Housing and Community Amenities	7063	Water Supply	70630	Water Supply (CS)	

mSCOA CLASSIFICATION AND DEFINITIONS			Classification of Functions of Government (COFOG) AND DEFINITIONS					
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		Water Storage	706	Housing and Community Amenities	7063	Water Supply	70630	Water Supply (CS)
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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[SCOA for MUNICIPALITIES]*

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**Project Detail:**

**Section 3 – Funding Segment**

*November 2017 – mSCOA Version 6.1*

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## SECTION 3: FUNDING SEGMENT

### Background to the Segment

#### Relevance of the Funding Classification, Methodology and the Application thereof within the Context of mSCOA

1. The introduction of this dimension in the mSCOA classification framework facilitates aggregated government reporting on the cash basis of accounting. The Funding segment also facilitates the accumulation of information within the financial system that will enable the municipality to report on information such as how a specific source of funding, for example “the Local Government Financial Management Grant (FMG)” had been spent by extracting this specific source of funding from the “Funding” segment and the detail on spending items, such as employee costs, consultants, etc. from the “Item” segment.
2. In order to monitor expenditure (operational and capital) against the source of the fund utilised, this segment contains the sources of funds available to the municipality.
3. The primary sources of funding for a municipality are property rates, service charges, equitable share and own revenue. Further to these sources of revenue a municipality also spend funds transferred from other sectors within government, namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DORA).
4. In addition to internally generated funds, transfers and subsidies, municipalities may make use of external borrowings to finance capital projects.
5. A further source of funds available for utilisation is “cash backed reserves” as directed by the municipality’s financial policy on the utilisation of the reserves.

#### Purpose of the Funding Segment

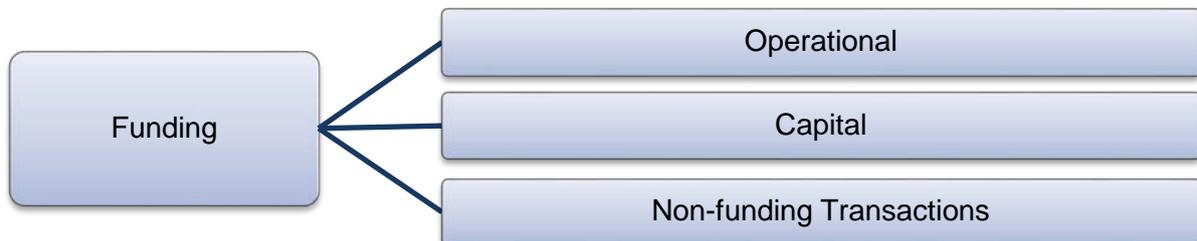
The key question in finding the appropriate classification code for this segment is: *“against which source of funding is the payment allocated and against which source is revenue received?”*

*In addition, for the preparation of whole of government accounts, where national and provincial government applies the modified cash basis of accounting, this segment provides payments and receipts on the cash basis similar to “cash flow statement” information.*

6. The “Funding” segment in the financial system identifies the various sources of funding available to municipalities for financing expenditure relating to the operation of the municipality for both capital and operational expenditure.
7. This segment provides information supplementing the Cash Flow Statement (Municipal Budget and Reporting Regulations, 2009 (Table A7)) at a transactional level. The principle for recording transactions in this segment is therefore based on cash flow (cash basis of accounting), for example, money spent and received. It is important therefore to note that accrual does not apply to the Funding segment.

### Illustration: High-level Classification

8. At the highest level the Funding segment’s structure distinguishes between “Non-funding Transactions, Operational and Capital” as illustrated in the diagram below. The distinction between “operational and capital” funding sources was introduced in Version 6.1 of the mSCOA Tables:



**Definitions:**

**Operational:** Operational revenue provides for funds from all other sources of income not elsewhere classified such as administrative fees, bad debts recovered, breakages, commission, discounts and early settlements, etc.

**Capital:** Funds for capital application.

**Non-funding Transactions:** The recording of transactions not specifically classified in the above structure. The table included below in the discussion on: *“Transactions by Business Process to be allocated in the segment”* provides more detail.

## Design Principles

9. The following design principle(s) have been used in preparing the Funding segment outline:
10. *Principle 1: mSCOA* - The segment outline and detail classification provide for all possibilities as a “master mSCOA” from which each municipality selects the accounts needed to “populate” their chart of accounts.
11. *Principle 2: Municipal Entities and Agencies* - Recording of transactions in this segment would be done according to the principles determined for municipalities. Reference made to “municipalities” must be read to also refer to “municipal entities”, unless indicated otherwise.
12. *Principle 3: Legislative and Regulatory Requirements* - The research and development into the Funding segment, categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and summarised in the table below. Furthermore, brief comments on any proposed changes to a circular or guideline (issued by the National Treasury) following the mSCOA regulation are included in the “Proposed Changes Column” of the table.

13. *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. 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).
14. *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 are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of this project and might need to be enhanced as the consultation with the various stakeholder groups evolves.
15. *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<sup>1</sup>) and reporting (monthly, mid-year performance assessment and annual financial statements).
16. *Principle 7: mSCOA Definitions* - The master mSCOA provides definitions 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.
17. *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.
18. *Principle 9: The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework<sup>2</sup>

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<sup>1</sup> The Service Delivery- and Budget Implementation Plan (SDBIP).

<sup>2</sup> Compliance to the Standard of GRAP in terms of presentation to be confirmed through Project Phase 2 described in the Position Paper on Reporting.

(2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.

19. *Principle 10: Reporting* - The Position Paper on Reporting defines the phased approach envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined in the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The collective reference made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
20. *Principle 11: Economic Reporting Format* - The Economic Reporting Format, September 2009 identifies the categories for transfers as being transfers received from other government units (national, provincial and local government (specific in the context of municipalities, district municipalities)), universities and universities of technology, foreign government, international organisations, public corporations and private enterprises, households and non-profit institutions. The Municipal Budget and Reporting Regulations, 2009, distinguish between transfers recognised - operational and capital, contributions and public donations and contributed assets.
21. *Principle 12: 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 enable NERSA to perform its functions. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and will oversee and enforce their requirements included in the relevant sets of legislation.
22. *Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements* – The Department was 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 municipality’s readiness to comply with the DWS Reporting

Requirements. DWS is the custodian of the Reporting Requirements and will oversee and enforce their requirements included in the relevant sets of legislation.

23. *Principle 14: Level of Detail* - Municipalities may add detail breakdown-levels in addition to that provided for in the chart of accounts at their discretion. However, adding detail needs to be carefully considered, being the exception rather than the principle. The indicators provided to guide on the posting level and breakdown required reflect the minimum requirements from the National Treasury’s perspective.

Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus will not be part of the string downloaded for upload by the National Treasury: Local Government Database and Reporting System.

Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest in.

Hence the table below explains the indicators used in the columns provided for in the mSCOA Tables:

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

24. *Principle 15: Applicability* - This column indicates the minimum requirements a municipality needs to comply with in the implementation of the Funding segment. If more information is needed than currently provided for, please consult with the mSCOA Technical Committee (through the mSCOA Frequently Asked Questions

(FAQ) Database) to expand the existing segment detail to accommodate specific needs in this regard.

25. *Principle 16: Legislative Framework* - Sections 18 and 19 of the MFMA include specific provision for funding expenditure and spending of money on service delivery. The Funding segment therefore includes classifications to capture the budgetary, planning decisions and actual expenditure to extract information on the source of funding for capital and operational spending.
26. *Principle 17: Legislative Framework* - The National Division of Revenue Act determines that any allocations made in terms of Schedules 4, 5, 6, 7 or 8 of the Act may only be utilised for the purpose stipulated in the Schedule concerned. Specific responsibilities are placed on the receiving officer to monitor spending on allocations. The Funding segment assists in providing this information by linking the allocation received to a specific funding label and allocating the payments made relevant to the source of funding to the specific label. At any given time, the balance available in terms of funding and spending on a fund would be available.
27. *Principle 18: Budget Reporting Format* - The Budget Return Forms <sup>3</sup>(SA 10 Funding Measurement) provide for schedules to illustrate funding compliance, initially undertaken as a self-assessment by municipalities as part of the budget development process. Non-achievement of the required standard of any of these indicators may require that aspects of the proposed budget be revised until full compliance is achieved. This schedule consists of 18 factors derived from information contained in the annual or budgeted statements of financial performance, financial position and cash flows covering the anticipated funding position of the municipality. The classifications in this Funding segment provides for actual funding received with actual operational and capital spending incurred by specific funding source taking into consideration the effect of revenue and expenditure accruals.
28. *Principle 19: Operational versus Capital* - Operational expenditure should ideally be funded from “operational funding” and not from “capital funding” in accordance with sound financial management principles.
29. *Principle 20: Special Rating Areas* - Property rates levied on “special rating areas” to be separately provided for within “revenue” to meet the accounting requirements provided for in Section 12 of the Local Government Municipal Property Rates Act,

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<sup>3</sup> The Municipal Budget and Reporting Regulations, 2009.

2004 (Act No. 6 of 2004). The posting-level detail to be populated by the municipalities.

30. *Principle 21: Equitable Share* - This account used with the account detail in the “item”, “function”, “regional” and “project” segments would thus give an indication of funding, spent, what it was spent on, and the ward/ area receiving the benefit.
31. *Principle 22: Allocations In-kind (Goods and Services In-kind)* - The Standard of GRAP 23 (Revenue from Non-Exchange Transactions) provides guidance on the recognition of services and goods given in-kind.
32. *Principle 23: Transfers and Subsidies [National Departments]* - The classifications provided for under this group of accounts are based on Schedules 4, 6 and 7 of the Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA). The content of this classification would therefore require annual updates based on the allocations published in the annual DoRA relevant to each reporting period.
33. *Principle 24: Transfers and Subsidies (Provincial Departments)* - The Local Government MTREF Allocations Information Sheet was used to design the categories proposed. This document does not provide the economic classification of the transfers and subsidies but only the name of the transfer and the transferring department. In some instances, the information provided on the information sheet differs from the DoRA for the Province, Provincial Appropriation Bills and Budget Statements. As an alternative, and to assist in comparability of information over time, a classification based on the purpose was included in mSCOA. The municipality is required to specify the name of the allocations as provided for in the respective DoRA and request the mSCOA Technical Committee to provide for the account in the classification.
34. *Principle 25: Transfers and Subsidies (District Municipalities)* - Limited information is available from the local government database thus the “functional classification” has been used for the purpose of classifying district transfers and subsidies to local municipalities in the absence of specific detail. Municipalities are required to specify the allocation by including the name in selecting the account from mSCOA and this might have to be revised on an annual basis. The municipality is required to specify the name of the allocations as provided for in the respective DORA and request the mSCOA Technical Committee to provide for the account in the classification.

35. *Principle 26: Transfers and Subsidies (Departmental Agencies, Foreign Government and International Organisations, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions and Parent Municipality)* - Limited information is available from the local government database, accordingly, "entities" added to these categories are based on the detail defined by the SCOA for Departments revised for municipalities. Requests for comments to municipalities following the "road shows" (preceding the release of the draft mSCOA Regulations) provided little input for the revision of the content of these categories (these categories comprised about 70 per cent of the detail populated in the Funding segment). The municipality would therefore be required to specify the name of the allocations as provided for in the respective DoRA and request the mSCOA Technical Committee to provide for the account in the classification if it is not provided for already in the existing categories.
36. *Principle 27: Account Number Structure* – The account structure comprises 13 levels of which the first level contains alphanumerical characters to identify the Funding segment. The levels thereafter are based on the reporting structure providing for codes to be created by the municipality for projects which will be the posting level. The prefix "FD" identifies the Funding segment.
37. *Principle 28: Reporting* - The Position Paper on Reporting defines the phased approach envisaged for achieving the ultimate position on "seamless alignment" between the annual financial statements and Budget Reporting Tables as defined in the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The collective reference made to "reporting" refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
38. *Principle 29: Purpose* - The intent with the Funding segment is to assist municipalities in the management of available funds to use in running the municipality (working capital), capital expanding, maintenance programmes and operational projects intended for the benefit of the community. **The underlying principle in recording of transactions in this segment is therefore cash based or funds available to utilise.** Further to this at any point in time the information contained in the mSCOA Tables in combination will be able to reconcile funds received and subsequent

spending thereof. Best practice would further determine that in the absence of funding earmarked for a specific project, payment or transfer for this type of transaction(s) should be prohibited. The alternative to prohibiting is the existing practice of “internal borrowing” on a temporary basis from an alternative source of funding, for example utilising equitable share for paying salaries or bridging finance to complete a project in anticipation of transfers and subsidies payments.

39. *Principle 30: Whole of Government Reporting* - The Primary Objective set for the mSCOA project refers to the compilation of whole of government reporting information. National and Provincial Departments account and report at present on the modified cash basis. Municipalities are on the accrual basis of accounting. The information presented within the Funding segment in combination with the Item Segment facilitates the process of extracting local government information on a similar accounting basis than the National/ Provincial Government sphere.
40. *Principle 31: Transfers from Parent Municipalities* - Provision is made within the group of accounts for Transfers and Subsidies from Parent Municipality to Municipal Entities. At consolidation level these entries must be eliminated.
41. *Principle 32: Fund and Cash Backed Reserves* - Cash backed reserves provide for the utilisation of a specific funding source set aside for a specific purpose and used in terms of a policy position taken by a municipality and reflected as such within Funds and Reserves in the Item: Net Assets. Municipalities in need of such accounts need to provide the policy decision with the name of the fund and cash backing source to the mSCOA Technical Committee (through the mSCOA Frequently Asked Questions (FAQ) Database) to create these accounts in the next annual mSCOA release.
42. *Principle 33: Short and Long-Term Borrowing* – The classification structure for borrowing provides for a sub-group containing finance source information. Posting level accounts have been added with “GUIDs.” Provision is made for including detail at a breakdown level by changing the description of the account available in mSCOA for this purpose. These accounts do provide a” GUID” and the “uniqueness” defined in the Local Government Database and Reporting System (LGDRS) by the “municipal code, reporting period and GUID”. If more accounts are needed than provided for currently, a request in this regard needs to be made (through the mSCOA Frequently Asked Questions (FAQ) Database) to the mSCOA Technical Committee to provide for these in the next annual mSCOA release.

## Legislative and Regulatory Requirements

43. The research and development into the Funding segment, categories and detailed accounts were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and are summarised in the table below. Furthermore, brief comments on any changes proposed to a circular or guideline (issued by the National Treasury) following the mSCOA Regulations, 2014 are included in the “Proposed Changes Column” of the table:

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on “Funding” Segment
<b>LEGISLATION</b>		
<b>Local Government Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	Section 22(3)(c): Special Rating Areas – “must establish separate accounting and other record-keeping system ...”	Provided for a classification for <b>special rating areas</b> for municipalities to define and add projects based on unique requirements.
<b>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b>	Section 18: Funding of Expenditure Section 19: Capital Projects	<b>“Funding” segment</b> provides the link within the mSCOA Classification Structure to indicate the funding source applied, the specific expenditure incurred and what has been done within the funds as indicated by the respective project.
	Section 20: Matters to be Prescribed - <i>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</i>	Considered in the set-up of the mSCOA segments.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on “Funding” Segment
	<i>of a municipal service or other function”.</i>	
	Section 21: Budget Preparation Process	<b><u>Integrated Development Plan</u></b> is the underlying principles applied in setting up the classification structure within this segment.
	Section 30: Unspent Funds	<b><u>Information</u></b> retained in this segment to assist in managing spending of funds within the context of the approved budget.
	Section 31: Shifting of Funds between Multi-Year Expenditure	The “Project” segment provides the information on the expenditure incurred within the reporting period compared to the budget allocated to the project. The <b><u>funding source</u></b> within the “Fund” segment will indicate the funds available for a specific project.
	Section 45: Short-term Debt Section 46: Long-term Debt Section 47: Conditions applying to both Short and Long-term Debt	<b><u>Debt provided for in the “Funding” segment</u></b> and accordingly provides information on spending and the related project.
	Section 62(1)(b): General Financial Management Functions	Full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed <b><u>norms and standard</u></b> – The mSCOA Regulations provide for

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on "Funding" Segment
		the "Project" segment as part of the mSCOA Classification.
	Section 71: Monthly Reporting Section 72: Mid-year Budget and Performance Assessment Section 122: Preparation of Financial Statements	The basis for <b>reporting</b> on funding derived from the information contained in this segment.
	Section 123: Disclosures on Intergovernmental and Other Allocations	The projects as defined within the Project segment together with the "funding" and "Item" segments provide information on how <b>funds have been spent</b> and on what.
<b>Constitution of the Republic of South Africa, 1996</b>	Section 216: Treasury Control	This segment as provided for in the mSCOA Regulation contributes to the responsibility of National Treasury in prescribing measures to ensure both transparency and expenditure control in each sphere of government, by introducing <b>uniform expenditure classifications and treasury norms and standards.</b>
<b>Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000)</b>	Section 4: Rights and Duties of Municipal Council	Provided for "Taxes: Other Taxes (New Taxes) and Surcharges" within the "Fund" segment.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on "Funding" Segment
<b>Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007)</b>	Section 6(b)(ii): ...in respect of a specific purpose tax limit, the purpose for which the revenue derived may be utilised	The <b><u>specific source of funding</u></b> within the "Funding" segment links the revenue collected to specific projects earmarked.
<b>REGULATION</b>		
<b>Municipal Budget and Reporting Regulations, 2009</b>	Chapter 1, Part 3, Paragraph 10 Funding of Expenditure and Paragraph 11 Funding of Capital Expenditure  A5: Capex  SA 10: Funding Measurement	Reporting tables to be expanded.
<b>CIRCULARS</b>		
<b>Municipal Structures Act, 1998 (Act No. 117 of 1998)</b>	None	
<b>MFMA Circular 74 – Municipal Budget Circular for 2015/16 MTREF</b>	Local Government Conditional Grants and Additional Allocations	A new grant proposed to fund the anticipated administrative costs of municipalities in KwaZulu-Natal and Gauteng that will be affected by amalgamations after the 2016 local government elections.  Additions are proposed for the Regional Bulk Infrastructure Grant and Municipal Water Infrastructure Grant. These allocations are intended to allow government to accelerate the provision of clean water to households.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on "Funding" Segment
		<p>Changes proposed from the review of government infrastructure grants:</p> <ul style="list-style-type: none"> <li>• Rationalising four grants administered by the Department of Water Affairs and Sanitation. <i>These grants have overlapping objectives – Municipal Water Infrastructure Grant, Water Service Operating Subsidy Grant, Rural Households Infrastructure Grant and Regional Bulk Infrastructure Grant.</i></li> <li>• Merging the Public Infrastructure Grant and the Public Transport Network Operations Grant into a single grant that provides more flexibility to cities in choosing public transport solutions.</li> </ul>

## Transactions by Business Process to be allocated in this Segment

44. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting it is a source document (from an activity within a business process) initiating the activity to

flow through a defined business process ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.

45. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the financial application.
46. Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
47. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee (PSC) held during October 2010. This initial determination was confirmed by the PSC on 31 October 2016.

Transaction Type	Allocate Yes/ No	Comments
<b>Net Assets</b>	Yes	Transactions other than non-cash, and secondary cost allocations.
<b>Assets</b>	Yes	
<b>Liabilities</b>	Yes	
<b>Revenue</b>	Yes	
<b>Expenditure</b>	Yes	

48. Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

## Category Links and Business Rules

49. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of the mSCOA project, and might need to be enhanced as the consultation with the various stakeholder groups evolves.

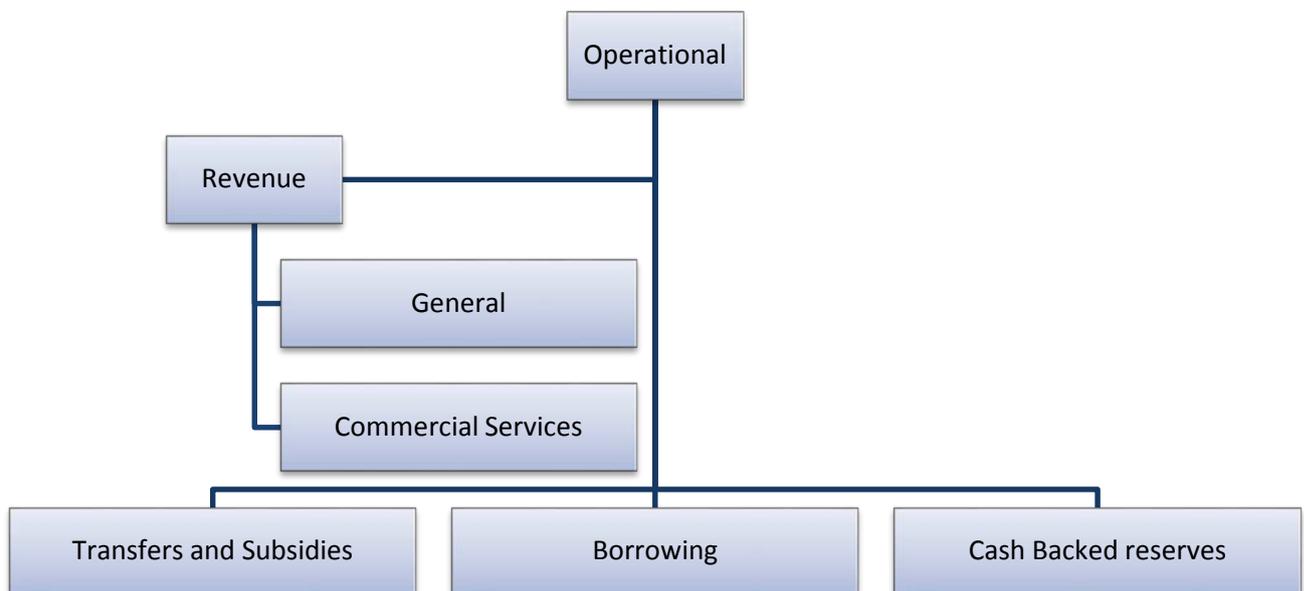
50. Proposals identified at this stage of the development of mSCOA:
- Fund to be linked at the budget/ planning stage to specific projects in the “Project” segment and items from the “Item” segment.
  - Logical links to prevent using capital funding sources for operational spending/ projects.
  - Link Fines, Penalties and Forfeits as well as Licenses and Permits to the related revenue accounts, functions, capital or operational projects and regional indicators.
  - The mSCOA Business Process link defines the specific transaction types by business process for classification within this segment, for example, billing for trading services versus actual cash-collections from trading services. Pending the completion of the specific details, categories need to be determined for these.
  - Link funding source accounts to the revenue accounts and specific transaction types, for example, correction to meter readings impact on billing, and **not** cash collected, and therefore need to be recorded in “Non-funding Transactions”.
  - The Costing segment and the specific transactions relating to the Funding segment need to be classified to the category “costing”.
  - Revenue accounts in the “Item” segment associated with “Revenue” in the “Funding” segment to be linked and considered by transaction types. Transaction types to be identified for linking to Non-Funding Transactions.
  - Allocation in-kind are not represented by “cash” but might be contributing to a specific project and thus be considered “funding”.
  - Setting-up posting-level accounts for:
    - *Borrowing Operational* – The account details by institution are set-up in the “Item” segment: Assets, liabilities and net assets specifically current and non-current liabilities. In adding/ changing these accounts the information needs to automatically update to the “Fund” segment. Version 6.1 provides for “specify” accounts for which the municipality needs to change the account description by including the account number or reference number to the product/ instrument.

- *Cash-backed Reserves* – Current and non-current investments need to be set-up in the “Item” segment Assets, Liabilities and Net Assets specifically current and non-current assets. In adding/ changing these accounts the information needs to automatically update to the “Fund” segment.

## Discussion of the Funding Segment

### Operational

51. Operational funding implies sources available for utilisation towards operational projects. Operational or funding from internal sources to contribute towards “capital projects” is provided for as a movement from “operational” to “capital” funding sources. The account available for this purpose in the “capital sources” is “*transfer from operational sources*”:



52. Operational funding sources consist of “Revenue, Transfers and Subsidies, Borrowing and Cash Backed Reserves”.

**Definitions:**

**Revenue** - are those sources of funding for general use to execute the functions and powers allocated to the municipality. This category includes Major Tariff Services, Fines, Penalties and Forfeits, Taxes, Returns on Investments (interest and dividends) and Equitable Share. Less material services rendered, administrative, registration fees, sale of assets also falls within this category.

**Transfers and Subsidies** - This category provides for all unrequited, voluntary receipts from other parties. Thus, an entry should be made under this item when the municipality does not provide anything of similar value directly in return for the transfer from the other party and the transfer is voluntary. {GRAP 23: Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.} This group of accounts provide for "operational and capital transfers and subsidies" received "in-kind or in monetary value".

**Borrowing** - Short term debt raised in accordance with MFMA Section 46 and to be used for capital expenditure on property, plant and equipment.

**Cash Backed Reserves** - Use of funds set-aside in a dedicated bank account for the replacement of assets, maintenance of assets, replace asset from the self-insurance reserve or funding claims from the COID<sup>4</sup>-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.

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<sup>4</sup> Compensation for Occupational Injuries and Diseases (COID).

## *Revenue*

53. At the highest-level this group of accounts consists of General Revenue and Commercial Services.

### **Definitions:**

**General Revenue** - is revenue of a general nature without any specific conditions directing the use of the funds.

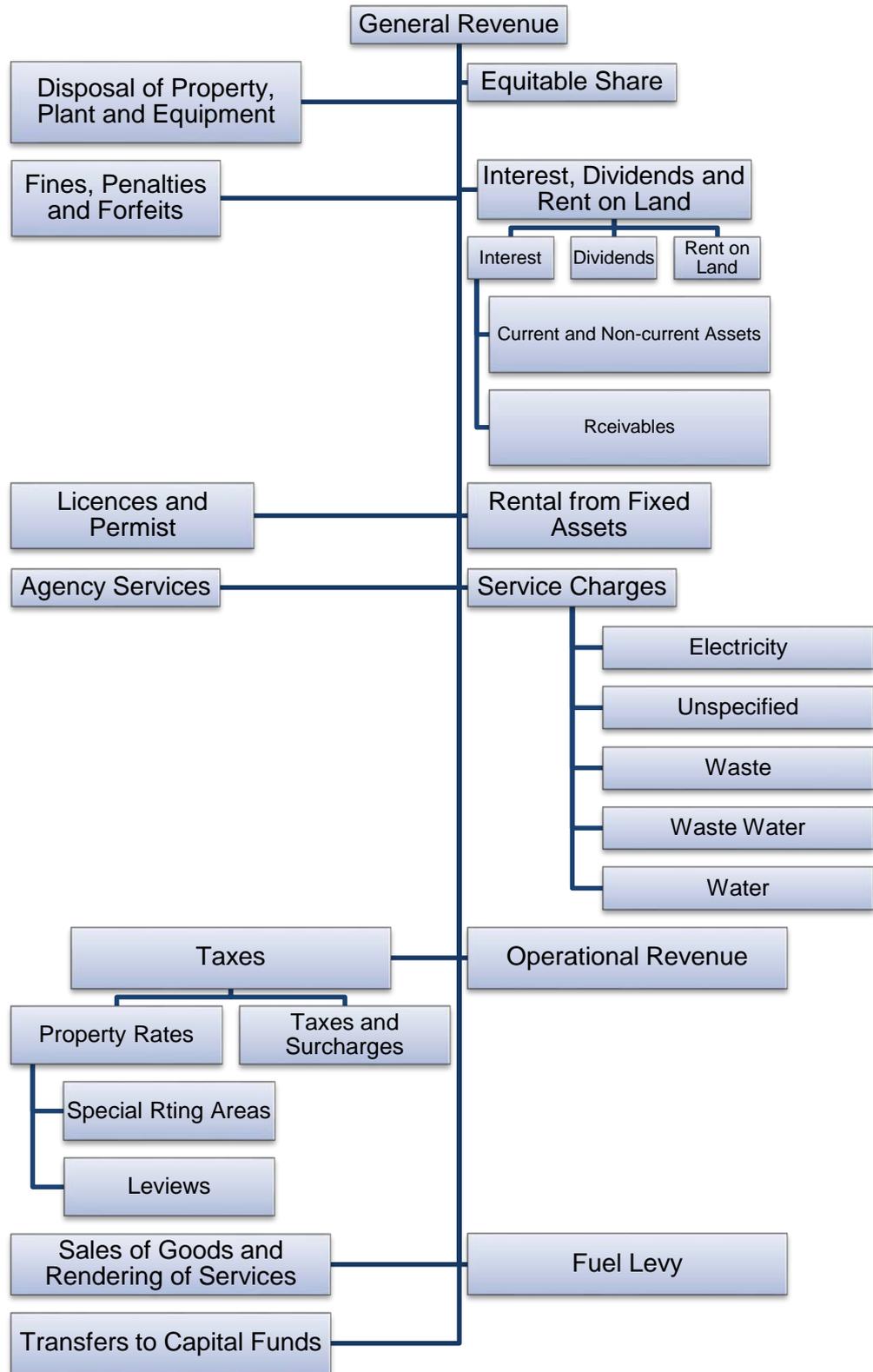
**Commercial Services** - are separately identified as these services either need to meet "break-even points" or make a surplus and should not be cross-subsidised by tariff services, equitable share, grants or contributions, such as Fresh Produce Markets, Abattoirs, etc.

## *General Revenue*

54. General revenue implies that the legislative framework does not impose any restrictions on the application of funds generated from general revenue sources.
55. Revenue as per definition provides for revenue of a general nature to be utilised as indicated by the approved budget for operational spending, transfer to reserves for future funding purposes, or for capital projects.
56. The principles as discussed above are maintained within the structure outlined for general revenue. Decisions regarding the application of funds need to be taken at the budget planning stage within the accountability cycle. By making use of category links and business rules within the application system, these links need to be built according to the decisions taken and captured in the budget reporting tables.
57. The group of accounts for General Revenue includes the posting level accounts as depicted in the diagram below.
58. In illustrating the above consideration, funds generated from the disposal of property, plant and equipment or rental of facilities and equipment, may in terms of a municipal policy be taken to the cash backed reserve for capital asset replacement. If this is

the case, then this source of funding needs be linked to the cash backed reserve within the “Item” segment and the application restricted.

59. Penalties and Forfeits, Licences and Permits and rental of facilities and equipment provides for posting level accounts for this source of funding. Typically, at the budget and planning stage within the accountability process, decisions need to be taken by management on the application of these sources of funding. Category Links and Business Rules may be used to assist in the recording of this transaction, automatically linking this source of funds to the respective revenue accounts, functions, capital or operational projects and regional indicators.



60. In terms of section 227 of the Constitution, local government is entitled to an equitable share of nationally raised revenue to enable it to provide basic services and perform its allocated functions. The local government equitable share is an unconditional

transfer that supplements the revenue that municipalities can raise themselves (including property rates and service charges). The equitable share provides funding for municipalities to deliver free basic service to poor households and subsidises the cost of administration and other core services for those municipalities that have the least potential to cover these costs from their own revenues.

61. Before 2006, district municipalities raised levies on local businesses through a Regional Services Council (RSC) or JSB levy. This source of revenue was replaced in 2006/07 with the *RSC/ JSB levies replacement grant*, which was allocated to all district and metropolitan municipalities based on the amounts they had previously collected through the levies (the *RSC/ JSB levies replacement grant* for metropolitan municipalities has since been replaced by the sharing of the general fuel levy). The grant's value increases every year. In 2016/17, the grant increased by 8.5 per cent a year for district municipalities authorised for water and sanitation and 2.8 per cent for unauthorised district municipalities. The different rates recognise the various service delivery responsibilities of these district municipalities.
62. Municipal Services provides posting-level accounts for the four main trading services being electricity, water, waste and waste water. Further to this is a posting level account providing for the less material tariff services.
63. Sound financial management practice makes it prudent to determine the effectiveness of providing services, by linking revenue and expenditure through the "Fund" and "Function" segments in order to determine adequate recovery of cost for the main trading services. Further linking equitable share to the cost of providing free basic services provides an indication of recovering this cost through the equitable share and ensuring that the funds made available for basic service to the poor are utilised for this purpose.
64. Information classified according to the source of funds outlined in this Funding segment supplemented by the "item", "function" and "costing" segments provides valuable management information; as an example, for the electricity function, revenue generated, and expenditure incurred, allocated assets, liabilities and net assets, to give a financial position and performance view on a municipal function. Further to this, from a costing perspective, information is obtained to ascertain if the tariffs are cost reflective, by resulting in a surplus or at least break-even.

65. The group of accounts for taxes provides for “property rates” with a separate account for special rating areas.
66. The Local Government Municipal Property Rates, 2004 (Act No. 6 of 2004) determines that a municipality may, by resolution of its council, determine an area within that municipality as a special rating area, levy an additional or lower rate on property in that area for the purpose of raising funds for improving or upgrading that area or to serve a socio-economic need; and differentiates between categories of properties when levying an additional or rebated rate.
67. Conditional and directed by sub-section (3)(c) is that when the municipality determines a special rating area the municipality must establish separate accounting and other record-keeping systems regarding the revenue generated by the additional rate and the improvement and upgrading of the area. Furthermore, that a committee may be established as an advisory and consultative forum for the improvement and upgrading of the area and must be a sub-committee of the ward committee in the area.
68. The “special rating area” category thus assists the accounting mechanism within mSCOA to be able to record and report on the funding generated for a specific rating area, the spending incurred, and the actual activity recorded within the project segment thereby achieving compliance to the legislative requirement.
69. The posting-level account needs to be created for each special rating area within the municipal boundaries and are determined based on council resolution. Accordingly, this account would allow for this detail to be populated by the municipality.
70. Other Taxes and Surcharges provides for funds generated from the collection of taxes instituted in terms of the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007). Requests for specific accounts in this regard need to be submitted to the mSCOA Technical Committee for adding posting level accounts in this regard, via the Frequently Asked Questions (FAQ) Database.

### *Commercial Services*

71. Commercial services need to recover the full cost of the service (breakeven point), or make a surplus without being cross-subsidised from other “tariff services”, or services for example property rates, fresh produce markets, abattoirs, urban transport, botanical gardens, etc.

72. Providing for “commercial services” within this Funding segment, together with the “Function” segment provides the classification for recoding transactions to be able to extract information on financial performance, and the financial position of the specific service.
73. Provided for in mSCOA are:
- Abattoirs
  - Airports
  - City Parks, Reserves and Gardens
  - Civic and Open-Air Theatres
  - Convention Centers
  - Development Agencies
  - Fresh Produce Markets
  - Property Agencies
  - Quarries
  - Sand Mining
  - Tourism
  - Urban Transport
  - Zoo's and Museums
74. Municipalities requiring classifications in addition to those provided for in mSCOA need to follow the process (through the Frequently Asked Questions (FAQ) Database) for requesting changes.

### *Transfers and Subsidies*

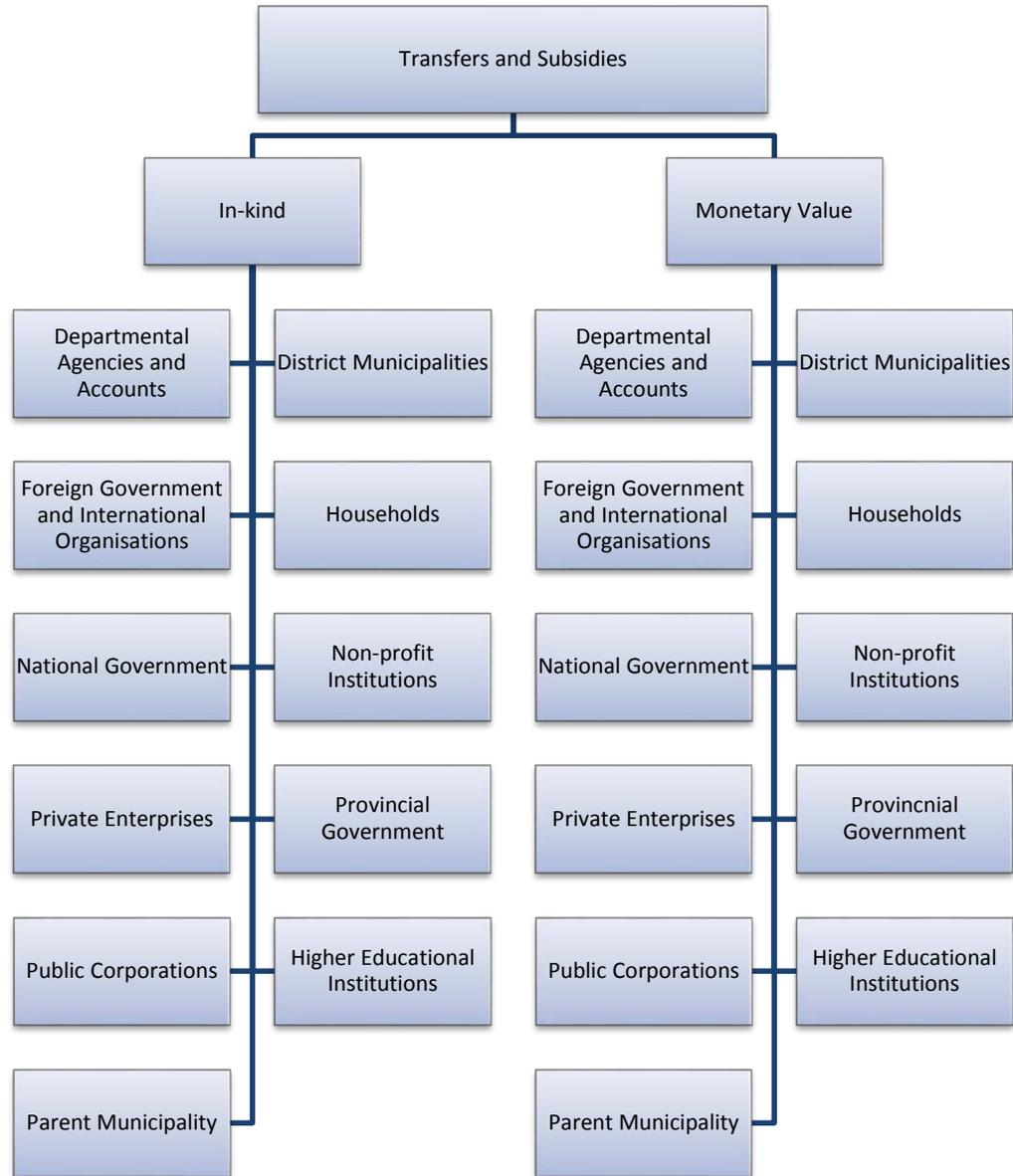
**Definitions:**

**Transfers and Subsidies** - The definition contained in the Standard of GRAP 23 on Non-Exchange Revenue for “transfers” explains that: “transfers include grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind.

All these items have the common attribute that they transfer resources from one entity to another without providing approximately equal value in exchange and are not taxed as defined in the Standards of GRAP.

The mSCOA segment depicting “transfers and subsidies” is defined based on the definitions and principles of this standard.

75. The mSCOA classification framework thus provides for the classification of in-kind services found on the principle that “substantial transfers” are made between the various spheres of government and not recognising these may substantially misrepresent the actual value involved.
76. The common argument raised on the qualitative performance of government entities in providing services is not sufficient reason not to recognise the value exchanged in contributions to the municipality in service delivery to the community.
77. The diagram below provides an overview of the classifications provided for within this group of accounts:



**Definitions:**

**Operational** - This group of accounts provides for funds received from "transfers and subsidies" for capital purposes both "in-kind and monetary" value.

**Allocations In-kind** - This group of accounts provides for funds received from "transfers and subsidies" for operational purposes "in-kind".

- Departmental Agencies and Accounts: Operational funds received "in-kind" from departmental agencies and accounts.
- District Municipalities: Operational funds received "in-kind" from district municipalities.

- Foreign Government and International Organisations: Operational funds received "in-kind" from foreign government and international organisations.
- Households: Operational funds received "in-kind" from households.
- National Departments: Operational funds received "in-kind" from national departments.
- Non-profit Institutions: Operational funds received "in-kind" from non-profit institutions.
- Private Enterprises: Operational funds received "in-kind" from private enterprises.
- Provincial Departments: Operational funds received "in-kind" from provincial departments.
- Public Corporations: Operational funds received "in-kind" from public corporations.
- Higher Educational Institutions: Operational funds received "in-kind" from higher educational institutions.
- Parent Municipality: Operational funds received "in-kind" by a municipal entity from the "parent municipality".

**Monetary Allocations** - This group of accounts provides for funds received from "transfers and subsidies" for operational purposes in "monetary value".

- Departmental Agencies and Accounts: Operational funds received (monetary value) from departmental agencies and accounts.
- District Municipalities: Operational funds received (monetary value) from district municipalities.
- Foreign Government and International Organisations: Operational funds received (monetary value) from foreign government and international organisations.
- Households: Operational funds received (monetary value) from households.
- National Departments: Operational funds received (monetary value) from national departments.
- National Revenue Fund: Operational funds received (monetary value) from the national revenue fund.
- Non-profit Institutions: Operational funds received (monetary value) from non-profit institutions.
- Private Enterprises: Operational funds received (monetary value) from private enterprises.
- Provincial Departments: Operational funds received (monetary value) from provincial government.
- Public Corporations: Operational funds received (monetary value) from public corporations.
- Higher Educational Institutions: Operational funds received (monetary value) from universities.

- Parent Municipality: Operational funds received (monetary value) by a municipal entity from the “parent municipality”.

78. The detail for Departmental Agencies and Accounts are included as provided for in the SCOA for Departments, as little information relevant to municipalities are available.
79. Transfers and Subsidies received from District Municipalities are classified according to accounts set-up and based on “functions”. These are non-posting level accounts within which “posting-level” accounts need to be set-up as informed by the District Municipalities. The functions defined for this group are:
- Community and Social Services
  - Environmental Protection
  - Executive and Council
  - Finance and Administration
  - Health
  - Housing
  - Planning and Development
  - Public Safety
  - Road Transport
  - Sport and Recreation
  - Waste Water Management
  - Water
80. The detail for Foreign Government and International Organisations are included as provided for in the SCOA for Departments since little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

81. The detail for Households are included as provided for in the SCOA for Departments as little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
82. National Departmental transfers received are as determined on an annual basis in the DoRA<sup>55</sup>. The classification provided might therefore change on an annual basis and should be revised accordingly.
83. The detail for Non-profit Institutions are included as provided for in the SCOA for Departments since little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
84. The detail for Private Enterprises are included as provided for in the SCOA for Departments as little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
85. Provincial Departmental allocations are categorised according to the purpose of the allocation being:
- Health
  - Public Transport
  - Housing
  - Sports and Recreation

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<sup>55</sup> The annual Division of Revenue Act (DoRA).

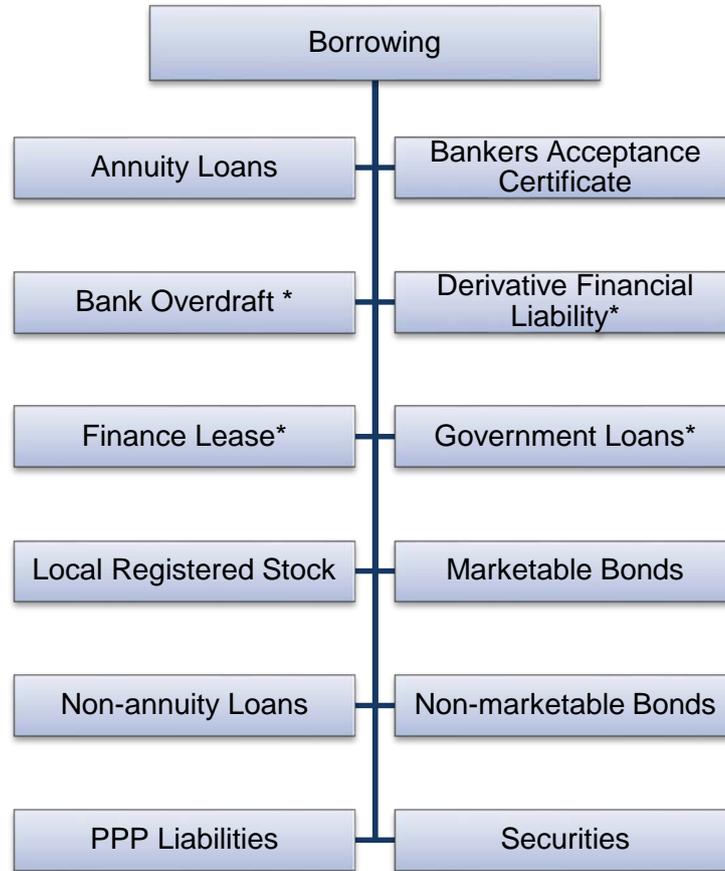
- Disaster and Emergency Services
  - Libraries, Archives and Museums
  - Maintenance of Road Infrastructure
  - Maintenance of Water Supply Infrastructure
  - Maintenance of Waste Water Infrastructure
  - Capacity Building
86. These will be listed as defined in the Provincial equivalent of the annual Division of Revenue Act (DoRA), or updated according to information provided by the Provincial Treasurers for this purpose to inform the posting-level detail.
87. The detail for Public Corporations are included as provided for in the SCOA for Departments since little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Data-Base.
88. The detail for Higher Educational Institutions are included as provided for in the SCOA for Departments as little information relevant to municipalities are available. The account “Unspecified” set at a non-posting level with a requirement for the municipality to add detail to determine the “posting level” provides for allocation received not specifically provided for in the mSCOA release. The requests for accounts to be added need to be submitted to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.
89. Contributed assets need to be recorded as “allocations-in-kind” according to the entity making the transfer.

### *Borrowings*

**Definition:**

**Borrowings** - This group of accounts provides for short term, temporary or bridging finance used for operational purposes and not financing of capital expenditure.

90. At the highest-level borrowing provides for a distinction based on financial institution information as required in terms of the National Treasury Monthly Return Form “BM External Debt Created, Repaid, Redeemed and Expected Borrowing”:



91. The next level which is a non-posting level, provides for the following classifications (except for the financial instruments listed above marked with “\*”):

- General Public
- Banks: ABSA/ FNB/ Nedbank/ RMB/ Standard Bank/ Unspecified
- Development Bank of South Africa
- Infrastructure Finance Corporation
- Public Investment Commissioners
- Municipal Pension Funds
- Other Public Pension Funds
- Public Corporation

- Private Enterprises
  - Foreign Government and International Organisations
92. The posting level within the above classification is defined by an account with description “specify”. The municipality needs to change the account description by including the account number or reference number for a specific instrument. The account set-up should align with the Current Borrowing Section in the Item: Liabilities segment.

### *Cash-backed Reserves*

93. Using of funds set-aside in a dedicated bank account or investment vehicle for the replacement of assets, maintenance of assets, replacing assets from the self-insurance reserve, or funding claims from the COID<sup>6</sup>-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.

## Capital

### *Transfers from Operational Revenue*

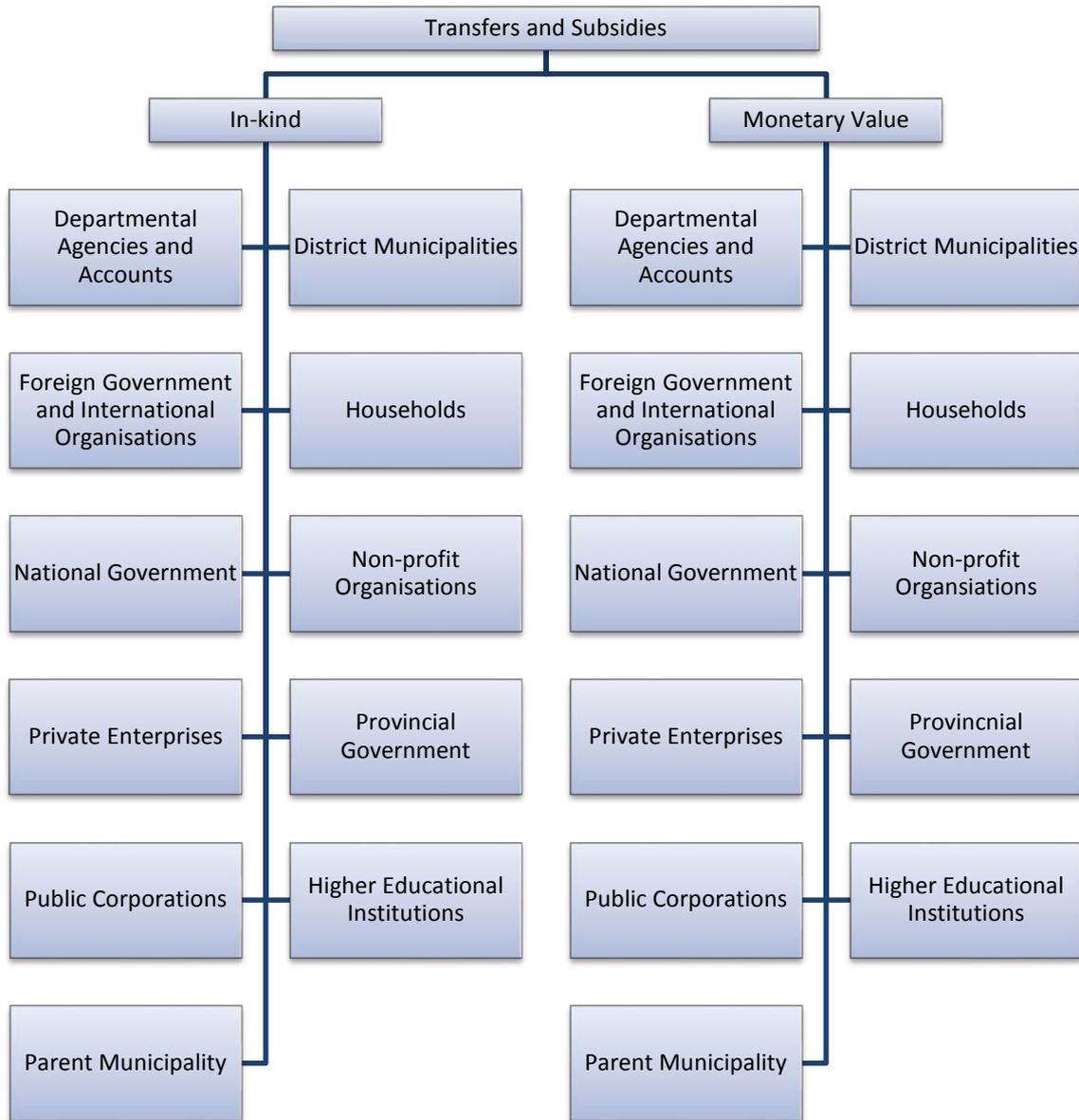
94. This account provides for “operational funds/ internally generated funds/ own sources” utilised towards capital projects. This account is at a posting level. Funds are moved from the respective sources within “operational sources” to this account in “capital sources”.

### *Transfers and Subsidies*

95. This group of accounts provides for funds received from "transfers and subsidies" for capital purposes both "in-kind and monetary" value.

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<sup>6</sup> Compensation for Occupational Injuries and Diseases (COID).



**Definition:**

**Capital:** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes both "in-kind and monetary" value.

**Allocations In-kind:** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes "in-kind".

- Departmental Agencies and Accounts: Capital funds received "in-kind" from departmental agencies and accounts.
- District Municipalities: Capital funds received "in-kind" from district municipalities.

- Foreign Government and International Organisations: Capital funds received "in-kind" from foreign government and international organisations.
- Households: Capital funds received "in-kind" from households.
- National Departments: Capital funds received "in-kind" from national departments.
- Non-profit Institutions: Capital funds received "in-kind" from non-profit institutions
- Private Enterprises: Capital funds received "in-kind" from private enterprises.
- Provincial Departments: Capital funds received "in-kind" from provincial departments.
- Public Corporations: Capital funds received "in-kind" from public corporations.
- Higher Educational Institutions: Capital funds received "in-kind" from higher educational institutions.

**Monetary Allocations:** This group of accounts provides for funds received from "transfers and subsidies" for capital purposes in "monetary value".

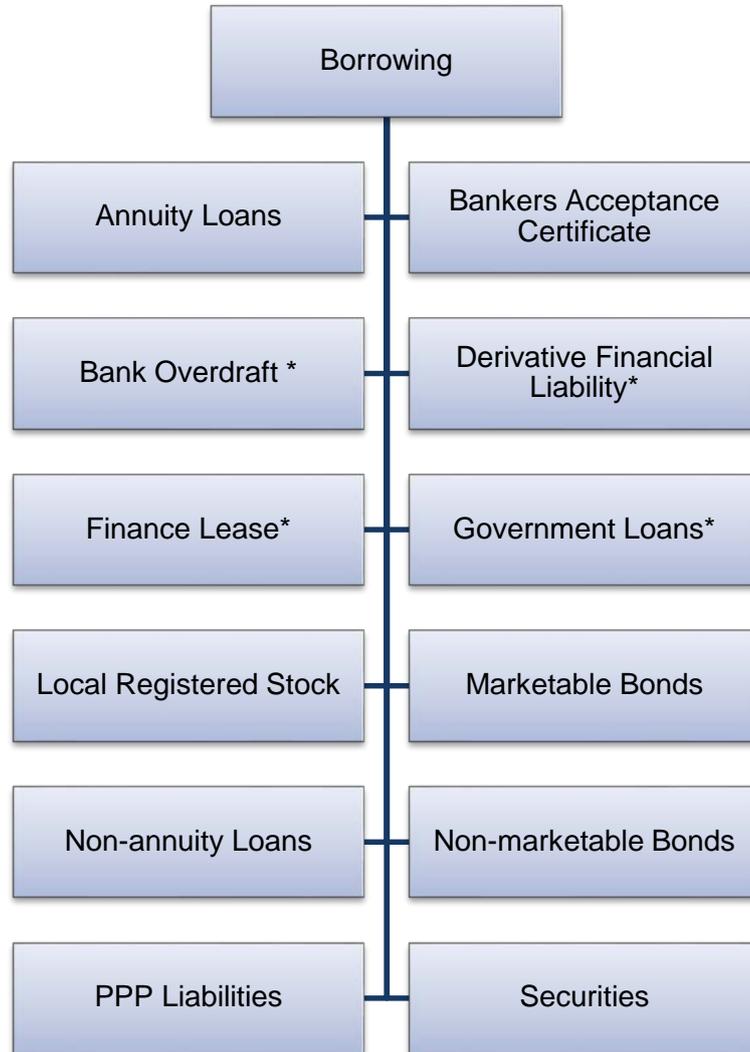
- Departmental Agencies and Accounts: Capital funds received (monetary value) from departmental agencies and accounts.
- District Municipalities: Capital funds received (monetary value) from district municipalities.
- Foreign Government and International Organisations: Capital funds received (monetary value) from foreign government and international organisations.
- Households: Capital funds received (monetary value) from households.
- National Departments: Capital funds received (monetary value) from national departments.
- Non-profit Institutions: Capital funds received (monetary value) from non-profit institutions.
- Private Enterprises: Capital funds received (monetary value) from private enterprises.
- Provincial Departments: Capital funds received (monetary value) from provincial departments.
- Public Corporations: Capital funds received (monetary value) from public corporations.
- Higher Educational Institutions: Capital funds received (monetary value) from higher educational institutions.

## *Borrowings*

### **Definition:**

**Borrowings** - Long term debt raised in accordance with MFMA Section 46 to be used for capital expenditure on property, plant and equipment.

96. At the highest-level borrowing provides for a distinction based on financial institution information as required in terms of the National Treasury Monthly Return Form BM External Debt Created, Repaid, Redeemed and Expected Borrowing.



97. The next level, which is a non-posting level, provides for the following classifications (except for the financial instruments listed above marked with “\*”):

- General Public
- Banks: ABSA/ FNB/ Nedbank / RMB/ Standard Bank/ Unspecified
- Development Bank of South Africa
- Infrastructure Finance Corporation
- Public Investment Commissioners

- Municipal Pension Funds
  - Other Public Pension Funds
  - Public Corporation
  - Private Enterprises
  - Foreign Government and International Organisations
98. The posting level within the above classification is defined by an account with description “specify”. The municipality need to change the account description by including the account number or reference number for the specific instrument. The account set-up should align with the Current Borrowing Section in the Item: Liabilities segment.

### Non-funding Transactions

99. This account is to be used for the recording of transactions for which specific provision has not been made in terms of the classification structure for the Funding segment, for example transfer of funds from the municipality’s primary bank account to a “dedicated bank account” for the replacement of capital assets.

### Preparation for mSCOA Implementation

100. Bringing about effective conversion to an mSCOA compliant chart of accounts from the municipality’s perspective is vital in achieving success.
101. The system developers responsible for applications used by municipalities are responsible for developing software driven by business processes and subject to customisation based on the unique requirements of client municipalities with one of the primary objectives of assisting municipalities in achieving compliance with the mSCOA classification framework. However, National Treasury does recognise the complexities inherent to the implementation of the mSCOA requirements.
102. The following is important in preparing for the implementation of the requirements provided for in this Funding segment:
103. **Step 1:** Link the general revenue funds (earmarked in terms of municipal policies) for funding the capital replacement reserve or any other specific projects.

104. **Step 2:** Link municipal services within the fund to the specific revenue sources within the “Item” segment, link expenditure accounts within the “Item” segment to the respective functions and the projects as defined in the “Project” segment to the funding source.
105. **Step 3:** Define the posting-level detail required for special rating areas and provide to the mSCOA Technical Committee to define the detail in the mSCOA Funds Table.
106. **Step 4:** Define the posting-level detail required for taxes and surcharges and provide to the mSCOA Technical Committee to define the detail in the mSCOA Funds Table.
107. **Step 5:** Consider if any other services need to be added specific to the municipality in the category “commercial service”. Link as many as possible accounts within the segments to this classification.
108. **Step 6:** Consider the posting level detail provided for in the classifications for departmental agencies and accounts, foreign government and international organisations, households, non-profit institutions, private enterprises, public corporations and universities for completeness. This comparison informs the similar detail provided for in the “Item” segment: Revenue/ Current Assets and Current Liabilities. The identified accounts determine the selection specific to the municipality for this group of accounts within the “Funding” segment.
109. **Step 7:** Consider the transfers and subsidies from provincial departments available from the segment detail. If any accounts are not available, please inform the Provincial Treasury to escalate the request to the mSCOA Technical Committee for consideration. This comparison informs the similar detail provided for in the “Item” segment: Revenue/ Current Assets and Current Liabilities. The accounts identified determine the selection specific to the municipality for this group of accounts within the Fund segment. Link these “funding source(s)” to the specific projects defined, to simplify the recording of transactions.
110. **Step 8:** Consider the transfers and subsidies from district municipalities from the segment detail. If any accounts are not available, please inform the Provincial Treasury to escalate the request to the mSCOA Technical Committee for consideration. This comparison informs the similar detail provided for in the “Item” segment: Revenue/ Current Assets and Current Liabilities. The accounts identified thus determine the selection specific to the municipality for this group of accounts

within the Funding segment. Link these funding sources to the specific defined projects, to simplify the recording of transactions.

111. **Step 9:** Consider the detail to be added for the group of accounts dealing with borrowings with the similar detail required for the “Item” segment: Assets, Liabilities and Net Assets. Set-up the specific account detail in the “fund” segment simultaneously populating the detail in the “Item” segment. The accounts identified thus determine the selection specific to the municipality for this group of accounts within the “Funding” segment. Link these “funding source(s)” to the specific projects defined, to simplify the recording of transactions.
112. **Step 10:** Set-up the account details for “cash-backed reserves” within this group of accounts simultaneously with the similar detail from the “Item” segment: Assets, Liabilities and Net Assets. The accounts identified thus determine the selection specific to the municipality for this group of accounts within the “Funding” segment. Link these “funding source(s)” to the specific projects defined, to simplify the recording of transactions.
113. Provide specific guidance in the municipalities planning and budgeting guidelines on the utilisation of specific funding source(s) within the context of the municipalities planning and project selections.

## Annual Maintenance and Matters Pending

### Annual Maintenance

114. Allocations for Transfers and Subsidies as per the annual Division of Revenue Act (DoRA) for National and Provincial Government may require annual update/ revision.
115. Posting level accounts for Transfers and Subsidies for provincial government and district municipalities will need to be added as identified and requested by municipalities.

## Matters Pending

116. There are posting level accounts that could not be populated for all provincial governments and district municipalities due to information not forthcoming, despite ample requests for the information.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[SCOA for MUNICIPALITIES]*

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**Project Detail:**

**Section 8 - Project Segment**

*November 2017 (Version 6.1)*

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## SECTION 4: PROJECT SEGMENT

### Background to the Segment

#### Relevance of the Project Segment, Methodologies and the Application thereof within the Context of mSCOA

1. A municipality must use the Integrated Development Plan (IDP) (*in the context of its long term spatial development plans of 20 plus years*) as its bases to strategically plan for future development in the municipal area over the 5-year horizon of the IDP. This planning approach involves the entire municipality as well as the public and other stakeholders in finding the best options to achieve good and sustainable long-term development.
2. The IDP is the 5-year strategic plan for an area that gives an overall framework for development. It aims to coordinate the work of local and other spheres of government in a coherent plan with a developmental focus and to improve the quality of life for all the people living in their area of jurisdiction. It should consider the existing conditions, problems, challenges and resources available for any development. To enable and ensure long term sustainability, the IDP should be a 5-year portion of/ directly informed by the longer term strategic spatial development plans of the municipality, that the municipal council will focus on during its 5-year term in office.
3. The plan should look at economic and social development for the area as a whole. It must set a framework for how land should be used, what infrastructure and services are needed and how the environment should be sustainably protected.
4. All municipalities must develop an IDP. The municipality is responsible for the co-ordination of the IDP and must draw-in other stakeholders in the area who can make inputs and impact on and/ or benefit from development in the area.
5. Once the IDP is developed, all municipal planning and projects should happen in terms of the IDP. The municipal medium-term revenue and expenditure framework (MTREF/ budget) must be informed by the IDP.
6. Other government departments working within the municipal boundary should take the IDP into account when making their own plans. The IDP is reviewed and updated every year, but it should not be redeveloped in totality.

7. The IDP has a lifespan of 5 years that is linked directly to the term of office for local councillors. After every local government election, the new council must decide on the future of the IDP. The council can adopt the existing IDP or develop a new IDP that takes into consideration existing plans.
8. Why is it necessary to have an IDP? There are six main reasons why a municipality should have an IDP:
  - **Effective use of scarce resources** - The IDP will help the municipality to focus on the most important needs of the communities considering the available resources at local-level. The municipality must find the most cost-effective way of providing services; available funding need to be prioritised in addressing priority objectives within the municipal boundary, for example a municipality may decide to repair water infrastructure and replace meters in addressing water losses which in turn will result in efficiencies in the procurement of bulk water and increase revenue.
  - **Helps speed up delivery** -The IDP identifies service-delivery backlogs and priorities municipal spending; transparency is achieved through stakeholder involvement and public participation. The IDP provides deadlock-breaking mechanisms to ensure that projects and programs are efficiently implemented. The IDP helps to develop realistic project proposals based on the availability of resources.
  - **Helps to attract additional funds** - Government departments and private investors are willing to invest where municipalities have clear development plans.
  - **Strengthens democracy** - Through the active participation of all stakeholders, decisions are made in a democratic and transparent manner, i.e. the creation of a IDP Representative Forum.
  - **Overcome past inequalities** - Municipal resources are used to integrate rural and urban areas and to extend services to the poor.
  - **Promotes co-ordination and alignment between local, provincial and national government planning** - The different spheres of government are encouraged to work in a coordinated and integrated manner to tackle the development needs in a local area, for example the Department of Health plans to build a clinic in an area. It has to ensure that the municipality can provide services such as water and sanitation for the effective functioning of the clinic.

9. What is the IDP process? Before starting the planning process, an IDP Process Plan is compiled. This plan is meant to ensure the proper management of the planning process. The plan should outline:
  - The structures that will manage the planning process.
  - How the public can participate, and develop structures that will ensure effective participation.
  - Time-schedule for the planning process.
  - Who is responsible for what?
  - How will the process be monitored?
10. At a district municipality-level, the framework will be developed in consultation with all local municipalities within the district. This framework will ensure co-ordination, consultation and alignment between the district council and local municipalities. The framework will guide the development of the IDP process plan for each local municipality.

## Purpose of the Project Segment

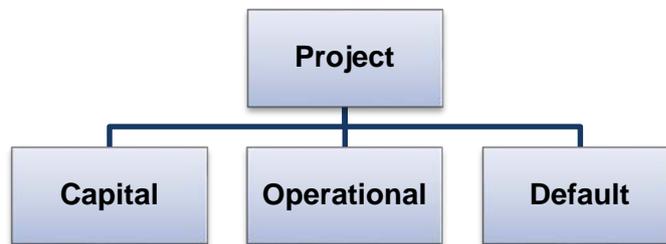
11. The review of information received from selected municipalities highlighted the need for a segment containing information on various projects. The detailed accounts included various accounts for project-related expenditure combined in a single line-item being the only way in the existing account structure to accumulate financial information on important or strategic projects. The accumulation of project-related transactions in a single posting-level account results in a classification not relating to “what is bought”, which is problematic.
12. The Project Segment is therefore designed to strengthen and enforce the link between the municipality’s strategic planning (IDP) and the budget and enables project based budgeting.
13. This segment is structured to link all operational and capital expenditure to a project whether it is a specific capital project, operational initiative or running the municipality.
14. The Project segment distinguishes projects according to the nature of the expense whether it is capital or an operational expense.

*The key question to be asked in finding the appropriate classification for a transaction is: “does the transaction relate to a specific project and if so, what type of project”? This segment ensures that all projects in the IDP is aligned to budgets.*

## Illustration: High-level Classification

15. Setting-up projects in the “Project” segment - The objective is to link the IDP to the budget and ultimately report on each of the projects identified in the IDP. All activities of the municipality would therefore need to be aligned to “Projects” segment, including institutional costs associated with the functioning of the municipality such as cost for the administrative and staff; this allows for planning and budgeting on a project level.
16. The “Project” segment together with the “Funding”, “Regional” and “Function” segments contribute in reporting on strategies and putting into action projects by providing for it in the budget. The “Fund” segment assists in the allocation of funding to the projects. The regional indicator provides information on “Who is going to benefit from the project”. The “Project” segment together with the “Item” segment assists in costing the project and to hold people accountable for delivery within the budget. The “Function” segment further facilitates assigning responsibility to managing the project depending on the system functionality.
17. mSCOA does not inform the project lifecycle. As a principle to facilitate proper planning and reporting, the municipality’s integrated financial management system application needs to assist in providing this information. Indirectly, if it is a “multi-year project”, the project lifecycle will be derived from budgeting for the project over multiple periods. Refer to the “Discussion of the segment” above for more detail on the IDP.
18. **Legislative Framework** – MFMA Section 19 determines that a municipality may spend money on a capital project only if 1) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in MFMA section 17(2); 2) the project, including the total cost, has been approved by the council; 3) MFMA section 33 (long term contracts) has been complied with, to the extent that that section may be applicable to the project; and 4) the sources of funding have been considered, are available and have not been committed for other purposes.

19. Before approving a capital project, MFMA Section 19(2) requires that the council of a municipality must consider 1) the projected cost covering all financial years until the project is operational; and 2) the future operational costs and revenue on the project, including Municipal tax and tariff implications. A municipal council may approve capital projects below a prescribed value either individually or as part of a consolidated capital programme (MFMA section 19(3)).
20. These legislative requirements must be considered in planning and budgeting for capital projects which must include providing for “operational-cost on capital projects” in the classification proposed for the specific segment.
21. The table below provides a high-level overview of the project segment, including a discussion on the classification definitions:



**Definitions:**

**Capital** - Capital usually applies to expenditure of a "long term nature" and capitalised to the Property, Plant and Equipment (PPE) group of accounts in the annual financial statements. Projects are therefore created along this definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects. Expenditure used to create new assets, increase the capacity of assets beyond their original design capacity or service potential, or to return the service potential of the asset or expected useful life of the asset to that which it had originally. CAPEX (capital expenditure) increases the value of capital stock.

**Operational** - Operational projects refer to current and short-term projects for which the cost is immediately recognised as an expense and funded from the municipalities' operational budget. Included in this category is “infrastructure projects” done by the municipality for transfer to another municipality, entity or households.

**Default Transactions** - Default account for transactions not relating to either capital or operational expenditure and of no specific interest in the context of this segment.

## Design Principles

22. The following design principle(s) have been used in preparing the segment outline:
23. *Principle 1: mSCOA* - The segment outline and detail classification provides for all possibilities as a “master mSCOA” from which each municipality selects the accounts needed to “populate” their chart of accounts.
24. *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 as also referring to “municipal entities”, unless indicated otherwise.
25. *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.
26. *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.
27. *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 are 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.
28. *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 service delivery-and budget implementation plans (SDBIP)) and reporting (monthly, mid-year performance assessment and annual financial statements).
29. *Principle 7: mSCOA Definitions* - The master mSCOA tables provides definitions 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.
  30. *Principle 8: Annual Financial Statements and Budget Reporting Formats* – mSCOA aligns with the budget and reporting formats and 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.
  31. *Principle 9: The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework <sup>1</sup>(2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.
  32. *Principle 10: Reporting* - The Position Paper on Reporting defines the phased approached envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined by the Municipal Budget and Reporting Regulations, 2009. This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. The” collective reference” made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.
  33. *Principle 11: 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,

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<sup>1</sup> Compliance to the Standard of GRAP in terms of presentation to be confirmed through Phase 2 described in the Position Paper on Reporting.

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.

34. *Principle 12: 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. To avoid a dual accounting process for recording transactions for reporting to NERSA and another set of accounts for financial and budgetary reporting to National Treasury, mSCOA provides for the information needed in terms of this regulation. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and this principle will oversee and enforce their requirements entrenched in the relevant sets of legislation.
35. *Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements –* The Department is 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. DWS is the custodian of the Reporting Requirements and thus will oversee and enforce their requirements entrenched in the relevant sets of legislation.
36. *Principle 14: Level of Detail* - Municipalities may add detail breakdown-levels in addition to that provided for in the chart of accounts (at the municipality's discretion). However, adding detail need to be carefully considered, and should be done as an exception rather than the rule. The indicators provided guide on the posting level and breakdown required and reflect the minimum requirements from the National Treasury's perspective.

**Discretionary breakdowns** added by the municipality as explained **ARE NOT INFORMATION** National Treasury and/ or other stakeholders have an interest in and thus will not be part of the string downloaded for upload by the Local Government Database and Reporting System.

**Breakdown required** however, provides for information that **MUST BE ADDED BY THE MUNICIPALITY** and National Treasury and/ or other stakeholders have an interest therein.

Hence the table below explain the indicators used in the columns provided in the mSCOA Tables:

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

37. *Principle 15: Applicability* - This column indicates the minimum requirements a municipality need to comply with in the implementation of this segment. 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.
38. *Principle 16: Integrated Development Planning* - Integrated Development Planning (The IDP) – Through the strategic planning process, the municipality defines strategies to respond to its assessed challenges and problems. The municipality then identify “projects” to address these strategic challenges and problems. The mSCOA “Project Segment” together with the “Funding, Regional Indicator” and the “Municipal Standard Classification” segments assist the municipality to convert its strategies into “actions. The Function segment provides the mechanism to compare municipalities based on the alignment of sub-sub-functions to the equivalent activity provided for in the Municipal Standard Classification across the district, province and national level.
39. *Principle 17 Cities’ Infrastructure Delivery and Management System (CIDMS)* - The Cities’ Infrastructure Delivery and Management System (CIDMS) is an initiative of the Cities Support Programme (CSP) of National Treasury. CIDMS aims to deliver

guidelines and an implementation strategy designed to assist cities to sustainably and visibly increase their spending on infrastructure delivery in support of enhanced cities' functioning and efficiencies, and therefore accelerated economic growth, as well as social upliftment and cohesion through the production of serviced land, housing and complimentary municipal public amenities. The guidelines are prepared to document a system that, when implemented, will establish a framework for robust management of infrastructure across lifecycles and asset portfolios. Extracts from the CIRDMS Toolkit could be found as Annexures to this Project Summary Document. Annexure A contains the Glossary of Terms and Annexure B the CIDMS Classification.

40. *Principle 18: Level of Detail Defined for Capital Projects* – Level 4 Asset Group have been used to structure the classification for Capital Projects. Refer to Annexure B attached.
41. *Principle 19: Level of Detail Defined for Operational Projects for Maintenance* – Level 5 Asset Type have been used to structure the classification for Repairs. Refer to Annexure B attached.
42. *Principle 20: Accrual Accounting Principles* - The capital projects section would accumulate prospective from the date of implementation and opening balance adjustments would not be required retrospectively to balance the infrastructure and non-infrastructure to the property, plant and equipment balances per the Item segment.
43. *Principle 21: Classification for Capital Projects* - Capital spending on the highest level consist of spending on:
  - Infrastructure assets; and
  - Non-infrastructure assets.
44. *Principle 22: Classification* – Fixed and intangible asset classification added to relevant project groups within Non-infrastructure to assist in classifying projects. The following high-level categories are added:
  - Biological or Cultivated Assets
  - Community Assets
  - Other Assets
  - Computer Equipment

- Furniture and Office Equipment
  - Heritage Assets
  - Intangible Assets
  - Investment Properties
  - Machinery and Equipment
  - Transport Assets
  - Libraries
  - Zoo's, Marine and Non-Biological Animals
45. *Principle 23: Classification* – Infrastructure classification added to relevant project groups within the segment to assist in classifying projects. The following high-level categories are added:
- Electrical
  - Solid Waste
  - Rail
  - Roads
  - Water Supply
  - Sanitation
  - Storm Water
  - Coastal
  - Information and Communication
46. *Principle 24: Maintenance* – Operational projects provides for a specific category of accounts for “maintenance”. Repairs and maintenance are considered a “project” as different cost-elements contributes to a municipality’s spending on maintenance.
47. *Principle 25: Account Number Structure* – The account structure comprises 13 levels of which the first level contains alphanumeric pre-fix (PD/PC/PO) of 2 digits to identify the segment followed by capital, operational and default projects consisting of 3 digits each. The levels thereafter are based on the reporting structure providing for codes to be created by the municipality for projects which will be the posting level, consisting of 3 digits over 11 levels.

48. *Principle 26: Project Naming Convention* – The segment requires a specific naming convention for projects, whereby every project (Included) must be defined by adding the project within the code structure provided. The municipal code together with the number as defined by the municipality will be the unique identifier for each individual project. Some non-financial information pertaining to the project might be needed which is not provided for in the mSCOA Classification, such as coordinates, resource requirements, milestones, duration, partners, progress and risks. We propose that the system vendors provide for these requirements within the narratives of the project details.
49. *Principle 27: All Operational and Capital Expenditure* – Capital and Operational Expenditure need to be reflected in the project segment without exception. Non-cash flow items such as depreciation, impairment, amortisations, fair value adjustments, interest payments, etc. will be reflected in “municipal running cost”.
50. *Principle 28: Classification for Capital Projects* - Capital spending on at the highest level consist of spending on:
- Infrastructure assets; and
  - Non-infrastructure assets.
51. *Principle 29: Definition of Infrastructure* - According to the CIDMS: “Stationary systems forming a network and serving whole communities, where the system as a whole is intended to be maintained indefinitely at a particular level of service potential by the continuing replacement and refurbishment of its components.”
52. *Principle 30: Non-infrastructure assets* - This category provides for movable and immovable assets other than those classified as "Infrastructure".
53. *Principle 31: Classification of Projects* – Firstly, the classification of projects as defined by the municipality need to be set-up within either infrastructure or non-infrastructure. Secondly, as a decision need to be made if the objective of the projects is creating a new asset or on an existing asset. Existing assets are further divided into “renewal or upgrade”.
- Capital expenditure on existing infrastructure assets consist of renewal and upgrades.
  - Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally. ‘*Rehabilitation and*

*Refurbishment* was used for this purpose in earlier versions up to V5.4 but has since been replaced in V6.1 with *Renewal* to align mSCOA to the CIDMS.

- The replacement of an asset or addition/ replacement of an asset component, which materially improves the original service potential of the asset.
- Projects of a capital nature undertaken to create "new-infrastructure assets" as per definition of an "infrastructure asset".
- This classification structure underlying the above criteria is based on Level 4 Asset Group of the CIDMS Classification Structure.

54. *Principle 32: Maintenance* - Operational projects provides a specific category for maintenance. Maintenance is considered a "project" as different cost-elements contributes to a municipality's spending on maintenance. The "elements" provided for in "maintenance" are "employee related cost, materials and supplies and contracted services". At the highest-level "maintenance" are distinguished based on the "fixed and intangible and infrastructure asset categories".

Maintenance includes all actions intended to ensure that an asset performs a required function to a specific performance standard(s) over its expected useful life by keeping it in as near as practicable to its original condition, including regular recurring activities to keep the asset operating, but specifically excluding renewal. Maintenance also specifically excludes restoring the condition or performance of an asset following a recognised impairment event, which would be classified as either renewal or upgrading, depending on the circumstances. Further distinction is made between:

- *Preventative Maintenance*: Maintenance carried out at predetermined intervals, or corresponding to prescribed criteria, and intended to reduce the probability of failure or the performance degradation of an item. Preventative maintenance is planned or carried out on opportunity:
  - Interval Based
  - Condition Based
- *Corrective Maintenance*: Maintenance carried out after a failure has occurred and intended to restore an item to a state in which it can perform its required function. Corrective maintenance can be planned or unplanned:
  - Planned
  - Emergency

55. *Principle 33: Revenue Foregone and Cost of Free Basic Services* - mSCOA provides for accounts for the cost of free services and the revenue cost of free basic services as a typical work stream project. The determination of the respective value of revenue foregone and cost of free basic service serve as the basis for reallocating the collective cost from “municipal running cost to revenue foregone and the cost of free basic services. The purpose of treating these accounts as “typical work stream projects” is to get municipalities to record the actual values of the items in mSCOA for extraction into various reports for external users.

## Legislative and Regulatory Requirements

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

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on Project Segment
<b>LEGISLATION</b>		
Local Government Municipal Property Rates Act, Act No 6 of 2004	Section 22(3)(c): Special Rating Areas – “must establish separate accounting and other record-keeping system ...”	Provided for a classification for <b>special rating areas</b> for municipalities to define and add projects based on unique requirements.
Municipal Finance Management Act, Act No. 56 of 2003	Section 19: Capital Projects	<b>Capital projects</b> and related operational cost provided for in this segment.
	Section 20: Matters to be Prescribed - <i>Matters to be Prescribed - (1)b(iv) “uniform norms and standards concerning the setting of municipal tariffs, financial risks and other matters</i>	Considered in the set-up of the mSCOA segments.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on Project Segment
	<i>where a municipality uses a municipal entity or other external mechanism for the performance of a municipal service or other function”.</i>	
	Section 21: Budget Preparation Process	<b><u>Integrated Development Plan</u></b> is the underlying principles applied in setting up the classification structure within this segment.
	Section 62(1)(b): General Financial Management Functions	Full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed <b><u>norms and standard</u></b> – The mSCOA Regulation provides for the Project segment as part of the mSCOA Classification.
	Section 123: Disclosures on Intergovernmental and Other Allocations	The projects as defined within the segment together with the funding and item segments provide information on how <b><u>funds have been spent</u></b> and on what.
Local Government Municipal Structures Act, Act No 11 of 1998	Section 73: Establishment of Ward Committees	Provide for <b><u>“ward committees”</u></b> as a typical work stream within the operational projects section of this segment.
Constitution of the Republic of South Africa, 1996	Section 216: Treasury Control	This segment as provided for in the mSCOA Regulation

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on Project Segment
		contributes to the responsibility of National Treasury in prescribing measures to ensure both transparency and expenditure control in each sphere of government, by introducing <b><u>uniform expenditure classifications and treasury norms and standards.</u></b>
Electricity Regulation Act, Act No 4 of 1994	Establishment of a National Energy Regulator	Refer to Design Principle 13. This segment provides for specific requirements for reporting in accordance with the <b><u>NERSA Regulatory Framework.</u></b>
Water Services Act, Act No 108 of 1997	Gathering of information in a national information system and distribution of that information	Refer to Design Principle 14. This segment provides for specific requirements for reporting in accordance with the requirements of the <b><u>Department of Water &amp; Sanitation (DWS).</u></b>
<b>REGULATIONS</b>		
Municipal Budget and Reporting Regulations, 2009		Reporting tables to be expanded.
<b>CIRCULARS</b>		
MFMA Circular 45	Clear linkage between IDP and local economic development (LED)	Principle 14 links the IDP to “projects” to be defined within this segment.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on Project Segment
MFMA Circular 48	Municipal Budget Circular for the 2009/10 and 2011/12 MTREF	Focus on repairs and maintenance – provided for as an operational project within this segment.

## Transactions by Business Process to be allocated in this Segment

57. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting is a source document from an activity within a business process initiating the activity to flow through a defined business processes ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
58. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the financial application.
59. The identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA:

Transaction Type	Allocate Yes/ No	Comments
Assets	No	Default to “Non-project Stand-alone: Non-expenditure Transactions”.
Liabilities	No	Default to “Non-project Stand-alone: Non-expenditure Transactions”.

Revenue	No	Default to “Non-project Stand-alone: Non-expenditure Transactions”.
Expenditure (operational and capital)	Yes	Transaction linked from the debit entry recording non-capital expenditure to the Statement of Financial Performance and capital expenditure to Fixed and Intangible Assets. Similar for operational expenditure to operational projects.

## Category Links and Business Rules

60. Category links and business rules refer to programming rules that system developers of financial and business applications for municipalities would be required to provide for in their 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.
61. Proposals identified at this stage of the development of mSCOA:
- Set-up “Project” segment so that only transactions recorded in the “Item” segment: non-current assets/ property, plant and equipment should be recorded in the “capital” section of the “Project” segment.
  - Link the projects defined and added to “capital projects” in the “Project” segment to the specific capital-funding source(s) from the “Fund” segment.
  - Capital and operational projects needed to be opened to classify transactions.
  - Set-up “Project” segment that only transactions recorded in the “Item” segment: Expenditure could be recorded in the “operational” section of the “Project” segment.
  - Link Projects defined and added to “operational projects” in the “Project” segment to the specific operational funding source(s) from the “Fund” segment.
  - “Maintenance and repairs” provided for in “operational projects” distinguish between “employee related cost, materials and supplies and contracted services”.

Link the specific group to the respective accounts within the “Item” segment: Expenditure accounts.

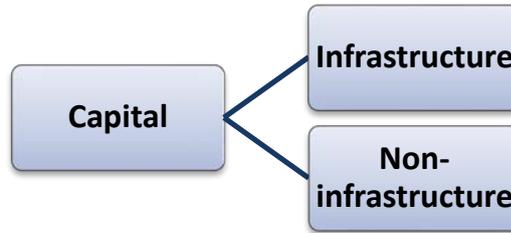
- Provide for “typical work streams” to be expanded by adding projects to “existing” classifications.

## Discussion of the Project Segment

62. The “Project” segment distinguishes projects according to the nature of the expense, whether it is a capital or an operational expense.
63. Transactions other than expenses (capital and operational) are recorded as “Default Transactions”. This group of accounts provide for the transaction types not specifically recorded within the capital and operational project structures for example receipts, billing-run accruals, money transfers between the primary bank account and specific purpose bank accounts and so on.
64. The definitions and explanations provided below intend to clarify the use of the account contributing towards standardisation of allocations in this segment.

## Capital

65. “Capital” applies to expenditure of “long-term nature” and capitalised to property, plant and equipment (PPE) in the financial statements. Projects are therefore created along the definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects.
66. Capital projects relates to spending from the capital budget. Capital projects therefore imply the debit transaction for capitalisation cost within the fixed and intangible asset section of the statement of financial position to the “Construction Work-in-progress Accounts” (within the “Item: Asset” segment of the mSCOA Classification Structure). These costs would consist of primary and secondary cost elements if qualifying for capitalisation in terms of the supporting Standards of GRAP.
67. At the highest-level capital projects distinguish between infrastructure projects and non-infrastructure projects:



**Capital: Infrastructure**

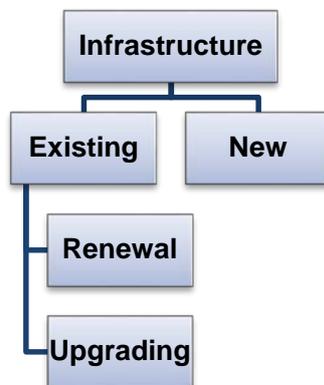
68. Projects are classified in this category if complying with the definition of an “Infrastructure Asset”. Some assets are commonly described as “infrastructure assets” – while there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- they are part of a system or network;
- they are specific in nature and do not have alternative uses;
- they are immovable; and
- they may be subject to constraints at disposal.

The CIDMS define Infrastructure Assets as:

Stationary systems forming a network and serving whole communities, where the system as a whole is intended to be maintained indefinitely at a particular level of service potential by the continuing replacement and refurbishment of its components.

69. Infrastructure projects provide for existing and new. This category is further disaggregated into “renewal and upgrading” to align with the CIDMS:



**Definitions:**

**Existing:** Capital expenditure on existing infrastructure assets consist of renewal and upgrades.

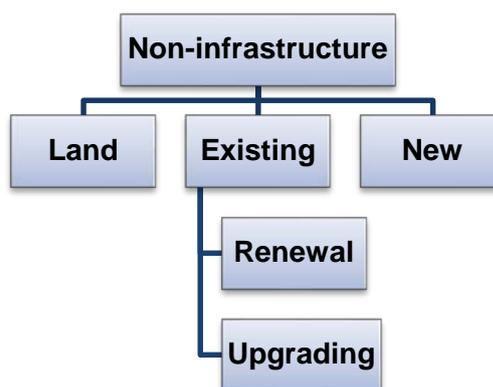
- *Renewal:* Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally. ‘Rehabilitation and Refurbishment’ was used in earlier mSCOA versions up to V5.4 but was replaced with ‘Renewal’ to align to the CIDMS.
- *Upgrading:* The replacement of an asset or addition/replacement of an asset component, which materially improves the original service potential of the asset.

**New:** Projects of a capital nature undertaken to create "new-infrastructure assets" as per definition of an "infrastructure asset".

70. Included in the group of accounts are projects of a capital nature undertaken to create "new-infrastructure assets" as per definition of an "infrastructure asset".
71. New infrastructure would provide for own account construction as well as outsourced developments. Further detail on the “creation” of these assets in the context of input costs is available from the “Item” segment thus providing more detail of the composition of the new-asset creations.
72. Design Principles 17 outlines the classification for infrastructure within which projects need to be defined and added to the municipalities set-off accounts using the guidance given in Design Principle 24 “Project Naming Convention”. This level defines the posting level for this category within the “Project” segment.

### *Capital: Non-infrastructure*

73. Non-infrastructure project provides for transactions of a capital nature relating to key projects as identified by management such as the procurement of a new bus fleet for use as urban transport but not qualifying as "infrastructure assets" and thus provided for under "projects non-infrastructure".
74. The next level within the above categories (except for land) provides for “Land, Existing and New”. Existing Non-infrastructure make further distinction between “Renewal and Upgrading”.
75. The outline for this group of accounts are summarised in the table below and the accounts discussed in more detail as indicated by the references provided:



**Definitions:**

**Existing:** Capital expenditure on existing infrastructure assets consist of renewal and upgrades.

- *Renewal:* Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally. ‘Rehabilitation and Refurbishment’ was used in earlier mSCOA versions up to V5.4 but was then replaced with ‘Renewal’ to align to the CIDMS.
- *Upgrading:* The replacement of an asset or addition/ replacement of an asset component, which materially improves the original service potential of the asset.

**New:** Projects of a capital nature undertaken to create "new-infrastructure assets" as per definition of an "infrastructure asset".

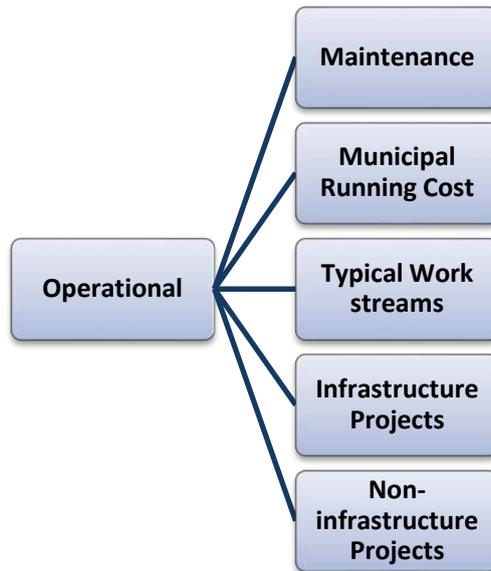
76. Design Principles 17 and 22 explains the principles applied in setting-up the classification structure within this group of accounts.

### Default Transactions

77. Default transactions are the classification required to record a transaction within all the segments of the mSCOA. Revenue, assets (excluding capitalised expenditure), liabilities and net assets need to be captured to this account.

## Operational

78. “Operational projects” refer to current and short-term projects for which the cost is “immediately recognised as an expense and funded from the municipality’s operational budget”.
79. The high-level classification for operational projects is illustrated below:



80. Operational projects relate to spending from the operational budget and thus implying the debit transaction to the Item classification for the statement of financial performance.
81. Projects need to be set-up as guided by the municipality’s integrated development plan (IDP) and provide for multi-year spending if required:

### Definitions:

**Maintenance:** All actions intended to ensure that an asset performs a required function to a specific performance standard(s) over its expected useful life by keeping it in as near as practicable to its original condition, including regular recurring activities to keep the asset operating, but specifically excluding renewal. Maintenance also specifically excludes restoring the condition or performance of an asset following a recognised impairment event, which would be classified as either renewal or upgrading, depending on the circumstances.

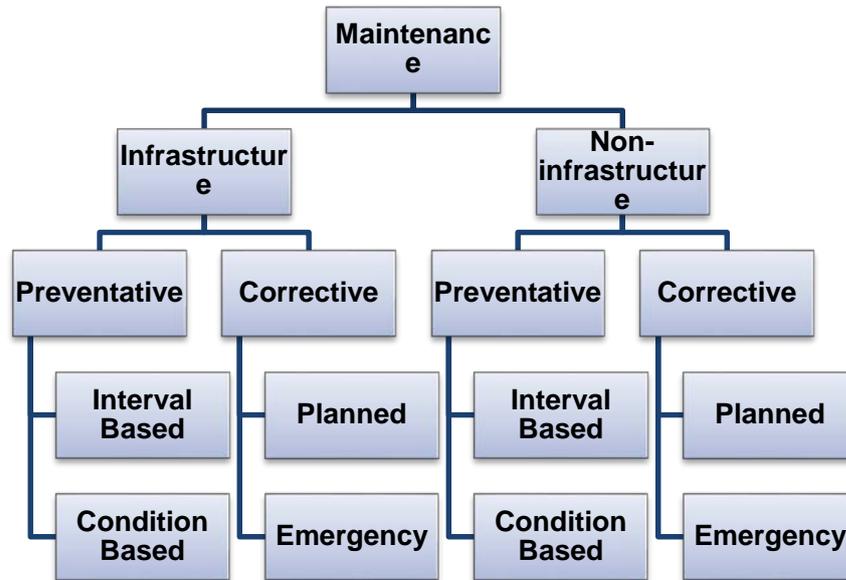
**Municipal Running Cost:** Any other expenditure not relating to a specific project for example general expenses relating to the daily running and operation of the municipality.

**Typical Work Streams:** Projects are created under this group for “operational projects” for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically, these “projects” consist of various expense-items contributing to the outcome or objective of an initiative. Suggested projects are included for guidance, but the Municipality could expand these as considered necessary.

**Infrastructure Projects:** Infrastructure projects undertaken by the District Municipality on behalf or for the Local Municipality/ National or Provincial Government.

### *Maintenance*

82. Expenditure to ensure that the productive or operating capacity of the asset base is maintained over time. The value vested in capital assets is maintained when the entity has at least as much capital at the end of the period as it had at the beginning thereof.
83. Recurrent expenditure as required to ensure that the asset achieves its intended useful life. Maintenance is funded through the entity’s operating budget, and such expenditure is expensed in the entity’s Statement of Financial Performance.
84. Design Principle 24 explains the “level of detail” provided for in this group of accounts.
85. The Budget Reporting Format and the Annual Financial Statement require the disclosure of the “cost-elements” included in “repairs and maintenance” for example employee related cost, materials and supplies, and contracted services. This information is available from the “Item” segment and extracted by Project for reporting purposes.
86. The outline for this group of accounts is summarised in the table below:



**Definitions:**

**Preventative Maintenance:** Maintenance carried out at predetermined intervals, or corresponding to prescribed criteria, and intended to reduce the probability of failure or the performance degradation of an item. Preventative maintenance is planned or carried out on opportunity.

- *Interval Based:* Maintenance carried out at predetermined intervals.
- *Condition Based:* Maintenance carried out based on prescribed criteria.

**Corrective Maintenance:** Maintenance carried out after a failure has occurred and intended to restore an item to a state in which it can perform its required function. Corrective maintenance can be planned or unplanned.

- *Planned:* Corrective Maintenance Planned
- *Emergency:* Corrective Maintenance Emergency.

**Municipal Running Cost**

87. *Municipal Running Cost* is operational cost typical to the day-to-day running of the municipality, for example cleaning of office buildings, security, administrative staff cost, building rental, telephone, stationery, postage, etc.

**Typical Work Streams**

- 88. Projects are created under this group for “operational projects” for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically, these “projects” consist of various expense-items contributing to the outcome or objective of an initiative. Suggested projects are included for guidance, but the municipality could expand these as considered necessary.
- 89. The integrated development plan (IDP) determines not only the capital projects envisaged for the strategic planning period, but also the “projects” to be funded from the operational budget.
- 90. In addition to the maintenance and repair provided for in the classification the IDP might provide for other strategic projects such as poverty-relief, spatial planning, disaster and emergency and many more.
- 91. This classification provides for projects typical to municipalities but is not necessary conclusive. As determined by the IDP the Municipality might identify further projects for inclusion either expanding existing categories.
- 92. The process for requesting changes/ additions to mSCOA need to be followed for adding projects to “typical work streams” if not currently provided for in the proposed mSCOA structure. The summary below provides the project, but within the classification more detail is contained for creating municipal specific projects. Refer to Version 6.1 for a comprehensive list of classifications:

Account Description	Definitions
<b>Typical Work Streams</b>	Projects are created under this group for “operational projects” for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically, these “projects” consist of various expense-items contributing to the outcome or objective of an initiative. Suggested projects are included for guidance, but these could be

<b>Account Description</b>		<b>Definitions</b>
		expanded as considered necessary by the municipality.
	Agricultural	Projects of an operational nature relating to agricultural.
	Aids/HIV, Tuberculosis and Cancer	Projects of an operational nature relating to Aids/ HIV, tuberculosis and cancer.
	Asset Protection	Projects of an operational nature relating to asset protection.
	Capacity Building Training and Development	Projects of an operational nature relating to capacity building training and development.
	City-cleanliness and Clean-up	Projects of an operational nature relating to city-cleanliness and clean-up.
	Communication and Public Participation	Projects of an operational nature relating to communication and public participation.
	Community Development	Projects of an operational nature relating to community development.
	Dam Safety	Projects of an operational nature relating to dam safety.
	Development Agency Established	

<b>Account Description</b>		<b>Definitions</b>
	District Initiatives and Assistance to Municipalities	Projects of an operational nature relating to district initiatives and assistance to municipalities.
	Drinking Water Quality	Projects of an operational nature relating to drinking water quality.
	Efficient and Effective Public Service	Projects of an operational nature relating to efficient and effective public service.
	Elections	Projects of an operational nature relating to elections.
	Emergency and Disaster Management	Projects of an operational nature relating to emergency and disaster management.
	Environmental	Projects of an operational nature relating to environmental.
	Expanded Public Works Programme	Projects of an operational nature relating to expanded public works programme.
	Functions and Events	Projects of an operational nature relating to functions and events.
	GIAMA Implementation	Projects of an operational nature relating to the Government Immovable Asset Management Act, 2007 (GIAMA) implementation.
	Health and Welfare	Projects of an operational nature relating to health and welfare.

<b>Account Description</b>		<b>Definitions</b>
	Human Resources	Projects of an operational nature relating to human resources.
	Indigent Management	Projects of an operational nature relating to indigent management.
	Junior Council	Projects of an operational nature relating to junior council.
	Local Economic Development	Projects of an operational nature relating to local economic development (LED).
	Meter Conversion and Replacement	Projects of an operational nature relating to meter conversion and replacement.
	Municipal Properties	
	Music, Arts and Culture	Projects of an operational nature relating to music, arts and culture.
	NERSA: Administrative and General Expenses	Operational projects added to serve as a “cost collector” for reporting to NERSA.
	NERSA: Customer Account Expenses	Operational projects added to serve as a “cost collector” for reporting to NERSA.
	NERSA: Customer Service and Informational Expenses	Operational projects added to serve as a “cost collector” for reporting to NERSA.

Account Description		Definitions
	NERSA: Load Settlement Expenses	Operational projects added to serve as a “cost collector” for reporting to NERSA.
	NERSA: Sales Expenses	Operational projects added to serve as a “cost collector” for reporting to NERSA.
	Occupational Health and Safety	Projects of an operational nature relating to occupational health and safety.
	Parks Programme	
	Performance Management	Projects of an operational nature relating to performance management.
	Procurement Reforms and Fighting Corruption	Projects of an operational nature relating to procurement reforms and fighting corruption.
	Property, Rates Act Implementation	Projects of an operational nature relating to property, rates act implementation.
	Protecting the Poor	Projects of an operational nature relating to protecting the poor.
	Public Protection and Safety	Projects of an operational nature relating to public protection and safety.
	Research and Development	Projects of an operational nature relating to research and development.

<b>Account Description</b>		<b>Definitions</b>
	Service Connections	Projects of an operational nature relating to service connections.
	Shared Service Centre	
	Spatial Planning	Projects of an operational nature relating to spatial planning.
	Special Projects	Projects of an operational nature relating to special projects.
	Sport Development	Projects of an operational nature relating to sport development.
	Strategic Management and Governance	Projects of an operational nature relating to strategic management and governance.
	Thefts and Losses through Criminal Conduct	Projects of an operational nature relating to thefts and losses through criminal conduct.
	Tourism	Projects of an operational nature relating to tourism.
	Volunteer Programme	
	Ward Committee	Projects of an operational nature relating to ward committee.
	Website Development and Maintenance	Projects of an operational nature relating to Website development and maintenance.

<b>Account Description</b>		<b>Definitions</b>
	Financial Management Grant	Projects specifically relating to the application of the financial management grant (FMG).
	Integrated Rapid Transport Network	Integrated Rapid Transport Network project.
	Water Saving Initiatives	Projects focussing on saving and reducing water consumption.
	Energy Saving Initiatives	Projects focussing on reducing electricity consumption.
	Electrification	Electrification Eskom supply area.
	Unauthorised Expenditure	Identification of unauthorised expenditure classified as recognised by nature in the statement of financial performance.
	Integrated Public Transport Network	Integrated Public Transport Network as per mandate given to District Municipalities

Cost of Free Basic Services / Revenue Cost of Free Basic Services and Property Rates Rebate Projects

**All cost of free basic services and revenue foregone items are accommodated in the project segment. These projects will be linked to the schedules.**

<b>Cost of Free Basic Services</b>			
Electricity (50 kwh per household per month)			
Waste Water Management (free minimum level service)			
Waste Management (removed once a week)			
Water (6 kl per household per month)			
<b>Revenue Cost of Free Services</b>			
Electricity (Other Energy)			
Housing (Top Structures)			
Rental Rebates			
Waste Management			
Waste Water Management			
Water			
<b>Property Rates Rebate</b>			
Bona Fide Farmers Rebate or Exemption			
Indigent Owners			
Pensioners/Social Grants			
Temporary Relief Rebate			
Phase-in Reductions/Discounts			
General Residential Rebate (excess exceeding R15000 Threshold)			
Discretionary			
Disaster or Adverse Conditions			

**Example: Indigent Debtor incurs a bill of R1000.00 for electricity usage at tariff. The indigent receives relief of R200.00 which is the cost of free basic services (50 KWh). The net effect is a revenue at tariff of R800.**

DEBIT	CREDIT	AMOUNT	DESCRIPTION
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	800.00	Collectable revenue
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	200.00	Subsidised Discount
Revenue: Services Charges: Electricity	Trade and other Receivables: Electricity	200.00	Reducing the debtor's payable debt by the cost of free basic services

DEBIT	CREDIT	AMOUNT	Fund	Project
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	800.00	General Revenue: Service Charges: Electricity	Default
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	200.00	General Revenue: Equitable Share	Default
Revenue: Services Charges: Electricity	Trade and other Receivables: Electricity	200.00	General Revenue: Equitable Share	Cost of Free Basic Services: Electricity

**Example: Debtor incurs a bill of R1000.00 for electricity usage at revenue cost and is further given R200.00 discretionary discount. This discount is at the same tariff as the revenue cost.**

DEBIT	CREDIT	AMOUNT	DESCRIPTION
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	800.00	Collectable revenue
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	200.00	Subsidised Discount
Revenue: Services Charges: Electricity	Trade and other Receivables: Electricity	200.00	Reducing the debtor's payable debt by the subsidised discount

DEBIT	CREDIT	AMOUNT	Fund	Project
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	800.00	General Revenue: Service Charges: Electricity	Default
Trade and other Receivables: Electricity	Revenue: Services Charges: Electricity	200.00	General Revenue: Service Charges: Electricity	Default
Revenue: Services Charges: Electricity	Trade and other Receivables: Electricity	200.00	General Revenue: Service Charges: Electricity	Revenue Cost of Free Basic Services: Electricity

**Example: A Pensioner incurs a total bill of R1000.00 for property rates of which, R200.00 is the rebate.**

DEBIT	CREDIT	AMOUNT	DESCRIPTION
Receivables- Non Exchange: Property Rates	Revenue: Property Rates: Residential	800.00	Collectable revenue
Receivables- Non Exchange: Property Rates	Revenue: Property Rates: Residential	200.00	Property Rates Rebate
Revenue: Property Rates: Residential	Receivables- Non Exchange: Property Rates	200.00	Reducing the debtor's payable debt by the property rates rebate

DEBIT	CREDIT	AMOUNT	Fund	Project
Receivables- Non Exchange: Property Rates	Revenue: Property Rates: Residential	800.00	General Revenue: Taxes: Property Rates	Default
Receivables- Non Exchange: Property Rates	Revenue: Property Rates: Residential	200.00	General Revenue: Taxes: Property Rates	Default
Revenue: Property Rates: Residential	Receivables- Non Exchange: Property Rates	200.00	General Revenue: Taxes: Property Rates	Property Rates Rebates: Pensioners

*Infrastructure Projects*

- 93. This group of accounts provide for infrastructure project done by a municipality on behalf of another party, for example the district municipality building a road on behalf of the local municipality for an asset creation to be transferred to the local municipality.
- 94. This type of projects will be recorded under Work-in-progress within Current Assets Inventory for the municipality executing the project. Completion of the asset and transfer to the recipient results in the operational project being closed by the executing municipality and Capital Infrastructure Transfer New project be opened by the receiving municipality. The receiving municipality will recognise these assets as property, plant and equipment (PPE) within Non-Current Assets.

**Preparation for mSCOA Implementation**

- 95. Bringing about effective conversion to a mSCOA complaint chart of accounts from the municipalities perspective is vital in achieving success. Paramount to the “Costing” segment is the municipalities Cost Allocation Policy and Methodology.

96. The system developers responsible for applications commonly used by the municipalities is responsible for developing software to be driven by business process and subject to customisation based on the unique requirements of client municipalities with the one of the primary objectives of assisting municipalities in achieving compliance with the mSCOA classification framework. However National Treasury does recognise the complexities inherent to the implementation of the mSCOA requirements.
97. The list below includes some considerations in the preparation for mSCOA implementation in developing an implementation strategy.
- Step 1: Identify capital projects from the Budgeting and Planning Phase of the accountability cycle for activation within the implementation period as well as projects in process running over multiple reporting periods. Assign project numbers and populate other non-financial fields available from the system application.
  - Step 2: Assess the progress made by the municipality in meeting the NERSA Regulatory Reporting Requirements and accordingly set-up projects giving recognition to the extent of compliance and “non-specifically defined project” for requirements not yet met. This principle applies to both capital and operational projects.
  - Step 3: The linking of the chart of accounts items currently used by the municipality to the mSCOA “Item” segment would have revealed existing accounts that complies with the concept of operational projects. The projects identified need to be defined and account numbers set-up within the project group for typical work streams. Typical work stream projects envisage in the IDP and Service Delivery- and Budget Implementation Plan (SDBIP) need to be identified and account numbers set-up to populate this part of the “Project” segment.
  - Step 4: Design Principle 16 provides for a capital project to run on an accumulative balance basis until the project is finalised and the asset is ready for use. In accordance with the Standards of GRAP the work-in-progress need to be recognised as a fixed assets and components defined. National Treasury recognise the complexities in the first-time implementation of this segment and will allow the progressive accumulation of the work in progress balance if information is not readily available to set-up capital projects including an opening balance.

However, municipalities are encouraged to determine the work-in-progress opening balance as set these up within the projects defined in this segment.

- Step 5: Link funding sources to specific projects as discussed within the section dealing with Category Links and Business Rules.
- Step 6: Link the relevant accounts from the “Item” segment: Expenditure to the operational project for Municipal Running Cost. Care need to be taken in setting up these accounts not to inflate “municipal running cost” as these will be an extremely useful comparison across municipalities as part of the oversight role of National Treasury.
- Step 7: Link the relevant accounts from the “Item” segment: Expenditure to the operational project for Typical Work Streams. Care need to be taken in setting up these accounts to ensure that all operational expenditure will be linked to an operational project and not to “default”.
- Step 8: Link the relevant accounts from the “Item” segment: Non-Current Assets: Construction Work-in-Progress to the relevant “Capital Projects”.
- Step 9: Involve the responsible officials from National Treasury in resolving fundamental differences revealed from this exercise.

## Annual Maintenance and Matters Pending relating to the Project Segment

### Annual Maintenance

98. The classification for “Libraries” need to be deleted. Libraries were included in Community Assets as per the CIDMS tables.

No change	Capital																	8c8367c5-17f1-4c4e-8449-c5687e8a0662
No change		Non- infrastructure																3b7faf98-ae9a-4037-a383-bdb65b6b1e11
No change			Existing															8f3dddbb-3f1b-4845-a01e-72c0eb7369b8
No change				Renewal														d39e7ab4-761a-4581-a4bc-f4509a48d040
Included in Communit y Assets	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	-	-	ee010f63-9a60-42f3-a97c-a9d9261cf49c
No change				Upgrading														06d6f072-635c-4953-b33c-a0d4b6e59df7
Included in Communit y Assets	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	-	-	b84819bc-f8a0-44e9-9d81-efd1b92c3363
No change			New															08600dcc-4847-49d9-8cf0-93a9d214e0b7
Included in Communit y Assets	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	-	-	39c2ee1f-5583-4e26-bb84-6f9798444b23
No change	Operationa l																	793624ea-78f0-45c1-a45f-f5ff8fc7d273
No change		Maintenance																b837bd18-2d0b-4b0e-a86c-267433dd7147

**Project Detail Document: Section 4 – Project Segment**

No change			Non- infrastructure														4970c17b-016d-4c9e-9dbf-675f3ff3eb4e
No change				Preventative Maintenance													78be0443-c56c-41df-8a38-5c80b327d578
No change					Interval Based												cdda7c2e-562c-4745-be55-529a1485dad9
Included in Community-Assets	-	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	c5e3e9df-09b8-4659-a51a-87bf166c3c6a
No change					Condition Based												9a82081d-dbf9-401a-a4fe-4ef7723b8e73
Included in Community-Assets	-	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	ecab92e1-a80f-4fa2-bc89-f996fcd394c0
No change				Corrective Maintenance													50860c00-e3a7-461f-9d7d-0cc8fa722cc6
No change					Planned												bc872837-408d-4108-ac89-d3b9d6b25715
Included in Community-Assets	-	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	4ad337ec-a575-4bfc-904d-b7f196713be5
No change					Emergency												db672059-6fad-4468-a629-a8b6d7285a7b
Included in Community-Assets	-	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	-	a127ecd4-a892-4150-9698-53c86fddd2db
No change		Non- infrastructure															2c5bf328-31bc-447f-8129-63dc2d6c03da
No change			Existing														ddd27357-1181-41c0-a4ad-d62e42d4c4ec
No change				Renewal													f68e004c-e92a-44f7-a624-5c7e40234fb4

Included in Community Assets	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	16d0cf45-4128-48d1-a0ae-3b2a335fe678
No change				Upgrading										e644c3d7-3dff-4c53-a79d-018a6b05eda5
Included in Community Assets	-	-	-	-	Libraries	-	-	-	-	-	-	-	-	6218e1b7-fb6c-4fe0-945c-ee1efcf5796b
No change			New											3e73ca36-b5a0-457c-8b73-98262a611731
Included in Community Assets	-	-	-	Libraries	-	-	-	-	-	-	-	-	-	22df64f1-3aee-4ba7-9085-bb6499e95b7d

## Matters Pending

99. There were no ‘matters pending’ identified for the Project Segment at the time of finalising the Project Summary Document (PSD).

# Terminology

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***It is crucial that this terminology is read in conjunction with the CIDMS toolkit. The CIDMS toolkit is available and can be accessed on the CIDMS website.***

## Acronyms

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The following acronyms are used in this Glossary and should be noted:

AADD	Annual average daily demand
AFS	Annual financial statements
AM	Asset management
AMP	Asset management plan
AR	Asset register
CAPEX	Capital expenditure
BCA	Benefit-cost analysis
CBD	Central business district
CCTV	Closed circuit television camera
CG	Condition grade
CIDB	Construction Industry Development Board
CO <sub>2</sub>	Carbon dioxide
CRC	Current replacement cost
CSIR	Council for Scientific and Industrial Research
DCF	Discounted cash flow
DORA	Division of Revenue Act
DPRN	Depreciation
DRC	Depreciated replacement cost
DRDLR	Department of Rural Development and Land Reform
DU	Dwelling unit
EIA	Environmental impact assessment
EPWP	Expanded Public Works Programme

## Annexure 4A – PSD Project CIDMS Terminology

EUL	Expected useful life
FAR	Financial asset register
FMECA	Failure modes, effects and criticality analysis
FY	Financial year
FYTD	Financial year to date
GDS	Growth and development strategy
GDP	Gross domestic product
GFMAM	Global Forum for Maintenance and Asset Management
GFS	Government financial statistics
GIS	Geographic information system
GL	General ledger
GRAP	Generally recognised accounting practice
GVA	Gross value add
Ha	Hectare
IAM	Infrastructure asset management
IAMP	Infrastructure asset management ( <i>also see AMP</i> )
IAS	International Accounting Standards
ICDG	Integrated Cities Development Grant
ICT	Information and communication technology
IDP	Integrated development plan
IDMS	Infrastructure delivery management system
IIMM	International Infrastructure Management Manual
ISO	International Standards Organisation
IT	Information technology
IRR	Internal rate of return
kℓ	Kilolitre
Km	Kilometre
kWh	Kilowatt per hour
LED	Local economic development
LGIAMG	Local Government Infrastructure Asset Management Guidelines
LOS	Level of service
m <sup>2</sup>	Square metre
MCA	Multi-criteria analysis

## Annexure 4A – PSD Project CIDMS Terminology

MEA	Modern equivalent asset
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MTREF	Medium-Term Revenue and Expenditure Framework
MVA	Megavolt-Ampere (unit of electrical power)
NDG	Neighbourhood Development Grant
NDP	National Development Plan
NT	National Treasury
O&M	Operations and maintenance
OPEX	Operating expenditure
PPE	Property, plant and equipment
PSI	Public service industries
R	Rand
RCM	Reliability-centred maintenance
RDBMS	Relational database management system
ROA	Return on assets
RUL	Remaining useful life
RV	Residual value
SANS	South African National Standard
SCM	Standard Charter of Accounts
SDF	Spatial development framework
SCOA	Standard Charter of Accounts
SCM	Supply chain management
SDBIP	Service delivery and budget improvement plan
SDF	Spatial development framework
SG	Surveyor General
SLA	Service level agreement
SPLUMA	Spatial Planning and Land Use Management Act No. 16 of 2013
V	Volt (unit of electrical potential)
VAR	Valuation asset register
VIP	Ventilated improved pit toilet
UFW	Unaccounted for water
WACC	Weighted average cost of capital

## Annexure 4A – PSD Project CIDMS Terminology

WTW	Water treatment works
WWTW	Waste-water treatment works
VIP	Ventilated improved pit toilet

# Glossary

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### **Aggregate**

A whole formed by combining several different elements or the act of making this whole.

### **Amalgamation rules**

The rule set applied to the results of an investment study when different sets of results are combined in a multicriteria analysis (see multicriteria analysis).

### **Analysis period**

Time interval used in the financial evaluation of an investment opportunity (number of assessment periods). For the purposes of this toolkit the analysis period in formulae is denoted with an "n".

### **Asset**

A resource owned or controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity.

### **Asset hierarchy (IIMM)**

A framework for segmenting an asset base into appropriate classifications. The asset hierarchy can be based on asset function, asset type, or a combination of the two.

### **Asset life (ISO 55 000)**

Period from asset creation to asset end of life.

### **Asset management (LGIAMG)**

The process of decision making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service-delivery potential and benefits, and to minimise their related risks and costs over their entire life.

### **Asset management information system (LGIAMG)**

A combination of processes, data and software applied to provide outputs needed to manage assets well.

### **Asset management objectives (IIMM)**

Specific outcomes required by implementing an asset management system.

### **Asset management plan**

## Annexure 4A – PSD Project CIDMS Terminology

A documented plan developed to manage one, or a portfolio of, assets. It combines multidisciplinary management techniques (including technical and financial) over the life cycle of the asset in the most cost-effective way to provide a specified level of service. The plan specifies approaches, programmes, projects, activities, resources, responsibilities and time frames across the life cycle of the asset(s) planned for, or over a time frame appropriate for robust life-cycle planning.

### **Asset management practices (IIMM)**

The asset management processes and techniques that an entity undertakes, such as demand forecasting, developing and monitoring levels of service and risk management.

### **Asset management strategy (IIMM)**

The high-level, long-term approach to asset management including asset management action plans and objectives for managing the assets.

### **Asset management system (ISO 55 000)**

An management system whose function it is to establish the asset management policy and objectives, as well as processes and organisational arrangements inclusive of structure, roles and responsibilities to achieve asset management objectives.

### **Asset register (LGIAMG)**

A record of asset information considered worthy of separate identification for both asset accounting and strategic management purposes including inventory, historical, condition and construction, technical and financial information about each.

Note: The unit of account in an asset register is a component (see definition of a component).

### **Asset system (ISO 55 000)**

A set of assets that interact or are interrelated.

### **Asset type (ISO 55 000)**

Grouping of assets having common characteristics that distinguish those assets as a group or class.

### **Attribute data**

Data in tabular format (rows and columns).

### **Audit (ISO 55000)**

Systematic, independent and documented process for obtaining audit evidence and evaluating it objectively to determine the extent to which the audit criteria are fulfilled.

### **Benefit-cost analysis – community**

Discounted cash flow that takes into account the benefits and costs of an investment opportunity to the entity and the community it serves.

### **Benefit-cost analysis – organisation**

Discounted cash flow that takes into account the benefits and costs of an investment opportunity to the entity only.

### **Brownfields development**

## Annexure 4A – PSD Project CIDMS Terminology

Development that is restricted by existing fixed structures, often necessitating some extent of demolition prior to starting the intended construction.

### **Capacity (IIMM)**

Maximum output that can be produced or delivered using the existing network or infrastructure.

### **Capital (financial concept of)**

Net assets of an entity.

### **Capital (physical concept thereof)**

The productive capacity of an entity as measured by the optimised depreciated replacement cost method.

### **Capital expenditure (CAPEX)**

Expenditure used to create new assets, increase the capacity of existing assets beyond their original design capacity or service potential, or to return the service potential of the asset or expected useful life of the asset to that which it had originally. CAPEX increases the value of capital asset stock.

### **Capital upgrading**

Enhances the service potential of the asset or the economic benefits that can be obtained from use of the asset and may also increase the life of the asset beyond that initially expected.

### **Cash flow**

The stream of costs and/or benefits over time resulting from a project investment or ownership of an asset.

### **Competence (ISO 55 000)**

The ability to apply knowledge and skills to achieve intended results.

### **Component (IIMM)**

A component (Note 1) is a specific part of a complex item (Note 2) that has independent physical or functional identity and specific attributes such as different life expectancy, maintenance and renewal requirements and regimes, risk or criticality.

Note 1: A component is separately recognised and measured (valued) in the organisation's asset register as a unique asset record, in accordance with the requirements of GRAP 17 to componentise assets.

Note 2: A complex item is one that can be disaggregated into significant components. Infrastructure and buildings are considered complex items.

### **Condition (IIMM)**

The physical state of the asset.

### **Condition assessment or condition monitoring (IIMM)**

The inspection, assessment, measurement and interpretation of the resultant data, to indicate the condition of a specific component so as to determine the need for some preventive or remedial action.

### **Conformity (ISO 55 000)**

Fulfilment of a requirement.

## Annexure 4A – PSD Project CIDMS Terminology

### **Constant price**

Price excluding adjustment for inflation.

### **Continual improvement (ISO 55 000)**

Recurring activity to enhance performance.

### **Corrective maintenance**

Maintenance carried out after a failure has occurred and intended to restore an item to a state in which it can perform its required function. Corrective maintenance can be planned or unplanned.

### **Critical assets (IIMM)**

Those assets that are likely to result in a more significant financial, environmental and social cost in terms of their impact on organisational objectives and service delivery.

### **Current replacement cost (IIMM)**

The cost the entity would incur to acquire the asset on the reporting date. The cost is measured by reference to the lowest cost at which the gross future economic benefits could be obtained in the normal course of business, or the minimum it would cost to replace the existing asset with a new modern equivalent asset with the same economic benefits, allowing for any differences in the quantity and quality of output and in operating costs.

### **Customer database**

A database of all customers within the municipality. Each line in the database describes some form of geography (a building, land parcel, or a census sub place), each column in the database describes some attribute of the customer.

### **Customer profile**

A summarised version of the customer database, quantifying the number of customers for a specific geographic area.

### **Deal breaker**

A non-negotiable policy or other requirement (e.g. minimum performance standard or condition level of an asset) that must be adhered to.

### **Decommissioning (IIMM)**

Actions required to take an asset out of service.

### **Deferred maintenance**

The portion of planned maintenance work necessary to maintain the service potential of an asset that has not been undertaken in the period in which such work was scheduled to be undertaken.

### **Demand management**

The active intervention in the market to influence demand for services and assets with forecast consequences, usually to avoid or defer CAPEX expenditure. Demand management is based on the notion that 'as needs are satisfied', expectations rise automatically and almost every action taken to satisfy demand will stimulate further demand.

### **Density**

## Annexure 4A – PSD Project CIDMS Terminology

Measurement of the population of a defined urban area, excluding non-urban land uses. Non-urban uses include regional open space, agriculture and water bodies. Density can be measured using any of the following means, depending on the purpose of the measurement:

- Floor area ratio (FAR) – the total floor area of buildings divided by land area of the lot on which they are built;
- Residential density – the number of dwelling units in a given area;
- Population density – the number of people in a given area;
- Employment density – the number of jobs in a given area;
- Gross density – any density figure for a given area of land that includes uses not necessarily directly relevant to the figure (normally roads, typically accounting for about 20 per cent the land cover of a settlement); and
- Net density – a density figure for a given area of land that excludes land not directly related to the figure.

### **Depreciated replacement cost (IIMM)**

The replacement cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired economic benefits of the asset.

### **Depreciation (GRAP)**

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

### **Derecognition**

To remove a previously recognised financial asset or liability from an entity's balance sheet, especially when it reaches end of life or when it is sold to a third party.

### **Disaggregate**

Break down into separate parts or entities.

### **Discounted cash flow**

A technique to convert cash flows that occur over time to equivalent amounts at a common point in time. It is the process of finding present values, which is the inverse of compounding interest.

### **Discount factor**

A rate or factor used to relate present and future money values. Also, referred to as the discount rate, hurdle rate, required return, cost of capital or opportunity cost. For the purposes of this Toolkit the discount factor in formulae is denoted with an "r".

### **Disposal (IIMM)**

Actions necessary to decommission and dispose of assets that are no longer required.

### **Economic life (IIMM)**

The period from acquiring the asset to the time when the asset, while physically able to provide a service, ceases to be the lowest cost alternative to satisfy a particular level of service. The economic life is at the maximum when equal to the physical life, however obsolescence will often ensure that the economic life is less than the physical life.

### **Externalities**

## Annexure 4A – PSD Project CIDMS Terminology

Benefits, costs or actions that have an impact on third parties as a result of the entity's actions or non-action.

### **Facility (IIMM)**

A complex comprising many assets (e.g. a hospital, water treatment plant, recreation complex, etc.), which represents a single management unit for financial, operational, maintenance or other purposes.

### **Failure modes**

Ways in which an asset can fail in relation to required levels and standards of service that trigger asset management planning and potentially investment decision making:

- Capacity;
- Condition;
- Cost of operation; and
- Performance.

### **Failure modes, effects and criticality analysis (IIMM)**

A systematic, logical risk-based maintenance approach aimed at maximising the reliability of plant and equipment assets.

### **Financing costs**

Includes annual interest costs and capital repayments (principle amount) for the investment over the period of the loan.

### **Geographic information system (GIS)**

Software that provides a means of spatially viewing, searching, manipulating and analysing an electronic database.

### **Greenfields development**

Development that is unconstrained by existing fixed structures.

### **Impact**

Impacts are effects that either positively contribute to an outcome or strategic objective, such as increased revenue, or that reduce risks such as environmental disasters, workplace injuries, loss of property, or damage to the reputation or image of the organisation.

### **Impairment**

The loss of future economic benefits or service potential of an asset over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

### **Impairment loss (GRAP)**

An impairment loss of a cash-generating asset or a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

### **Incident (ISO 55 000)**

Unplanned event or occurrence resulting in damage or other loss.

### **Indicators (in multicriteria analysis)**

## Annexure 4A – PSD Project CIDMS Terminology

The criteria used to measure a broad range (e.g. financial, economic, social and environmental) outcomes of a project in a multicriteria analysis.

### **Infill development**

New construction that “fills in the gaps” in an already urbanised area. This type of development has the potential to use existing infrastructure, increase density, limit urban sprawl and strengthen the existing economy.

### **Infrastructure assets**

Stationary systems forming a network and serving whole communities, where the system as a whole is intended to be maintained indefinitely at a particular level of service potential by the continuing replacement and refurbishment of its components.

### **Intangibles**

A component that is difficult to quantify in a measurable way.

### **Integrated development plan**

An approach to planning that involves the entire municipality and its citizens in finding the best solutions to achieve good long-term development. Refer to the Municipal Systems Act, 2000 for more detail.

### **Internal rate of return (IRR)**

IRR is the discount rate that equates the present value of net cash inflows with the initial investment in the project, resulting in a NPV = R0. The IRR is the true yield of the investment, expressed as a rate of return.

### **Inventories (GRAP)**

Inventories are assets: (a) in the form of materials or supplies to be consumed in the production process; (b) in the form of materials or supplies to be consumed or distributed in the rendering of services; (c) held for sale or distribution in the ordinary course of operations; or (d) in the process of production for sale or distribution.

### **Investment costs**

The initial capital investment plus any intermittent capital expenditure required to achieve the project outcomes.

### **Level of service (IIMM)**

Levels of service statements describe the outputs or objectives an entity intends to deliver to customers.

### **Life**

A measure of the anticipated life of an asset or component, such as time, number of cycles, distance intervals etc. over which benefits are derived from the use or availability of an asset.

### **Life cycle (IIMM)**

The time interval that commences with the identification of the need for an asset and terminates with the decommissioning of the asset or any liabilities thereafter.

### **Life cycle asset management**

## Annexure 4A – PSD Project CIDMS Terminology

Encompasses all asset management strategies and practices associated with an asset or group of assets that result in the lowest life cycle cost necessary to achieve stated service requirements within acceptable risk parameters.

### **Life cycle cost (IIMM)**

The total cost of an asset throughout its life including planning, design, construction, acquisition, operation, maintenance, renewal and disposal costs.

### **Maintenance**

All actions intended to ensure that an asset performs a required function to a specific performance standard(s) over its expected useful life by keeping it in as near as practicable to its original condition, including regular recurring activities to keep the asset operating, but specifically excluding renewal. Refer to CIDMS toolkit (Appendix A), available on the CIDMS website for a hierarchy of maintenance type, approach and actions.

Note: Maintenance also specifically excludes restoring the condition or performance of an asset following a recognised impairment event, which would be classified as either renewal or upgrading, depending on the circumstances.

### **Maintenance of capital**

Expenditure to ensure that the productive or operating capacity of the asset base is maintained over time. The value vested in capital assets is maintained when the entity has at least as much capital at the end of the period as it had at the beginning thereof.

### **Maintenance expenditure**

Recurrent expenditure as required to ensure that the asset achieves its intended useful life. Maintenance is funded through the entity's operating budget, and such expenditure is expensed in the entity's Statement of Financial Performance.

### **Maintenance plan**

Describes the planned and unplanned maintenance actions for an asset, facility or portfolio of assets, with intended delivery methods and schedules, budget requirements and responsible parties.

### **Maintenance objectives (IIMM)**

Objectives for what maintenance has to achieve to ensure the assets are in the right condition to meet the needs of the entity. Maintenance performance measures and targets are the means of assessing whether the maintenance objectives are being met.

### **Maintenance standards**

The standards set for the maintenance service, usually contained in preventive maintenance schedules, operation and maintenance manuals, codes of practice, estimating criteria, statutory regulations and mandatory requirements, in accordance with maintenance quality objectives.

### **Maintenance strategy**

Interprets higher-order documents and formulates maintenance objectives and targets, establishes maintenance tactics, and defines maintenance roles and responsibilities.

## Annexure 4A – PSD Project CIDMS Terminology

### **Material (GRAP)**

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged on the surrounding circumstances. The size of the information item, or a combination of both, could be the determining factor.

### **Modern equivalent asset (IIMM)**

The most cost-efficient asset currently available, which will provide equivalent functionality to the asset that will be replaced (or is currently being valued using the Depreciated Replacement Cost (DRC) methodology).

### **Monitoring (ISO 55000)**

Determining the status of a system, a process or an activity.

### **Monocentric city**

A city structure with one dominant core, typically the Central Business District (CBD), which is the hub of economic activity and employment in the city.

### **Multicriteria analysis**

An analysis technique that takes into account a range of qualitative and quantitative criteria reflecting the financial, economic, social and environment characteristics of the investment opportunity.

### **Net benefits**

The sum of annual benefits less annual costs in the year of the project/asset's life.

### **Net present value**

The value of an asset to the entity in present money terms. It is the net amount of discounted cash inflows arising from the use and subsequent disposal of the asset, after deducting the value of the discounted total cash outflows.

### **Node**

A centre of activity, economic or otherwise. These often occur at intersections of major corridors, but some just function as the centre of their neighbourhood.

### **Numeraire (for purposes of optimised decision making and investment analysis)**

The numeraire is the money unit of measure within an abstract macroeconomic model in which there is no actual money, but other forms of utility value or costs.

### **Objective (Adjusted from ISO 55000)**

Result to be achieved at strategic, tactical or operational level. Objectives can be set in a variety of domains or outcome areas (e.g. economic, social or environmental outcomes), or can relate to elements of the entity (e.g. corporate level or units in the entity), or can relate to processes, services, products, programmes and projects.

### **Obsolescence (Optimised Decision-Making Guidelines)**

The asset can no longer be maintained, or suffers a loss in value due to a decrease in the usefulness of the asset, caused by technological change, or changes in people's behavioural patterns or tastes, or environmental changes.

### **Operating expenditure**

## Annexure 4A – PSD Project CIDMS Terminology

OPEX is recurrent expenditure to provide services. Examples of OPEX include staff costs, administration costs, consumables, maintenance and repairs and feasibility studies.

### **Opportunity cost**

The cost of cash flows that could have been earned in the best alternative investment opportunity.

### **Optimised decision making (IIMM)**

Two definitions are:

- (1) A formal process to identify and prioritise all potential solutions with consideration of financial viability, social and environmental responsibility and cultural outcomes
- (2) an optimisation process for considering and prioritising all options to rectify existing or potential performance failure of assets. The process encompasses NPV analysis and risk assessment.

### **Performance (ISO 55 000)**

Measurable result of either a quantitative or qualitative nature that can relate to the management of activities, processes, products or services, systems or entities.

### **Performance measure (IIMM)**

A qualitative or quantitative measure used to measure actual performance against a standard or other target. Performance measures are used to indicate how the entity is doing in relation to delivering levels of service.

### **Performance monitoring**

Continuous or periodic quantitative and qualitative assessments of the actual performance compared with specific objectives, targets or standards.

### **Policy**

Intentions and direction of an entity as formally expressed in a documented statement approved by top management and communicated throughout the entity.

### **Polycentric city**

A city structure that typically has a weak, diffused core, and several competing primary nodes. Employment opportunities in a polycentric city is dispersed.

### **Predictive action (ISO 55 000)**

Action to monitor the condition of an asset and predict the need for preventative or corrective action. Also, referred to condition monitoring or performance monitoring.

### **Preventative action (ISO 55 000)**

Action to eliminate the cause of a potential nonconformity or other undesirable potential situation.

### **Preventative maintenance**

Maintenance carried out at predetermined intervals, or corresponding to prescribed criteria, and intended to reduce the probability of failure or the performance degradation of an item. Preventative maintenance is planned or carried out on opportunity.

### **Process (ISO 55 000)**

Set of interrelated or interacting activities, which transforms inputs into outputs.

## Annexure 4A – PSD Project CIDMS Terminology

### **Property, plant and equipment (PPE) (GRAP)**

Property, plant and equipment (PPE) are tangible items that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) are expected to be used during more than one reporting period.

### **Relational database management system**

A relational database management system (RDBMS) is a database management system (DBMS) that is based on the relational model.

### **Reliability-centred maintenance (IIMM)**

A process for optimising maintenance based on the reliability characteristics of the asset.

### **Remaining useful life (IIMM)**

The time remaining until an asset ceases to provide the required service level or economic usefulness.

### **Renewal**

Expenditure on an existing asset that returns the service potential of the asset or expected useful life of the asset to that which it had originally.

Note 1: Renewal can include works to replace existing assets or facilities with assets or facilities of equivalent capacity or performance capability.

Note 2: Expenditure on renewals is funded through the entity's capital budget, and such expenditure is recognised in the entity's Statement of Financial Position.

### **Replacement cash flow decision**

Cash flows to be determined for the replacement of an existing asset, where the investment analyst must find the *incremental* cash outflows and inflows that will result from the replacement.

### **Residual value**

The estimated value of an asset at the end of its useful life, or the value that remains at the end of the analysis period where the asset useful life exceeds the analysis period. The residual value is considered as a benefit (cash inflow) in the final year of the analysis period.

### **Risk (IIMM)**

The effect of uncertainty on objectives. Risk events are events that may compromise the delivery of the entity's strategic objectives.

### **Risk controls (IIMM)**

Measures to manage or mitigate identified risks.

### **Risk exposure (IIMM)**

The level of risk to which an entity is exposed. Risk exposure is a function of the probability of an occurrence times the impact of that occurrence.

### **Risk management (IIMM)**

## Annexure 4A – PSD Project CIDMS Terminology

The application of a formal process that identifies the exposure of an entity to service performance risk and determines appropriate responses.

### **Risk register (IIMM)**

A record of information that stipulates risks identified, the levels of risk exposure before and after implementation of risk controls, and details of appointed risk owners as a minimum.

### **Routine maintenance (IIMM)**

Day-to-day operational activities to keep the asset operating (replacement of light bulbs, cleaning of drains, repairing leaks, etc.) and which form part of the annual operating budget, including preventative and periodic maintenance.

### **Sensitivity analysis**

Testing of the variations in the outcome of an evaluation by altering the values of key factors about which there may be uncertainty.

### **Spatial development framework**

A spatial development framework (SDF) is the principal strategic planning instrument, which guides and informs all planning and development, and all decisions with regard to planning, management and development in the municipality.

### **Spatial planning**

Spatial planning is a process of place shaping and delivery. It is about the management of space and development in order to create better places, responding to the needs of society, the economy and the environment. Spatial planning systems are the methods used by the public sector to influence the distribution of people and activities in spaces of various scales. Discrete professional disciplines, which involve spatial planning include land use, urban, regional, transport and environmental planning.

### **Statement of Financial Performance**

The Statement of Financial Performance, also known as an income statement, shows the revenue and expenses of an entity over a period of time.

### **Statement of Financial Position**

The Statement of Financial Position, also known as the balance sheet, presents the financial position of an entity at a given date. The statement comprises three main components, these being assets, liabilities and equity, and gives users of financial statements insight into the financial soundness of an entity in terms of liquidity risk, financial risk, credit risk and business risk.

### **Sunk costs**

Cash outlays already made (past expenditures) that therefore have no effect on the cash flows relevant to the current investment decision. As a result sunk costs should be excluded from a project's incremental cash flows in a replacement cash flow investment decision.

### **Unplanned maintenance (IIMM)**

Corrective work required in the short term to restore an asset to working condition so that it can continue to deliver the required service or to maintain its level of security and integrity.

### **Upgrading**

## Annexure 4A – PSD Project CIDMS Terminology

The replacement of an asset or addition/ replacement of an asset component, which materially improves the original service potential of the asset.

### **Useful life (GRAP)**

The useful life of an asset is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

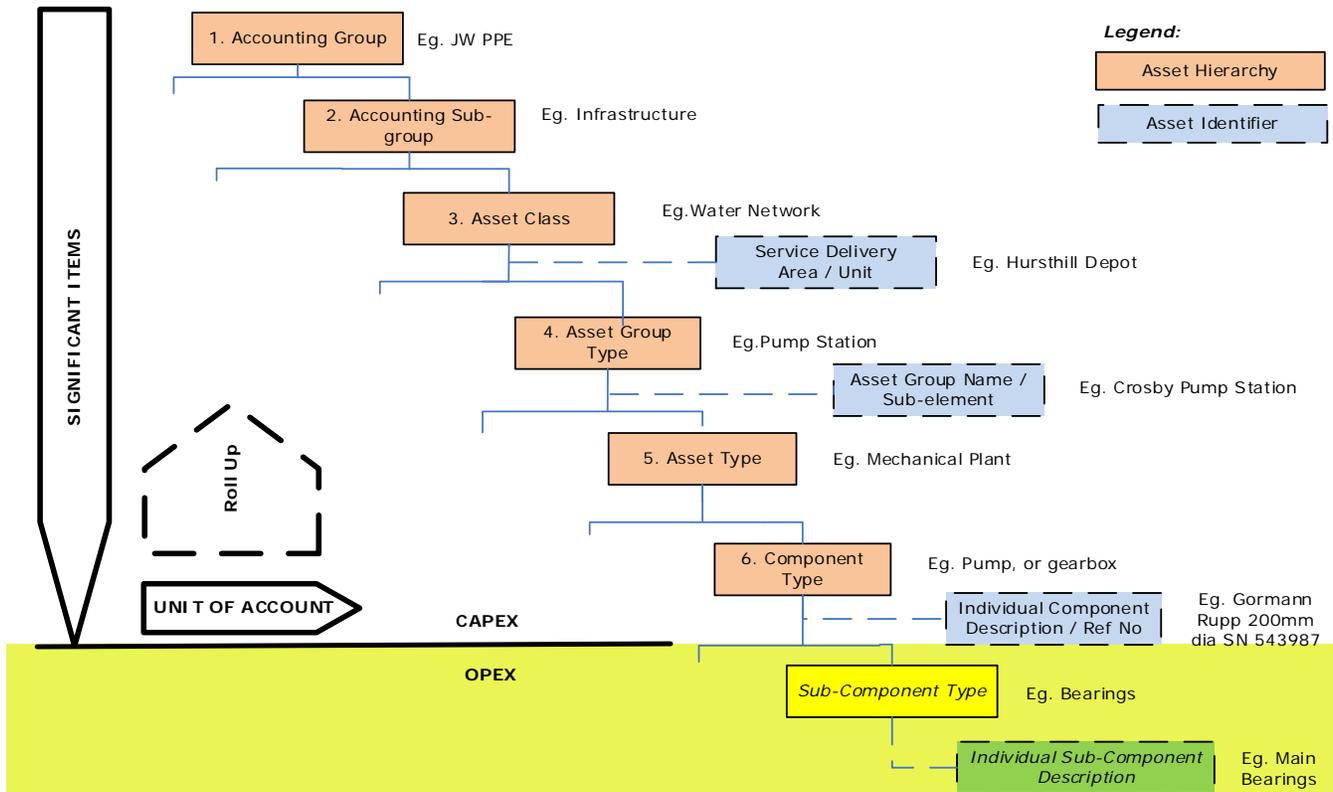
### **Valuation**

Estimated asset value, which may depend on the purpose for which the valuation is required, i.e. replacement value for determining maintenance levels or market value for life cycle costing.

### **Weighted average cost of capital (WACC)**

WACC is the combination of cost of debt capital, being the interest rates for borrowing short-term and long-term debt, and the opportunity cost of capital for equity, which is the risk-free interest rate for equity funds on deposit.

**OVERVIEW OF THE STRUCTURE:**



**Notes:**

1. There are two linked hierarchies - a generic asset hierarchy (that is a combination of functional and asset types) which is linked to an identification / location hierarchy which provides the specifics relating to any given infrastructure down to the component level
2. The Component Type are standardised across all sectors and are the "Unit of Account" - Expected / Remaining Useful Life, Residual Values, Failure Mode status, Criticality, Extent, Size, Material / Class and financial value recorded at this level
3. Sub-components may be linked to Components for purposes of management of maintenance actions (only)
4. The Component Types can be linked to any Asset Type, and similarly any Asset type can be linked to any Asset Group Type. This workbook indicates the linkages between Component Types, Asset Types and Asset Group Types that may typically be encountered

1	2	3
Accounting Group	Accounting Sub-Group	Asset Class
Property, plant and equipment	Infrastructure assets	Roads infrastructure
		Storm-water infrastructure
		Water supply infrastructure
		Sanitation infrastructure
		Electrical infrastructure
		Rail infrastructure
		Information and communications infrastructure
		Solid waste infrastructure
		Coastal infrastructure
	Community assets	Community facilities
		Sport and recreation facilities
Other assets	Operational buildings	
	Housing	
Heritage Assets	Heritage assets	Monuments
		Historic buildings
		Works of art
		Conservation areas
		Other heritage
Intangible assets	Intangible assets	Servitudes
		Licenses and rights
Investment property	Investment property	Investment property

Asset Class	SERVICE DELIVERY AREA	Asset Group
Roads infrastructure		Roads Road structures Road furniture Capital spares
Storm-water infrastructure	Drainage collection Storm-water conveyance Attenuation	
Water supply infrastructure	Boreholes Bulk mains Dams & weirs Distribution Pump stations Reservoirs PRV stations Water treatment works Capital spares	
Sanitation infrastructure	Outfall sewers Pump stations Reticulation Toilet facilities Waste water treatment works Capital spares	
Electrical infrastructure	Power plants HV substations HV switching station HV transmission conductors MV substations MV switching stations MV networks LV networks Capital spares	
Rail infrastructure	Rail lines Rail structures Rail furniture Drainage collection Storm-water conveyance Attenuation MV substations LV networks Capital spares	
Information and communications infrastructure	Data centres Core layers Distribution layers Capital spares	
Solid waste infrastructure	Landfill sites Waste transfer stations Waste processing facilities Waste drop-off points Waste separation facilities Electricity generation facilities	

Asset Class	Asset Group	
Coastal infrastructure	Capital spares	
	Sand pumps	
	Piers	
	Revetments	
	Promenades	
Community facilities	Capital spares	
	Halls	
	Centres	
	Crèches	
	Clinics / care centres	
	Fire / ambulance stations	
	Testing stations	
	Museums	
	Galleries	
	Theatres	
	Libraries	
	Cemeteries / crematoria	
	Police	
	Parks	
	Public open space	
	Nature reserves	
	Public ablution facilities	
	Markets	
	Stalls	
	Abattoirs	
	Airports	
	Taxi ranks / bus terminals	
	Capital spares	
Sport and recreation facilities	Indoor facilities	
	Outdoor facilities	
	Capital spares	
Monuments	All	
Historic buildings	All	
Works of art	All	
Conservation areas	All	
Other heritage	All	
Operational buildings	Municipal offices	
	Pay / enquiry points	
	Building plan offices	
	Workshops	
	Yards	
	Stores	
	Laboratories	
	Training centres	
	Manufacturing plant	
	Depots	
	Capital spares	
	Housing	Staff housing
		Social housing
Capital spares		
Servitudes		
Servitudes	Servitudes	

Asset Class		Asset Group
Licenses and rights		Water rights
		Effluent licenses
		Solid waste licenses
Investment property		Improved property
		Unimproved property

Asset Group
<b>Roads and storm-water infrastructure</b>
Roads
Road structures
Road furniture
Capital spares
<b>Storm-water infrastructure</b>
Drainage collection
Conveyance
Attenuation
<b>Water supply infrastructure</b>
Boreholes
Bulk mains
Dams & weirs
Distribution
Distribution points
Pump stations
Reservoirs
PRV stations

Asset Type
Land
Pavements
Earthworks
Road bridges
Pedestrian bridges
Civil structures
Road furniture
Traffic signals
<i>As applicable</i>
Land
Civil structures
Drainage
Earthworks
Metal work
Pipe work
<i>Same as drainage collection</i>
<i>Same as drainage collection</i>
Land
Civil structures
Earthworks
Electrical equipment
External facilities
Mechanical equipment
Pavements
Pipe work
Service connections on site
Pipe work
Pipe bridges
Electrical equipment
Land
External facilities
Buildings
Civil structure
Earthworks
Electrical equipment
Mechanical equipment
Metal work
Pavements
Pipe work
Service connections on site
Municipal service connections
Pipe work
Pipe bridges
Communal standpipes
Pipe work
Land
External facilities
Buildings
Civil structure
Earthworks
Electrical equipment
Mechanical equipment
Metal work
Pavements
Pipe work
Service connections on site
<i>Same as Pump stations</i>
<i>Same as Pump stations</i>

ASSET GROUP NAME / SUB-ELEMENT

Asset Group	Asset Type
Water treatment works	<i>Same as Pump stations</i>
Capital spares	<i>As applicable</i>
<b>Sanitation infrastructure</b>	
Outfall sewers	Civil structure
	Pipe work
	Pipe bridges

Asset Group	Asset Type
Pump stations	<i>Same as Pump stations</i>
Reticulation	Civil structures
	Pipe work
	Pipe bridges
	Municipal service connection
Toilet facilities	Communal sanitation
Waste water treatment works	<i>Same as Pump stations</i>
Capital spares	<i>As applicable</i>
<b>Electricity infrastructure</b>	
Power plants	Boiler plant
	Turbine equipment
	Turbine generators
	Control and instrumentation
	Electrical equipment
	Pipe work
	DC systems
	MV transformers
	HV transformers
	HV switching station equipment
	MV substation equipment
	MV switching station equipment
	Metal work
	Mechanical equipment
	Land
	Buildings
	External facilities
	Pavements
	Earthworks
	Civil structures
	Service connections on site
	HV switching station equipment
	DC systems
	Electricity bulk meter
	MV substation equipment
	Control and instrumentation
	Communication equipment
Land	
Buildings	
External facilities	
Civil structures	
Metalwork	
Earthworks	
Pavements	
Service connections on site	
HV transformers	
HV switching station equipment	
DC systems	
Electricity bulk meters	
MV substation equipment	
Control and instrumentation	
Communication equipment	
Land	
Buildings	
External facilities	
Civil structures	
Metal work	
Earthworks	
Pavement	
Service connection on site	
HV transmission conductors	HV cables
	HV overhead lines
	MV transformers

Asset Group	Asset Type	
MV substations	MV substation equipment	
	DC systems	
	MV mini-substations	
	MV network equipment	
	Electricity bulk meters	
	Control and instrumentation	
	Communication equipment	
	Land	
	Buildings	
	External facilities	
	Civil structures	
	Metal work	
	Earthworks	
	Pavements	
	Service connection on site	
MV switching stations	MV switching station equipment	
	DC systems	
	Electricity bulk meters	
	Control and instrumentation	
	Communication equipment	
	Land	
	Buildings	
	External facilities	
	Civil structures	
	Metalwork	
	Earthworks	
	Pavements	
	Service connections on site	
	MV networks	MV mini-substations
		MV network equipment
MV transformers		
MV conductors		
LV networks	LV conductors	
	Public lighting	
	Municipal service connections	
	Electricity meters	
Capital spares	<i>As applicable</i>	
<b>Rail infrastructure</b>		
Rail lines	Land	
	Rail lines and ballast	
	Earthworks	
Rail structures	Rail bridges	
	Pedestrian bridges	
	Civil structures	
Rail furniture	Rail furniture	
Drainage collection	Civil structures	
	Drainage	
	Earthworks	
	Metal work	
	External facilities	
	Pipe work	
	<i>As Drainage collection</i>	
	<i>As Drainage collection</i>	
MV substations	MV transformers	
	MV substation equipment	
	DC systems	
	MV mini-substations	
	MV network equipment	
	Electricity bulk meters	
	Control and instrumentation	
	Communication equipment	
	Land	

Asset Group	Asset Type
	Buildings
	External facilities
	Civil structure
	Metalwork
	Earthworks
	Pavement
	Service connections on site
	LV conductors
	Public lighting
	Municipal service connections
	Electricity meters
	As applicable
LV networks	
Capital spares	
<b>Information and communications infrastructure</b>	
Data centres	Buildings
	Electrical equipment
Core layers	Buildings
	Civil structures
	Electrical equipment
	Communications equipment
Distribution layers	Communications equipment
Capital spares	As applicable
<b>Solid waste infrastructure</b>	
Landfill sites	Same as Operational buildings
Waste transfer stations	Same as Operational buildings
Waste processing facilities	Same as Operational buildings
Waste drop-off points	Same as Operational buildings
Waste separation facilities	Same as Operational buildings
Electricity generation facilities	Same as Power plant
Capital spares	As applicable
<b>Coastal infrastructure</b>	
Sand pumps	Same as Pump stations
Piers	Civil structures
	Electrical equipment
	Metal work
Revetments	Civil structures
	Earthworks
Promenades	Same as Operational buildings
Capital spares	As applicable
<b>Community facilities</b>	
Halls	Land
	Buildings
	External facilities
	Civil structures
	Earthworks
	Electrical equipment
	Mechanical equipment
	Metalwork
	Pavements
	Service connections on site
Centres	Same as Halls
Crèches	Same as Halls
Clinics / care centres	Same as Halls
Fire / ambulance stations	Same as Halls
Testing stations	Same as Halls
Museums	Same as Halls
Galleries	Same as Halls
Theatres	Same as Halls
Libraries	Same as Halls
Cemeteries / crematoria	Same as Halls
Police	Same as Halls
Parks	Same as Halls

Asset Group	Asset Type
Public open space	<i>Same as Halls</i>
Nature reserves	<i>Same as Halls</i>
Public ablution facilities	<i>Same as Halls</i>
Markets	<i>Same as Halls</i>
Stalls	<i>Same as Halls</i>
Abattoirs	<i>Same as Halls</i>
Airports	<i>Same as Halls</i>
Taxi ranks / bus terminals	<i>Same as Halls</i>
Capital spares	<i>As applicable</i>

Asset Group	Asset Type
<b>Sport and Recreation Facilities</b>	
Indoor facilities	<i>Same as Halls</i>
Outdoor facilities	<i>Same as Halls</i>
Capital spares	Sports facilities
	<i>As applicable</i>
<b>Operational Buildings</b>	
Municipal offices	<i>Same as Halls</i>
Pay / enquiry points	<i>Same as Halls</i>
Building plan offices	<i>Same as Halls</i>
Workshops	<i>Same as Halls</i>
Yards / depots	<i>Same as Halls</i>
Stores	<i>Same as Halls</i>
Laboratories	<i>Same as Halls</i>
Training centres	<i>Same as Halls</i>
Manufacturing plant	<i>Same as Halls</i>
Capital spares	<i>As applicable</i>
<b>Housing</b>	
Staff housing	<i>Same as Halls</i>
Social housing	<i>Same as Halls</i>
Capital spares	<i>As applicable</i>
<b>Servitudes</b>	
Servitudes	Servitudes
<b>Licenses and rights</b>	
Water rights	<i>Licenses and rights</i>
Effluent licenses	<i>Licenses and rights</i>
Solid waste licenses	<i>Licenses and rights</i>
<b>Investment Property</b>	
Improved property	<i>Investment property</i>
Unimproved property	<i>Investment property</i>

4	5	6			
Asset Group	Asset Type	Component Type			
<b>Roads infrastructure</b>					
Roads	Land	Road reserve	COMPONENT REFERENCE		
	Pavements	Road surface Road structural layer			
	Earthworks	Earthworks			
Road structures	Road bridges	Road bridge abutment Road bridge side barrier Road bridge substructure Road bridge superstructure			
	Pedestrian bridges	Pedestrian bridge abutment Pedestrian bridge substructure Pedestrian bridge superstructure Pedestrian bridge railing			
	Civil structures	Anchored wall Retaining wall RC structure Steel structure Tunnel bore structure			
Road furniture	Road furniture	Billboard Commuter shelter Footpath / paving Guard rail Mini roundabout Speed hump Street rubbish bin Traffic island Sign - regulatory Sign - general			
	Civil structures	Steel structure			
	Traffic signals	Traffic signal units			
Capital spares	<i>All as applicable</i>	<i>All as applicable</i>			
<b>Storm-water infrastructure</b>					
Drainage collection	Land	Storm-water Reserve		COMPONENT REFERENCE	
	Civil structures	Gabions Earth structure Masonry structure RC structure			
	Drainage	Channel Culvert Kerb Kerb inlet Grid inlet Sub-soil drain			
	Earthworks	Earthworks			
	Metal work	Fabricated steel			
	External facilities	<i>See external facilities</i>			
	Pipe work	Pipe - stormwater			
Storm-water conveyance	<i>See Drainage collection</i>				
Attenuation	<i>See Drainage collection</i>				
Capital spares	<i>All as applicable</i>	<i>All as applicable</i>			
<b>Water supply infrastructure</b>					
Boreholes	Land	Land			COMPONENT REFERENCE
	External facilities	<i>see Operational buildings</i>			
	Civil structures	RC structure Timber pole structure Steel structure Tank			
	Electrical equipment	Control panel LV circuit breaker Motor			
	Control and instrumentation	Telemetry SCADA			
	Mechanical equipment	Engine Pump - water Pump - submersible Pump - hand Well			
	Metal work	Fabricated steel			
	Pipe work	Water meter Pipe - water Valve - water			
	Pavements	Road surface Road structural layer			
	Earthworks	Earthworks			
	Service connections on site	Electrical service connection			
Bulk mains	Pipe work	Water meter Pipe - water Valve - water			
	Pipe bridges	Pipe bridge abutment Pipe bridge substructure Pipe bridge superstructure Pipe bridge railing			
	Electrical equipment	Cathodic protection			
Dams & weirs	Land	Land			
	Buildings	<i>see Operational buildings</i>			
	External facilities	<i>see Operational buildings</i>			
	Civil structures	Earth structure Masonry structure RC structure			

	Metal work	Fabricated steel
	Mechanical equipment	Crane
	Electrical equipment	Control panel
		Motor
		Capacitor bank
		Reactor
	LV circuit breaker	
	Control and instrumentation	SCADA
		Telemetry
	Pavements	Road surface
		Road structural layer
	Earthworks	Earthworks
	Pipe work	Water meter
		Pipe - water
		Valve - water
	LV conductors	<i>See LV conductors</i>
	Service connections on site	Electrical service connection
		Pipe - sewer
		Pipe - water
Distribution	Pipe work	Hydrant
		Water meter
		Pipe - water
		Valve - water
	Pipe bridges	Pipe bridge abutment
		Pipe bridge substructure
		Pipe bridge superstructure
		Pipe bridge railing
	Municipal service connections	Water meter
		Pipe - water
Communal standpipes	Communal standpipe	
Land	Land	
Buildings	<i>see Operational buildings</i>	
External facilities	<i>see Operational buildings</i>	
Pump stations	Pavements	Road surface
		Road structural layer
	Earthworks	Earthworks
	Civil structures	Earth structure
		Masonry structure
		RC structure
	Mechanical equipment	Engine
		Generator
		Pump - water
	Metal work	Fabricated steel
Electrical equipment	Motor	
	Capacitor bank	
	Reactor	
	LV circuit breaker	
	Control panel	
Control and instrumentation	Telemetry	
	SCADA	
MV mini-substations	<i>see MV networks</i>	
MV transformers	<i>see MV transformers</i>	
MV switching station equipment	<i>see MV switching stations</i>	
Pipe work	Water meter	
	Pipe - water	
	Valve - water	
LV conductors	<i>see LV networks</i>	
Service connections on site	Electrical service connection	
	Pipe - sewer	
	Pipe - water	
Reservoirs	Land	Land
	Buildings	<i>see Operational buildings</i>
	External facilities	<i>see Operational buildings</i>
	Pavements	Road surface
		Road structural layer
	Earthworks	Earthworks
	Civil structures	Earth structure
		Masonry structure
		RC structure
		Timber pole structure
Steel structure		
Tank		
Pipe work	Water meter	
	Pipe - water	
	Valve - water	
Mechanical equipment	Pump - water	
Metal work	Fabricated steel	
Electrical equipment	Motor	
	Capacitor bank	
	Reactor	
	LV circuit breaker	
	Control panel	
MV mini-substations	<i>see MV networks</i>	
MV transformers	<i>see MV networks</i>	
MV switching station equipment	<i>see MV switching stations</i>	
Control and instrumentation	Telemetry	
	SCADA	
LV conductors	<i>see LV networks</i>	
Service connections on site	Electrical service connection	
	Pipe - sewer	
	Pipe - water	

PRV stations		Land	Land	
		Buildings	<i>see Operational buildings</i>	
		Civil structures	Masonry structure RC structure	
		Metal work	Fabricated steel	
		Electrical equipment	Telemetry	
		Pipe work	Water meter Pipe - water Valve - water	
Water treatment works (WTW)		Land	Land	
		Buildings	<i>see Operational buildings</i>	
		External facilities	<i>see Operational buildings</i>	
		Pavements	Road surface Road structural layer	
		Earthworks	Earthworks	
		Civil structures	Earth structure Filter media Masonry structure RC structure Tank	
		Mechanical equipment	Doser Engine Gearbox Generator Pump - submersible Pump - water	
		Metal work	Fabricated steel Pressure vessel	
		Electrical equipment	Motor Capacitor bank Reactor LV circuit breaker Control panel	
		MV mini-substations	<i>see MV network</i>	
		MV substation equipment	<i>see MV substations</i>	
		DC systems	<i>see MV substations</i>	
		MV transformers	<i>see MV transformers</i>	
		MV conductors	<i>see MV conductors</i>	
		LV conductors	<i>see LV conductors</i>	
		Control and instrumentation	Telemetry SCADA	
		Pipe work	Water meter Pipe - water Valve - water	
		Service connections on site	Electrical service connection Pipe - sewer	
Capital spares		<i>All as applicable</i>	<i>All as applicable</i>	
<b>Sanitation infrastructure</b>				
Outfall sewers	ASSET GROUP NAME / SUB-ELEMENT	Civil structures	Masonry structure RC structure	COMPONENT REFERENCE
		Pipe work	Pipe - sewer	
		Pipe bridges	Pipe bridge abutment Pipe bridge substructure Pipe bridge superstructure Pipe bridge railing	
Toilet facilities		Communal sanitation	Chemical toilet Septic tank VIP latrine (excluding structure) Small building / enclosure	
		Land	Land	
		Buildings	<i>see Operational buildings</i>	
		External facilities	<i>see Operational buildings</i>	
		Pavements	Road surface Road structural layer	
		Earthworks	Earthworks	
		Civil structures	Earth structure Masonry structure RC structure	
		Metal work	Fabricated steel	
		Mechanical equipment	Engine Generator Pump - sewer	
		Electrical equipment	Motor Capacitor bank Reactor LV circuit breaker Control panel	
		Control and instrumentation	SCADA Telemetry	
		Pipe work	Water meter Pipe - sewer Valve - water	
		MV mini-substations		
		MV substation equipment	<i>see MV substations</i>	
		DC systems	<i>see MV switching stations</i>	
		MV transformers	<i>see MV networks</i>	
		MV conductors	<i>see MV networks</i>	
		LV conductors	<i>see LV networks</i>	
		Service connections on site	Electrical service connection Pipe - sewer Pipe - water	

Reticulation		Civil structures	Masonry structure	
			RC structure	
		Pipe work	Pipe - sewer	
		Pipe bridges	Pipe bridge abutment	
			Pipe bridge substructure	
			Pipe bridge superstructure	
			Pipe bridge railing	
		Municipal service connections	Pipe - sewer	
Waste water treatment works (WWTW)		Land	Land	
		Buildings	<i>see Operational buildings</i>	
		External facilities	<i>see Operational buildings</i>	
		Pavements	<i>see WTWs</i>	
		Earthworks	<i>see WTWs</i>	
		Civil structures	<i>see WTWs</i>	
			Flare stack	
		Mechanical equipment	Doser	
			Compressor	
			Engine	
			Gearbox	
			Generator	
			Pump - sewer	
			Crane	
			Winch	
			Extraction blower	
			Engine - gas	
		Metal work	Fabricated steel	
			Cast iron	
			Pressure vessel	
		Electrical equipment	Motor	
			Capacitor bank	
			Reactor	
			LV circuit breaker	
			Control panel	
		Pipe work	Water meter	
			Pipe - sewer	
			Valve - water	
			Pipe - gas	
			Pipe - steam	
			Valve - gas	
		Service connections on site	Electrical service connection	
			Pipe - water	
		Control and instrumentation	Gasometer	
			Distributed control system	
			Telemetry	
			SCADA	
		MV mini-substations	<i>see MV substations</i>	
		MV substation equipment	<i>see MV substations</i>	
		DC systems	<i>see MV switching stations</i>	
		MV transformers	<i>see MV networks</i>	
		MV conductors	<i>see MV networks</i>	
		LV conductors	<i>see LV networks</i>	
		Capital spares	<i>All as applicable</i>	
		<i>All as applicable</i>	<i>All as applicable</i>	
<b>Electrical infrastructure</b>				
HV switching stations	ASSET GROUP NAME / SUB-ELEMENT	HV switching station equipment	HV busbar indoor	COMPONENT REFERENCE
			HV busbar outdoor	
			Voltage transformer	
			Current transformer	
			Surge arrestor	
			Lightning mast and shield wiring	
			Station earthing - mat and electrodes	
			Reactor	
			Capacitor bank	
			GIS busbar	
			GIS switchgear	
			Control panel	
			HV circuit breaker	
			HV compact circuit breaker, isolator and current transformer unit	
			HV isolator	
			HV earth switch	
		DC systems	Battery charger	
			Batteries	
		Electricity bulk meters	Electricity bulk meter	
			MV substation equipment	
		Control and instrumentation	<i>see Power plants</i>	
			Communication equipment	
		Land	Land	
			Buildings	
		External facilities	<i>see Operational buildings</i>	
			Civil structures	
		Metal work	<i>see WTW</i>	
			Earthworks	
		Pavements	<i>see WTW</i>	
			Service connections on site	
HV substations		HV transformers	HV transformer	
			HV switching station equipment	
		DC systems	Battery charger	
			Batteries	
		Electricity bulk meters	Electricity bulk meter	
			Control and instrumentation	
		MV transformers	MV transformer	
			MV substation equipment	

	Communication equipment	<i>see Information and communications infrastructure</i>
	Land	Land
	Buildings	<i>see Operational buildings</i>
	External facilities	<i>see Operational buildings</i>
	Civil structures	<i>see WTW</i>
	Metal work	<i>see WTW</i>
	Earthworks	<i>see WTW</i>
	Pavements	<i>see WTW</i>
	Service connection on site	<i>see WTW</i>
HV transmission conductors	HV cables	HV cable Control cable
	HV overhead lines	HV overhead line conductor HV overhead line support structure
MV substations	MV transformers	MV transformer
	MV substation equipment	Current transformer Voltage transformer Reactor Transformer NER Transformer NECRT Surge arrestor MV circuit breaker MV compact circuit breaker, isolator and current transformer unit MV earth switch MV isolator Auxiliary equipment Control panel Capacitor bank Load control set Ring main unit
	DC systems	Battery charger Batteries
	MV mini-substations	<i>see MV networks</i>
	MV network equipment	<i>see MV networks</i>
	Electricity bulk meters	Electricity bulk meter
	Control and instrumentation	<i>see Power plants</i>
	Communication equipment	<i>see Information and communications infrastructure</i>
	Land	Land
	Buildings	<i>see Operational buildings</i>
	External facilities	<i>see Operational buildings</i>
	Civil structures	<i>see WTW</i>
	Metal work	<i>see WTW</i>
	Earthworks	<i>see WTW</i>
	Pavements	<i>see WTW</i>
	Service connections on site	<i>see WTW</i>
MV switching stations	MV switching station equipment	MV circuit breaker MV isolators Control panel Auto-recloser Ring main unit
	DC systems	Battery charger Batteries
	Electricity bulk meter	Electricity bulk meter
	Control and instrumentation	<i>see Power plants</i>
	Communication equipment	<i>see Information and communications infrastructure</i>
	Land	Land
	Buildings	<i>see Operational buildings</i>
	External facilities	<i>see Operational buildings</i>
	Civil structures	<i>see WTW</i>
	Metal work	<i>see WTW</i>
	Earthworks	<i>see WTW</i>
	Pavements	<i>see WTW</i>
	Service connections on site	<i>see WTW</i>
MV networks	MV mini-substations	MV transformer Ring main unit
	MV network equipment	Auto recloser Capacitor bank Reactor Ring main unit Sectionalizer
	MV transformers	MV transformer
	MV conductors	MV cable Control cable MV overhead line
LV networks	LV conductors	LV cable Control cable LV overhead line
	Public lighting	Streetlights High mast light
	Municipal service connections	LV cable LV overhead line LV kiosk LV pole top box Vending station Control panel LV breakers
	Electricity meters	Conventional electricity meter Automated electricity meter Prepaid electricity meter
Power plants	Boiler plants	Boiler Economizer Oil burner

			Reheater		
			Super heater		
			Boiler feed pumps		
			Condensor		
		Turbine equipment	Turbine		
		Turbine generators	Exciter		
			Generator		
			Generator breaker		
			Generator busbar		
			Generator transformer		
		Control and instrumentation	Distributed control system		
			SCADA		
			Process instrumentation		
		Electrical equipment	Motor		
			Precipitator		
			Uninterrupted power supply		
			Capacitor bank		
			Reactor		
		Pipe work	Water meter		
			Pipe - sewer		
			Pipe - water		
			Pipe - steam		
			Pipe - fuel		
			Pipe - gas		
			Valve - water		
			Valve - steam		
			Valve - fuel		
			Valve - gas		
		DC systems	<i>see HV switching stations</i>		
		MV transformers	<i>see HV switching stations</i>		
		HV transformers	<i>see HV switching stations</i>		
		HV switching station equipment	<i>see HV switching stations</i>		
		MV substation equipment	<i>see MV substations</i>		
		MV switching station equipment	<i>See MV switching stations</i>		
		Metal work	Fabricated steel		
			Cast iron		
			Pressure vessel		
		Mechanical equipment	Gearbox		
			Fan		
			Crane		
			Winch		
			Turbine		
			Conveyor belt		
			Pulveriser		
			Pump - water		
		Land	Land		
		Buildings	<i>see Operational buildings</i>		
		External facilities	<i>see Operational buildings</i>		
		Pavements	<i>see WTWs</i>		
		Earthworks	<i>see WTWs</i>		
		Civil structures	<i>see WTWs</i>		
		Service connections on site	Electrical service connection		
			Pipe - water		
			Pipe - sewer		
Capital spares		<i>All as applicable</i>	<i>All as applicable</i>		
<b>Rail infrastructure</b>					
Rail lines	ASSET GROUP NAME / SUB-ELEMENT	Land	Land	COMPONENT REFERENCE	
		Rails and ballast	Rail lines Points (rail) Ballast		
		Earthworks	Earthworks		
Rail structures		Rail bridges	Rail bridge abutment		
			Rail bridge side barrier		
			Rail bridge sub-structure		
			Rail bridge superstructure		
		Pedestrian bridges	Pedestrian bridge sub-structure Pedestrian bridge superstructure		
Civil structures			Anchored wall		
			Retaining wall		
			RC structure		
			Timber pole structure		
			Steel structure		
Rail furniture		Rail-side furniture	Signalling <i>see External facilities</i>		
Drainage collection		Land	Storm-water servitude		
		Civil structures	Gabions		
			Earth structure		
			Masonry structure		
			Anchored wall		
			Retaining wall		
		RC structure			
		Drainage	Channel Culvert		
		Earthworks	Earthworks		
	Metalwork	Fabricated steel			
Pipe work	Pipe - stormwater				
Storm-water conveyance	<i>See Drainage collection</i>	<i>See Drainage collection</i>			
Attenuation	<i>See Drainage collection</i>	<i>See Drainage collection</i>			
MV substations	MV transformers	MV transformer			
	MV substation equipment	<i>see MV substation</i>			
	DC systems	<i>see MV substation</i>			

		MV mini-substations	<i>see MV substation</i>	
		MV network equipment	<i>see MV substation</i>	
		Electricity bulk meters	<i>see MV substation</i>	
		Control and instrumentation	<i>see MV substation</i>	
		Communication equipment	<i>see MV substation</i>	
		Land	Land	
		Buildings	<i>see Operational buildings</i>	
		External facilities	<i>see Operational buildings</i>	
		Civil structure	<i>see WTW</i>	
		Metalwork	<i>see WTW</i>	
		Earthworks	<i>see WTW</i>	
		Pavement	<i>see WTW</i>	
		Service connections on site	<i>see WTW</i>	
LV networks		LV conductors	<i>see LV networks</i>	
		Public lighting	<i>see LV networks</i>	
		Municipal service connections	<i>see LV networks</i>	
		Electricity meters	<i>see LV networks</i>	
Capital spares		<i>All as applicable</i>	<i>All as applicable</i>	
<b>Information and communications infrastructure</b>				
Data centres	ASSET GROUP NAME / SUB-ELEMENT	Buildings	<i>see Operational buildings</i>	COMPONENT REFERENCE
		Electrical equipment	Generator	
			Uninterrupted power supply	
Core layers		Buildings	<i>see Operational buildings</i>	
		Civil structures	<i>see WTW</i>	
		Electrical equipment	Uninterrupted power supply	
		Communications equipment	Radio infrastructure	
			Communication cable	
			Fibre optic cable	
			Control kiosk	
			Switch	
			Storage area network	
			Router	
	PABX			
	Multiplexer			
	Server			
Distribution layers	Communications equipment	Communications switch		
		Router		
		Wireless access point		
Capital spares		<i>All as applicable</i>	<i>All as applicable</i>	
<b>Solid waste infrastructure</b>				
Landfill sites, waste transfer stations, waste processing facilities, waste drop off points, waste separation facilities, <b>electricity generation facilities</b>	ASSET GROUP NAME / SUB-ELEMENT	Land	Land	COMPONENT REFERENCE
		Buildings	<i>see Operational buildings</i>	
		External facilities	<i>see Operational buildings</i>	
		Pavements	Road surface	
			Road structural layer	
		Earthworks	Earthworks	
		Road furniture	Guard rail	
			Speed hump	
			Traffic island	
		Civil structures	Earth structure	
			Subsoil drain	
			Lining - landfill	
			Masonry structure	
			RC structure	
			Flare stack	
		Mechanical equipment	Baler	
			Generator	
			Compactor	
			Pump - submersible	
			Pump - water	
			Weighbridge	
			Well	
			Extraction blower	
			Compressor	
			Engine - gas	
			Heat exchanger	
			Generator	
			Metal work	
		Pressure vessel		
		Pipe work	Water meter	
			Pipe - water	
			Pipe - stormwater	
			Pipe - gas	
Pipe - steam				
Valve - water				
Valve - gas				
Drainage	Channel			
	Sub-soil drains			
	Kerb			
	Kerb inlet			
Service connections on site	LV overhead line			
	LV cable			
	Pipe - sewer			
	Pipe - water			
Electrical equipment	Control panel			
	Motor			
	Capacitor bank			
	Reactor			
Provisions	Landfill restoration			
Process control and instrumentation	Distributed control system			
	Gasometer			

			SCADA		
		MV mini-substations	<i>see MV mini-substations</i>		
		MV transformers	<i>see MV transformers</i>		
		MV conductors	<i>see MV cables</i>		
		LV conductors	<i>See LV conductors</i>		
		Public lighting	<i>See Public lighting</i>		
Capital spares		<i>All as applicable</i>	<i>All as applicable</i>		
<b>Coastal infrastructure</b>					
Sand pumps	ASSET GROUP NAME / SUB-ELEMENT	<i>Same as Pump stations</i>	<i>see Pump stations</i>	COMPONENT REFERENCE	
Piers		Civil structures	<i>see WTW</i>		
		Electrical equipment	<i>see WTW</i>		
		Metalwork	<i>see WTW</i>		
Revetments		Civil structures	<i>see WTW</i>		
		Earthworks	<i>see WTW</i>		
Promenades		<i>Same as Operational buildings</i>	<i>see Operational buildings</i>		
Capital spares	<i>All as applicable</i>	<i>All as applicable</i>			
<b>Community Facilities, Operational Buildings, Sports and Recreational Facilities and Housing</b>					
<b>General buildings and open spaces</b> - Halls, creches, clinics, museums cemeteries, parks, public open space, ablution facilities, markets, taxi ranks, indoor and outdoor sports facilities, municipal offices, depots etc and <b>buildings and external facilities under the infrastructure asset category</b>	ASSET GROUP NAME / SUB-ELEMENT	Land	Land	COMPONENT REFERENCE	
		Buildings	Air conditioning		
			Chiller		
			Earthworks		
			Electrical installation (building)		
			Finishes, fixtures & fittings		
			Fire protection		
			Gas bank nstallation		
			Lifts		
			Plumbing		
			Floor		
			Security system		
			Septic tank		
			Walls		
			Roof		
		External facilities	External furniture		
			External lighting		
			Paving		
			Irrigation		
			Landscaping		
			Perimeter protection		
			Sign - general		
			Carport		
			Small building / enclosure		
		Pavements	Road surface		
			Road structural layer		
		Earthworks	Earthworks		
		Civil structures	Earth structure		
			Masonry structure		
			Timber pole structure		
			RC structure		
			Tank		
		Metal work	Fabricated steel		
		Mechanical equipment	Compressor		
			Generator		
		Electrical equipment	Capacitor bank		
			Reactor		
			Uninterrupted power supply		
		MV mini-substations	<i>see MV mini-substations</i>		
		MV transformers	<i>see MV transformers</i>		
		MV conductors	<i>see MV networks</i>		
		MV switching station equipment	<i>see MV switching stations</i>		
		LV conductors	<i>see LV networks</i>		
		Public lighting	<i>see Public lighting</i>		
		Service connections on site	LV overhead line		
LV underground cable					
Pipe - sewer					
Pipe - water					
Sports facilities	Tennis court				
	Basketball court				
	Bowling green				
	Juskei court				
	Sports field				
	Swimming pool				
	Squash court				
	Golf course				
	Spectator stand				
Capital spares	<i>All as applicable</i>	<i>All as applicable</i>			
<b>Servitudes</b>					
Servitudes	ASSET GROUP NAME / SUB-ELEMENT	Servitudes	Electricity servitude	COMPONENT REFERENCE	
			Storm-water servitude		
			Water servitude		
			Sewerage servitude		

Component Type	Descriptor: Type	Descriptor: Size	Size unit	Descriptor: Component Class	Extent Amount	Extent unit	Unit Rate (Value) unit	Expected Useful Life (years)	EUL change	EUL Local Influencing Factor	RV	RV change	RV Local Influencing Factor
Air conditioning	Type of installation					sqm aircon area	sqm aircon area	8			0		
Anchored wall	Type of installation					face sqm	face sqm	50			0		
Automated electricity meter	Type of installation			Single or 3 phase		No	No	10			0		
Auto re-closer			kV			No	No	45			0		
Baler	Type of installation					No	No	15			0		
Ballast						cub m	cub m	80			50		
Basketball court			sqm			No	No	20			0		
Batteries	Type of installation		Amp-hours			No of bays	No of bays	20			0		
Battery charger			A			No	No	10			0		
Billboard	Material		sqm			No	No	15-30			0		
Boiler	Material		cum			No	No	60			0		
Boiler feed pump			kW			No	No	15			0		
Bowling green			sqm			No	No	20			0		
Capacitor bank	Type of installation		kV			No. of bays	No. of bays	20			0		
Carport	Type of installation					No of banks	No of banks	15			0		
Cast iron			kg			No	No	50			0		
Cathodic protection	Type of installation		VA			No	No	15			0		
Channel	Type of installation					sqm face	sqm face	20			0		
Chemical toilet						No	No	10			0		
Chiller			kW			No	No	10			0		
Communal standpipe	Type of installation					No	No	10			0		
Communication cable						m	m	15			0		
Communications switch						No	No	5			0		
Commuter shelter	Material					sqm	sqm	15-30	minus 5 to 10	aggressive climate	0		
Compactor	Type of installation		Tonne			No	No	15			0		
Compressor	Type of installation		kW			No	No	10			0		
Condenser	Type of installation		sqm	kJ / kg		No	No	30			0		
Control cable	Type of installation					linear m	linear m	5 - 10			0		
Control panel	Type of installation					No	No	50			0		
Conventional electricity meter	Type of installation			Single or 3 phase		No	No	20			0		
Conveyor belt	Type of installation		width m			linear m	linear m	10			0		
Crane	Type of installation					Tonne capacity		20			0		
Culvert	Material		perimeter m			linear m	linear m	60			0		
Current transformer	Type of installation		kV			No	No	45			0		
Distributed control system						No	No	15			0		
Doser	Capacity		l			No	No	15			0		
Earth structure						cub m	cub m	50	minus 15	aggressive climate	50		
Earthworks	Terrain			construction type		sqm	sqm	100	minus 30	aggressive climate, material quality	50		
Economizer			kg	Degrees C		No	No	50			0		
Electrical installation (building)						sqm floor area	sqm floor area	30			0		
Electrical service connection				Single or 3 phase		No	No	50			0		
Electricity bulk meter	Type of installation		kVA			No	No	10			0		
Electricity meter	Type of installation			Single or 3 phase		No	No	20			0		
Electricity servitude				Adjacent zoning		lin m	sqm	NA			NA		
Engine			kW			No	No	10 - 20			0		
Engine - gas			kW			No	No	10 - 20			0		
Excitor			kVA			No	No	20			0		
External furniture	Type of installation					No	No	20			0		
External lighting	Type of installation					No	No	30			0		
Extraction blower				kW		No	No	15			0		
Fabricated steel	Material			Exposure		kg	kg	10 - 40			0		
Fan				Core		No	No	15			0		
Fibre optic cable				Core		lin m	lin m	50			0		
Filter media	Material					cub m	cub m	10			0		
Finishes, fixtures & fittings	Type of installation					sqm	sqm	15			0		
Fire protection	Type of installation					sqm floor area	sqm floor area	20			0		
Footpath	Material		width m			lin m	sqm	20-40			0		
Flare stack	Material		height m			No	No	30			0		
Floor	Material					sqm floor area	sqm floor area	50			0		
Gabions	Type of installation					cub m	cub m	40-80	minus 20	aggressive climate	0		
Gasometer			kpa			No	No	15			0		
Gearbox			kW			No	No	15			0		
Generator			kVA			No	No	20			0		
Generator breaker			A			No	No	45			0		
Generator busbar			A			No	No	45			0		
Generator transformer			MVA			No	No	45			0		
GIS busbar	Type of installation		kV			No of bays	No of bays	50			0		
GIS switchgear	Type of installation		kV			No	No	50			0		
Golf course	Type of installation		holes			No	No	50			30		
Grid inlet						No	No	30			0		
Guard rail	Type of installation					linear m	linear m	25	minus 10	aggressive climate	0		
Heat exchanger			kW			No	No	30			0		
High mast light			height (m)			No	No	50			0		
HV busbar indoor	Type of installation		A			No of bays	No of bays	60			0		
HV busbar outdoor	Type of installation		A			No of bays	No of bays	50			0		
HV cable	Type of installation		A	sq mm		linear m	linear m	50			0		
HV circuit breaker			A			No	No	50			0		
HV compact circuit breaker, isolator, and current transformer unit			A			No	No	50			0		
HV earth switch			A			No	No	45			0		
HV isolator			A			No	No	50			0		
HV overhead line conductor			A	sq mm		linear m	linear m	50			0		
HV overhead line support structure			A			linear m	linear m	50			0		
HV transformer			MVA			No	No	50			0		

Component Type	Descriptor: Type	Descriptor: Size	Size unit	Descriptor: Component Class	Extent Amount	Extent unit	Unit Rate (Value) unit	Expected Useful Life (years)	EUL change	EUL Local Influencing Factor	RV	RV change	RV Local Influencing Factor
Hydrant			mm dia			No	No	20			0		
Irrigation	Type of installation					sqm	sqm	10			0		
Jukskei court			sqm			No	No	20			0		
Kerb	Type					linear m	linear m	50			0		
Kerb inlet	Type					No	No	20			0		
Land	Type of use			Zoning		sqm	sqm	NA			0		
Landfill restoration						sqm	sqm	As applicable			0		
Landscaping	Type					sqm	sqm	30-50			0		
Lifts						Lift-floors	Lift-floors	30			0		
Lightning mast and shield wiring			m			No	No	50			0		
Lining - landfill	Material					sqm	sqm	50			0		
Liquid gas installation	Type of installation					sqm	sqm	20			0		
LV breaker			A			No	No	30			0		
LV cable	Material		A	sq mm		linear m	linear m	60			0		
LV kiosk						No	No	45			0		
LV overhead line	Material		A	Single or 3 phase		linear m	linear m	45			0		
LV pole top box						No	No	20			0		
Masonry structure	Type of installation					cub m bwk	cub m bwk	50			0		
Mini roundabout						sqm	sqm	20			0		
Motor			kVA			kW	kW	15			0		
Multiplexer	Type of installation		No of ports			No	No	10			0		
MV busbar indoor			A			lin m	lin m	60			0		
MV busbar outdoor			A			lin m	lin m	50			0		
MV cable	Material		A	sq mm		linear m	linear m	50			0		
MV circuit breaker	Type of installation		A			No	No	45			0		
MV compact circuit breaker, isolator and current transformer unit	Type of installation		A			No	No	45			0		
MV earth switch			A			No	No	45			0		
MV isolator	Type of installation		A			No	No	44			0		
MV overhead line	Material		A	sq mm		linear m	linear m	45			0		
MV transformer	Type (indoor, floor-mount, pole-mount)		kVA			No	No	45			0		
Oil burner				kg / h		No	No	30			0		
PABX	Type of installation		No of lines			No	No	10			0		
Paving	Material					sqm	sqm	20-40			0		
Pedestrian bridge abutment	Material					No	No	30-50			0		
Pedestrian bridge substructure	Material					sqm	sqm	30-50			0		
Pedestrian bridge superstructure	Material					sqm	sqm	30-50			0		
Pedestrian bridge railing	Material					linear m	linear m	30-50			0		
Perimeter protection	Type of installation		height m			linear m	linear m	15-30			0		
Pipe bridge abutment	Material					No	No	30-50			0		
Pipe bridge substructure	Material					sqm	sqm	30-50			0		
Pipe bridge superstructure	Material					sqm	sqm	30-50			0		
Pipe bridge railing	Material					linear m	linear m	30-50			0		
Pipe - fuel	Material		mm			linear m	linear m	25			0		
Pipe - gas	Material		mm			linear m	linear m	20			0		
Pipe - sewer	Material		mm			linear m	linear m	30-100			0		
Pipe - stormwater	Material		mm			linear m	linear m	50			0		
Pipe - steam	Material		mm			linear m	linear m	15			0		
Pipe - water	Material		mm			linear m	linear m	40-80			0		
Plumbing						sqm wet floor area	sqm wet floor area	20			0		
Points (rail)	Type of installation					No	No	15			0		
Precipitator	Type of installation		V / cm			No	No	30			0		
Prepaid electricity meter	Type of installation			Single or 3 phase		No	No	10			0		
Pressure vessel	Material		cum			No	No	60			0		
Process instrumentation	Type of installation					No of equipment	No of equipment	15			0		
Pulveriser			mm diameter			No	No	20			0		
Pump - hand						No	No	15			0		
Pump - sewer			mm outlet			No	mm outlet	15			0		
Pump - submersible			kW			No	No	12			0		
Pump - water			mm outlet			No	mm outlet	15			0		
Radio infrastructure	Type of installation					No of stations	No of stations	10			0		
Rail bridge abutment						No lanes wide	No lanes wide	80			0		
Rail bridge side barrier						linear m	linear m	80			0		
Rail bridge substructure						sqm	sqm	80			0		
Rail bridge superstructure						sqm	sqm	80			0		
Rail line						m	m	50			0		
RC structure	Type					cub m	cub m	50-80			0		
Reactor			kVA			No	No	50			0		
Reheater			kg	Degrees C		No	No	50			0		
Retaining wall	Type					sqm of wall face	sqm of wall face	40-60			0		
Ring main unit	Type of installation		kVA	kV		No	No	45			0		
Road bridge abutment	Material					No lanes wide	No lanes wide	50-80	minus 10	aggressive climate	0		
Road bridge side barrier	Material					linear m	linear m	50-80	minus 10	aggressive climate	0		
Road bridge substructure	Material					sqm	sqm	50-80	minus 10	aggressive climate	0		
Road bridge superstructure	Material					sqm	sqm	50-80	minus 10	aggressive climate	0		
Road reserve						sqm	sqm	NA			NA		
Road structural layer				Road Class		lin m	sqm	30-80			0		
Road surface	Material		width m	Road Class		lin m	sqm	3-20			0		
Roof	Material					sqm roof area	sqm roof area	30-40			0		
Router						No	No	10			0		
SCADA						No	No	15-25			0		
Sectionaliser			kV			No	No	45			0		
Security system	Type of installation					No	No	5-10			0		
Septic tank	Material		cu m			No	No	40			0		



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[mSCOA for MUNICIPALITIES]*

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## Project Detail:

## Section 5 – Regional Segment

*November 2017 – mSCOA Version 6.1*

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## SECTION 9: REGIONAL INDICATOR SEGMENT

### Background to the Segment

#### Relevance of the Regional Indicator, Methodologies and the Application thereof within the Context of mSCOA

1. National Treasury introduced the regional indicator on 01 April 2008 with the re-implementation of the SCOA for National – and Provincial Departments. As part of the budget reform process and for purposes of evaluating resource allocations in government, government had to start monitoring the allocation of resources and actual spending at a regional level. **The aim is to capture details of national and provincial government resource allocation and spending at the regional level.**
2. Informed by the underlying research to the “*Position Paper: Reporting*”, attention will be given in Phase 2 of the *mSCOA project - report development process* to specific reporting requirements that will provide emphasises on regional indicators. Consequently, the local government budget reform process is to further expand on the regional indicator to monitor resource allocation and spending at the local sphere of government along the same design principles for national and provincial government. This is necessary because the research revealed that the perspective, obtained from this Regional segment, is not fully provided for by the analysis only of the “Function” and “Item” segments in mSCOA, hence the need for the Regional segment also in Municipal SCOA (mSCOA).

### Purpose of the Segment

**Communities need to see and in their daily lives feel service delivery. Only through planning and physical delivery can this be communicated effectively.**

3. The Service Delivery- and Budget Implementation Plan (SDBIP) details the implementation of service delivery and the budget for the financial year, in compliance with the Municipal Finance Management Act, 2003 (MFMA) (Act No. 56 of 2003). The SDBIP serves as a contract between the administration, the Municipal Council and the

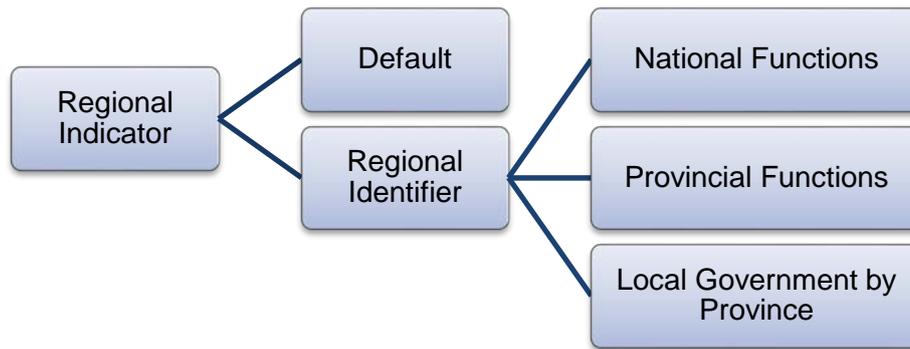
community, expressing the objectives set by the Council as quantifiable outcomes that can be implemented by the administration over the next twelve months. The SDBIP therefore facilitates the process of holding management accountable for their performance. It provides the basis for measuring performance in the delivery of municipal services.

4. The MFMA requires the following to be included in the SDBIP of a municipality:
  - Monthly projection of each source of revenue earmarked for collection;
  - Monthly projection of each vote's expenditure (operating and capital) and revenue;
  - Quarterly projection of each vote's service delivery targets and performance indicators;
  - Information on expenditure and service delivery in each ward; and
  - Detailed capital works plans allocated by the wards over three years; etc.
5. The MFMA requires the Municipality to compile a SDBIP for submission to the Executive mayor. MFMA Circular No. 13 further states that "*Being a management and implementation plan (and not a policy proposal), the SDBIP does not have to be approved by Council*".
6. The Regional Indicator segment provides the mechanism for classifying municipal transactional information according to "regional indicators" for reporting in terms of the MFMA on planned and actual capital and operational expenditure on a "ward basis" in the SDBIP.
7. In addition to SDBIP requirements, one of the key outcomes envisaged with the mSCOA Classification was the ability to extract information on financial performance/ position from the transactional database at the lowest geographical level, being municipal wards.
8. The Regional segment facilitates the planning and recording of municipal expenditure, revenue, assets, liabilities and net assets at the lowest relevant geographical level (ward). As a result, the classification at this level provides information on communities specific to:
  - Spending on capital and operational projects;
  - Contributions made towards the SDBIP by the community by paying municipal bills; and

- Projects directed towards providing indirect benefits to the community, for example local economic development, improvement of living (health, food, housing, services); etc.
9. “The lowest relevant geographical region is depicted in this Regional segment as “regional indicators”. Similar communities are defined based on the geographical region and represented in the mSCOA Regional segment by “regional indicators.
10. This implies that all transactions must be recorded so that the final impact of spending, revenue collection, capital investment and wealth creation can be measured by regional indicator in order to get a geographical view of the economic impact of government activities that are focussed on beneficiaries.
11. It is envisaged that this information will enable and support enhanced analysis of:
- Whether services are being provided impartially, fairly, equitably and without bias, as required by the Constitution;
  - Whether progress is being made in addressing regional backlogs in social infrastructure and the access to services;
  - Whether government spending by different departments and municipalities are being properly sequenced and coordinated;
  - Whether actual spending by government is aligned to the relevant plans of the three spheres of government;
  - Assist municipal councilors and mayors to account to the communities for resources allocated and actual spending of the municipality to communities and wards; and
  - Provide specific ward information to councilors to assist in decision-making; etc.

### Illustration: High-level Classification

12. At the highest level the Regional segment’s structure distinguishes between “Default and Regional Identifier”. Regional Identifier consists of National / Provincial Functions, followed by Local Government per Province as illustrated in the diagram below:



**Definition:**

**Default:** This classification is used for the recording of transactions not relevant to this segment. At this stage of mSCOA project development, **“Default” cannot be used for any transaction in the municipality** and for the following reasons:

**Regional Identifier:** This classification provides “regional” indicators, in order to distinguish at the highest-level between National/ Provincial Functions and Local Government by Province.

**National Functions:** This is the posting level for all transactions made within the borders of the Republic of South Africa of which the “whole of the country” is the beneficiary.

**Provincial Functions:** This is the group of accounts providing for posting levels for the nine provinces. Transactions providing benefit to the community within the whole of the province is reflected at this level.

**Local Government by Province:** Metropolitan Municipalities and Local Municipalities within the District Municipalities’ demarcation.

## Design Principles

13. The following design principle(s) have been used in preparing the segment outline:
14. *Principle 1: mSCOA* - The segment outline and detailed classification provides for all possibilities as a “master mSCOA” from which each municipality select the accounts needed to “populate” its chart of accounts.
15. *Principle 2: Municipal Entities and Agencies* - Recording of transactions in this segment would be done according to the principles determined for municipalities.

Reference made to a “Municipality” must be read to also refer to “Municipal Entity”, unless indicated otherwise.

16. *Principle 3: Legislative and Regulatory Requirements* - The research and development into the Regional segment, categories, and detail accounts, were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and summarised in the table below. Furthermore, brief comments on any proposed changes to a circular or guideline (issued by the National Treasury) following the Regulations on a Municipal Standard Chart of Accounts, 2014 (mSCOA) are included in the “Proposed Changes Column” in the table below.
17. *Principle 4: Linking Transaction by Business Process to mSCOA* - Business processes represent 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 process, ultimately resulting in the transaction to be captured within a financial model in the system application, thereby updating the general ledger. mSCOA provides a classification structure within the general ledger to “record” transaction information within “fields” within the database of the municipality, functioning in the background of its integrated financial application.
18. *Principle 5: Category Links and Programming Rules* - Category links and business rules refer to programming rules that system developers of integrated financial and business applications for local government are required to provide for in their individual system applications. The considerations listed may not be complete, considering the development stage of this mSCOA project and might need to be enhanced as consultation with the various stakeholder groups evolves.
19. *Principle 6: mSCOA Detail Accounts* - Labels and accounts are 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).
20. *Principle 7: mSCOA Definitions* - The master mSCOA provides definitions for all accounts and reporting levels to assist practitioners in achieving consistency in recording transactions of a similar type or nature between municipalities in order to enhance the comparability of information and report extraction.

21. *Principle 8: Annual Financial Statements and Budget Reporting Formats* – mSCOA aligns with the Municipal Budget and Reporting Regulations, 2009 - budget and reporting formats and with the Standards of GRAP, applicable to the different categories of municipalities. Thereby recognising that local government uniquely operates in an accrual accounting and an accrual budgeting environment.
22. *Principle 9: The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework (outlined in Directive 5 determining the GRAP Reporting Framework<sup>1</sup> (2017/2018) issued by the Accounting Standards Board). The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.
23. *Principle 10: Economic Reporting Format* - The Economic Reporting Format, September 2009, identifies the categories for transfers as: transfers received from other government units (national, provincial and local government (specific in the context of municipalities, district municipalities)), higher educational institutions, foreign governments, international organisations, public corporations and private enterprises, households and non-profit institutions. Transfers and Subsidies made to municipal entities by parent municipalities is peculiar to the local government environment and the mSCOA Tables provide for such in Version 6.1. The Municipal Budget and Reporting Regulations, 2009 distinguish between transfers recognised, operational and capital, contributions and public donations and contributed assets.
24. *Principle 11: Reporting* - The Position Paper on Reporting defines that a phased approach is envisaged for achieving the ultimate position on “seamless alignment” between the annual financial statements and Budget Reporting Tables (defined by the Municipal Budget and Reporting Regulations, 2009). This milestone will further enhance and be the final compliance check in ensuring that the mSCOA Classification provides for sufficient classifications to comply with the presentation requirements dealt with in the Reporting Framework. In this document, the “collective reference” made to “reporting” refers without exception to the Budget Reporting Tables, In-year Reporting, Monthly Returns and Annual Financial Statements.

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<sup>1</sup> Compliance to the Standard of GRAP relating to the presentation to be confirmed through Phase 2 described in the Position Paper on Reporting.

25. *Principle 12: NERSA Regulatory Reporting Requirements* - NERSA as explained in the *Regulatory Reporting Manual Volume 2: Electricity* - prescribes and provides guidance to regulated entities in the electricity supply industry on the format, content, preparation and submission to the Energy Regulator of the required information to enable NERSA to perform its functions. In an attempt to avoid a dual accounting process for recording transactions for reporting to NERSA and another set of accounts for financial and budgetary reporting to the National Treasury, provision is made for the information needs of NERSA in terms of mSCOA. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and thus will oversee and enforce the requirements entrenched in the relevant sets of legislation relating to NERSA oversight activities.
26. *Principle 13: Department of Water and Sanitation (DWS) Reporting Requirements* – The Department was instrumental in guiding and informing the setting-up of the mSCOA classification requirements for the water/ waste water functions of municipalities. DWS is the custodian of their reporting requirements and thus will oversee and enforce the requirements included in the relevant sets of DWS legislation.
27. *Principle 14: Level of Detail* – A municipality may add detail breakdown-levels in addition to that provided for in the mSCOA chart of accounts at their discretion. However, adding detail needs to be carefully considered, being the exception rather than the principle. The indicators provided to guide on the posting level and breakdown required reflect the minimum requirements from the National Treasury’s perspective.
- Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus cannot be part of the string downloaded for upload by the National Treasury: Local Government Database and Reporting System.
- Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest therein.
- The table below explains the indicators used in the columns provided for in the mSCOA Tables for the Regional segment:

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

28. *Principle 15: Account Number Structure* – The account structure comprises 13 levels of which the first level is alphanumeric to identify the segment, followed by the regional indicators. The levels thereafter are based on the reporting structure providing for codes to be created by the municipality for projects which will be the posting level. The prefix “RX” identifies the Regional segment.
29. *Principle 16: Applicability* - This column indicates the minimum requirements a municipality needs to comply with in the implementation of this segment. If more information is needed than currently provided for in the Regional segment table, please consult with the mSCOA Technical Committee in the National Treasury to expand the existing segment detail to accommodate specific needs in this regard.
30. *Principle 17: Regional Information* - Introducing this segment detail facilitates the extraction of information on expenditure, revenue, assets, liabilities and net assets at the “indicator level”.
31. *Principle 18: Regional Indicators* - The master chart provides the breakdown per province, metropolitan municipalities, district municipalities with their local municipalities, and, municipality down to ward, based on the demarcated areas. Flexibility is allowed, to take into consideration the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.

32. *Principle 19: Administrative or Head Office* – Administrative or Head Office – this classification provides for the set-up of satellite offices within the Service/ Function or Area structure, based on the needs of the metropolitan-, district- or local municipality. Accordingly, the requirements for this section must be customised for the district-, local- or metropolitan municipality based on the information provided to the mSCOA Technical Committee. Flexibility is allowed, to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.
33. *Principle 20: District Municipalities* – This category provides for indicators specific to the district municipality. At the district level, the local municipalities within the district defines the posting level. Version 6.1 allowed flexibility for municipalities to provide “indicators” relevant to the municipality as an alternative to “the lowest-level being ward”. The information provided by the municipality (requested by the National Treasury) were used to define the posting level. This information has been included based on requests made through the mSCOA Frequently Asked Questions (FAQ) Database. In the absence of specific requests/ information submitted by a municipality, “wards” as defined in terms of the 2016 listing published by the Municipal Demarcation Board informed the lowest posting level for a municipality. Periodic changes by the Demarcation Board will be considered by the mSCOA Technical Committee as part of its annual maintenance of the mSCOA Tables
34. *Principle 21: Whole of the Area for Wards, Metro Municipalities and District Municipality or Municipality* – this category provides a classification for recording transactions not to the benefit of a specific community but the “whole of an area”. Accordingly, the requirements for this section need to be customised for the Metropolitan/ Municipality based on the information the municipality provided.
35. *Principles 22: Ward - Allocation* to “wards” have been provided for as a standard although recognition is given to changes in the demarcation area over time.

## Legislative and Regulatory Requirements

36. The research and development into the Regional segment, in creating categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and summarised in the table below.

Furthermore, brief comments on any proposed changes to a circular or guideline (issued by the National Treasury) following the mSCOA Regulations are included in the “Proposed Changes Column” of the table below:

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>LEGISLATION</b>		
<b>Local Government Municipal Property Rates Act, 2004 (Act No 6. of 2004)</b>	Section 22(3): “when a municipality determines a special rating area, the municipality:  (a) Must determine the boundaries of the area;  (b) Must indicate how the area is to be improved or upgraded by funds derived from the additional rate;  (c) Must establish separate accounting and other record-keeping systems regarding:  (i) the revenue generated by the additional rate; and  (ii) (ii) the improvement and upgrading of the area;	Project to be defined in the “Project” segment for <b>Special Projects</b> and these projects to be linked to the respective “Regional” segment.
<b>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b>	Section 62(1)(b): General Financial Management Functions	Full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed <b>norms and standards</b> – The mSCOA Regulation

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
		provides for the “Regional” segment as part of the mSCOA Classification.
	<p>Section 20: Matters to be Prescribed - <i>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”.</i></p>	Considered in the set-up of the mSCOA segments.
	<p>Section 21: Budget Preparation Process</p> <p>Section 71: Monthly Reporting</p> <p>Section 72: Mid-year Budget and Performance Assessment</p> <p>Section 122: Preparation of Financial Statements</p>	Consider the inclusion of a statement in terms of the requirements of the Standards of GRAP 18 on <b>Segmental Reporting</b> in the Budget Reporting Tables.
<p><b>Local Government Municipal Systems Act, 2000 (Act No. 117 of 2000)</b></p>	<p>Section 85: Establishment of Internal Municipal Service Districts</p>	<p><b>Regional areas</b> to be defined by municipalities within the segment outline.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>Local Government Municipal Structures Act, 1998 (Act No. 11 of 1998)</b>	Section 7: Types of Municipalities - General  Section 72: Only metropolitan and local municipalities of certain types may have ward committees	<b>Regional areas</b> to be defined by municipalities within the segment outline.
<b>REGULATION</b>		
<b>Municipal Budget and Reporting Regulations, 2009</b>	None	Consider the inclusion of a statement in terms of the requirements of the Standards of GRAP 18 on <b>Segmental Reporting</b> in the Budget Reporting Tables.
<b>CIRCULARS</b>		
<b>MFMA Circular 13 – Service Delivery and Budget Implementation Plan (SDBIP)</b>	Ward information for expenditure and service delivery – It is important to recognise that councillors and the community will also benefit from a further breakdown of information on service into municipal wards. This may be achieved by incorporating under each Government Finance Statistics (GFS) sub-function the various ward data.  Detailed capital works plan broken down by ward over three years.	<b>Regional areas</b> to be defined by municipalities within the segment outline. The multi-dimensional nature provides the link between “Regional” segment, capital and operational projects.

## Transactions by Business Process to be allocated in this Segment

37. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting is a source document (from an activity within a business process) initiating the activity to flow through a defined business processes, ultimately resulting in the transaction being captured within a financial model in the municipality’s integrated system thereby updating the general ledger.
38. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the municipality’s database functioning in the background of the financial application.
39. Identification of transactions by typical business processes provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
40. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee held during October 2010. With reference to the comments below, the “expected” allocation has been revised in mSCOA Version 6.1 as discussed in the comments below:

Transaction Type	Allocate Yes/ No	Comments
<b>Assets</b>	Yes	31 October 2016 - The mSCOA Project Steering Committee (PSC) reviewed compliance to the envisaged outcomes expected from the mSCOA Project Initiative as defined at the inception of the Project. Accordingly, a significant change has been introduced in mSCOA Version 6.1 requiring all transactions to be assigned to a “regional indicator”. Earlier versions of mSCOA required operational and capital spending
<b>Liabilities</b>	Yes	
<b>Revenue</b>	Yes	
<b>Net Assets</b>	Yes	
<b>Expenditure</b>	Yes	

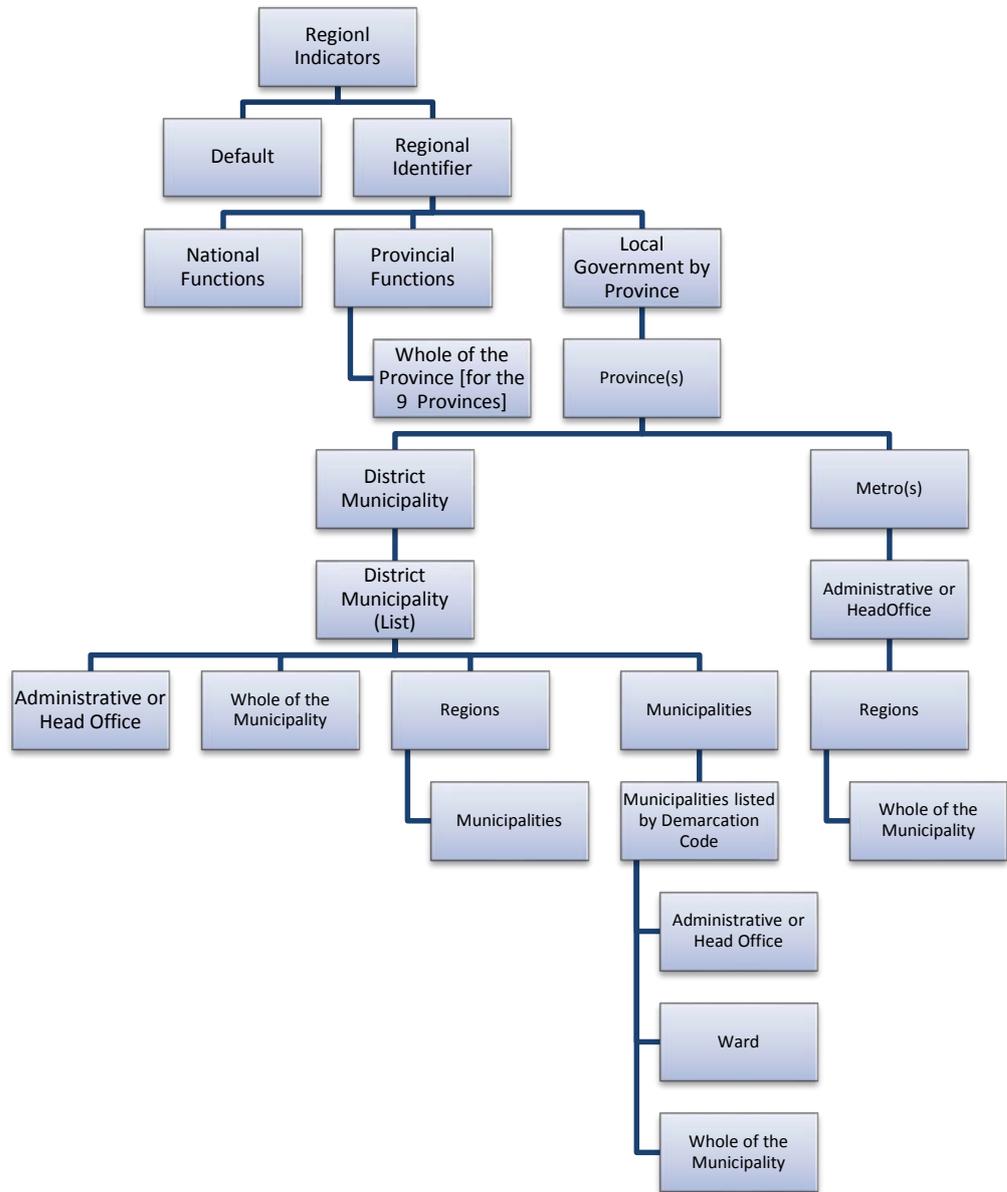
Transaction Type	Allocate Yes/ No	Comments
		with an “option to assign receivables and payables” in the future.

41. Pending the outcome of the Standard Operating Procedures (SOP's) Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

### Category Links and Business Rules

42. Category links and business rules refer to programming rules that system developers of financial and business applications for municipalities are required to provide for in their applications. The content need to be read with the National Treasury Document discussing System Rules.
43. Considerations identified at the time of releasing mSCOA V6.1:
- Capital and operational projects are to be linked at inception to a “regional indicator”;
  - Agency services provided for as a non-core function in the Function segment, are to be linked to the Regional segment for “Provincial Functions”: “Whole of the Province” or to “National Functions: Whole of the Country”. This would need to be done according to the “individual agreement” with the principal due to the diverse nature of existing arrangements;
  - Accounts must be linked from the “Operational Project: Running the Municipality” to Administrative or Head Office for Metro/ District/ Local Municipality:

## Discussion of the Segment



## Default

44. Prior to finalising Version 6.1 of mSCOA the “Default” label was provided for in the recording of transactions not specifically assigned to a regional indicator. Subsequent to the revision of transactions to be allocated in this Segment (explained in paragraph 40), being a requirement for the implementation of mSCOA V6.1, **there is no longer use for this “Default” account.**
45. As part of the maintenance of the mSCOA Tables this account will be removed from the mSCOA Regional Segment table in the next annual release of mSCOA.

## Regional Identifier

46. The core-principle of assigning transactions in line with the purpose of the Regional segment is: “to identify the lowest relevant geographical regional indicator of the intended beneficiaries/ contributor of the service. In applying this core-principle the following must be kept in mind:
  - The lowest relevant geographical regional indicator refers to the province, district or local municipality where the intended beneficiaries normally live or are located;
  - The “lowest relevant geographical regional indicator” is not necessarily restricted to the municipality/ region or ward where the service or capital investment is located, since the intended beneficiaries may for example be from neighboring regions or wards, or even neighboring municipalities within a district, depending on the nature of the service or investment;
  - Intended beneficiaries refers to the individuals or entities (such as businesses) that are intended to benefit directly from the given service or capital investment;
  - The service or capital investment’ refers to the output that is being delivered or produced by the municipality; and
  - The particular expenditure refers to the expenditure that is being captured. Note that in nearly all instances this expenditure will only constitute a part of the cost of the service or capital investment; etc.
47. It is important to note that ***the location of the service provider is not relevant*** when it comes to capturing information in relation to the regional indicator, for example

consider a payment that is made by a municipality in the Eastern Cape to a service provider situated in Gauteng for the supply of chemicals for a water treatment works. In this instance the regional indicator will not be Gauteng, where the supplier is located **but the region or ward or whole of the metro/ district/ local municipality benefiting from the water treatment works.**

48. At the highest-level a distinction is made between national and provincial functions; and in Local Government by Province.

### *National Functions*

49. The use of this category is restricted to areas specifically identified and accepted as such by the mSCOA Technical Committee to be "municipal functions" performed as part of a national strategy and executed as co-operative government. At present the only such identified function is "Implementation of Environmental Policy Impact".
50. Agency Services defined within Item: Revenue for Agency Services provided on behalf of National Departments specifically require allocation to this indicator, as well as the cost incurred by the municipality for providing this service.

### *Provincial Functions*

51. The Provincial Function category provides for recording transactions having an impact on the province within which the municipality resides.
52. The use of this category is restricted to areas specifically identified and accepted as such by the mSCOA Technical Committee to be municipal functions, performed as part of a provincial strategy and executed as co-operative government; for example, the non-core functions provided for as agency services in the Function segment.
53. Agency Services defined within Item: Revenue for Agency Services provided on behalf of Provincial Departments specifically require allocation to this indicator as well as the cost incurred by the municipality for providing this service.

### *Local Government by Province*

54. Municipalities are arranged according to their respective provinces in this category of the Regional segment. Distinction is made by province between "metros and district municipalities" according to the list, names and numbering system used by the Demarcation Board.

**Definition:**

**Metro:** Provides for the metro(s) within the boundaries of the province

**District Municipality:** District municipality's set-up as default in accordance with the municipal demarcated areas and code structures. Classification at this level is fixed with no discretion provided.

**Local Municipality:** Municipalities within the District Municipalities demarcation.

## District Municipalities

55. A District municipality is a "municipality" that has municipal executive and legislative authority in an area that includes more than one municipality as described in section 155 of the Constitution as a category C municipality.
56. The classification structure provides for all "district municipalities" within the specific province. The regional indicators specific to district municipalities provides for "Administrative or Head Office, Whole of the Municipality and Regions":

**Definition:**

**Administrative or Head Office:** Transactions directly relating to the administration of the district municipality and not to the direct benefit of the community.

**Whole of the Municipality:** Services provided benefiting the whole of the district where detailed information is not available to allocate to the lower levels.

**Regions:** Providing for district municipalities to classify transactions specifically for local municipalities within the district.

## Local Municipalities

57. In addition to the above noted regional indicators, the municipalities within the district are provided with posting level accounts for "Administrative or Head Office, Wards or Regions (per information received from municipalities) and Whole of the Municipality".

58. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality:

**Definition:**

**Administrative or Head Office:** Transactions directly relating to the administration of the local municipality and not to the direct benefit of the community.

**Whole of the Municipality:** Services provided that benefit the whole of the municipality where detailed information is not available to allocate to the lower levels.

**Regions / Wards:** Providing for wards or regions to classify transactions specific to the local municipality.

## Metro

59. The classification structure provides for all “metros” within the specific province. The regional indicators specific to metros provides for “Administrative or Head Office, Whole of the Metro and Regions/Ward”:

**Definition:**

**Administrative or Head Office:** Transactions directly relating to the administration of the metro and not to the direct benefit of the community.

**Whole of the Metro:** Services provided benefit the whole of the municipality where detailed information is not available to allocate to the lower levels.

**Regions/ Wards:** Providing for wards or regions to classify transactions specific to the metro.

60. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.

*Administrative or Head Office (Metro / District-/ Local Municipality)*

61. Some expenditure, both capital and operational, contributes to the effective running and management of the municipality throughout the demarcated area. The smooth operation of the municipality necessitates the use of a head/ administrative office for

co-ordination and management of the municipality, with a contribution from various cost-drivers, such as building maintenance, water, electricity, sanitation, waste removal, staff compensation, insurance cost, consumption of stationery, cleaning materials, etc.

62. These allocated costs do not necessarily benefit any specific region or ward and these are considered to be for the benefit of the whole of the metro/ municipality. Therefore, these transactions are recorded within this account, for example, the municipality appointed an external computer services company to update the Information Technology: Back-up and Recovery Policy. The development of this policy is considered to be part of the risk management strategy of the municipality in protecting the “information technology of the municipality” but not directly to the benefit of a specific regional area or ward and is considered to be of a purely administrative nature.

*Whole of the Area*

63. A posting-level breakdown (whole of the Metro, District or Local Municipality) is provided to be used in instances where transactions should be classified to specific municipalities or wards, but not enough information is available to effect such a breakdown. Furthermore, this category will include all transactions that benefit more than one service area.
64. Allocation to this account should be distinguished from the “administrative or head office” being transactions specifically associated with the running and operation of a municipal administrative office or head office structure versus the “benefit of the transaction being to the whole of the municipality”.

*Regions / Ward*

65. Wards to be included by province and municipality according to the Demarcation Board Classification for 2016. Recognition is given to the fact that these boundaries might change according to the demarcation done for municipal elections every 5 years.
66. An alternative to using “ward” may be to use the logistical area defined by the municipality for providing services to the community.
67. Flexibility is allowed to give justice to the respective size of the municipality, sophistication of system application and the logistical arrangements in place at a municipality.

## Allocation Principles

68. In order to assist municipalities in using the “Regional” segment consistently, National Treasury has developed the following ‘allocation principles’ to guide the allocation of transactions in different circumstances.

## Services Benefiting Multiple Regions or Wards

69. Often allocating a particular transaction to the “the lowest relevant geographical region” will be complicated by the fact that either:

- The relevant service or capital investment benefits people in more than one area or ward (e.g. road whose route crosses a number of wards); or
- The expenditure is in relation to a contract for the provision of goods and services in more than one area or ward. A typical example is expenditure on goods purchased under a transversal contract, or normal bulk purchase contracts.

70. To address both of these instances, the system allows for the identification of multiple regions at the area or ward-levels. If the necessary detailed information is available at the time of posting a particular expenditure, the operator can post the portions of the total expenditure that have been allocated to each of the regions simultaneously; for example, the municipality procured fertilizer for use by the park’s department for flower beds throughout the municipality and allocate the cost according to the area to be covered per area.

71. Where the municipality is aware that a particular expenditure should be allocated to multiple regions, but does not have the necessary information to make an informed decision as to how it should be divided up amongst them, then the allocation should be to the “Whole of the Metro/ Municipality/ District Municipality/ Ward”, whichever represents ‘the lowest relevant geographical region’, for example the municipality contracted a service provider to upgrade all parking meters within the municipal area with “tamper-proof” cash boxes. The cost should be allocated to the region based on the volume of meters replaced, as this information might not have been kept by the service provider.

## Methods of Allocating Expenditures to Multiple Regions

72. Where the municipality needs to divide expenditure among a number of regional areas, wards, regional offices or districts, etc., the municipality could decide to allocate the:
- expenditures equally among the service centers/ geographical management areas/ regional areas, wards, regional offices or districts, etc.;
  - expenditures according to a fixed percentage based on the proportion of the services delivered in each function/ service areas/ regional areas, wards, regional offices or districts, etc.; or based on the population of the service centers/ geographical management areas/ regional areas, wards, regional offices or districts, etc.; and
  - transactions according to management's decision of how the function/ service areas/ regional areas, wards, regional offices or districts, etc. are benefitting from the services related to that particular expenditure.
73. Ideally the municipality would use a combination of these different allocation options, and choose the one that is most appropriate for the particular expenditure in each occasion.

## Allocating Personnel Expenditures

74. Expenditure on compensation of employees must be allocated in line with the regional areas, wards, regional offices or districts, etc., where the official is deployed – which will cover the majority of the scope of the employees' responsibilities, for example an agricultural extension officer is based in the district office, but is responsible for providing services to farmers in two municipalities. The officer's salary (and other expenses related to his/ her work) should be posted to the two municipalities she/ he is responsible for servicing.
75. If personnel are deployed in numerous function/ service areas/ regional areas, wards, regional offices or districts, etc., for example road maintenance teams, the allocation of compensation should be to either the whole of the municipality or the area.

## Head Office Expenses

76. Municipal expenditure on functions carried-out by their “administrative or head office” should generally be posted to “administrative or head office”; unless it is obvious that the expenditure is incurred for a service or capital investment that benefits a specific region, in which case the expenditure should be posted to one or more of the function/ service areas/ regional areas, wards, regional offices or districts, etc.

## Regional Office Expenses

77. Municipalities that maintain regional offices to manage the services they deliver should:
- In instances where the regional office services only one service center/ geographical management area/ regional area, post the expenditures to the relevant service center/ geographical management area/ regional area “whole of the center/area” classification;
  - In instances where the regional office services more than one service center/ geographical management area/ regional area - divide the expenditures (using an appropriate methodology) between the relevant centers/ areas; and
  - The above principle also applies to a district municipality responsible for more than one local municipality in which case the cost needs to be allocated to the municipalities and/ or administrative/ head office.

## Allocating Bulk Purchases

78. Municipalities make extensive use of bulk purchasing in indicating what bulk water or electricity was purchased. Municipalities are applying inventory accounting, and thus allocating these expenditures in line with where the relevant goods and services are actually used.

## Allocating Expenditure on Capital

79. Where the capital expenditure is on property, plant and equipment (for example furniture, vehicles and equipment) for an existing function of the municipality (water, electricity, public safety, sanitation) then the expenditure must be allocated in line with the same principle.

80. All expenditure related to a particular function of the municipality must be allocated to the geographic region where the municipality intends providing the service, unless it is clear that the expenditure is financing a service or capital investment that is directed exclusively at a particular sub-region within the municipality's service area, or a region outside of the municipality's normal service area; for example the municipality purchased a new specialised truck for removing refuse from the suburbs. The capital investment should be allocated to the wards or service centres/ geographical management areas/ regional areas where the truck would be used in delivering the service to the community.
81. Where the expenditure is on maintenance and rehabilitation of existing capital or infrastructure then the expenditure must be allocated in line with the above principle, for example the municipality makes payments in relation to a contract to rehabilitate a reservoir. The reservoir is an existing piece of infrastructure and classified as a municipal asset, therefore the expenditure should be posted under "whole of the municipality". The municipality makes payments in relation to a contract to rehabilitate a municipal road between the inner city and the eastern suburbs. The road is an existing piece of infrastructure and classified as a municipal asset, therefore the expenditure should be posted under "whole of the municipality" or pro-rated between the connected service centres/ geographical management areas/ regional areas.
82. Where the capital expenditure is for the building and equipping of new physical infrastructure or the conversion of buildings to be used as service offices then the expenditure must be allocated to the "whole of the municipality" or, if so required, the specific service centres/ geographical management areas/ regional areas or ward where the new infrastructure or the new institution is located; for example the municipality builds a new administrative/ service centre in ward A for region 1, the building is located in a ward but would benefit region 1, therefore the capital investment should be recorded in the "whole of the centre area: region 1".
83. The reason for allocating capital expenditure relating to the building of new physical infrastructure or new institutions on this basis is to enable government to track the local impacts of its infrastructure building programme.

### Allocating Transfers from District Municipalities to Municipalities

84. Where a district municipality makes a transfer to a municipality, the transfer must be posted to the relevant municipality.

## Allocating Transfers to Municipal Entities, Agencies and other Recipients

85. Where a municipality makes a transfer payment to a municipal entity, agency or other recipient the transfer must be posted under “whole of the municipality”; unless the mandate of the municipal entity, agencies or other recipient is restricted to providing services to a specific geographic area, in which case the transfer should be posted to the relevant “service centres/ geographical management areas/ regional areas – whole of the centre/ area or ward”.
86. For example, the municipality makes a contribution for “Heritage Day” to a local school which is in Ward 1 and Region B but attended by scholars from other areas and outside of the municipal boundaries and thus should be allocated to “Whole of the Municipality”.

## Potential Difficulties

87. The greatest challenge is to get all municipalities to:
  - Align their regional structures with the provincial, district and municipal boundaries as defined by the Municipal Demarcation Board;
  - Define the service areas of each of the offices of the municipality; and
  - Gather the information from metros and municipalities in order to set-up the detail according to their specific “logistical arrangement”.
88. Neither of these processes will be easy to accomplish. They require detailed strategic and organisational planning. It is nevertheless an essential process if municipal planning and service-delivery are to be aligned to the integrated development plan (IDP) of the municipality.

## Preparation for mSCOA Implementation

89. Bringing about effective conversion to an mSCOA compliant chart of accounts from the municipalities perspective is vital in achieving success. Paramount to the “Region” segment is the municipality’s *Cost Allocation Policy and Methodology*.

90. The system developers responsible for applications commonly used by municipalities are responsible for developing software to be driven by business process and subject to customisation, based on the unique requirements of client municipalities with one of the primary objectives of assisting municipalities in achieving compliance with the mSCOA classification framework. However, National Treasury recognises the complexities inherent to the implementation of the mSCOA requirements.
91. This section discusses some considerations the municipality need to give recognition to in the planning and project set-up phase in preparation for mSCOA implementation.
92. **Step 1:** Define the detail required for the municipality within the outline presented in the Regional segment to National Treasury for incorporation in the segment. A unique identifier (code structure) will be created specifically for use by the municipality. Refer to Design Principles 11 to 16 in this regard;
93. **Step 2:** Link projects to regions to the maximum extent possible; and
94. **Step 3:** Involve the responsible officials from National Treasury in resolving fundamental differences revealed from this exercise.

## Annual Maintenance and Matters Pending

### Annual Maintenance

95. There will be potential updates of regional indicators replacing “wards” as more municipalities implement mSCOA; and.
96. Updates of District Municipalities, Metros, Local Municipalities and Wards based on revisions listed by the Demarcation Board.

### Matters Pending

97. Paragraph 2: As directed by the *Position Paper: Reporting* attention will be given in Phase 2 of the report development process on specific reporting requirements in order to provide emphasises on regional indicators.
98. Paragraph 45: As part of the maintenance of the mSCOA Tables the relevance of the “Default” account needs to be reassessed and it is recommended that such be removed from future mSCOA versions.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT *[SCOA for MUNICIPALITIES]*

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**Project Detail:**

**Section 6 – Item Segment  
Introduction**

*November 2016 (Version 6.1)*

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## SECTION 6: ITEM SEGMENT - INTRODUCTION

### Overview of the Item Segment

1. The Item segment is the mSCOA segment most local government practitioners are traditionally familiar with since it enables traditional financial reporting and reconciliations that municipalities have been doing before the introduction of Municipal SCOA. This segment therefore identifies the nature of the transaction to be recorded, namely: Revenue/ Expenditure/ Gains and losses/ Liabilities/ Net Assets.
2. The decisions that are taken by users of financial statements require an evaluation of the ability of the municipality to implement sustainable service-delivery as informed by the timing and certainty of the service delivery.
3. Information about the financial performance of the municipality provides an account of stewardship of management and is useful in assessing the past and anticipated financial performance of the municipality. Information about variability of financial performance is important in this respect.
4. Information about financial performance is useful in holding management accountable for the safekeeping of the municipality's resources and for the proper and efficient use thereof. It is also useful in forming judgements about the effectiveness with which the municipality might employ additional resources.
5. The financial position of the municipality is affected by the resources it controls, its financial structure, its liquidity and sustainability, and its capacity to adapt to changes in the environment in which it operates.
6. Information about the resources controlled by the municipality and its capacity in the past to modify these resources is useful in predicting the ability of the municipality to sustain its service-delivery in the future. Information about financial structure is useful in predicting future financing and borrowing needs; it is useful in assessing the municipality's ability to raise further finance. Sustainability refers to the ability to continue to provide the services in the longer term.
7. The liquidity and sustainability of a national or provincial department is very much dependent on their budget allocation. Their financial position is therefore primarily

affected by the budget whereas a municipality relies largely on their own revenue in the form of rates and taxes and other service charges.

8. Information concerning changes in the cash flows of the municipality is useful in order to assess its investing, financing and operating activities during the reporting period.
9. This information is useful in providing the user with a basis to assess the ability of the municipality to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
10. Information about financial position is primarily provided in a statement of financial position. Information about financial performance is primarily provided in a statement of financial performance. Information about cash flows is provided in the financial statements by means of a statement of cash flows. Changes in the residual (after deducting liabilities from assets) are provided in the statement of net assets.
11. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, a statement of financial performance provides an incomplete picture of financial performance unless it is used in conjunction with the statement of changes in net assets and the statement of cash flows.
12. The Item Segment of SCOA consists of four parts being:
  - Revenue [Section 6.1]
  - Expenditure [Section 6.2]
  - Gains and Losses [Section 6.3]
  - Assets, Liabilities and Net Assets Section [6.4]
13. At the highest-level, the Item Segment supports the reporting done in terms of the budget reporting formats<sup>1</sup> and annual financial statements. The detail levels in this segment provide the more detailed information presented in supporting schedules and notes to the budget reporting formats and annual financial statements.

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<sup>1</sup> The Municipal Budget and Reporting Regulations, 2009.

14. This mSCOA project resulted in alignment between the budget reporting format and annual financial statements that will greatly assist the reporting on budgeted versus actual information.
15. Important to note is that the accounting policies, methodologies and principles applied in determining budgetary information need to be consistent to those applied in preparing annual financial statements.
16. The components of the Item Segment are discussed in separate sections in the body of the sections.
17. The use of the information collected through the standard classification process is not confined to budget and annual financial statements but need to address the needs of a wide group of users of local government information.
18. Consultation with various users took place throughout the research and development phase resulting in populating the mSCOA charts to assist in extracting the required information.
19. The expansion of detail within SCOA will continue as more “users” appreciate the value from this process. Standardisation of classifications adds immense value to the quality of information and consistency in reporting.
20. Because municipal functions and activities vary and consequently transactions and other events differ in terms of the impact on its ability to meet its service-delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results.
21. Additional line items are included on the face of the statement of financial performance, the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance.
22. Factors considered include materiality and the nature and function of the components of revenue and expenses.

## Design Principles

23. The design principles defined in the Item segment: Revenue, Expenditure, Gains and Losses, Assets, Liabilities and Net Assets need to be considered together with the following general principles:
24. *Principle 1: mSCOA* - The segment outline and detail classification provide for all possibilities as a “master mSCOA” from which each municipality selects the accounts needed to “populate” their chart of accounts.
25. *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 as also referring to “municipal entities”, unless indicated otherwise.
26. *Principle 3: Legislative and Regulatory Requirements* - The research and development into the Item segment, categories and detail accounts were guided by the legislation and regulations read with circulars and guidelines issued by the 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 included in the “Proposed Changes Column” of the table.
27. *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 municipality’s 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.
28. *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 are required to provide for in their applications. The considerations listed may not be complete, considering the development stage of this project, and might need to be enhanced as the consultation with the various stakeholder groups evolves.
29. *Principle 6: mSCOA Detail Accounts* - Labels and accounts are defined to have readily available the information needed for local government budgeting (annual

budgets, adjustment budgets and SDBIP's<sup>2</sup>) and reporting (monthly, mid-year performance assessment and annual financial statements).

30. *Principle 7: mSCOA Definitions* - The master mSCOA provides definitions 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.
31. *Principle 8: Annual Financial Statements and Budget Reporting Formats* – mSCOA Aligns with the Municipal Budget and Reporting Regulations, 2009 (budget and reporting formats) and 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.
32. *Principle 9: The Standards of GRAP* - The mSCOA Classification provides for sufficient classification to, amongst other reporting requirements, present annual financial statements as required in terms of the Standards of GRAP Reporting Framework, outlined in Directive 5 determining the GRAP Reporting Framework<sup>3</sup> (2017/2018) issued by the Accounting Standards Board. The work plan of the mSCOA Technical Committee will be informed by the changes made to the Reporting Framework and resultant Standards of GRAP for annual consideration in updating the mSCOA Classification and Reports.
33. *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 Municipal Budget and Reporting Regulations, 2009 distinguish between transfers recognised operational and capital, contributions and public donations and contributed assets replaced in mSCOA with these categories.
34. *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

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<sup>2</sup> Service Delivery- and Budget Implementation Plan.

<sup>3</sup> Compliance to the Standard of GRAP in terms of presentation to be confirmed through mSCOA Project Phase 2 described in the Position Paper on Reporting.

to enable NERSA to perform its functions. To avoid a dual accounting process for recording transactions for reporting to NERSA and another set of accounts for financial and budgetary reporting to the National Treasury, provided for in the mSCOA is the information needed in terms of the NERSA Regulation. NERSA is the custodian of the NERSA Regulatory Reporting Requirements and will oversee and enforce their requirements included in the relevant sets of legislation.

35. *Principle 12: Department of Water and Sanitation (DWS) Reporting Requirements –* The Department was 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 municipality’s readiness to comply with the DWS Reporting Requirements. DWS is the custodian of the Reporting Requirements and thus will oversee and enforce their requirements included in the relevant sets of legislation.
36. *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, being the exception rather than the principle. The indicators provided to guide on the posting level and breakdown required reflect the minimum requirements from the National Treasury’s perspective.

Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus will not be part of the string downloaded for upload by the National Treasury: Local Government Database and Reporting System.

Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest therein.

Hence the table below explain the indicators used in the columns provided in the mSCOA Tables:

Indicator	Yes	No
<b>Posting Level</b>	Defines the level of capturing the transaction.	Not a posting level, therefore follows the guidance for breakdown

		required and the principle as explained for detail to be added.
<b>Breakdown Required</b>	The municipality is required to define the level for capturing the transaction, expand the parent-child code structure and adopt the guide 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.

37. *Principle 14: Applicability* - This column indicates the minimum requirements a municipality need to comply with in the implementation of this Item segment. 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.
38. *Principle 15: Internal Billings, Departmental Charges and Activity Based Recoveries* - these elements are provided for in the Segment for Financial Modelling (the Costing segment). The cost collectors provided for are in accordance with the costing methodologies guideline proposed by the National Treasury. The allocations are based on the proposed standard and serve as 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 the municipality's progressive implementation thereof.
39. *Principle 16: Secondary Costing* – Secondary costing elements are 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 the National Treasury. The allocations provided are based on the proposed standard and serves as a guide on the minimum requirements for costs to be allocated. Due to the nature and complexity of secondary cost and municipalities being in different stages of implementation this group of accounts would require customisation according to system requirements and respective municipalities' progressive implementation thereof.
40. *Principle 17: Account Number Structure* – The account structure comprises 13 levels of which the first level contains alphanumerical characters to identify the segment

followed by capital, operational and default projects. The levels thereafter are based on the reporting structure providing for codes to be created by the municipality for projects which will be the posting level.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

**STANDARD CHART OF  
ACCOUNT SPECIFIC TO  
LOCAL GOVERNMENT**  
*[SCOA for MUNICIPALITIES  
(mSCOA)]*

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**Project Detail:**

**Section 6.1 – Item Segment –  
Revenue**

*November 2017 (Version 6.1)*

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## SECTION 6.1: REVENUE

### Background to the Item Revenue segment

1. This component of the Item segment contains the classification structure for revenue to inform the extraction of reporting information in various formats, for example the Budget Reporting Tables, In-year Reporting, Annual Financial Statements, the NERSA Regulatory Reporting Tables, the Department of Water and Sanitation reporting requirements, etc.

**Definition:**

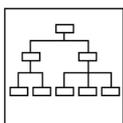
**Revenue** - is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

2. By definition “revenue” includes “gains”. The mSCOA Classification provides for “gains” within the component of the Item segment for “Gains and Losses”.

The key question to find the appropriate classification code for this Item Revenue segment is:  
***“what is the type and nature of the revenue accrued?”***

### Illustration: High-level Classification

3. The illustration of the high-level classification structure for this Item Revenue segment directly relates to the main classifications required in the Statement of Financial Performance in accordance with the requirements of the Standards of GRAP 1 - Presentation of Financial Statements.
4. At the highest level this Item Revenue segment distinguishes between:



***Some local government practitioners noted that the Revenue Accounts appear to be a duplication of the Funding Segment. What is the difference between the Fund Segment and the Revenue component within the Item Segment?***

The Funding Segment appears to be a duplication of the content of the Revenue Components from the Item Segment yet completely different in purpose and use. The Funding Segment classification is similar to the Revenue Component in the Item Segment but the fundamental difference is that the **“funds” (in the Funding segment) reflects the actual funds (cash basis of accounting) available for funding operational and capital expenditure.** Expenditure and Revenue transactions based on the principle of funds received and thus available for spending and expenditure incurred are reflected in the Funding segment. Theoretically the net effect of all transactions reflected in the Funding segment should balance to the cash and cash equivalents, increase/ decrease in borrowings/ investments.

## Design Principles

5. When reading the Item Revenue segment, the user must simultaneously also consider the design principles defined in the Item Segment Introduction together with the following design principle(s):
6. Principle 1: Exchange and Non-Exchange Revenue - On the highest-level Revenue distinguishes between Exchange and Non-exchange Revenue. Revenue from non-

exchange transactions are transactions that are not exchange transactions in accordance with the *Standard of GRAP 23 - Revenue from non-exchange transactions*. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

7. Principle 2: Gains - By definition “revenue” includes “gains”. The SCOA Classification provides for “gains” within the component of the Item Segment for “Gains and Losses”.
8. Principle 3: Share of Surplus attributable to Associate/ Share of Surplus attributable to Joint Venture using Equity Method/ Share of Surplus attributable to Non-Controlled Interest - These accounts need to be disclosed on the face of the statement of financial performance as allocations of surplus or deficit for the period. These items are included in the revenue component although not within the definition of revenue.
9. Principle 4: Agency Services - The principle underlying agency services is that the Municipality performs a service on behalf of another entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.
10. Principle 5: Interest, Dividends and Rent on Land - This category is defined in the Economic Reporting Framework and accordingly included as a “group of accounts” in mSCOA.
11. Principle 6: Operational Revenue - This group of accounts provides for “all other types of revenue” not specifically provided for in the revenue accounts.
12. Principle 7: Rental from Fixed Assets - This group of accounts distinguish between “market” and “non-market” related rental and further provides for “straight-lined operating lease, contingent rent and sub-lease payments” in accordance with the provision of the *Standard of GRAP 13 - Leases*.
13. Principle 8: Sale of Goods and Rendering of Services - This category consists of sales and services rendered provided that the municipality produced or partially

produced the good or service. Detail categories were added according to the general functions provided by local government.

14. Principle 9: Service Charges - This group of accounts provides for the typical services rendered by the municipality as “exchange transactions”, for example electricity, water, waste water management and waste management.
15. Principle 10: Fines, Penalties and Forfeits - This item consists of all compulsory receipts imposed by a court or quasi-judicial body considered to be non-exchange revenue.
16. Principle 11: Licences or Permits - This item provides accounts for the granting of licenses or permits associated with a regulatory function administered by the municipality.
17. Principle 12: Property Rates - Section 8 and 15 of Local Government Municipal Property Rates Act, 2004 and its Regulations respectively provide for categories which a municipality may use to determine respectively “differential rates and exemptions, reductions and rebates”. These categories were applied in mSCOA with some detail added as directed by the Municipal Budget and Reporting Regulations, 2009 in its Table SA 13 (2012/13). Section 8 of the Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014) determines that the “provisions of section 8 must be applied by a municipality within seven years of the date of the commencement of the Act”. It is important that mSCOA provide for sufficient classification to address the requirements of the Local Government: Municipal Property Rates Act, 2004 as well as the Local Government Property Rates Amendment Act, 2014.
18. Principle 13: Surcharges and Taxes - Funds generated from the collection of (new taxes) instituted in terms of the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007).
19. Principle 14: Special Rating Areas - Property rates levied on “special ratings areas” to be separately provided for within “revenue” to meet the accounting requirements provided for in Section 12 of the Local Government Municipal Property Rates Act, 2004. The posting-level detail is to be populated by the municipalities.
20. Principle 15: Transfers and Subsidies - The high-level categories applied in the SCOA for Capital and Operational Transfers and Subsidies are based on the transfer

categories as defined in the Reference Guide to the Economic Reporting Format (September 2009) for National and Provincial Departments. In addition, provision is made for Transfers and Subsidies received by a municipal entity from the parent municipality. The categories provided for in the mSCOA Tables Version 6.1, consists of:

- Departmental Agencies and Accounts
- Foreign Governments and International Organisations
- Households
- District Municipalities
- National Governments
- Non-profit Organisations
- Provincial Governments
- Public Corporations and Technikons
- Higher Educational Institutions
- Municipal Entities

21. *Principle 16: Equitable Share* - Equitable share to be separately provided for within “revenue” to be able to link the cost of providing basic services to poor households to the funding source. This account used with the account detail in the item, function, regional and project segment would thus give an indication of funding, spending, what it’s been spent on and the ward/ area receiving the benefit.
22. *Principle 17: Allocations In-kind (Goods and Services In-kind)* - The Standard of GRAP 23 (Revenue from Non-Exchange Transactions) provides guidance on the recognition of services and goods given in-kind.
23. *Principle 18: Transfers and Subsidies [National Governments]* - The classifications provided for under this group of accounts are based on Schedule 4, 6 and 7 of the Division of Revenue Act, No 2 of 2013 (DoRA). The content of this classification require an annual update based on the allocations published in the annual DoRA for the reporting period.

24. *Principle 19: Transfers and Subsidies (Provincial Governments)* - Limited information is available from the local government database thus the “functional classification” is used for the purpose of classifying district transfers and subsidies to local municipalities in the absence of specific detail.
25. *Principle 20: Transfers and Subsidies (District Municipalities)* - Limited information is available from the local government database thus the “functional classification” is used for the purpose of classifying district transfers and subsidies to local municipalities in the absence of specific detail.
26. *Principle 21: Transfers and Subsidies (Departmental Agencies, Foreign Government and International Organisations, Households, Non-profit Institutions, Private Enterprises, Public Corporations and Higher Educational Institutions)* - Limited information is available from the local government database accordingly, entities added to these categories are based on the detail defined by the SCOA for Departments revised for municipalities. Requests for comments to municipalities following the “road shows” (preceding the release of the draft mSCOA Regulations) revealed little inputs to revise the content of these categories comprising about 70 per cent of the detail populated in this segment. Municipalities are required to request additional information to be considered either during the comments processes following the release of the SCOA Draft Regulations, or during the formal process with the SCOA Technical Committee in requesting changes/ revisions annually.
27. *Principle 22: Transfers and Subsidies from Parent Municipality* – Classification was provided in Version 6 specifically for “transfers and subsidies” made by parent municipalities to municipal entities. These transfers typically need to be eliminated at consolidation of the parent municipality and municipal entity information.
28. *Principle 23: VAT Indicators* - Included in the classification are VAT indicators to assign specific VAT categories to posting level accounts. Distinction is made between VAT charged at Standard Rate, Exempt and Zero Rated as indicated in the detailed SCOA Tables.

## Legislative and Regulatory Requirements

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<b>LEGISLATION</b>		
<b>Local Government Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and its Regulations</b>	Section 8: Differential Rates	This section of the Act informed the <b><u>posting level accounts</u></b> provided for in the SCOA classification for “property rates”.
	Section 15: Exemptions, Reductions and Rebates – <i>Projections regarding revenue to be forgone for a financial year in relation to subsection (3)(b) must be reflected in the municipality’s annual budget for that year as a) income on the revenue side and b) expenditure on the expenditure side.</i>	Provision is made for this requirement in the “ <b><u>contra account</u></b> ”.
	Section 22: Special Rating Areas	Special rating areas separately identified in the SCOA classification to comply with the requirement to provide for this in the <b><u>accounting and other record keeping systems</u></b> .
<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	To amend the Local Government: Municipal Property Rates Act, 2004, so as to provide for the amendment and insertion of certain definitions; to delete the provisions dealing with district	The impact of the changes made have been considered and provided for in mSCOA Version 5.4 already.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>management areas; to provide that a rates policy must determine criteria for not only the increase but also for the decrease of rates; to delete the provisions of section 3(4) and to provide for a rates policy to give effect to the regulations promulgated in terms of section 19(1)(b); to provide that by-laws giving effect to the rates policy must be adopted and published in terms of the Municipal Systems Act, 2000; to provide for the determination of categories of property in respect of which rates may be levied and to provide for a municipality to apply to the Minister for authorisation to sub-categorise property categories where it can show good cause to do so; to regulate the timeframe of publication of the resolutions levying rates and what must be contained in the promulgated resolution; to provide for the Minister to make a decision in terms of section 16(2) with the concurrence of the Minister of Finance; to provide for the exclusion from rates of certain categories of public service infrastructure as well as mining rights or mining permits, to provide that infrastructure above the surface in respect of mining</p>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>property is rateable and the rates are payable by the holder of the mining right or mining permit; to provide that the exclusion from rates in respect of land belonging to a land reform beneficiary is extended to the spouse and dependants; to provide that an exclusion from rates in respect of the seashore lapses if any part thereof is alienated; to provide that a municipality may levy different rates on vacant residential property; to provide that a municipality may not recover rates in respect of a right of exclusive use registered against a sectional title unit from the body corporate; to provide that a person liable for a rate must furnish the municipality with his or her postal address; to provide that municipalities are not required to value properties fully excluded from rates; to provide for the period of validity of a valuation roll to be four years in respect of a metropolitan municipality and five years in respect of local municipalities; to provide for the MEC for local government to extend the period of validity of valuation rolls by two additional years where the provincial executive has intervened in terms of section 139 of the Constitution</p>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>and by one financial year and two financial years for metropolitan and local municipalities respectively on request by a municipality in any exceptional circumstances; to provide that a body corporate, share block company or managing association is required to provide information to a valuer; to delete the requirement for the payment of interest in specific instances; to delete the requirement for the establishment of a valuation appeal board in every district municipality; to provide that a professional associated valuer may be appointed to the valuation appeal board if a professional valuer cannot be appointed; to amend the quorum of an appeal board to include the valuer member of the valuation appeal board; to amend the dates on which a supplementary valuation takes effect; to provide for the notification of owners of property affected by a supplementary valuation; to limit coadunation by the MEC for local government through the framework to municipalities only; to provide for more effective monitoring and reporting by municipalities and provinces on critical areas of the implementation of the Act; to</p>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>extend the Minister's regulatory powers; to provide for the phasing in of certain regulations; to provide for the phasing in of the prohibition on the levying of rates on certain types of public service infrastructure; to provide for transitional arrangements in respect of municipalities that have been affected by a redetermination of municipal boundaries; to provide for transitional arrangements for the implementation of section 8; and to provide for matters connected therewith.</p>	
<p><b>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b></p>	<p>Section 20: Matters to be Prescribed - <i>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".</i></p> <p>Section 64: Revenue Management</p>	<p>Considered in the set-up of the SCOA segments.</p> <p>The SCOA classification structure within the component contributes to a <b><u>management, accounting and information system</u></b> which recognises revenue when it is earned, accounts for debtors and</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
		accounts for receipts of revenue.
	Section 68: Budget Implementation	The SCOA classification structure within the component contributes to the proper <b><u>monitoring of revenue.</u></b>
	Section 71: Monthly Budget Statements	The SCOA classification structure within the component contributes to providing <b><u>“actual revenue, per revenue sources”.</u></b>
	Section 72: Mid-year Budget and Performance Assessment	The SCOA classification structure within the component provides the revenue classification to inform the municipalities’ <b><u>performance during the first half of the year.</u></b>
	Section 121: Preparation and Adoption of Annual Reports	The SCOA classification structure within the component informs the compilation of the <b><u>Statement of Financial Performance and the budget versus actual results.</u></b>
<b>Constitution No 108 of 1996</b>	Section 216: Treasury Control  National legislation must establish a national treasury and prescribe measures to ensure both transparency and expenditure	<b><u>SCOA Segments</u></b> set-up to assist in achieving this constitutional requirement. .

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>control in each sphere of government by introducing:</p> <ul style="list-style-type: none"> <li>a) Generally, recognised accounting practice</li> <li>b) Uniform expenditure classification; and</li> <li>c) Uniform treasury norms and standards</li> </ul> <p>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.</p>	
<p><b>Local Government Transition Act, 1993 (Act No. 209 of 1993)</b></p>	<p>Provide guides on the mandate given to municipalities for providing specific services.</p>	<p>The services had been considered in setting-up the <b><u>revenue classification</u></b> as per this component.</p>
<p><b>Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007) (MFPFA)</b></p>	<p>Section 3: Application of Act</p>	<p><b><u>Surcharges and Taxes</u></b> provided for in the SCOA Classification.</p>
<p><b>Water Services Act, 1997 (Act No. 108 of 1997)</b></p>	<p>To provide for the gathering of information in national information systems and the distribution of that information; to repeal certain laws; and to provide for matters connected therewith.</p>	<p>The reporting requirements of the <b><u>Department of Water Affairs</u></b> have been considered in the compilation of the SCOA classification framework.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<b>Annual Division of Revenue Act, 2011</b>	Act determines allocation to municipalities.	This act informs the posting level accounts to be set-up for <b><u>“Transfers and Subsidies from National Departments”</u></b> .
<b>REGULATIONS</b>		
<b>The Municipal Budget and Reporting Regulations,2009</b>	Section 40: Funding of Expenditure	The revenue classification within the Item Revenue Segment provides for all possible <b><u>sources of revenue</u></b> informing the budget reporting tables.
<b>CIRCULARS</b>		
<b>Municipal Fiscal Powers and Functions Act Circular No 1: Introduction to the Municipal Fiscal Powers and Functions Act No. 12 of 2007</b>	Defines “surcharges and taxes”.	The revenue classification provides for “surcharges and taxes” in support of the legislation.
<b>Municipal Fiscal Powers and Functions Act Circular No 2: Verification of Municipal Taxes that existed prior to the introduction of the Municipal Fiscal Powers and Functions Act No. 12 of 2007</b>	Reporting requirements	The component provides for a classification for recording taxes and thus present accordingly in the <b><u>Budget Reporting Tables and Annual Financial Statements</u></b> .
<ul style="list-style-type: none"> <li>• <b>MFMA Circular 45: 2008/09 MTREF Budget</b></li> <li>• <b>MFMA Circular 48: Municipal Budget</b></li> </ul>	Budgeting for Free Basic Services	Provision is made for this requirement within the project segment.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<p>Circular for the 2009/10 MTREF</p> <ul style="list-style-type: none"> <li>• MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF</li> <li>• MFMA Circular 55: Municipal Budget Circular for the 2011/12 MTREF</li> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> </ul>		
<ul style="list-style-type: none"> <li>• MFMA Circular 45: 2008/09 MTREF Budget</li> <li>• MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</li> <li>• MFMA Circular 55: Municipal Budget Circular for the 2011/12 MTREF</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> </ul>	<ul style="list-style-type: none"> <li>• Budgeting for Revenue and Revenue Foregone</li> <li>• Specific Revenue and Expenditure Items</li> <li>• Revenue Management</li> <li>• Pricing Services Correctly</li> </ul>	<p>The <u>revenue classification</u> within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats. Further to this “revenue foregone” is dealt with in the project segment.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<b>MFMA Circular 64: Revenue Management</b>	<ul style="list-style-type: none"> <li>• Revenue Management and Revenue Enhancement</li> <li>• Source of Funding Municipalities</li> <li>• Funding the Operating Budget</li> <li>• Funding the Capital Budget</li> <li>• Own Revenue (Property Rates, Trading Service, Own Revenue Sources)</li> <li>• Protecting the Municipal Revenue Base</li> </ul>	The <b><u>revenue classification</u></b> within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats.
<ul style="list-style-type: none"> <li>• <b>MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</b></li> <li>• <b>MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF</b></li> <li>• <b>MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</b></li> <li>• <b>MFMA Circular 70: Municipal Budget Circular for the 2014/15 MTREF</b></li> <li>• <b>MFMA Circular 72: Municipal Budget</b></li> </ul>	<ul style="list-style-type: none"> <li>• Revising Rates, Tariffs and Other Charges</li> <li>• Eskom Bulk Tariff Increases</li> <li>• Implementation of Municipal Property Rates Act</li> <li>• Introduction of Inclining Block Tariffs</li> <li>• NERSA approval of Municipal Electricity Tariffs/ NERSA process to approve electricity tariffs</li> <li>• Operating Revenue</li> <li>• Solid Waste Tariffs</li> <li>• Verification of Existing Municipal Taxes</li> </ul>	The <b><u>revenue classification</u></b> within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
Circular for the 2014/15 MTREF	<ul style="list-style-type: none"> <li>Water/ Sanitation Tariffs must be cost reflective</li> </ul>	
<b>MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</b>	Fuel Levy Allocation to Metropolitan Municipalities	The <b><u>revenue classification</u></b> within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats.
<ul style="list-style-type: none"> <li><b>MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</b></li> <li><b>MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF</b></li> <li><b>MFMA Circular 55: Municipal Budget Circular for the 2011/12 MTREF</b></li> <li><b>MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</b></li> <li><b>MFMA Circular 59: Municipal Budget Circular for the 2012/13 MTREF</b></li> </ul>	<ul style="list-style-type: none"> <li>Accounting Treatment of Conditional Grants</li> <li>Interest Received on Conditional Grant Funds</li> <li>Unspent Conditional Grant Funds</li> <li>Conditional Transfers to Municipalities</li> <li>Distinguish between Cash and Non-Cash Transfers and Grants</li> <li>Grants and VAT Transactions</li> <li>Municipal Water Infrastructure Grant and Non-revenue water</li> <li>Integrated City Development Grant</li> </ul>	The <b><u>revenue classification</u></b> within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<p><b>MFMA Circular 74: Municipal Budget Circular for the 2015/16 MTREF</b></p>	<ul style="list-style-type: none"> <li>• This Circular provides guidance to municipalities and municipal entities for the preparation of their 2015/16 Budgets and Medium-Term Revenue and Expenditure Framework (MTREF).</li> <li>• The Medium-Term Budget Policy Statement</li> <li>• Local Government Conditional Grants and Additional Allocations</li> <li>• Regulation of a Standard Chart of Accounts for Local Government (mSCOA)</li> <li>• Revising Rates, Tariffs and Other Changes</li> <li>• Operating Revenue</li> <li>• 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)</li> <li>• Eskom Bulk Tariff Increases</li> <li>• Water and Sanitation Tariffs must be Cost Effective</li> <li>• Funding Choices and Management Issues</li> </ul>	<p>The <u>revenue classification</u> within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<ul style="list-style-type: none"> <li>• Budgeting for Unfunded/ Underfunded Mandates</li> <li>• Conditional Transfers to Municipalities</li> <li>• Conditional Grant Issues dealt with in Previous MFMA Circulars</li> <li>• Budgeting for Revenue on Budget Reporting Table A9</li> <li>• Budgeting for Revenue Foregone and Free Basic Service to Indigents</li> </ul>	
<p><b>MFMA Circular 75: Municipal Budget Circular for the 2015/16 MTREF</b></p>	<ul style="list-style-type: none"> <li>• Transfers to Local Government (AMENDMENT TO MUNICIPAL INFRASTRUCTURE GRANT AND PUBLIC TRANSPORT GRANT)</li> <li>• Changes in the 2015 Division of Revenue Bill</li> <li>• Revising Rates, Tariffs and Other Changes</li> <li>• Eskom Bulk Tariff Increases</li> <li>• Electricity Levy Increases</li> <li>• Service Level Standards</li> <li>• VAT on Conditional Grants</li> <li>• Conditional Grants Transfers to Municipalities</li> </ul>	<p>The revenue classification within the Item Revenue Segment provides for all possible sources of revenue informing the budget reporting tables and other reporting formats.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<ul style="list-style-type: none"> <li>• Times of Municipal Conditional Grant Transfers</li> <li>• Payment Schedules for Transfers</li> <li>• Provincial Allocations and Payment Schedules</li> <li>• Criteria for the Rollover of Conditional Grant Funds</li> <li>• Unspent Conditional Grant Funds for 2014/15</li> <li>• The Difference between the Collection Rates on Table SA8 and SA10</li> </ul>	
<p><b>MFMA Circular 78: Municipal Budget Circular to the 2016/17 MTREF</b></p>	<ul style="list-style-type: none"> <li>• To support the newly amalgamated municipalities to undertake a smooth transition, the Municipal Demarcation Transition Grant (MDTG) was established with a time span of three years (2015/16 to 2017/18). The purpose of the grant is to subsidise the additional institutional and administrative costs arising from major boundary changes due to come into effect after the 2016 local government elections. The grant only subsidises additional administrative costs related to the mergers (such as merging</li> </ul>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>and changing administrative systems and costs related to transferring staff). It does not provide for any infrastructure funding.</p> <ul style="list-style-type: none"> <li>• The 2016 DoRA will set out the funding that will be provided to the affected municipalities, and these municipalities, CMCs and affected provinces must ensure that they adhere to the conditions attached to the Municipal Demarcation Transition Grant (MDTG)</li> <li>• In particular, business plans must be timeously submitted to the Department of Cooperative Governance and Traditional Affairs so as to ensure that transfers are done in accordance with the payment schedules.</li> <li>• Changes to local government grants.</li> <li>• National Treasury has initiated a process of reviewing development charges. A national draft policy framework on development charges has been developed and</li> </ul>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	<p>processes are underway to consult on the policy.</p> <ul style="list-style-type: none"> <li>• Annexure A - Changes to Schedule A1.</li> <li>• A10 Cost of Free Basic Services.</li> <li>• SA1 Revenue Foregone.</li> <li>• SA9 Provision of Free Basic Services.</li> </ul>	

## Transactions by Business Process to be allocated in this Segment

29. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting is a source document from an activity within a business process initiating the activity to flow through a defined business process ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
30. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the municipality’s database functioning in the background of the financial application.
31. Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
32. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee held during October 2010. Pending the completion of the “Business Process links to mSCOA” this table may be replaced.

Transaction Type	Allocate Yes/ No	Comments
Net Assets	No	
Assets	No	
Liabilities	No	
Revenue	Yes	Need to be expanded
Expenditure	No	

33. Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

## Category Links and Business Rules

34. Category links and business rules refer to those programming rules that system developers of financial and business applications for local government are required to provide for in their applications. 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.
35. Proposals identified at this stage of the development of mSCOA:
- Opening accounts for Transfers and Subsidies in the Item segment: Revenue needs to result in opening an account in the Funding segment and Item segment: Assets, Liabilities and Net Assets for unspent transfers and subsidies.
  - Revenue accounts in the Item segment to be linked to the equivalent account in the Funding segment.

## Discussion of the Classification Structure

### Discontinued Operations

36. The *Standard of GRAP 100 - Discontinued Operations* require municipalities to specify the presentation and disclosure of discontinued operations. In particular, the Standard requires the results of discontinued operations to be presented separately in the statement of financial performance with additional disclosures provided in the notes to the financial statements. Discontinued operation is a component of an entity that has been disposed of and:
- represents a distinguishable activity, group of activities or geographical area of operations;
  - is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
  - is a controlled entity acquired exclusively with a view to re-sale.
37. The classification provides for the municipality (at own discretion) to add accounts required to accomplish the presentation and disclosure envisaged by the Standards of GRAP. Accordingly, the account is at a posting level as National Treasury do not need any more information for statistical and analytical purposes.

### Exchange Revenue

38. On the highest-level Revenue distinguish between Exchange and Non-Exchange Revenue. Revenue from non-exchange transactions are transactions that are not exchange transactions as per *Standard of GRAP 23 - Revenue* from non-exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

## Agency Services

### Definition:

**Agency Services** – is compensation received by the municipality from the principle (maybe a national/ provincial department or a district municipality) for rendering the agency service and should be recognised as receipts and not set-off against the expenditure. This compensation may be in the form of a commission to be deducted from the amount to be surrendered to the principle by the municipality, or management fees or handling fees.

39. At the highest level this classification provides for:

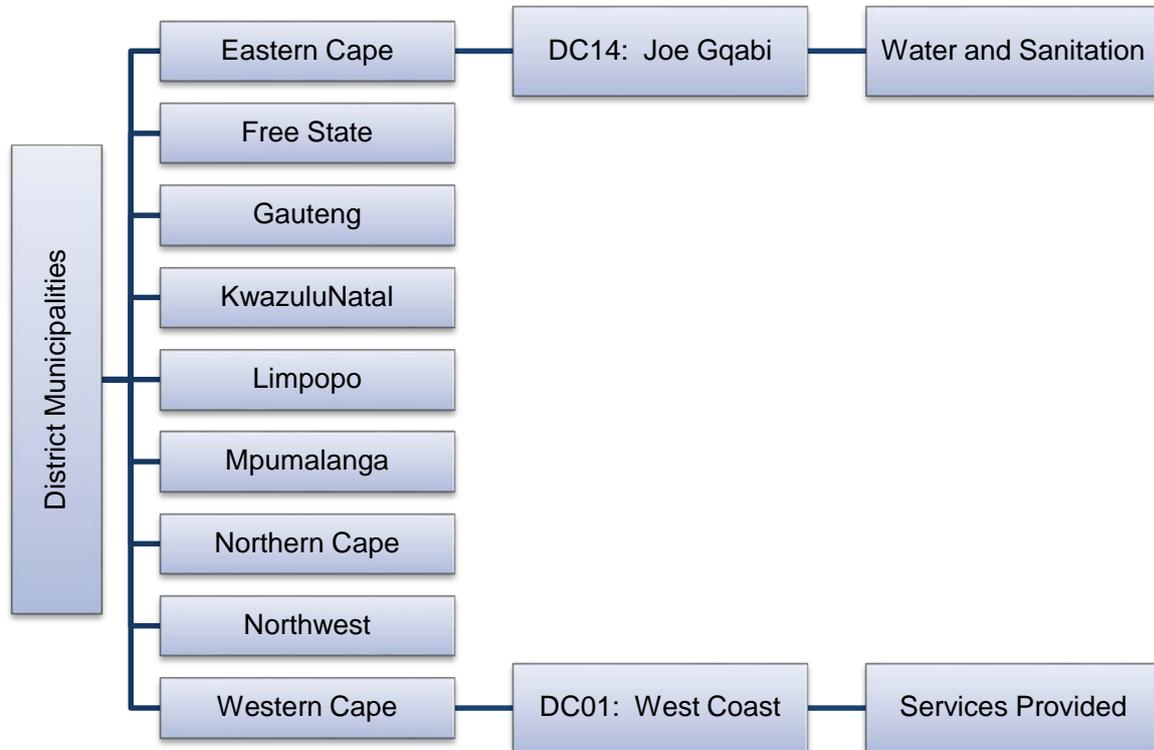


### Agency Services

- National Departments
- Provincial Departments
- District Municipalities

40. Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the municipality on its own account. Amounts collected as agent of an entity or on behalf of other third parties, for example, the collection of motor vehicle registration fees by the municipality on behalf of municipalities providing such services, are not economic benefits or service potential that flow to the municipality and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue.
41. Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets for the municipality.
42. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.

- 43. The principle underlying agency services is that the municipality performs a service on behalf of another entity.
- 44. Funding received by the municipality to compensate for cost to provide the agency service should be recognised as receipts and not set-off against the expenditure.



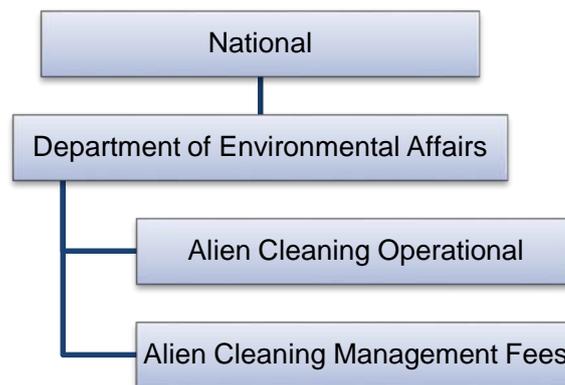
- 45. The actual expenditure incurred to deliver the agency services must be recognised as expenses. This funding code is therefore used for the recording of transactions relating to the provision of “Agency Services”.
- 46. Non-core functions (defined in the Function Segment) are commonly known as “agency services”. The structure provides for a classification of “non-core services” per function provided for in the constitution. The arrangement depends on the municipality whether to agree with a national/ provincial department or district municipality to perform the administration of the function.

## District Municipalities

47. Commission or management fees received for agency functions on behalf of district municipalities. Posting level accounts defined under this category is limited to the Eastern Cape and Western Cape Provinces.
48. Due to the diverse nature and different arrangements currently in place between municipalities and province/ national departments mSCOA provides for a distinction between national/ provincial and district municipality/ local municipality agreements. Accordingly, the posting level accounts needed for the respective agency agreements need to be provided to National Treasury for inclusion in the mSCOA.
49. The posting level for these accounts are defined based on information provided to National Treasury. Accordingly, the available posting levels are not sufficient for all municipalities due to a lack of information forthcoming to define accounts. The following accounts are available within the above overall classification for “Agency Services”.

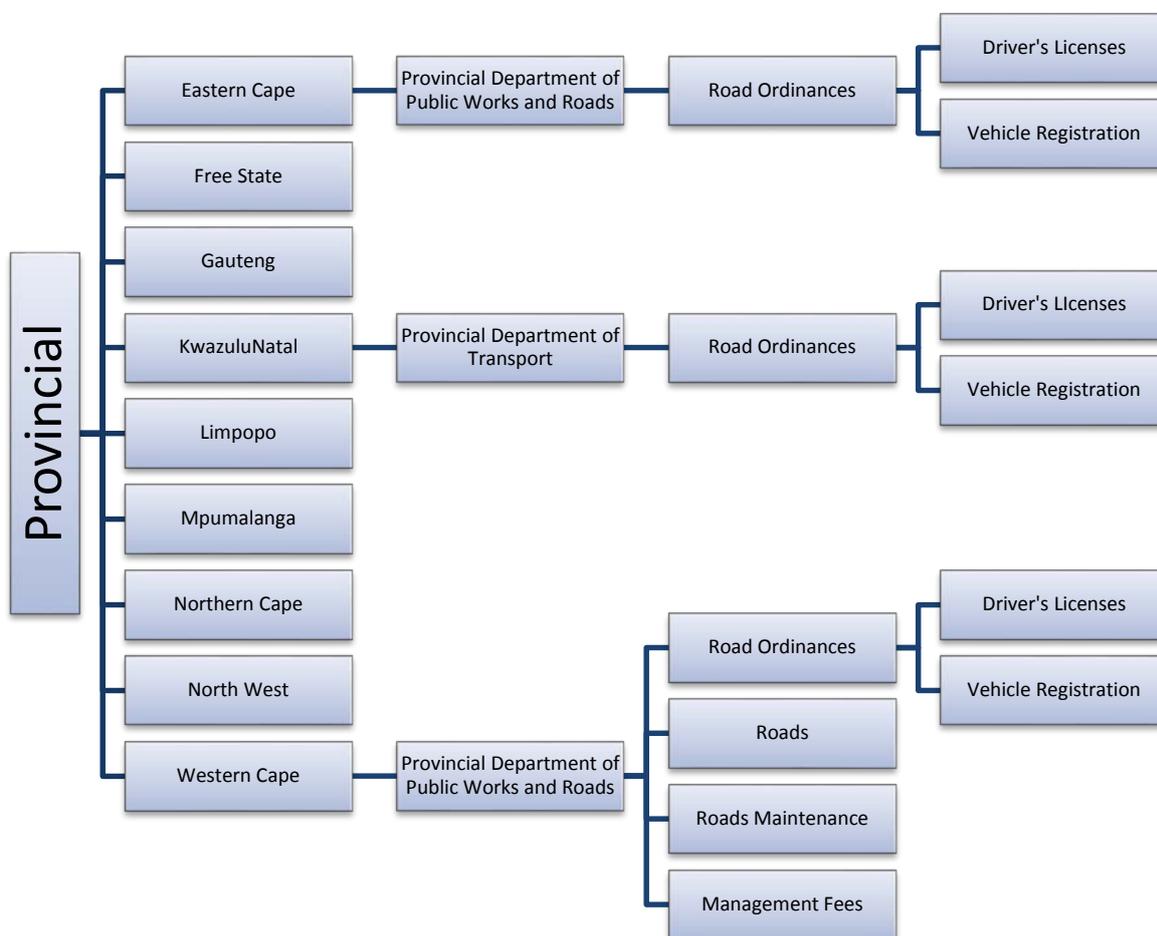
## National

50. Commission or management fees received for agency functions on behalf of national departments undertaken by municipalities as per agency agreement. Posting levels accounts are added based on requests made by municipalities through the mSCOA Frequently Asked Questions (FAQ) Database and mSCOA Technical Committee:



## Provincial

51. Commission or management fees received for agency functions on behalf of provincial departments, for example vehicle registration handled on behalf of province.
52. If the current classification is not adequate, a municipality need to request additional posting level accounts to be added through logging requests to the mSCOA Technical Committee through the Frequently Asked Questions (FAQ) Database for consideration:



## VAT Consideration applicable to Agency Agreements

53. Chapter 3 of the VAT 419 Guide for Municipalities provides some important information on “agent versus principal” in determining the VAT consequences of a transaction.
54. In order to correctly apply the VAT legislation to the concept of agents, it is necessary to identify and understand the concept of an “agent” as understood in common law.
55. An agency is a contract whereby one person (the agent) is authorised and required by another person (the principal) to contract or to negotiate a contract with a third person, on the latter’s behalf.
56. The agent in representing the principal, creates, alters or discharges legal obligations of a contractual nature between the principal and the third party.
57. The agent therefore provides a service to the principal and normally charges a fee (generally referred to as “commission” or “agency fee”) but does not acquire ownership of the goods and/ or services supplied to or by the principal.
58. This agent/ principal relationship may be expressly construed from the wording of a written agreement or contract concluded between the parties. Where a written agreement or contract does not exist, the onus of proof is on the person who seeks to bind the principal and demonstrate that the relationship was that of a principal and agent.
59. An understanding of the relationship between the parties is therefore a requirement in understanding the VAT treatment of supplies made by the parties.
60. The differences between an agent and a principal can be summarised as follows:

Agent	Principal
The agent will not be the owner of any goods or services acquired on behalf of the principal.	The principal is the owner of the goods or services acquired on the principal’s behalf by the agent.
The agent will not alter the nature or value of the supplies made between the principal and third parties.	The principal may alter the nature or value of the supplies made between the principal and third parties.

Agent	Principal
Transactions on behalf of the principal do not affect the agent's turnover, except to the extent of the commission or fee earned on such transactions.	The total sales represent the principal's turnover. The commission or fee charged by the agent forms part of the principal's expenses.
An agent only declares the commission or fee for Income Tax and VAT purposes.	The principal declares gross sales as income for Income Tax and VAT purposes, and may be allowed to claim a deduction for the commission or fee charged by the agent.

61. In essence, the differences indicate that the principal is ultimately responsible for the commercial risks associated with a transaction, and that the agent is trading for the principal's account. The agent is appointed by and takes instruction from the principal regarding the facilitation of transactions as per the principal's requirements and generally charges a fee or earns a commission for that service.
62. To correctly apply the VAT legislation, it is necessary to identify and understand the contractual relationship between the parties. The VAT treatment of supplies proceeds from the fact of whether a person is acting on their own behalf, or on behalf of another person. In essence, section 54 provides that where a vendor employs the services of an agent to acquire goods or services, or to make supplies on the vendor's behalf, the supplies are made to, or acquired by, the principal (as the case may be). There are also special provisions dealing with the receipt and issuing of tax invoices. Refer to the discussion below.
63. As an agent merely acts on behalf of the principal, any output tax and input tax in relation to the underlying supplies made or received on behalf of the principal must be accounted for on the VAT return of the principal (if the principal is a vendor). The agent will only declare output tax and input tax in relation to the agency services supplied (if the agent is a vendor).
64. The classification structure provides for agency services delivered on behalf of national departments, provincial departments or district municipalities. These classifications are not at a posting level. Municipalities need to provide details of the

entity and the contract or agreement to National Treasury to add “posting levels accounts”.

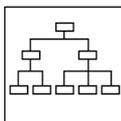
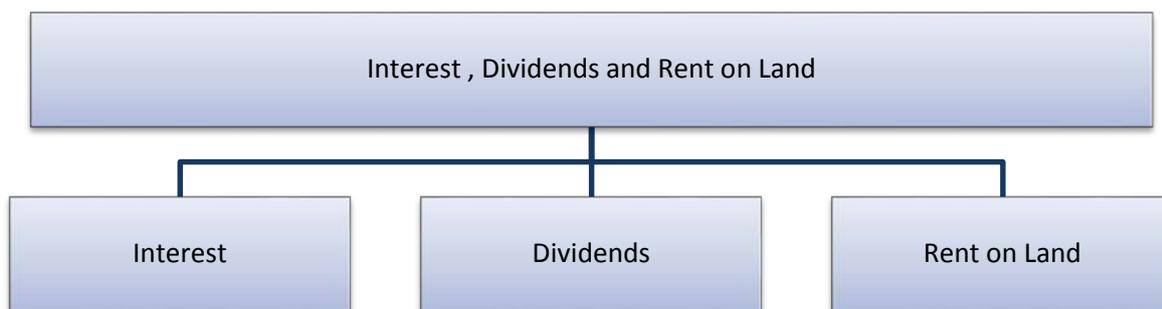
- 65. Municipalities need to follow the process for requesting changes or revision to mSCOA by providing the information on specific agreements, and only these can then be added to the mSCOA classification.
- 66. The *Standards of GRAP 109 - on Accounting Principles and Agents* provide further guidance to be considered in classifications within this category.

*Interest, Dividend and Rent on Land*

**Definition:**

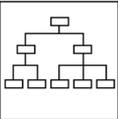
Consist of the income associated with ownership of interest-bearing financial instruments, such as bank deposits, loans extended to others, bills and bonds issued by others and charges for the use of cash or cash equivalents or amounts due to the municipality. Dividends come in the form of receipts from shares and distribution of profits to the owner. Rent on land is the receipts due to ownership of land.

- 67. At the highest level this classification consists of the following:



***Why is “rent of land” excluded from “Rental from Fixed Assets”?***

mSCOA adopted the design framework defined in the Economic Reporting Format to the extent relevant to “municipalities” within the legislative framework applicable to municipalities. Land is classified being part of the group of accounts for Interest, Dividend and Rent on Land”.

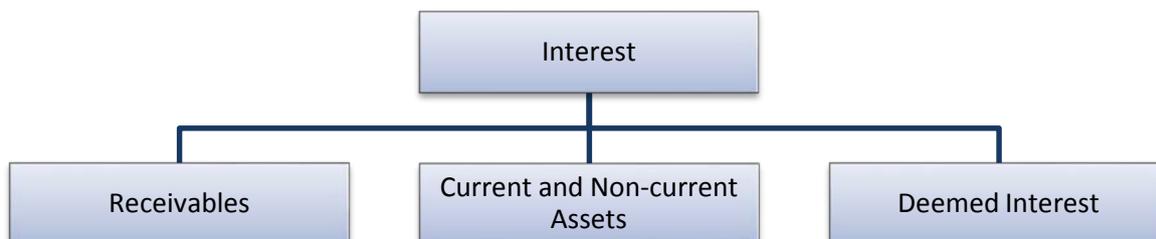
	<p><b><i>If it is not possible to separately identify the receipt for “Rent of Land” what should the classification be?</i></b></p> <p>Rent on land consists of the receipts due to ownership of land. If it is not possible to distinguish receipts due to ownership of land from receipts due to ownership of fixed structures on that land (for example a building), the whole amount should be recorded under sales of goods and services. This item also includes all receipts due to ownership of sub-soil assets and other commercially exploitable naturally occurring assets such as virgin forests, game and fisheries.</p> <p>The <i>Standards of GRAP 13 - Leases</i> contains a requirement for the separate assessment of a lease if it includes both land and building in accordance with paragraphs 10 and 16 of the Standard. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.</p>
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## Interest

### Definition:

This item consists of the income associated with ownership of interest-bearing financial instruments, such as bank deposits, loans extended to others, bills and bonds issued by others, overdue accounts receivable, etc.

68. At the highest-level mSCOA provides for the following groups of accounts within the classification for Interest:

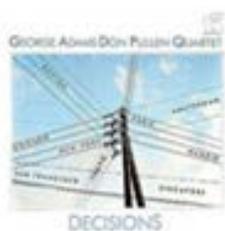


*Receivables*

**Definition:**

This account is to be used for interest charged by the municipality on overdue accounts receivable in accordance with the debt management policy of the municipality and include the accounts provided for in current and non-current assets for receivables, receivables from non-exchange transactions and receivables from exchange transactions.

69. The following posting-level accounts are provided for within this group of accounts:



**Receivable**

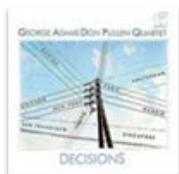
- Affiliates/ Related Parties/ Associated Companies
- Electricity
- Housing
- Housing Land Sales
- Housing Selling Schemes
- Merchandising, Jobbing and Contracts
- Property Rental Debtors
- SARS
- Services Charges
- Sporting and Other Bodies
- Staff
- Waste Management
- Waste Water Management
- Water

*Current and Non-Current Assets*

**Definition:**

Interest earned during the reporting period whether or not received or billed.

70. The following posting-level accounts are provided for within this group of accounts:



Current and Non-current assets

- Bank Accounts
- Investment
- Short Term Investments and Call Accounts

### *Deemed Interest*

#### **Definition:**

Interest income (calculated using the effective interest method) for financial instruments at amortised cost and interest income on impaired financial assets accrued in accordance with the Standard of GRAP 104 Financial Instruments.

71. This account is at a posting-level with no breakdown-allowed.

### Dividends

#### **Definition:**

Dividends received from equity participation in private and public sector investments.

72. The following posting-level accounts are provided for within this group of accounts:



Dividends

- External Investments
- Municipal Entities

### *Operational Revenue*

**Definition:**

Operational Revenue refers to all other revenue not provided for specifically under the above headings.

73. This posting level accounts provided for within this groups of accounts includes (unless indicated otherwise):



Operational Revenue

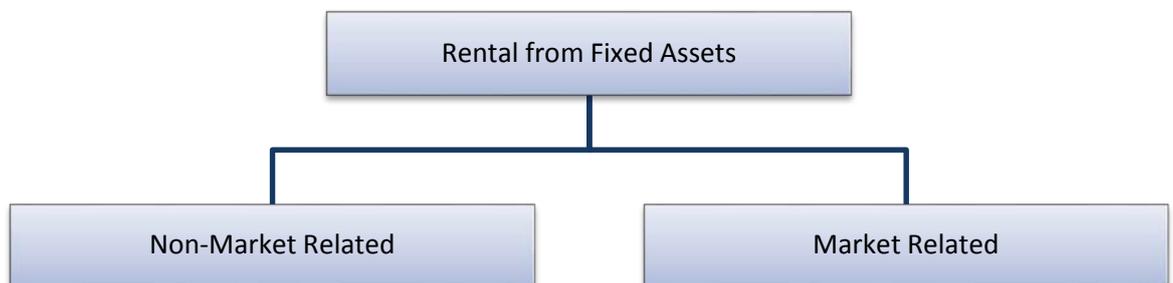
- Administrative Handling Fees
- Bad Debts Recovered
- Breakages Recovered
- Collection Charges
- Commission (Further Breakdown Provided) for:
  - Insurance
  - Trasaction Handling Fees
- Discounts and Early Settlements
- Incidental Cash Surpluses
- Inspection Fees (Further Breakdown Provided):
  - Abattoir
  - Agricultural Activities
  - Animal Housing
  - Facilities
  - Statutory Services
  - Quarantine Inspection
- Registration Fees (Further Breakdown Provided):
  - Inflammable Material
  - Landing Fees (Aerodrome)
  - Road and Transport
  - Copyright/Royalty
- Staff Recoveries
- Request for Information (Further Breakdown Provided):
  - Accidental Reports
  - Access to Information Act
  - Duplicate IRP5 Certificate
  - Municipal Information and Statistics
  - Enatis
  - Plan Printin and Duplicates
- Insurance Refund
- Sale of Property
- Merchandising, Jobbing and contracts
- Skills Development Levy Refund
- Bursary Repayment
- Recovery Infrastructure Maintenance
- Arbor City Avars Competition
- Bontle Ke Botho Cleaning and greening Award

## Rental from Fixed Assets

### Definition:

Rental income received by the municipality from external use. Distinction is made between rental income based on market related versus non-market related rates.

74. This account provides for rental income earned from the ownership of buildings, fixed structures, plant and equipment. The receipts from ownership of buildings must be distinguished from ownership of land sub-soil assets; the latter is classified as rent of land which is a separate category. If it is impossible to split receipts earned from ownership of land from that earned from the fixed structure on it, the transaction should be recorded under this category. When municipalities let property, plant and equipment at marked-related prices, the transaction should be recorded here.
75. At the highest-level distinction is made between rental income based on market related versus non-market related rates:

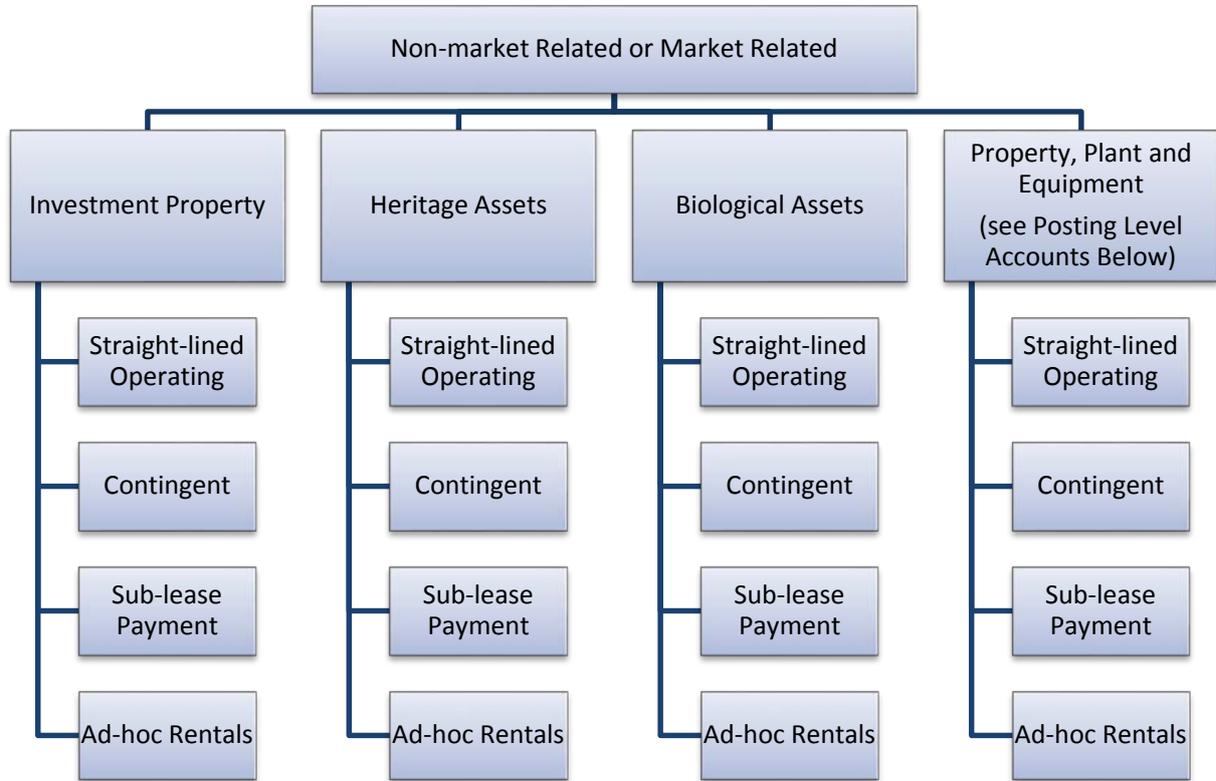


### Definition:

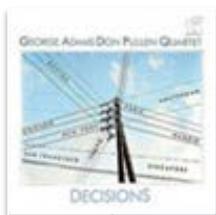
**Market Related** - This group of accounts provides for the recognition of rental income from market related rates. Market related implies that fees charged must be in line with that charged by the “market”.

**Non-market Related** - This group of accounts provides for the recognition of rental income from non-market related rates.

76. mSCOA provides for the following classification with posting level accounts at the lowest level as indicated in the diagram below:



The following posting-level accounts must be used for the category above “Property, Plant and Equipment”:



## Property, Plant and Equipment

- *Computer Equipment*
- *Furniture and Office Equipment*
- *Electrical Infrastructure*
- *Roads Infrastructure*
- *Solid Waste Infrastructure*
- *Water Supply Infrastructure*
- *Intangible Assets*
- *Machinery and Equipment*
- *Transport Assets*
- *Libraries*
- *Zoo, Marine and Other Animal*
- *Community Assets*
- *Other Assets*
- *Storm Water Infrastructure*
- *Sanitation Infrastructure*
- *Network and Communication Infrastructure*
- *Coastal Infrastructures*

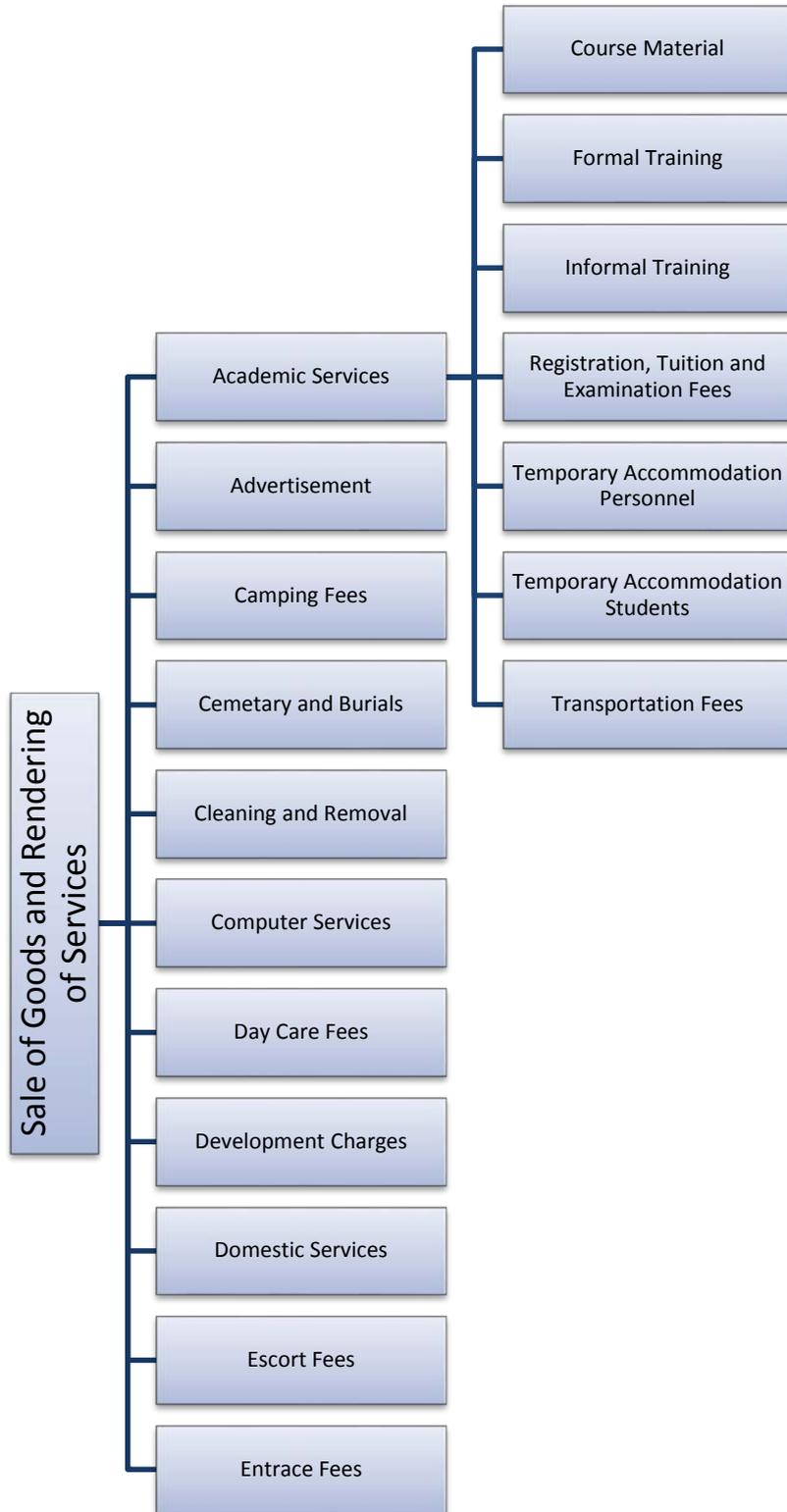
### *Sale of Good and Rendering of Services*

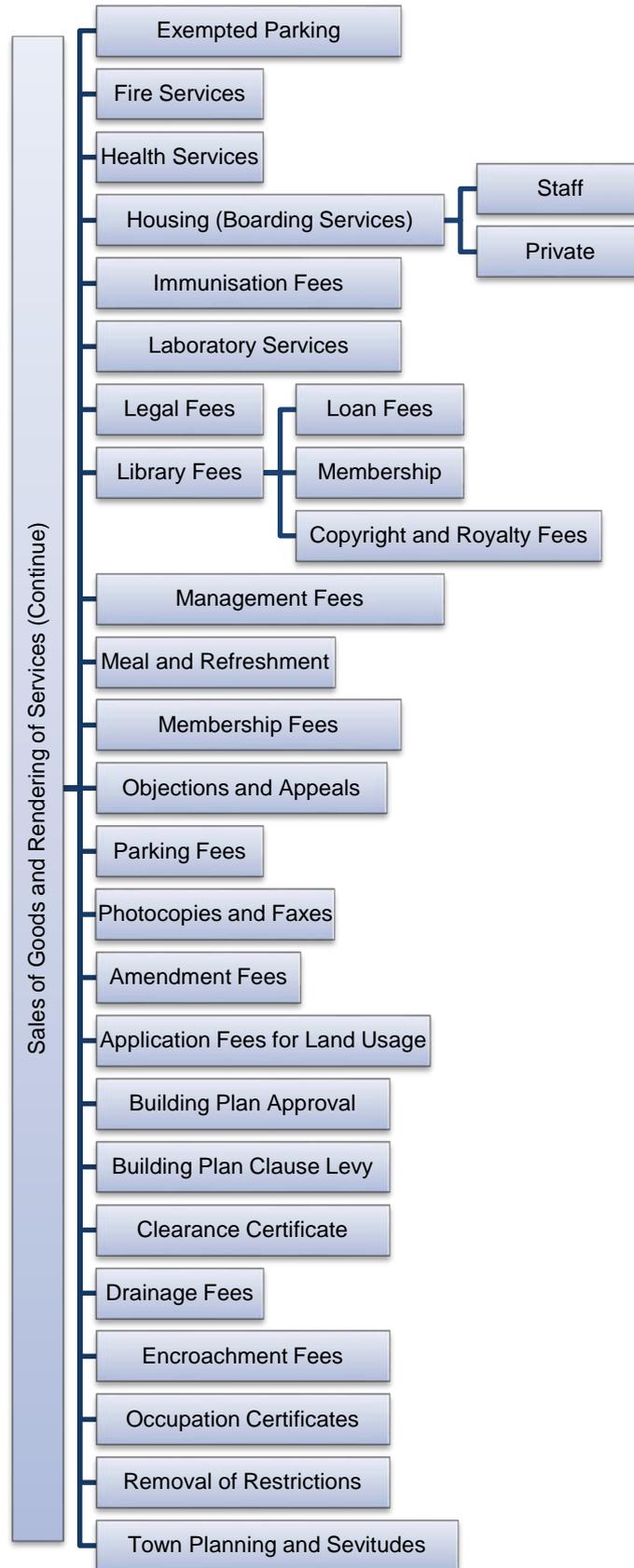
#### **Definition:**

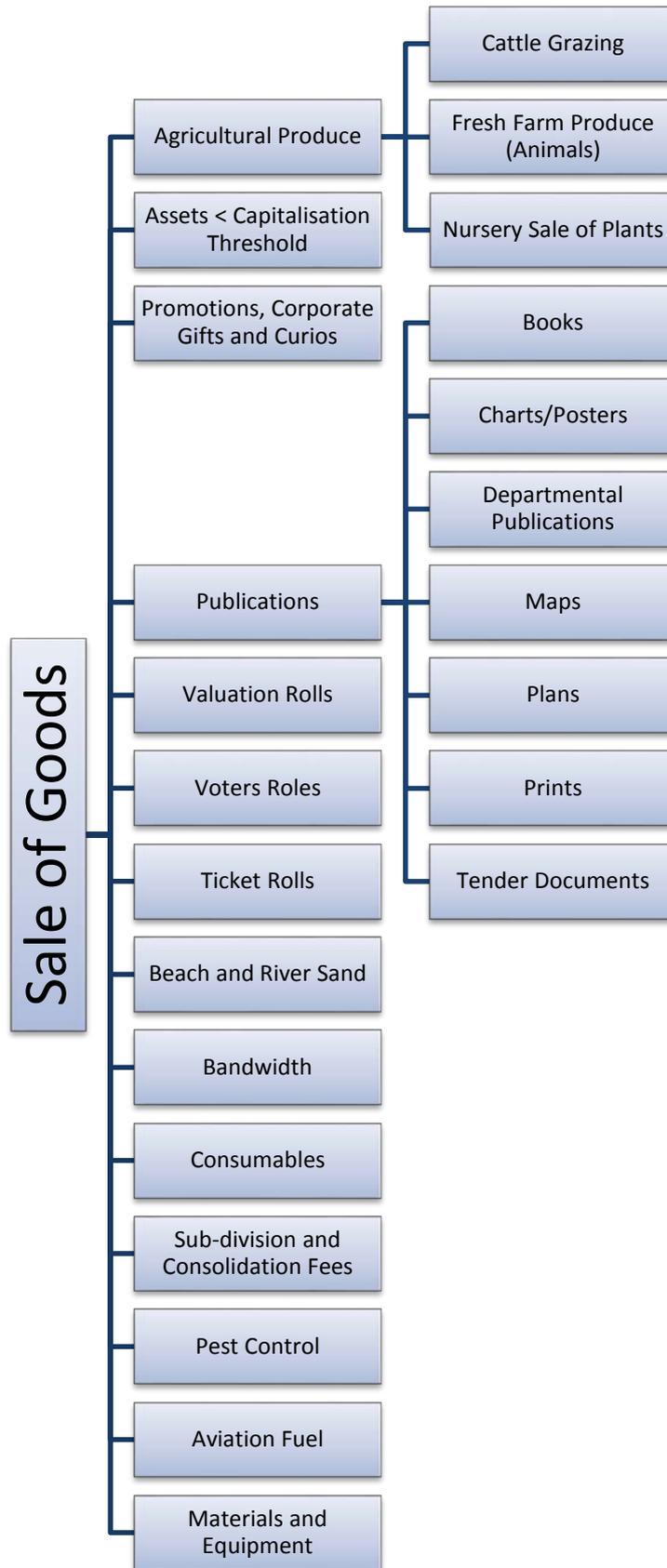
The rendering of services typically involves the performance by the municipality of an agreed task over an agreed period of time. This category consists of sales and services rendered provided that the municipality produced or partially produced the good or service. Detail categories were added according to the general functions provided by local government. The services may be rendered within a single period or over more than one period.

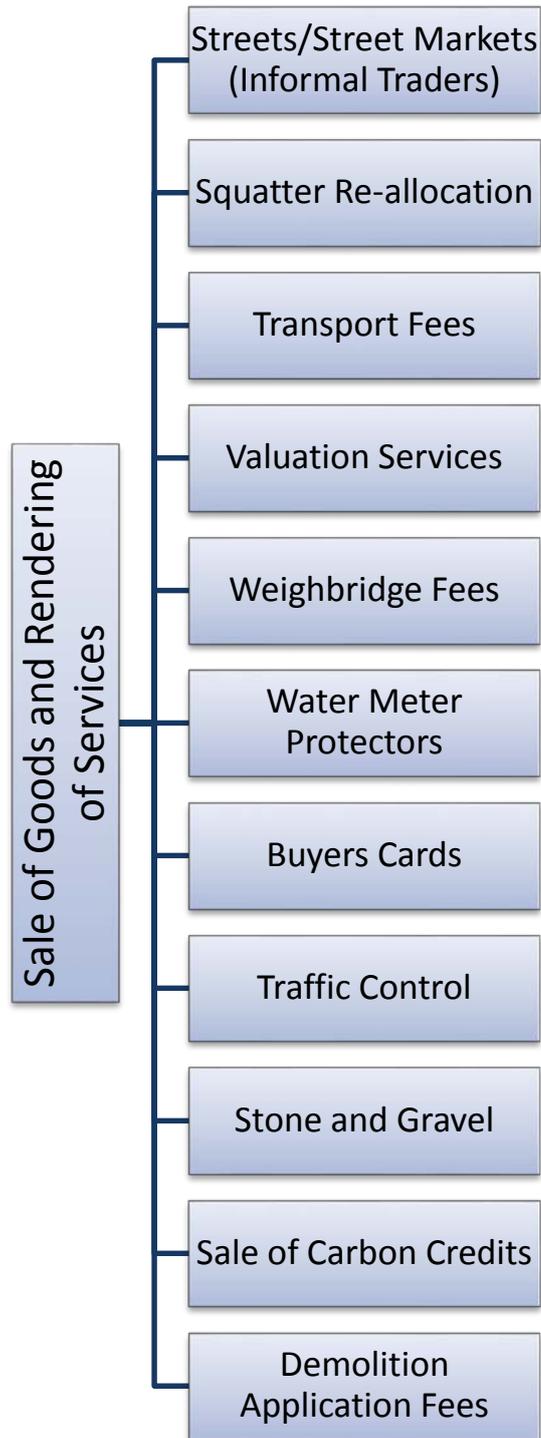
Examples of services rendered by entities for which revenue is typically received in exchange may include the provision of housing, management of water facilities, management of toll roads, and management of transfer payments.

77. Goods include goods produced by the municipality for the purpose of sale, such as publications, and goods purchased for resale, such as merchandise or land and other property held for resale.
78. The following posting level accounts have been added within this group of accounts:









**Definitions:**

**Sales of Goods and Rendering of Services:** This category consist of sales and services rendered provided that the municipality produced or partially produced the good or service.

**Academic Services:** Fees collected by the Municipality from external attendants for training and academic services made available to the public and other municipalities.

**Course Material:** Student pays for books, types or other material which relates to the course the student is taking.

**Formal Training:** Students pays for a course that is held in an organised and precise manner.

**Informal Training:** Students pays for a course that is not held in an organised and precise manner.

**Registration, Tuition and Examination Fees:** This item is for the classification of money collected from the enrolment for training/ courses, attendance and tuition fees and fees payable for writing exams.

**Temporary Accommodation Personnel:** This item is for fees collected for giving temporary accommodation to trainees/ students whilst attending courses/ training, specifically personnel.

**Temporary Accommodation Students:** This item is for fees collected for giving temporary accommodation to trainees/ students whilst attending courses/ training, specifically non-employees.

**Transportation Fees:** This item is for fees collected for providing transport specifically for academic services.

**Advertisements:** This item provide for revenue collected from advertising for external parties through municipal activities.

**Camping Fees:** Revenue collected for making available a place where tents, huts, or other temporary shelters are set up for temporary accommodation or recreational purposes including caravan stands.

**Cemetery and Burial:** Fees collected from providing cremation or mortuary services including pauper coffin sales, burial fees, tokens and plates and garden of remembrance fees.

**Cleaning and Removal:** Fees received for the service rendered for the cleaning of ervin; disposal and transfer of waste, dumping of garden refuse, cutting of grass and trees, drain blockages, etc.

**Computer Services:** This item is for fees collected from providing computer services to external parties, for example sale of broadband, dates, GIS Services, etc.

**Day Care Fees:** Charges for the provision of daytime training, supervision, recreation, and often medical services for children of preschool age, for the disabled, or for the elderly.

**Development Charges:** The levy on developers in the instance where additional real rights are conferred on properties where such rights have a direct impact on bulk/ major services such as roads, water, sewers, solid waste storm water and electricity. The contributions are based on agreed unit rates/ tariffs and the developer makes a contribution towards the delivery of services.

**Domestic Services:** Collection of fees charged for domestic service, work performed in a household by someone who is not a member of the family.

**Escort Fees:** Fees collected from one or more persons accompanying another to guide, protect, or show honour.

**Entrance Fees:** Revenue collected from attending or entering a venue for concerts, presentations, ceremonies or events and public entertainment such as swimming pool, aquariums, air shows, etc.

**Exempted Parking:** Fees collected for upfront payment of parking for use based on specific applications.

**Fire Services:** Fees collected for providing fire services if a person or institution could be held responsible for causing a fire. Included in this account is availability charges.

**Health Services:** This item provides for money collected from providing health services such as patient fees, professional fees, ambulance fees, laundry, orthopaedic and surgical aids, immunisation fees, etc.

**Housing (Boarding Services):** Accommodation for staff and other individuals including hostel fees.

**Staff:** Accommodation for staff including hostel fees.

**Private:** Accommodation for other individuals including hostel fees.

**Immunisation Fees:** Fees collected from providing a service for a process or procedure that protects the body against an infectious disease. A vaccination is a type of immunization.

**Laboratory Services:** Fees collected from providing scientific research and experiments.

**Legal Fees:** Legal fees recovered from third parties.

**Library Fees:** Fees collected from municipal library services provided to the community. If this service is done on behalf of the province this would be recorded as an agency fee through a control account in the Statement of Financial Position and only the management fees paid to the municipality for administration of these services are recognised as revenue.

**Loan Fees:** Fees paid by members for lending a book for an agreed period.

**Membership:** Fees paid by the community to become a member of the community library and lending of books.

**Copyright and Royalty Fee:** Copyright fees/ royalty's fees charged by reference library for the use of reference of copyrighted material.

**Management Fees:** Fees charged for providing management service to other entities. Also, included under this item is revenue flowing from managing vending machines by municipalities on behalf of private companies.

**Meal and Refreshment:** Money collected from the sale of meals and refreshments.

**Membership Fees:** Membership fees from subscribing to a service, such as copies of voter rolls, valuation roles, or other municipal information, gym fees, art club, etc.

**Objections and Appeals:** Fees paid for the objection and appeals against property valuations.

**Parking Fees:** Parking meter fees collected and other public parking spaces.

**Photocopies and Faxes:** Fees collected from providing photocopying and fax services to individuals and entities.

**Amendment Fees:** The act of offering an improvement to replace a mistake; setting right or making changes to a document and the fees recovered for this service.

**Application Fees for Land Usage:** Land use ensure that all land and properties are used only according to their permitted land-use or zoning rights. New applications by property owners and developers are considered for changing permitted land uses, zoning rights and their accompanying restrictions, which are in turn specified in zoning scheme. This responsibility is done in accordance with the municipalities commitment to sustainable and equitable development. Consents (Conditional use) – Fees charged for applications for secondary zoning rights (conditional use rights), and Departure Fees – Fees charged for applications in terms of uses and rights contrary to what the Zoning Scheme allows.

**Building Plan Approval:** When submitting a building plan application, scrutiny fees will be calculated according to municipal ordinance per square meter. These fees must be paid in full on submission of the application and are not refundable if the application is rejected. Entails the change in land use. Removal of restrictions and the rezoning in terms of the removal of Restriction Act, 1967 (Act No. 84 of 1967).

**Building Plan Clause Levy:** Fees payable for changes to "Clauses" contained in Building Plans, for example, Specifications for boundary walls, height and roof type, external furnishes, etc.

**Clearance Certificates:** Rates clearance certificate provided by the municipality to the transfer attorney when a property is changing ownership.

**Drainage Fees:** Fees collected for the drainage of water from leaking pipes, sewerage or ground water or storm water and flood water.

**Encroachment Fees:** Fees charged for encroaching building lines in respect of building regulations.

**Occupation Certificates:** This account is for the fees paid by developers/ home owners for obtaining an occupation certificate. An occupation certificate is compulsory for every building before occupation, as required by the National Building Regulations and Building Standards Act, 1977. This is to show that all requirements have been met and to safeguard the owner. The occupational certificate specifies the type of building – freestanding, terraced, cluster complex, town house complex, apartment or commercial building. The certificate is required before water and electricity deposits can be accepted for newly built properties.

**Removal of Restrictions:** The recovery of cost where the owner applies for removal of certain town planning restrictions for example rezoning.

**Town Planning and Servitudes:** This account provides for fees collected from "town planning". Town planning is a technical and political process concerned with the control of the use of land and design of the urban environment, including transportation networks, to guide and ensure the orderly development of settlements and communities. It concerns itself with research and analysis, strategic thinking, architecture, urban design, public consultation, policy recommendations, implementation and management.

**Sale of Goods:** This group of accounts provide for the sale of goods to third parties.

**Agricultural Products:** Revenue raised from the sale of agricultural products incidental to the activities of the municipality.

**Cattle Grazing:** The support provided in a form of actual grazing in times of drought/ disaster. Applicants pay a fee for their animals to graze on municipal property.

**Fresh Farm Products (Animals):** Revenue raised from the sale of fresh farm products (animals).

**Nursery Sale of Plants:** Revenue raised from the sale of plants.

**Assets < Capitalisation Threshold:** Allocation of income received from the sale of assets with an original cost of less than the capitalisation threshold.

**Promotions, Corporate Gifts and Curios:** Revenue raised from the sale of promotional items, corporate gifts, stuffed animals, souvenirs, t-shirts, photographs, tattoos, etc.

**Publications:** Revenue raised from the sale of various publications and printed matter by the municipality.

**Books:** Revenue raised from the sale of books by the municipality.

**Charts/ Posters:** Revenue raised from the sale of charts/ posters by the municipality.

**Departmental Publications:** Revenue raised from the sale of departmental publications.

**Maps:** Revenue raised from the sale of maps.

**Plans:** Revenue raised from the sale of plans.

**Prints:** Revenue raised from the sale of printed matter by the municipality.

**Tender Documents:** Revenue raised from the sale of tender documents.

**Valuation Rolls:** Money received from the sale of valuation roll information to third parties.

**Voters Role:** Money received from the sale of the voters roll to third parties.

**Ticket Rolls:** Sale of ticket rolls

**Beach and River Sand:** Sale of beach and river sand

**Bandwidth:** Sale of bandwidth to Private Enterprises

**Consumables:** Sale of minor and less material items not warranting separate items, for example keys, locks, etc.

**Sub-division and Consolidation Fees:** This relates to splitting an existing parcel of land into many parcels (Zoning remains the same) which is the sub-division fee payable. Consolidation refers to taking many parcels of adjacent land and consolidating it into one property, again the zoning does not change.

**Pest Control:** Money collected from pest control service provided by the municipality, for example rates, mice, bees, etc.

**Aviation Fuel:** Sale of aviation fuel by municipalities operating airports.

**Materials and Equipment:** Repayment by contractors for stock and equipment not returned by contractors. Also, included municipality branded safety gear purchased by contractors.

**Scrap, Waste & Other Goods:** This item includes sales of all items that are not considered capital assets and not produced by the municipality.

**By Products:** Sales of all by-products for example, compost, abattoir related products, logs, effluent water, etc.

**Recycling of Waste:** Money received for the sale of waste sold for recycling by third parties

**Removal and Disposal of Coal:** Money received by the municipality for the collection and removal of coal.

**Scrap:** Money received from the sale of scrap material.

**Swimming Pool Back Wash:** Money received for the sales of swimming pool back wash to third parties.

**Treatment Effluent:** Income derive from affluent treatment

**Waste Paper:** Money received from the sale of waste paper materials.

**Streets/ Street Markets (Informal Traders):** Money received from sales made at informal markets. This is not the account for recording rental received from the use of exhibition space, tables at city markets, etc.

**Squatter Re-allocation:** Fees received from squatters for relocation.

**Transport Fees:** This item is for the collection of transport fees from clients or staff for making use of transport arrange by the municipality, for example, Bus fares to Airport, Inner City Bus Fares, Special Bus Services, etc.

**Valuation Services:** The act or process of assessing value or price; an appraisal, issue of valuation certificates, appeal fees, etc.

**Weighbridge Fees:** Fees charged at weighbridges

**Water Meter Protectors:** Sale of protective covers for water meters

**Buyers Card:** Payment for issue of buyer's card to public to be able to purchase goods at the Bulk Markets

**Traffic Control:** Recovery of traffic control services provided by metro police to Private Enterprises

**Stone and Gravel:** Sale of stone and gravel from municipal quarries to the public.

**Sale of Carbon Credits:** National Treasury has a paper on Carbon Credits that may be useful in explaining the concept as well. Initiatives that lower the carbon footprint such as our Gas to Electricity project being awarded Carbon Credits for the savings in Carbon Dioxide produced (1 Carbon Credit represents 1 ton of Carbon Dioxide). These Carbon Credits maybe sold to companies internationally for offsetting their carbon footprint.

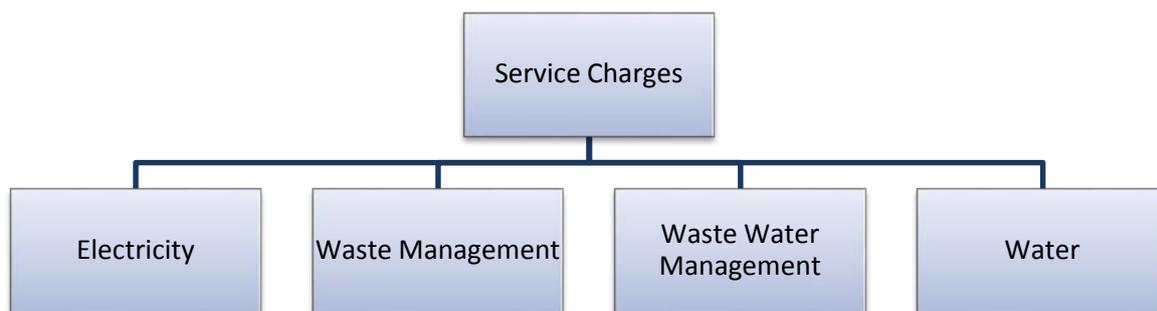
**Demolition Application Fees:** Application fee payable for permit to demolishing an existing building.

### Service Charges

**Definition:**

The rendering of services typically involves the performance by the municipality of an agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period. Examples of services rendered by municipalities for which revenue is typically received in exchange may include the provision of electricity and water.

79. At the highest-level mSCOA provides for the following group of accounts for service charges:



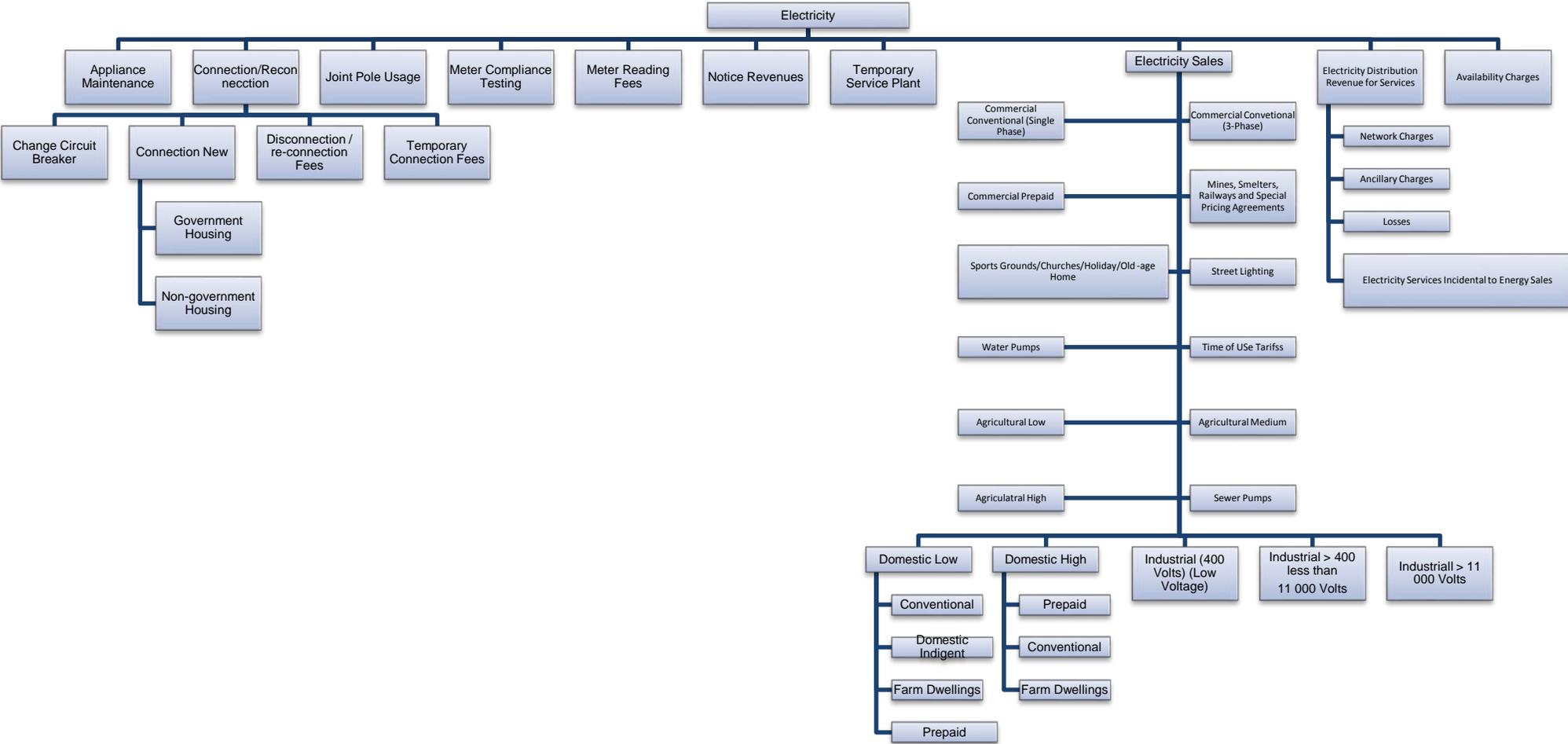
### Electricity

80. The information included in the mSCOA Classification on service charges for electricity is informed by the NERSA Regulatory Reporting Requirements. National Treasury is well aware that municipalities are at various stages of implementing the NERSA Regulatory Reporting Requirements. This group of accounts provides for posting levels under the heading “Non-compliance to NERSA”.

**Definition:**

Sale of electricity by the municipality to the community.

81. The following accounts are provided for within this group of accounts for Electricity:



## Waste Management

### Definition:

Revenue collected from sales and services rendered relating to waste management including availability charges.

82. The following accounts are provided for within this group of accounts for waste management:



### Definitions

**Availability Charges:** Basic fees levied for service availability but not used.

**Carrier Bags:** Revenue collected from the sale of municipal carrier bags.

**Disposal Facilities:** Revenue collected from solid waste disposal at landfill sites or transfer stations.

**Refuse Bags:** Fees collected from the sale of municipal refuse bags.

**Refuse Removal:** Fees collected from the removal of waste (also known as rubbish, trash, refuse, garbage, junk and litter) of unwanted or useless materials.

**Waste Bins:** Including refuse bins, "wheelie bins" and "baboon proof bins", etc.

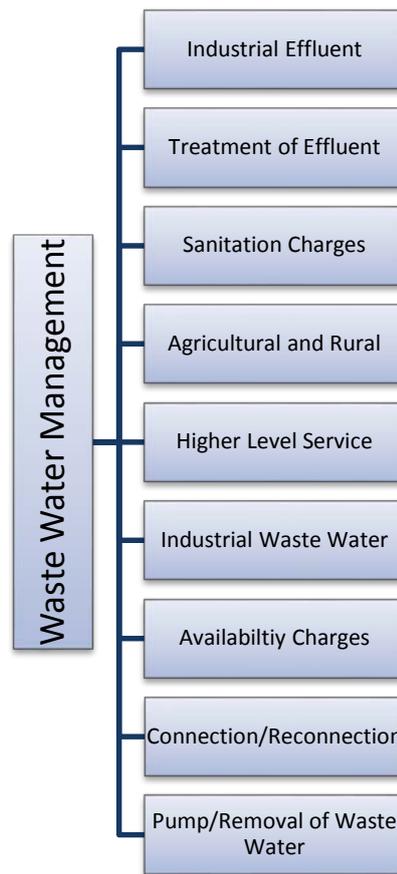
**Skip:** Fees for skips (waste containers) delivered by special trucks and collected for emptying at landfill sites or transfer stations.

## Waste Water Management

**Definition:**

Revenue collected from sales and services rendered relating to Waste Water Management including availability charges.

83. The information included for waste water and water service charges is informed by the Department of Water and Sanitation.
84. The following accounts are provided for within this group of accounts for waste water management:



**Definitions:**

**Waste Water Management:** Revenue collected from sales and services rendered relating to Waste Water Management including availability charges.

**Industrial Effluent:** Fees collected from the sale of industrial effluent.

**Treatment of Effluent:** Income derive from effluent treatment

**Sanitation Charges:** Formulation and application of measures designed to protect public health and disposal of sewage and the fees received for providing such a service to the community.

**Agricultural and Rural:** Fees collected from providing water for agricultural and rural use.

**Higher Level Service:** Service charges from waste removal in excess of basic service being once a week.

**Industrial Waste Water:** The infrastructure necessary to provide a sanitation facility which is safe, reliable, private, protected from the weather and ventilated, keeps smells to a minimum, is easy to keep clean, minimises the risk of the spread of sanitation-related disease by facilitating the appropriate control of disease carrying flies and pests, and enables safe and appropriate treatment and/ or removal of human waste water in an environmentally sound manner. The provision of a basic sanitation facility which is easily accessible to a household, the sustainable operation of the facility, including the safe removal of human waste and waste water from premises where this is appropriate and necessary, and the communication of good sanitation, hygiene and related practice. Waterborne sanitation service connected to septic tank and / or sewerage system.

**Availability Charges:** Basic fees levied for service availability but not used.

**Connection/ Reconnection:** Fees charge for connecting/ reconnecting a new user or disconnect user to the sewer network.

**Pump/ Removal of Waste Water:** Charges collected from removal of waste water and sewerage from tanks. [Honey suckers]

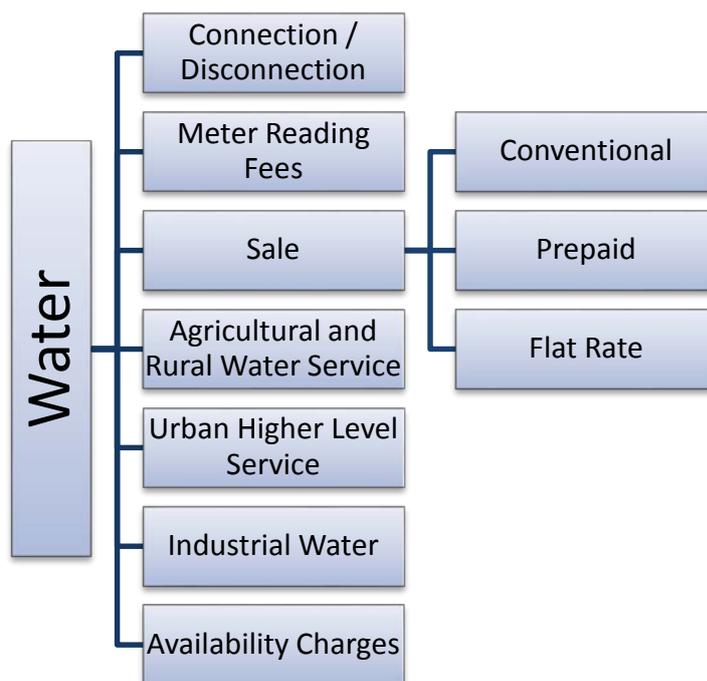
## Water

**Definition:**

Revenue collected from sales and services rendered relating to water including availability charges.

85. The information included for waste water and water service charges is informed by the Department of Water and Sanitation.

86. The following accounts are provided for within this group of accounts for water:

**Definitions:**

**Connection/ Disconnection:** Fees charge for connecting/ reconnecting a new user or disconnected user to the water network.

**Meter Reading Fees:** Fees collected from testing water meters, special readings and call-out fees.

**Sale:** Sales of water to the community.

**Conventional:** Sales of water to the community using conventional meters.

**Prepaid:** Sales of water to the community through a pre-paid system.

**Flat Rate:** Sale of unmetered water at a flat rate.

**Agricultural and Rural Water Service:** Sales of water generated from providing agricultural and rural water.

**Urban Higher Level Service:** Yard or and house connection - more than 6000 litres potable water per formal connection per month as per need; with a minimum flow of 10 litres per minute; sustainable facility which is available for at least 350 days per year and not interrupted for more than 48 consecutive hours per incident; and communication of good water - use, hygiene and related practice.

**Industrial Water:** Water used for industrial purposes such as fabricating, manufacturing, processing, washing, and cooling, and includes such industries as steel, chemical and allied products, paper and allied products, mining, and petroleum refining. Alternatively referred to as "clarified water" being water purified only to the extent it is used for industrial purposes. For example, not potable water

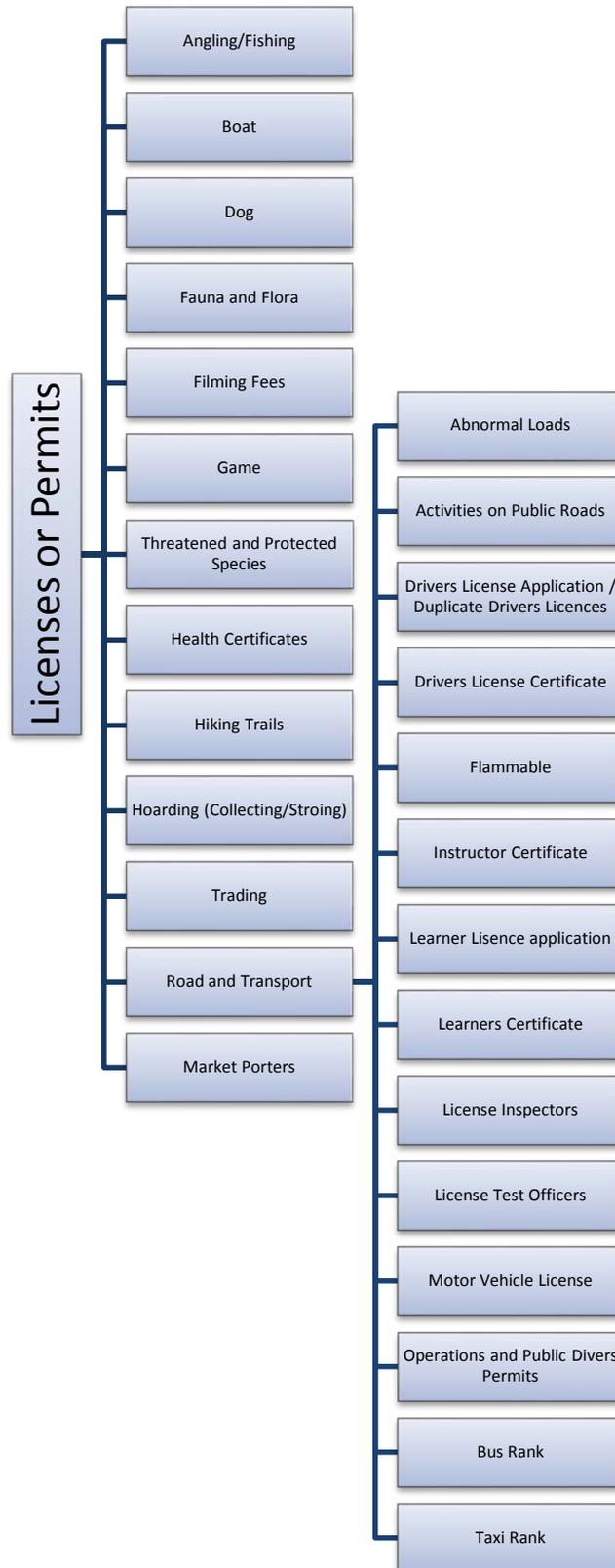
**Availability Charges:** Basic fees levied for service availability but not used.

### *Intercompany/Parent-subsidiary Transactions*

87. Revenue generated due to exchange transactions between municipalities and their subsidiary municipal entities.

### *Licenses or Permits*

88. Granting of licenses or permits associated with a regulatory function by government. Fees recognised under this category must result from a principle agreement. If the municipality act as an agent on behalf of provincial or national government the transaction need to be treated accordingly. Judgment need to be applied in deciding whether the "license or permits" need to be classified as exchange or non-exchange revenue.
89. Please refer to the Position Paper on Exchange versus Non-Exchange Transactions for further guidance to assist in making a distinction.



**Definitions:**

**Angling/ Fishing:** Angling licenses are issued for catching fish in inland fresh water areas (water which do not permanently or at any time during the year form part of the sea).

**Boat:** Boat licenses to utilise boats on municipal dams and rivers.

**Dog:** Depending on the Municipal Ordinances Dog Licences/ Permits are issued for dogs owned either exceeding a prescribed number of dogs.

**Fauna and Flora:** This license is issued to the public authorising them to be in possession of endangered and protected fauna/ flora species. This is also issued to researchers so that they can obtain samples of fauna/ flora species for research purposes.

**Filming Fees:** Permits issued/ fees charged for filming rights within the municipal area.

**Game:** Moneys received to obtain a permit for keeping game on private property.

**Threatened and Protected Species:** Tops refers to regulations relating to listed threatened and protected species as defined in the Biodiversity Act, 2004 (Act No. 10 of 2004).

**Health Certificates:** Depending on the Municipal by-laws health certificates and permits may be issued for "hazardous uses of premises", "private sewage works", "offensive trades", "hairdressing, beauty and cosmetology services", "second-hand goods", "accommodation establishments", "dry-cleaning and laundry", "nursery homes", "child-care services", "keeping of animals", etc.

**Hiking Trails:** Permits issued by municipalities for access to hiking trails by hikers and usual covers entrance fees.

**Hoarding (Collecting/ Storing):** Licences issued for the collecting and storing of food.

**Trading:** Trading licences are governed by the Business Act, 1991 (Act No. 71 of 1991) which states that the following businesses require licences: 1) sale or supply of meals or perishable foodstuffs; 2) provision of certain types of health facilities or entertainment and 3) hawking in meals or perishable food.

**Road and Transport:** Moneys received for licences and permits relating to road and transport.

**Abnormal Loads:** In terms of section 81 of the National Road Traffic Act, 1996 (Act No. 93 of 1996) an MEC may, subject to such conditions and upon payment of such fees or charges as determined, authorise in writing, either generally or specifically, the operation on a public

road of a vehicle which does not comply with the provisions of this Act or the conveyance on a public road of passengers or any load otherwise than in accordance with the provisions of this Act. Permits issued by the Provincial Roads Authority.

**Activities on Public Roads:** Licence and permits levied in terms of the municipal by-laws and might cover games, races and sport events on public roads, marches and protest actions, street functions, etc.

**Drivers Licence Application/ Duplicate Drivers Licences:** Fee for temporary drivers licence (that is valid for 6 months) allowing the person to drive a specific vehicle as described in the licence on public roads including issuing of duplicate drivers licences either applying for a drivers licence by making an appoint to be tested.

**Drivers Licence Certificate:** Fee payable for a person to issue a driver's licence after the person passed the learners drivers test so that the person can learn how to drive a motor bike, motor vehicle or truck.

**Flammable:** Certificate issued to allow the transport of flammable substances.

**Instructor Certificate:** Fee payable to obtain a certificate for a person to be an instructor. The person with the licence may instruct pupils on how to drive a motor vehicle in order to obtain a driver's licence.

**Learner Licence Application:** Application fees collected for making an appointment to write a "learners licence test".

**Learners Certificate:** Fees paid for the issue of a learner's licence.

**Licence Inspectors:** Licence issued to "licence inspectors" to credible for certifying/ inspecting driver's licences.

**Licence Test Officers:** Licence fees paid by an official to be authorised to be "licence test official".

**Motor Vehicle Licence:** Annual renewal/ new issue of motor vehicle licences.

**Operators and Public Drivers Permits:** Issue/ re-issue of operators and public drivers permits

**Bus Rank:** In respect of each public bus for which application for the right to use a bus rank was made.

**Taxi Rank:** In respect of each taxi for which application for the right to use a taxi rank was made.

**Market Porters:** Permit issued upon payment of a prescribed fee: Market Porter means a person who is authorised to operate on the market with a trolley or pallet jack;

## Non-exchange Revenue

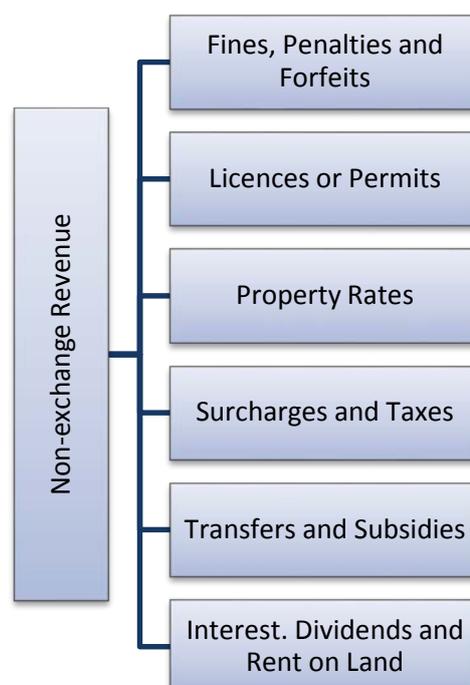
**Definition:**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

90. In some transactions, it is clear that there is an exchange of approximately equal value. These are exchange transactions and are addressed in the *Standards of GRAP 9- Revenue from Exchange Transactions*.
91. In other transactions, the municipality will receive resources and provide nominal or no consideration directly in return.
92. There is a further group of non-exchange transactions where the municipality may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases, the municipality determines whether there is a combination of exchange and non-exchange transactions, each component of which is recognised separately.
93. There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases, an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions, for example, the sale of goods is normally classified as an exchange transaction.
94. If, however, the transaction is conducted at a subsidised price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction. In determining whether the substance

of a transaction is that of a non-exchange or an exchange transaction, professional judgement is exercised.

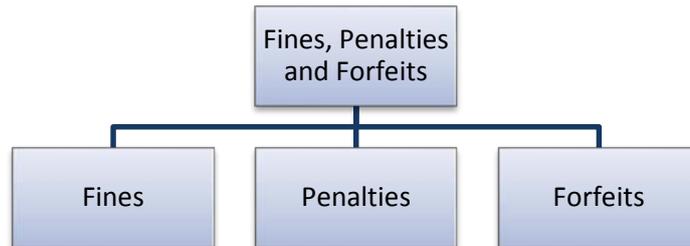
95. In addition, municipalities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction.
96. Amounts collected as an agent of the government or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.
97. Where the municipality incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognised as a cost of the transaction, for example, if the municipality is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognised separately from revenue arising from the transfer of the item of plant.
98. Delivery and installation costs are included in the amount recognised as an asset, in accordance with the Standard of GRAP 17 on Property, Plant and Equipment.
99. At the highest-level non-exchange revenue consists of:



### *Fines, Penalties and Forfeits*

100. This item consists of all compulsory receipts imposed by a court or quasi-judicial body. Out-of-court settlements are also included in this category. As with taxes, this item consists of unrequited, compulsory transactions. Thus, the recipient municipality does not provide anything in return for these receipts.

101. This group of accounts provides for the following categories:



### Fines

**Definition:**

This account is to be used for the recording of money collected from fines resulting from a crime or offence.

102. The group of accounts provide for the following posting level accounts for fines:



**Fines**

- Building
- Illegal Connections
- Law Enforcement
- Overdue Books Fine
- Pond Fees
- Traffic:
  - *Court Fines*
  - *Service Providers*
  - *Municipal*
  - *Councillors*

## Penalties

**Definition:**

A punishment imposed for a violation of law.

103. The group of accounts provide for the following posting level accounts for penalties:



### Penalties

- Property Rates
- Disconnection Fees
- Motor Vehicle Licence
- Tender Withdrawl
- Bus Operator

## Forfeits

104. The group of accounts provide for the following posting level accounts for forfeits:



### Forfeits

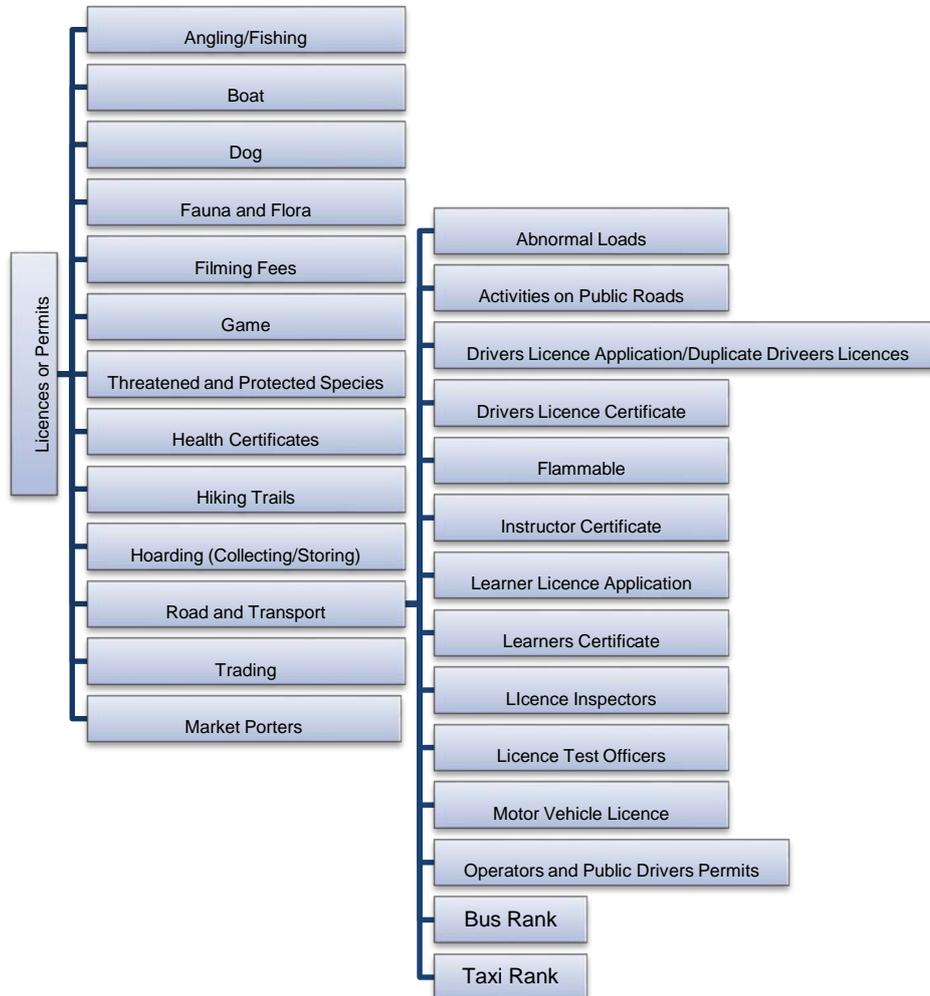
- Deposits
- Retentions
- Unclaimed Money

## *Licenses or Permits*

**Definition:**

Granting of licences or permits associated with a regulatory function of the municipality.

- 105. License or Permits may be exchange or non-exchange. Further guidance on making the distinction is provided in the Position Paper Exchange versus Non-Exchange.
- 106. The group of accounts provide for the following posting level accounts:



### Property Rates

- 107. The Local Government Municipal Property Rates, 2004 (Act No. 6 of 2004) regulates the power of a municipality to impose rates on property; to exclude certain properties from rating in the national interest; to make provision for municipalities to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies; to make provision for fair and equitable valuation methods of properties; to amend the Local Government: Municipal Systems Act, 2000 so as to make further provision for the serving of documents by municipalities; to amend or repeal certain legislation; and to provide for matters connected therewith.

Accordingly, this Act serves as the basis to be used in determining the classification required for “property rates, exemptions, reductions and rebates”.

108. The following sections of the Local Government Municipal Property Rates Act, 2004 have specific relevance in the determination of the classification proposed in the mSCOA for municipalities:
- Section 2: Power to Levy Rates
  - Section 8: Differential Rates
  - Section 15: Exemptions, Reductions and Rebates
  - Section 17: Other Impermissible Rates
  - Section 22: Special Rating Areas
109. Section 2 of the above-mentioned Act determines that: “a metropolitan or local municipality may levy a rate on property in its area and that a district municipality may not levy a rate on property except on property in a district management area within the municipality”.
110. The accounts as explained in the paragraphs below clearly indicate in the “Column: Use by”, “Municipalities excluding District Municipalities”.
111. Section 8 Differential Rates - indicates that subject to section 19, a municipality may in terms of the criteria set-out in its rates policy levy different rates for different categories of rateable property, which may include categories determined according to the use of the property, permitted use of the property or geographical area in which the property is situated. Subsection (2) includes categories of rateable property that may be determined. These categories were used in mSCOA (Version 5.3) for categorising property rates.
112. The Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014) came into operation on 1 July 2015, as per Government Gazette No 38259 dated 28 November 2014.
113. The summary provides a comparison of the Local Government: Municipal Property Rates Act, 2004 with the amendment introduced in the Local Government: Municipal Property Rates Amendment Act, 2014. These changes informed the revision made to the categories provided for in Version 5.4 of mSCOA.

114. Section 8 of the Local Government: Municipal Property Rates Amendment Act, 2014 determines that the “provisions of section 8 must be applied by a municipality within seven years of the date of the commencement of the Act”. It is important that the mSCOA need to provide for sufficient classification to address the requirements of the Local Government: Municipal Property Rates Act, 2004 as well as the Local Government Property Rates Amendment Act, 2014.
  
115. The table below provides as summary of the requirements set-out in the respective legislation and the application thereof in mSCOA Version 5.4:

Summary of the changes introduced by the Local Government: Municipal Property Rates Amendment Act

Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)	Local Government: Municipal mSCOA Version 5.4 Property Rates Amendment Improvements Act, 2014 (Act No. 29 of 2014)
<b>Section 8: Differential Rates</b>	
<p><b>8(1)</b> Subject to section 19, a municipality may in terms of the criteria set out in its rates policy levy different rates for different categories of rateable property, which may include categories determined according to the:</p> <ul style="list-style-type: none"> <li>(a) use of the property;</li> <li>(b) permitted use of the property; or</li> <li>(c) geographical area in which the property is situated.</li> </ul>	<p><b>8(1)</b> Subject to section 19, a municipality may, in terms of the criteria set out in its rates policy, levy different rates for different categories of rateable property, determined in subsection (2) and (3), which must be determined according to the:</p> <ul style="list-style-type: none"> <li>(a) use of the property;</li> <li>(b) permitted use of the property;</li> <li>or</li> <li>(c) a combination of (a) and (b).</li> </ul> <p>No impact on the mSCOA Version 5.4 classification.</p>

Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)		Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)			mSCOA Version 5.4 Improvements
<b>8(2)</b>	Categories of rateable property that may be determined in terms of subsection (1) include the following:	8(2)	A municipality must determine the following categories of rateable property in terms of subsection (1) provided such property category exists within the municipal jurisdiction:	Refer to the subsection for specific indication of the changes made in mSCOA Version 5.4 required by the Local Government: Municipal Property Rates Amendment Act, 2014.	
<b>8(2)(a)</b>	Residential properties;	8(2)(a)	Residential properties;	No changes required to mSCOA Version 5.4.	
<b>8(2)(b)</b>	industrial properties;	8(2)(b)	industrial properties;	No changes required to mSCOA Version 5.4.	
<b>8(2)(c)</b>	Business and commercial properties;	8(2)(c)	business and commercial properties;	No changes required to mSCOA Version 5.4.	

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>		<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
<b>8(2)(d)</b>	Farm properties used for: <ul style="list-style-type: none"> <li>(i) agricultural purposes;</li> <li>(ii) other business and commercial purposes;</li> <li>(iii) residential purposes; or</li> <li>(iv) purposes other than those specified in subparagraphs (i) to (iii);</li> </ul>	8(2)(d)	agricultural properties;	Farm Properties with the sub-classification remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.  The provision of the Local Government: Municipal Property Rates Amendment Act, 2014 has been addressed by including a “new account for Agricultural

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b></p>	<p><b>mSCOA Version 5.4 Improvements</b></p>
		<p>Properties” in mSCOA Version 5.4.</p>
<p><b>8(2)(e)</b> farm properties not used for any purpose;</p>		<p>Farm Properties not used for any purpose remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
	<p>8(2)(e) mining properties;</p>	<p>Classification added in mSCOA Version 5.4 to provide for “Mining Properties”.</p>

Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)		Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)		mSCOA Version 5.4 Improvements	
<b>8(2)(f)</b>	smallholdings used for: <ul style="list-style-type: none"> <li>(i) agricultural purposes;</li> <li>(ii) residential purposes;</li> <li>(iii) industrial purposes</li> <li>(iv) business and commercial purposes; or</li> <li>(v) purposes other than those specified in subparagraphs (i) to (iv);</li> </ul>			Small Holdings where the sub-classification remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.	
<b>8(2)(g)</b>	state-owned properties;	8(2)(f)	properties owned by an organ of state and used for public service purposes;	No changes required to mSCOA Version 5.4.	
<table border="1" style="margin-left: auto;"> <tr> <td><b>Definition:</b></td> </tr> </table>					<b>Definition:</b>
<b>Definition:</b>					

<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal mSCOA Version 5.4 Property Rates Amendment Improvements Act, 2014 (Act No. 29 of 2014)</b>
	<p>Public Service Purpose in relation to the use of a property means property owned and used by an organ of state as:</p> <ul style="list-style-type: none"><li>hospitals or clinics;</li><li>schools, pre-school, early childhood development centres or further education and training colleges;</li><li>national and provincial libraries and archives;</li><li>police stations;</li><li>correctional facilities; or</li><li>courts of law;</li></ul> <p>but excludes property contemplated in the definition of “public service infrastructure”.</p>

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>		<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
<b>8(2)(h)</b>	municipal properties;			Municipal Properties remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.
<b>8(2)(i)</b>	public service infrastructure;	<b>8(2)(g)</b>	public service infrastructure properties;	No changes required to mSCOA Version 5.4.
			<p><b>Definition:</b></p> <p>“public service infrastructure” means publicly controlled infrastructure of the following kinds:</p>	

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Act, 2014 (Act No. 29 of 2014)</b> mSCOA Version 5.4 Improvements</p>
	<p>(a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;</p> <p>(b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;</p> <p>(c) power stations, power substations or power lines forming part of an electricity scheme serving the public;</p> <p>(d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;</p>

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Act, 2014 (Act No. 29 of 2014)</b> mSCOA Version 5.4 Improvements</p>
	<p>(e) railway lines forming part of a national railway system;</p> <p>(f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;</p> <p>(g) runways or aprons at national or provincial airports;</p> <p>(h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;</p>

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b></p>	<p><b>mSCOA Version 5.4 Improvements</b></p>
	<p>(i) any other publicly controlled infrastructure as may be prescribed; or (j) rights of way, easements or servitudes in connection with infrastructure mentioned in paragraphs (a) to (i)</p>	
<p><b>8(2)(j)</b></p>	<p>privately owned towns serviced by the owner;</p>	<p>Privately owned towns serviced by the owner remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.</p>

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
<b>8(2)(k)</b>	formal and informal settlements;		Formal and informal settlements services by the owner remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.
<b>8(2)(l)</b>	communal land as defined in section 1 of the Communal Land Rights Act, 2004;		Communal land remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local

	<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b> <b>mSCOA Version 5.4 Improvements</b></p>
		<p>Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>8(2)(m)</b></p>	<p>state trust land;</p>	<p>State trust land remains available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>8(2)(n)</b></p>	<p>Properties:  (i) acquired through the Provision of Land and Assistance Act, 1993 (Act No. 126 of 1993), or the Restitution</p>	<p>Communal land remains available for use in mSCOA Version 5.4 pending the lapse of the</p>

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b> <b>mSCOA Version 5.4 Improvements</b>
	of Land Rights Act, 1994 (Act No. 22 of 1994); or  (ii) which is subject to the Communal Property Associations Act, 1996 (Act No. 28 of 1996);	transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, No 2014.
<b>8(2)(o)</b>	protected areas;	Protected areas remain available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>		<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
<b>8(2)(p)</b>	properties on which national monuments are proclaimed;			Protected areas remain available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal Property Rates Amendment Act, 2014.
<b>8(2)(q)</b>	properties owned by public benefit organisations and used for any specific public benefit activities listed in Part 1 of the Ninth Schedule to the Income Tax Act, 1962 (as amended); or	<b>8(2)(h)</b>	properties owned by public benefit organisations and used for specified public benefit activities;	National monument properties remain available for use in mSCOA Version 5.4 pending the lapse of the transitional arrangements provided for in the Local Government: Municipal

	Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)	Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)	mSCOA Version 5.4 Improvements
			Property Rates Amendment Act, 2014.
<b>8(2)(r)</b>	properties used for multiple purposes, subject to section 9	properties used for multiple purposes, subject to section 9; or	No changes required to mSCOA Version 5.4.
	8(2)(j)	any other category of property as may be determined by the Minister, with the concurrence of the Minister of Finance, by notice in the Gazette.	Classification added in mSCOA Version 5.4 to provide for "Mining Properties".
	8(3)	In addition to the categories of rateable property determined in terms of subsection (2), a municipality may determine additional categories of rateable property, including vacant land: Provided that, with the exception	Account is available for Vacant Land in the classification for "Residential Property".

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b></p>	<p><b>mSCOA Version 5.4 Improvements</b></p>
	<p>of vacant land, the determination of such property categories does not circumvent the categories of rateable property that must be determined in terms of subsection (2).</p>	
<p>8(4)</p>	<p>(a) Where a municipality can, on good cause, show that there is a need to sub-categorise the property categories listed in subsection (2), a municipality must apply to the Minister in writing for authorisation to create one or more of such sub-categories.</p> <p>(b) Such application must:</p>	<p>No impact on the mSCOA Version 5.4 classification.</p>

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b></p>	<p><b>mSCOA Version 5.4 Improvements</b></p>
	<p>(i) be accompanied by a motivation for such sub-categorisation;</p> <p>ii) demonstrate that such sub-categorisation is not in contravention of section 19; and</p> <p>10</p>	
<p><b>Section 15: Exemptions, Reductions and Rebates</b></p>		
<p><b>15(1)</b></p>	<p>A municipality may in terms of criteria set out in its rates policy:</p>	<p>No impact on the mSCOA Version 5.4 classification.</p>
<p><b>15(1)(a)</b></p>	<p>exempt a specific category of owners of properties, or the owners of a specific category of properties, from payment of a rate levied on their property; or</p>	<p>No impact on the mSCOA Version 5.4 classification.</p>

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>		<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
<b>15(1)(b)</b>	grant to a specific category of owners of properties, or to the owners of a specific category of properties, a rebate on or a reduction in the rates payable in respect of their properties			No impact on the mSCOA Version 5.4 classification.
<b>15(2)</b>	When granting in terms of subsection (1) exemptions, rebates or reductions in respect of owners of categories of properties, a municipality may determine such categories in accordance with section 8(2), and when granting exemptions, rebates or reductions in respect of categories of owners of properties, such categories may include:	15(2)	When granting in terms of subsection (1) exemptions, rebates or reductions in respect of owners of categories of properties, a municipality may determine such categories in accordance with section 8(2) and subsection (2A), and when granting exemptions, rebates or reductions in respect of categories	No impact on the mSCOA Version 5.4 classification.

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
		of owners of properties, such categories may include:	
<b>15(2)(a)</b>	indigent owners;		No impact on the mSCOA Version 5.4 classification.
<b>15(2)(b)</b>	owner's dependent on pensions or social grants for their livelihood;		No impact on the mSCOA Version 5.4 classification.
<b>15(2)(c)</b>	owners temporarily without income;		No impact on the mSCOA Version 5.4 classification.
<b>15(2)(d)</b>	owners of property situated within an area affected by: <ul style="list-style-type: none"> <li>(i) a disaster within the meaning of the Disaster Management Act, 2002 (Act No. 57 of 2002); or</li> </ul>		No impact on the mSCOA Version 5.4 classification.

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
	(ii) any other serious adverse social or economic conditions;		
<b>15(2)(e)</b>	owners of residential properties with a market value lower than an amount determined by the municipality; or		No impact on the mSCOA Version 5.4 classification.
<b>15(2)(f)</b>	owners of agricultural properties who are bona fide farmers.		No impact on the mSCOA Version 5.4 classification.
	15(2)A	In addition to the categories of rateable property determined in terms of section 8(2), a municipality may, subject to any ratio determined in terms of section 19, for the purposes of granting exemptions, rebates and	No impact on the mSCOA Version 5.4 classification.

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b></p>	<p><b>mSCOA Version 5.4 Improvements</b></p>
	<p>reductions, determine such property categories based on:</p> <p>(a) properties used for public service purposes; and</p> <p>(b) properties to which the provisions of the National Heritage Resources Act, 1999 (Act No. 25 of 1999), apply, or an institution that has been declared to be subject to the Cultural Institutions Act, 1998 (Act No. 119 of 1998).”</p>	
<p>(3) The municipal manager must annually table in the council of the municipality a:</p>	<p>(3) The municipal manager must annually table in the council of the municipality a:</p>	<p>No impact on the mSCOA Version 5.4 classification.</p>

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal mSCOA Version 5.4 Property Rates Amendment Improvements Act, 2014 (Act No. 29 of 2014)</b></p>
<p>(a) list of all exemptions, rebates and reductions granted by the municipality in terms of subsection (1) during the previous financial year; and</p> <p>(b) statement reflecting the income for the municipality foregone during the previous financial year by way of:</p> <p>(i) such exemptions, rebates and reductions;</p> <p>(ii) exclusions referred to in section 17(1)(a), (e), (g), (h) and (i); and</p> <p>(iii) the phasing-in discount granted in terms of section 21</p>	<p>(a) list of all exemptions, rebates and reductions granted by the municipality in terms of subsection (1) during the previous financial year; and</p> <p>Deleted subsection 3(b).</p>

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>		<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
	<p>(4) All exemptions, rebates and reductions projected for a financial year must be reflected in the municipality's annual budget for that year as: (a) income on the revenue side; and (b) expenditure on the expenditure side.</p>			<p>No impact on the mSCOA Version 5.4 classification.</p>
<p><b>Section 17: Other Impermissible Rates</b></p>				
<p><b>17(1)</b></p>	<p>A municipality may not levy a rate:</p>			<p>No impact on the mSCOA Version 5.4 classification.</p>
<p><b>17(1)(a)</b></p>	<p>on the first 30 per cent of the market value of public service infrastructure;</p>	<p>17(1)(a)</p>	<p>subject to paragraph (aA), on the first 30 per cent of the market value of public service infrastructure</p>	<p>No impact on the mSCOA Version 5.4 classification.</p>

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b></p>	<p><b>mSCOA Version 5.4 Improvements</b></p>
	<p>subject to paragraph (aA) on any property referred to in paragraphs (a), (b), (e), (g) and (h) of the definition of 'public service infrastructure'</p>	<p>No impact on the mSCOA Version 5.4 classification. Definition changed to be in agreement with the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>17(1)(b)</b> on any part of the seashore as defined in the Seashore Act, 1935 (Act No. 21 of 1935);</p>	<p>on any part of the seashore as defined in the National Environmental Management: Integrated Coastal Management Act, 2007 (Act No. 24 of 2008);</p>	<p>No impact on the mSCOA Version 5.4 classification. Definition changed to be in agreement with the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>17(1)(c)</b> on any part of the territorial waters of the Republic as determined in terms</p>		

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal mSCOA Version 5.4 Property Rates Amendment Improvements Act, 2014 (Act No. 29 of 2014)</b></p>
	<p>of the Maritime Zones Act, 1994 (Act No. 15 of 1994);</p>
<p><b>17(1)(d)</b></p>	<p>on any islands of which the state is the owner, including the Prince Edward Islands referred to in the Prince Edward Islands Act, 1948 (Act No. 43 of 1948);</p>
<p><b>17(1)(e)</b></p>	<p>on those parts of a special nature reserve, national park or nature reserve within the meaning of the Protected Areas Act, 2003 or of a national botanical garden within the meaning of the National Environmental Management: Biodiversity Act, 2004, which are not developed or used for commercial,</p>

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>		<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
	business, agricultural or residential purposes;			
<b>17(1)(f)</b>	on mineral rights within the meaning of paragraph (b) of the definition of “property” in section 1;	17(1)(f)	on mining rights or a mining permit within the meaning of the Mineral and Petroleum Resources Development Act, 2002, No 28 of 2002, excluding any building, other immovable structures and infrastructure above the surface of the mining property required for purposes of mining.	No impact on the mSCOA Version 5.4 classification. Definition changed to be in agreement with the Local Government: Municipal Property Rates Amendment Act, 2014.
<b>17(1)(g)</b>	on a property belonging to a land reform beneficiary or his or her heirs, provided that this exclusion lapses ten years from the date on which such beneficiary’s title was	17(1)(g)	on property belonging to a land reform beneficiary or his or her heirs, dependents or spouse provided that this exclusion lapses:	No impact on the mSCOA Version 5.4 classification. Definition changed to be in agreement with the Local Government:

	<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014)</b>	<b>mSCOA Version 5.4 Improvements</b>
	<p>registered in the office of the Registrar of Deeds;</p>	<ul style="list-style-type: none"> <li>i) ten years from the date on which such beneficiary's title was registered in the office of the Registrar of Deeds; or</li> <li>ii) upon alienation of the property by the land reform beneficiary or his or her heirs, dependants or spouse.</li> </ul>	<p>Municipal Property Rates Amendment Act, 2014.</p>
<p><b>17(1)(h)</b></p>	<p>on the first R15 000 of the market value of a property assigned in the valuation roll or supplementary valuation roll of a municipality to a</p>		<p>No impact on the mSCOA Version 5.4 classification.</p>

<p><b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b></p>	<p><b>Local Government: Municipal mSCOA Version 5.4 Property Rates Amendment Improvements Act, 2014 (Act No. 29 of 2014)</b></p>
<p>category determined by the municipality:</p> <ul style="list-style-type: none"> <li>(i) for residential properties; or</li> <li>(ii) for properties used for multiple purposes, provided one or more component/s of the property are used for residential purposes; or</li> </ul>	
<p><b>17(1)(i)</b> on a property registered in the name of and used primarily as a place of public worship by a religious community, including an official residence registered in the name of that community which is occupied by</p>	<p>on a property registered in the name of and used primarily as a place of public worship by a religious community, including the official residence registered in the name of that community which is</p> <p>No impact on the mSCOA Version 5.4 classification.</p>

<b>Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004)</b>	<b>Local Government: Municipal mSCOA Version 5.4 Property Rates Amendment Improvements Act, 2014 (Act No. 29 of 2014)</b>
an office-bearer of that community who officiates at services at that place of worship	occupied by the office bearer of that community who officiates at services at that place of worship.

**Definition:**

**Property Rates** means a municipal rate on property envisaged in section 229 (1)(a) of the Constitution read with the Municipal Property Rate Act, 2004 (Act No. 6 of 2004) as amended by the Municipal Property Rates Amendment Act, 2014 (Act No. 29 of 2014). Rateable property means property on which a municipality may in terms of section 8 levy a rate and excludes impermissible rates as per section 17 of the Act.

116. The table below provides the posting level accounts for property rates. The Local Government: Municipal Property Rates Amendment Act, 2014, section 93B provides the transitional arrangements and determines that the provisions of section 8 must be applied by the municipality within 7 years of the date of the commencement of the Act, being 1 July 2015. Accordingly, mSCOA Version 6.1 provides for the rate categories as directed by the section 8 of the Local Government: Municipal Property Rate Act, 2004 as well as the changes provided for in the Local Government: Municipal Property Rates Amendment Act, 2014. The notes column provides an indication on the continuous use of some of the accounts following the implication of the Amendment Act.

Account Description	Definition	Comment
<b>Business and Commercial Properties</b>	Property rates levied on properties used for office buildings, medical centres, hotels, malls, retail stores, shopping centres, garages, guesthouses, bed-and-breakfast and multifamily housing buildings included in a valuation roll in terms of section 8(2)c of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. As determined by Section 8(4)a of the Municipal	Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.

Account Description	Definition	Comment
	Property Rates Amendment Act, 2014.	
<b>Communal Land</b>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Communal Land is defined in the Communal Land Rights Act, 2004 (Act No. 11 of 2004) as being land contemplated in section 2 which is, or to be, occupied or used by members of a community subject to the rules or custom of that community. Section 9 of this Act directs that a property used for multi purposes must, for rates purposes, be assigned to a category determined by the municipality for properties used for (a) a purpose corresponding with the permitted use of the property; (b) a purpose corresponding with the dominant use of the property or (c) multiple purpose in terms of section 8(2)(r). Subsection 2 determines that a rate levied on a property assigned in terms of subsection (1)(c) to a category of properties used for multiple purposes must be</p>	<b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b>

Account Description	Definition	Comment
	<p>determined by (a) apportioning the market value of the property, in a manner as may be prescribed, to the different purposes for which the property is used; and (b) applying the rates applicable to the categories determined by the municipality for properties used for those purposes to the different market value apportionments. Accordingly, "Communal Land" is sub-divided according to the use of the property or parts thereof in agricultural, residential, industrial, business and commercial and other purposes not specified above.</p>	
<ul style="list-style-type: none"> <li>• <b>Business and Commercial</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates on "Communal Land" used for business and commercial and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20)(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
<ul style="list-style-type: none"> <li><b>Farm Property</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates on “Communal Land” used for farm property and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Other</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates on “Communal Land” used for “other purposes” and/or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act. Posting level need to be specified.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Residential</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
	<p>on “Communal Land” used for residential purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	
<ul style="list-style-type: none"> <li>• <b>Small Holdings</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates on “Communal Land” used for small holdings and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<p><b>Farm Properties</b></p>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on properties permitted for farming such as the cultivation of animals, plants, fungi and other life forms for food, fibre and other products</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
	<p>used to sustain life included in a valuation roll in terms of section 48(20(b) of the Municipal Property Rates Act, 2004. "Permitted use", in relation to a property, means the limited purposes for which the property may be used in terms of (a) any restrictions imposed by (i) a condition of title; (ii) a provision of a town planning or land use scheme; or (iii) any legislation applicable to any specific property or properties; or (b) any alleviation of any such restrictions. [Municipal Properties Rates Act, 2004]</p> <p>Section 9 of this Act directs that a property used for multiple purposes must, for rates purposes, be assigned to a category determined by the municipality for properties used for (a) a purpose corresponding with the permitted use of the property; (b) a purpose corresponding with the dominant use of the property or (c) multiple purpose in terms of section 8(2)(r). Subsection 2 determines that a rate levied on a property assigned in terms of subsection (1)(c) to a category of properties used for multiple purposes must be</p>	

Account Description	Definition	Comment
	<p>determined by (a) apportioning the market value of the property, in a manner as may be prescribed, to the different purposes for which the property is used; and (b) applying the rates applicable to the categories determined by the municipality for properties used for those purposes to the different market value apportionments. Accordingly, Farm Properties are sub-divided according to the use of the property or parts thereof in agricultural, residential, industrial, business and commercial and other purposes not specified above.</p>	
<ul style="list-style-type: none"> <li data-bbox="193 1205 667 1964"><b>Agricultural Purposes</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on farming properties used for agricultural purposes and/or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014. See account added for Agricultural Purposes for the changes required by the amendments.</b></p>

Account Description	Definition	Comment
<ul style="list-style-type: none"> <li><b>Business and Commercial</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on farming properties used for business and commercial purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Industrial Purposes</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on farming properties used for industrial purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Residential Properties</b></li> </ul>	<p>This classification would not be applicable if the Municipal</p>	<p><b>Not applicable following the implementation of the Local</b></p>

Account Description	Definition	Comment
	<p>Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on farming properties used for residential purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Other purposes than the above</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on farming properties used for “other purposes than specified” and/or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Farm Properties not used for any purpose</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal</b></p>

Account Description	Definition	Comment
	<p>implemented by the municipality. New category included for Agricultural Properties. Property rates levied on farming properties not used for any purpose included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Property Rates Amendment Act, 2014.</b></p>
<p><b>Formal and Informal Settlements</b></p>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Formal and Informal Settlements (or also called squatter settlements) sometimes illegal or unauthorised is a settlement of impoverished people who live in improvised dwellings made from scrap materials, often plywood, corrugated metal and sheets of plastic and do not have proper sanitation, electricity or telephone services.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<p><b>Industrial Properties</b></p>	<p>Property rates levied on industrial properties such as factories, warehouses, industrial parks, manufacturing and processing included in a valuation roll in terms of section 8(2)b of the Municipal</p>	<p>Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>

Account Description	Definition	Comment
	<p>Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.</p>	
<p><b>Mining Properties</b></p>	<p>Mining property means a property used for mining operations as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002) included in a valuation roll in terms of section 8(2)e of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.</p>	<p>Account added to assist the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>Municipal Properties</b></p>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates levied on Municipal Properties (including municipal entities as defined in the Municipal Systems act) included in a valuation roll in terms of section 48(20(b) of the</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
	Municipal Property Rates Act, 2004.	
<b>National Monument Properties</b>	This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates levied on “National Monument Properties” included in a valuation roll in terms of section 48(20(b) of the Municipal Property Rates Act, 2004. Property on which national monuments are proclaimed.	<b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b>
<b>Privately Owned Towns Serviced by the Owner</b>	This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates levied on “Privately Owned Town serviced by the Owner” included in a valuation roll in terms of section 48(20)(b) of the Municipal Property Rates Act, 2004.	<b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b>
<b>Protected Areas</b>	This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. Property rates levied on “Protected Areas”	<b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b>

Account Description	Definition	Comment
	included in a valuation roll in terms of section 48(20(b) of the Municipal Property Rates Act, 2004.	
<b>Public Benefit Organisations</b>	Properties owned by public benefit organisations and used for specified public benefit activities provided for by section 8(2)h of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.	Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014. Consider the definition provided.
<b>Public Service Infrastructure Properties</b>	Public service infrastructure means publicly controlled infrastructure of the following kinds: (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary, (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water sewer scheme serving the public, (c) power stations, power substations or power lines forming part of an electricity scheme serving the public, (d) gas or liquid fuel plants or	Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.

Account Description	Definition	Comment
	<p>refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels, (e) railway lines forming part of national railway stations, (f) communication towers, masts, exchanges or lines forming part of a communication system serving the public, (g) railways, aprons and the air traffic control unit at national and provincial airports, including the vacant land known as the obstacle free zone surrounding these, which must be vacant for air navigation purposes, (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services or ports, or navigational aids comprising lighthouses, radio navigation aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels, (i) any other publicly controlled infrastructure as may be prescribed or (j) a right registered against immovable property in connection with</p>	

Account Description	Definition	Comment
	<p>infrastructure mentioned in paragraphs (a) to (i) included in a valuation roll in terms of section 8(2)g of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.</p>	
<p><b>Residential Properties</b></p>	<p>Residential property means a property included in a valuation roll in terms of section 48(2)(b) in respect of which the primary use or permitted use is for residential purposes without derogating from section 9 of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.</p>	<p>Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<ul style="list-style-type: none"> <li>• <b>Developed</b></li> </ul>	<p>Property rates levied on developed residential properties included in a valuation roll in terms of section 48(20)(b) of the Municipal Property Rates Act, 2004. This distinction is made based on the provision included in section 8(3) of the</p>	<p>Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>

Account Description	Definition	Comment
	<p>Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014: "a municipality may determine additional categories of rateable properties, including vacant land. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014".</p>	
<ul style="list-style-type: none"> <li>• <b>Vacant Land</b></li> </ul>	<p>Property rates levied on undeveloped residential properties included in a valuation roll in terms of section 48(20)(b) of the Municipal Property Rates Act, 2004. This distinction is made based on the provision included in section 8(3) of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014: "a municipality may determine additional categories of rateable properties, including vacant land. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014".</p>	<p>Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>Restitution and Redistribution Properties (Section 8(2)n)</b></p>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal</b></p>

Account Description	Definition	Comment
	<p>implemented by the municipality. Property rates levied on "Restitution and Redistribution Properties" included in a valuation roll in terms of section 48(20(b) of the Municipal Property Rates Act, 2004. Land reform involves the changing of laws, regulations or customs regarding land ownership. Land reform may consist of a government-initiated or government-backed property redistribution, generally of agricultural land. Land reform can, therefore, refer to transfer of ownership from the more powerful to the less powerful: such as from a relatively small number of wealthy (or noble) owners with extensive land holdings (e.g., plantations, large ranches, or agribusiness plots) to individual ownership by those who work the land. Such transfers of ownership may be with or without compensation; compensation may vary from token amounts to the full value of the land.</p>	<p><b>Property Rates Amendment 2014.</b></p>
<ul style="list-style-type: none"> <li>• <b>Communal Property Associations Act, 1996 (Act No. 28 of 1996)</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal</b></p>

Account Description	Definition	Comment
	<p>implemented by the municipality. Restitution of Land Rights Act: To provide for the restitution of rights to land in respect of which persons or communities were dispossessed under or for the purpose of furthering the objects of any racially based discriminatory law; to establish a Commission on Restitution of Land Rights and a Land Claims Court; and to provide for matters connected therewith. Property rates levied on "Restitution and Redistribution Properties" included in a valuation roll in terms of section 48(20)(b) of the Municipal Property Rates Act, 2004. To enable communities to form juristic persons, to be known as communal property associations in order to acquire, hold and manage property on a basis agreed to by members of a community in terms of a written constitution; and to provide for matters connected therewith.</p>	<p><b>Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li>• <b>Land and Assistance Act or Restitution of Land Rights Act, 1994 (Act No. 22 of 1994)</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
	<p>municipality. Land and Assistance Act: To provide for the designation of certain land; to regulate the subdivision of such land and the settlement of persons thereon; to provide for the rendering of financial assistance for the acquisition of land and to secure tenure rights; and to provide for matters connected therewith. Property rates levied on “Restitution and Redistribution Properties” included in a valuation roll in terms of section 48(20)(b) of the Municipal Property Rates Act, 2004.</p>	
<p><b>Small Holdings</b></p>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on properties permitted for “small holdings” being small farms supporting a single family with a mixture of cash crops and subsistence farming and their rural lifestyle provided for, included in a valuation roll in terms of section 48(20)(b) of the</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
	<p>Municipal Property Rates Act, 2004. "Permitted use", in relation to a property, means the limited purposes for which the property may be used in terms of (a) any restrictions imposed by (i) a condition of title; (ii) a provision of a town planning or land use scheme; or (iii) any legislation applicable to any specific property or properties; or (b) any alleviation of any such restrictions. [Municipal Properties Rates Act, 2004].</p> <p>Section 9 of this Act directs that a property used for multiple purposes must, for rates purposes, be assigned to a category determined by the municipality for properties used for (a) a purpose corresponding with the permitted use of the property; (b) a purpose corresponding with the dominant use of the property or (c) multiple purpose in terms of section 8(2)(r). Subsection 2 determines that a rate levied on a property assigned in terms of subsection (1)(c) to a category of properties used for multiple purposes must be determined by (a) apportioning the market value of the property, in a manner</p>	

Account Description	Definition	Comment
	<p>as may be prescribed, to the different purposes for which the property is used; and (b) applying the rates applicable to the categories determined by the municipality for properties used for those purposes to the different market value apportionments. Accordingly, "Small Holdings" are sub-divided according to the use of the property or parts thereof in agricultural, residential, industrial, business and commercial and other purposes not specified above.</p>	
<ul style="list-style-type: none"> <li>• <b>Agricultural Purposes</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on "Small Holdings" used for agricultural purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20)(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li>• <b>Business and Commercial Purposes</b></li> </ul>	<p>This classification would not be applicable if the Municipal</p>	<p><b>Not applicable following the implementation of the Local</b></p>

Account Description	Definition	Comment
	<p>Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on “Small Holdings” used for business and commercial purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20(b) of the same Act.</p>	<p><b>Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Industrial Purposes</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates on “Small Holdings” used for industrial purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20)(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Purposes other than the above (specify)</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal</b></p>

Account Description	Definition	Comment
	<p>implemented by the municipality. New category included for Agricultural Properties. Property rates levied on “Small Holdings” used for “other purposes than specified” and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20)(b) of the same Act.</p>	<p><b>Property Rates Amendment Act, 2014.</b></p>
<ul style="list-style-type: none"> <li><b>Residential Purposes</b></li> </ul>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. New category included for Agricultural Properties. Property rates levied on “Small Holdings” used for residential purposes and/ or apportioned in terms of section 9 of the Municipal Properties Rates Act, 2004 and included in a valuation roll in terms of section 48(20)(b) of the same Act.</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>
<p><b>Special Rating Area</b></p>	<p>Section 22(1) of the Municipal Property Rate Act, 2004 as amended by the Municipal Property Rates Amendment Act, 2014. determines that “the Municipality may by</p>	<p>Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>

Account Description	Definition	Comment
	<p>resolution of council determine a special rating area and levy an additional rate on property in that area for the purpose of raising funds for improving or upgrading that are differentiated by category of property". As determined by Section 8(4) of the Municipal Property Rates Amendment Act, 2014.</p>	
<p><b>State-owned Properties</b></p>	<p>Properties owned by an organ of state and used for public service purposes as provided for in section 8(2)f of the Municipal Property Rate, 2004 as amended. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.</p>	<p>Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</p>
<p><b>State Trust Land</b></p>	<p>This classification would not be applicable if the Municipal Property Rates Amendment Act, 2014 has been implemented by the municipality. This category provides for "property rates" levied on State-owned Properties under the custodianship of National Government (National Department of Public Works) as provided for in the Government Immovable</p>	<p><b>Not applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.</b></p>

Account Description	Definition	Comment
	Asset Management Act, 2007 (Act No. 19 of 2007) (GIAMA).	
<b>Agricultural Property</b>	Agricultural property means property that is used primarily for agricultural purposes but, without derogating from section 9, excluding any portion thereof that is used commercially for the hospitality of guests, and excluding the use of the property for the purpose of eco-tourism or for the trading in or hunting of game as provided for in Section 8(2)d of the Municipal Property Rate Act, 2004 as amended. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.	Account added to assist the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.
<b>Multiple Purposes</b>	Multiple purpose use properties as provided for in Section 8(2)i and defined in Section 9 of the Municipal Property Rate Act, 2004 as amended. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.	Remains applicable following the implementation of the Local Government: Municipal Property Rates Amendment Act, 2014.
<b>Other Categories</b>	Any other categories of property as may be determined by the Minister, with the concurrence of the Minister of Finance as	Remains applicable following the implementation of the Local Government: Municipal

Account Description	Definition	Comment
	provided for in Section 8(2)j of the Municipal Property Rate Act, 2004 as amended. As determined by Section 8(4)a of the Municipal Property Rates Amendment Act, 2014.	Property Rates Amendment Act, 2014.

### *Special Rating Areas*

#### **Definition:**

Municipal Property Rates Act, 2004, section 22(1) “the Municipality may by resolution of council determine a special rating area and levy an additional rate on property in that area for the purpose of raising funds for improving or upgrading, that are differentiated by category of property.

117. Section 22 of the Municipal Property Rates Act, 2004, guides special rating areas and determines that:

- (1) A municipality may by resolution of its council (a) determine an area within that municipality as a special rating area; (b) levy an additional rate on property in that area for the purpose of raising funds; (c) differentiate between categories of properties when levying an additional rate for improving or upgrading that area; and referred to in paragraph (b).
- (2) Before determining a special rating area, a municipality must (a) consult the local community, on the following matters: (i) the proposed boundaries of the area; and (ii) the proposed improvement or upgrading of the area; and (b) obtain the consent of the majority of the members of the local community in the proposed special rating area for which the community will be liable to pay the additional rate.
- (3) When a municipality determines a special rating area, the municipality (a) must indicate how the area is to be improved or upgraded by funds derived from the additional rate; (c) must establish separate accounting and other record-keeping systems regarding (i) the revenue generated by the additional rate; and (ii) the

improvement and upgrading of the area; and (d) may establish a committee composed of persons representing the community in the area to act as a consultative and advisory forum for the municipality on the improvement and upgrading of the area, provided representivity, including gender representivity, is taken into account when such a committee is established. Such a committee must be a subcommittee of the ward committee or committees in the area, if the municipality has a ward committee or committees in the area.

- (4) This section may not be used to reinforce existing inequities in the development of the municipality, and any determination of a special rating area must be consistent with the objectives of the municipality's integrated development plan.
- (5) This section must be read with section 85 of the Municipal Systems Act, 2000, if this section is applied with the purpose to provide funding for an internal municipal service district established in terms of that section of the Municipal Systems Act, 2000.

118. The above account was included in the Item Segment under Revenue for Property Rates: Special Rating Area. The Source of Funding Segment provides the detail on the utilisation of the revenue raised through the “additional rate” and the Project Segment on the specific “improvement and upgrading” undertaken for the “special rating area”.

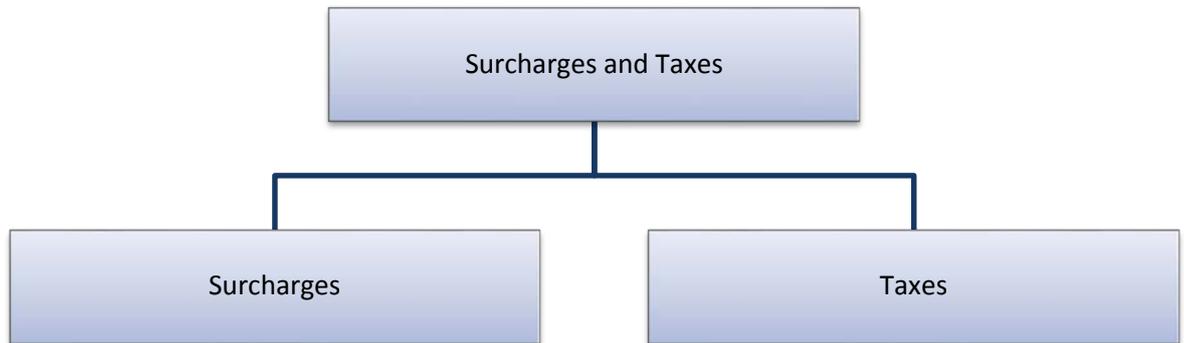
### *Surcharges and Taxes*

**Definition:**

This group of accounts provides for the classification of surcharges and taxes as regulated by the Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007) as referred to in section 229 of the Constitution, other than rates on property.

119. The Act does not list or identify specific taxes which municipalities may enact. Responsibility for initiating a municipal tax proposal rests with municipalities and organised local government and they may propose any tax not prohibited by the Constitution.

120. At the highest level this group of accounts provides for the following posting level accounts:



## Municipal Taxes

### Definition:

In general, a tax (levies and duties has the same meaning as a tax) may be defined as a government impost which is not in turn for a specific benefit. There is not necessarily a direct relationship between the benefits provided by government to taxpayers and the tax payable. Taxes are taken into general revenue and used for general purposes. The taxpayer receives no specific service in return for his/ her/ its payment, but receives a set of general services normally referred to as public goods, such as municipal roads, street lighting and the like.

121. Taxes may be contrasted to fees or user charges. Fees or user charges, while it might be compulsory, are generally required, in the sense that there is a link between the amount paid and the benefit provided.
122. A municipality, group of municipalities, organised local government and/ or the Minister of Finance on his or her own accord may apply for the introduction of a new municipal tax in terms of section 5 of the Act.

## Surcharges

### Definition:

A surcharge on a municipal service is an additional charge levied by a municipality in addition to the fee or tariff charged for the provision of a municipal service. A surcharge can therefore be viewed as an indirect tax, as it is a payment in addition to the normal charge. Surcharges generated from trading services, such as water and electricity reticulation, are usually used by municipalities for the funding or subsidising of other essential municipal activities where limited or no charges are levied.

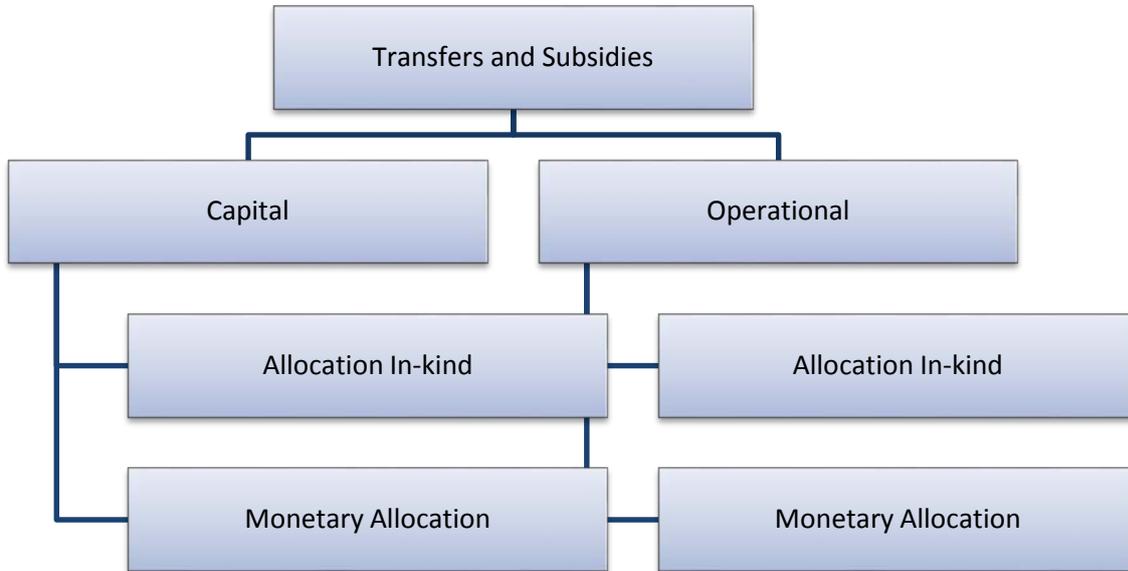
123. A “municipal surcharge” is defined in the Act as a charge in excess of the base tariff that a municipality may impose on fees for a municipal service provided by or on behalf of a municipality in terms of section 229(1)(a) of the Constitution.
124. Municipalities must comply with any norms and standards prescribed by the Minister of Finance when imposing a surcharge on fees for services.
125. Every municipality must annually as part of its budget preparation process review any municipal surcharges and comply with section 75A(2), (3) and (4) of the Municipal Systems Act, 2000 relating to the manner in which fees, charges or tariffs are levied and how a resolution in that respect must be made known. Refer in this regard also to the Municipal Fiscal Powers and Functions Act, 2007 (MFPFA) *Circular No. 1: Introduction to the Municipal Fiscal Powers and Functions Act No. 12 of 2007* (Page 6).

### *Transfers and Subsidies*

#### **Definition:**

This category provides for of all unrequited, voluntary receipts from other parties. Thus, an entry should be made under this item when the municipality does not provide anything of similar value directly in return for the transfer from the other party and the transfer is voluntary. {GRAP 23: Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.} This group of accounts provide for "operational and capital transfers and subsidies" received "in-kind or in monetary value".

126. At the highest-level “transfers and subsidies” distinguish between “capital and operational” transfers and subsidies:



127. The Standards on *GRAP 23 - Non-exchange Revenue* provides guidance on the recognition and measurement of Transfers and Subsidies.

128. The high-level categories applied in the mSCOA for capital and operational transfers and subsidies are based on the transfer categories as defined in the Reference Guide to the Economic Reporting Format (September 2009) for National and Provincial Departments being:



Transfers and Subsidies

- Departmental Agencies and Accounts
- District Municipalities
- Foreign Government and International Organisations
- Higher Educational Institutions
- Households
- National Government
- Non-profit Institutions
- Private Enterprises
- Provincial Government
- Public Corporations
- Parent Municipality

129. “Monetary value and in-kind” transfers are separately provided for under the above categories.
130. It is however recognised that this information might require periodic updates and provision would be made in the activities of National Treasury for an annual classification circular to advise system vendors and users of these changes.

### **Departmental Agencies and Accounts: Capital and Operational Transfers and Subsidies**

131. Limited information is available from the Local Government Database as most of the municipalities do not complete the supporting tables specifying “grants” from “departmental agencies and accounts”. These grants are included in “public contributions and donations”.
132. The mSCOA for Departments contains a detailed list of “departmental agencies and accounts”, initially used to set-up the posting-level accounts in mSCOA. Further detail had been identified and the posting level accounts supplemented with the information provided by municipalities.
133. An “Unspecified Account” had been added to provide for classification in the following circumstances:
- once-off not necessary recurring;
  - less material amounts from various sources not provided in mSCOA; and
  - municipality not aware of the allocation in advance of the accounting cycle in order to request National Treasury to provide for these accounts.

### **District Municipalities: Capital and Operational Transfers and Subsidies**

134. Limited information is available from the Local Government Database as most of the district municipalities do not complete the supporting tables specifying “grants” to municipalities correctly.

135. The approach taken on setting-up accounts within this category was to provide for the municipalities within the district by province and district municipalities. Categories were set up under the municipalities by function. Posting level detail need to be provided to National Treasury for setting up posting level accounts. Without these levels being defined posting levels will not be available for municipalities to classify transactions within this category.

### Foreign Government and International Organisations: Capital and Operational Transfers and Subsidies

136. Limited information is available from the Local Government Database as most of the municipalities do not complete the supporting tables specifying “grants” from “foreign governments and international organisations”. These grants are included in “public contributions and donations”.
137. The SCOA for Departments contains a detailed list of “foreign government and international organisations”, initially used to set-up the posting-level accounts in mSCOA. Further detail was identified, and the posting level accounts supplemented with the information provided by municipalities.
138. An “Unspecified Account” was added to provide for classification in the following circumstances:
- once-off not necessary recurring;
  - less material amounts from various sources not provided in mSCOA; and
  - municipality not aware of the allocation in advance of the accounting cycle to request National Treasury to provide for these accounts.

### Higher Educational Institutions: Capital and Operational Transfers and Subsidies

139. Limited information is available from the Local Government Database as most of the municipalities do not complete the supporting tables specifying “grants” from “universities and Technikons”. These grants were included in “public contributions and donations”.

140. The SCOA for Departments contains a detailed list of “higher educational institutions”, initially used to set-up the posting-level accounts in mSCOA. Further detail was identified, and the posting level accounts supplemented with the information provided by municipalities.
141. An “Unspecified Account” was added to provide for classification in the following circumstances:
- once-off not necessary recurring;
  - less material amounts from various sources not provided in mSCOA; and
  - municipality not aware of the allocation in advance of the accounting cycle to request National Treasury to provide for these accounts.

### Households: Capital and Operational Transfers and Subsidies

142. Limited information is available from the Local Government Database as most of the municipalities do not complete the supporting tables specifying “grants” from “households”. Prior to mSCOA these grants were included in “public contributions and donations”.
143. The SCOA for Departments contains a detailed list of “households”, initially used to set-up the posting-level accounts in mSCOA. Further detail was identified, and the posting level accounts supplemented with the information provided by municipalities.
144. An “Unspecified Account” was added to provide for classification in the following circumstances:
- once-off not necessary recurring;
  - less material amounts from various sources not provided in mSCOA; and
  - municipality not aware of the allocation in advance of the accounting cycle to request National Treasury to provide for these accounts.

### National Government: Capital and Operational Transfers and Subsidies

145. The categories applied in setting-up accounts within this group are based on the annual Division of Revenue Act and the allocation tables published in the schedules.

### Non-profit Institutions: Capital and Operational Transfers and Subsidies

146. Limited information is available from the Local Government Database as most of the municipalities do not complete the supporting tables specifying “grants” from “Non-profit Institutions”. These grants are included in “public contributions and donations”.
147. The SCOA for Departments contains a detailed list of “non-profit institutions”, initially used to set-up the posting-level accounts in mSCOA. Further detail was identified ,and the posting level accounts supplemented with the information provided by municipalities.
148. An “Unspecified Account” was added to provide for classification in the following circumstances:
- once-off not necessary recurring;
  - less material amounts from various sources not provided in mSCOA; and
  - municipality not aware of the allocation in advance of the accounting cycle to request National Treasury to provide for these accounts.

### Private Enterprises: Capital and Operational Transfers and Subsidies

149. Limited information is available from the Local Government Database as most of the Municipalities do not complete the supporting tables specifying “grants” from “private enterprises”. These grants were included in “public contributions and donations”.
150. The SCOA for Departments contains a detailed list of “private enterprises”, initially used to set-up the posting-level accounts in mSCOA. Further detail was identified,

and the posting level accounts supplemented with the information provided by municipalities.

151. An “Unspecified Account” was added to provide for classification in the following circumstances:
- once-off not necessary recurring;
  - less material amounts from various sources not provided in mSCOA; and
  - municipality not aware of the allocation in advance of the accounting cycle to request National Treasury to provide for these accounts.

### Provincial Government: Capital and Operational Transfers and Subsidies

152. The functional classification provided for in the mSCOA tables is at a non-posting level. Information need to be provided to National Treasury for adding posting level details within the functional classification.
153. Without these levels being defined posting levels will not be available for municipalities to classify transactions within this category.

### Public Corporations: Capital and Operational Transfers and Subsidies

154. Limited information is available from the Local Government Database as most of the municipalities do not complete the supporting tables specifying “grants” from “public corporations”. These grants were included in “public contributions and donations”.
155. The SCOA for Departments contains a detailed list of “public corporations”, initially used to set-up the posting-level accounts in mSCOA. Further detail was identified, and the posting level accounts supplemented with the information provided by municipalities.
156. An “Unspecified Account” was added to provide for classification in the following circumstances:
- once-off not necessary recurring;

- less material amounts from various sources not provided in mSCOA; and
- municipality not aware of the allocation in advance of the accounting cycle to request National Treasury to provide for these accounts.

### Parent Municipalities: Capital and Operational Transfers and Subsidies

157. This type of transfers eliminates on consolidation and accordingly this account is limited in use to municipal entities.

### Preparation for mSCOA Implementation

158. Bringing about effective conversion to an mSCOA compliant chart of accounts from the municipalities' perspective is vital in achieving success; paramount to the "Item Revenue" segment is the municipality's Revenue and tariff setting policies and methodology, amongst other.
159. The system developers responsible for applications commonly used by the municipalities are 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 recognises the complexities inherent to the implementation of the mSCOA requirements.
160. If the municipality envisage to use "discontinuing operations" this formal decision need to be taken prior to the commencement of the budget planning cycle in order to present a budget providing for the financial impact. The details need to be given to the mSCOA Technical Committee for creating specific posting level accounts within the mSCOA Classification Framework for this purpose.
161. Municipalities having interest in associates, subsidiaries and joint ventures need to provide the name of the entities to the mSCOA Technical Committee for creating specific posting level accounts within the mSCOA Classification Framework for this purpose.

162. Municipalities to ensure agency agreements are in place on behalf of national/provincial departments and district municipalities to provide the agreement details to the mSCOA Technical Committee for adding posting level accounts for this purpose.
163. Institute processes to distinguish the cost of renting land from structures erected on land, to enable the provision of information required by the mSCOA Classification Framework. Refer the discussion above for more information.
164. Consider the municipality's system for recording rental agreements to be able to distinguish between firstly, market and non-market related agreements and secondly, for straight lease, contingent leases and sub-lease payments to enable the provision of information required by the mSCOA Classification Framework. Refer the discussion above for more information.
165. Comparison is required for the classification detail provided for in mSCOA as informed by the NERSA Regulatory Reporting Requirements and the Department of Water and Sanitation. If the municipality is not yet in a position to comply and provide information on these bases this need to be brought to the attention of the mSCOA Technical Committee to add accounts based on what the municipality is able to provide.
166. The municipality need to provide the detail of surcharges and taxes to the mSCOA Technical Committee to add posting level accounts to the mSCOA Classification Framework.
167. Provincial Departments need to provide the allocations to be made to municipalities to the mSCOA Technical Committee to add posting level accounts to the mSCOA Classification Framework.
168. District Municipalities need to provide the allocations to be made to municipalities to the mSCOA Technical Committee to add posting level accounts to the mSCOA Classification Framework.
169. In addition to the above specific requirements the next step would be to identify the differences between the chart of accounts currently in use by the municipality compared to the mSCOA classification, and incorporate these requirements into the standard operating procedures and work methods of the municipality.

## Annual Maintenance and Matters Pending

### Annual Maintenance

170. Update of Transfers and Subsidies posting level accounts.

### Matters Pending

171. Posting level accounts not populated for district municipalities due to information not forthcoming despite ample requests.
172. Transfers and Subsidies made to municipal entities are not set-up according to posting-levels.
173. Agency Services: ASB Comment Letter on PSD – 8 April 2016 has reference. In reading paragraphs 39, 41 and 43, we noted that these requirements (which were assumable extracted from the VAT Guide) are inconsistent with the concepts outlined in *GRAP 109 relating to Accounting by Principals and Agents*. In particular, applying these paragraphs may give rise to inconsistent interpretation of when an entity is a principal or an agent when compared to the guidance in GRAP 109. Detailed comments on these paragraphs are noted in the PDF document. The mSCOA project team propose that the paragraphs from the VAT Guide be deleted and only GRAP 109 considered. National Treasury need to investigate the apparent differences and provide guidance to practioners.
174. Agency Services – Provincial/ National/ District Municipalities: The posting level for these accounts are defined based on information provided to National Treasury. Accordingly, the available posting levels are not sufficient for all municipalities due to a lack of information forthcoming to define accounts.
175. Municipalities need to request posting levels accounts to be added through logging requests to the mSCOA Technical Committee through the National Treasury mSCOA Frequently Asked Questions (FAQ) Database for consideration.



**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT *[SCOA for MUNICIPALITIES]*

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## Project Detail: Section 6.2 – Item Segment – Expenditure

*November 2017 (Version 6.1)*

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## SECTION 6.2: EXPENDITURE

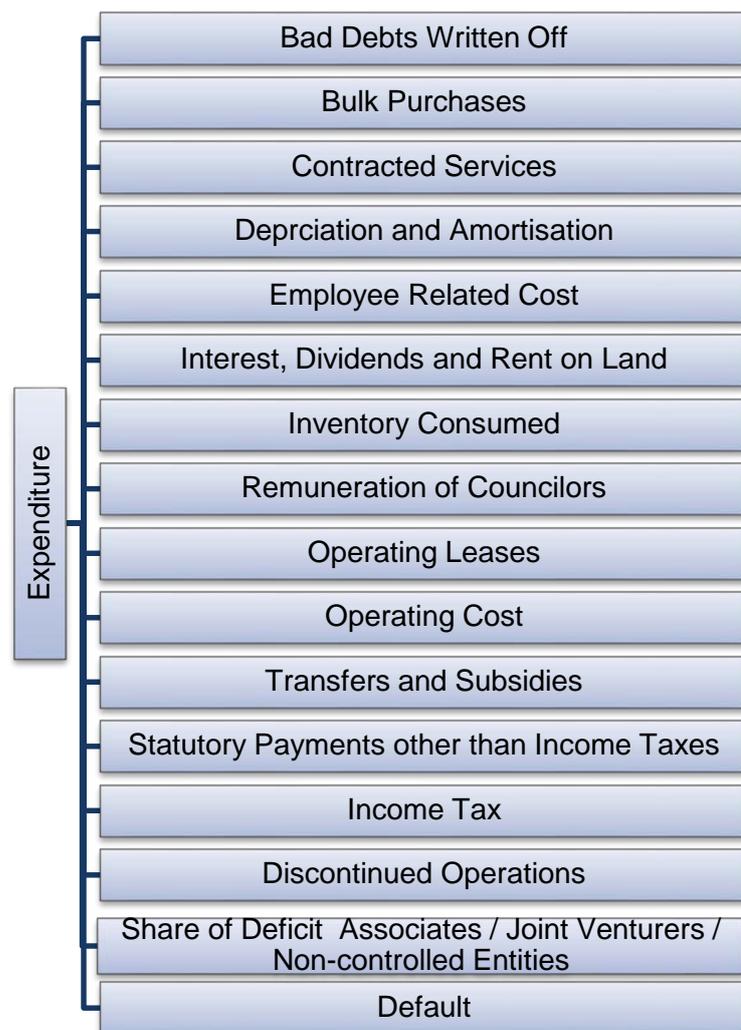
### Background to the Segment

1. This expenditure component of the Item segment contains the classification structure for expenditure to enable the extracting of reporting information in various formats, for example the Budget Reporting Tables, In-year Reporting, Annual Financial Statements, the NERSA Regulatory Reporting Tables, the Department of Water and Sanitation reporting requirements, etc.

The key question in finding the appropriate classification code for the Item Expenditure segment is: *“what is the type and nature of the expenditure incurred”*

### Illustration: High-level Classification

2. At the highest level the Item Expenditure Segment distinguishes between:



**Definition:**

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or the incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

## Design Principles

3. The design principles defined and included in the Item Segment Introduction need to be considered in conjunction with the following design principle(s) when applying the Item Expenditure Segment:
4. *Principle 1: Bad Debts Written-off* - The principle adopted in setting-up “impairment, increase/ decrease in the impairment and bad debts written-off” is to bring “bad debts written-off” as a reporting line item for statistical and analytical review purposes and not to treat the actual debt write-off as a “set-off” from the provision. Debt write-off need specific approval from council and is considered to be information that needs to be reported to the ratepayers. More guidance in this regard is available from the Position Paper dealing with this matter.
5. *Principle 2: Bulk Purchases* – The accounts provided for in “Electricity Bulk Purchases” are providing for the Regulatory Reporting Requirements determined by NERSA and “Water Bulk Purchases” as an alternative to Water Balance Reporting. More guidance is available in this regard from the Position Paper dealing with this matter.
6. *Principle 3: Contracted Services* - This group of accounts distinguish between "Outsourced Services, Consultants and Professional Services and Contractors" consistent to the approach taken in the Economic Reporting Format. Cognisance need to be taken of the distinct meanings given to the categories of contracted services. Depending on the “reason” for making use of contracted services the service might be either “Outsourced Services, Consultants and Professional Services and Contractors”.
7. *Principle 4: Depreciation and Amortisation* - The “high-level” fixed/ intangible asset and infrastructure categories are included in mSCOA. The municipality may add more detailed accounts to this classification at the discretion of the municipality.

8. *Principle 5: Property, Plant and Equipment Classification for Depreciation and Amortisation* - The Cities Infrastructure Development Management System (CIDMS) provides the bases in this regard for the high-level classes used in the mSCOA Tables. National Treasury do take cognisance of the progressive implementation timeframe defined for the implementation of the CIDMS model. However, for purposes of mSCOA catrgorisation, CIDMS full implementation is applicable to all municipalities without providing for any alternatives as it relates to:

- Land
- Community Assets
- Computer Equipment
- Furniture and Office Equipment
- Infrastructure:
- Machinery and Equipment
- Computer Equipment
- Furniture and Office Equipment
- Libraries
- Zoos, Marine and Other Non-Biological Assets
- Community Assets
- Other Assets
- Transport Assets
- Infrastructure:
  - Coastal
  - Electrical
  - Network and Communication
  - Rails
  - Roads
  - Sanitation
  - Solid Waste
  - Storm Water
  - Water Supply
- Libraries

- Machinery and Equipment
  - Other Assets
  - Transport Assets
  - Zoos, Marine and Other Non-Biological Assets
9. *Principle 6: Employee Related Cost - distinguishes at the highest-level between “Senior Management” and “Municipal Staff”*. Section 124(1)(c) of the MFMA requires disclosures of the details of remuneration for all senior managers.<sup>1</sup> The reporting framework (Directive 5) provides that the municipality may use the Standard of GRAP 20 on Related Party Disclosure (approved yet not effective) to disclose information in its financial statements. Postretirement benefit provision is not reflected under these classifications due to the practitioners’ difficulties in allocating the provision adjustment determined by the actuaries. The structure for “senior managers” needs to individually provide for the designations used by the municipality mSCOA for extracting reporting information for annual financial statement disclosure purposes. Version 6.1 provides for categories of accounts of which Municipal Manager and Chief Financial Officer have been created with the remainder of accounts for customisation by the municipality. If the municipality requires more classifications than provided for in mSCOA Version 6.1 a request need to be logged to the mSCOA Frequently Asked Questions (FAQ) Database for consideration by the mSCOA Technical Committee.
10. *Principle 7: Board Members* - The structure for “board members of entities” needs to individually provide for the designations used by the municipal entity. Version 6.1 provides for categories of accounts for customisation by the municipality. If the municipal entity requires more classifications than provided for in mSCOA Version 6.1 a request need to be logged to the mSCOA Frequently Asked Questions (FAQ) Database for consideration by the mSCOA Technical Committee.
11. *Principle 8: Interest, Dividends and Rent on Land* – This category is included as defined by the Economic Reporting Format.
12. *Principle 9: Inventory* – mSCOA provides for high-level categories within which the municipality may add detail posting-level accounts. These categories are:
- Agricultural

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<sup>1</sup> The Reporting Framework that applied in previous reporting periods required the application of IPSAS 20 Related Party Disclosures. The municipality may either continue to disclose this information using IPSAS 20 or it may consider GRAP 20 in formulating these disclosures.

- Consumable Stores
  - Finished Goods
  - Materials and Supplies
  - Water
  - Housing Stock
  - Land
13. *Principle 10: Remuneration of Councillors* - Remuneration as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No 20. of 1998). Salary of full-time councillors consisting of:
- Speaker
  - Chief Whip
  - Executive Mayor
  - Deputy Executive Mayor
  - Executive Committee
  - Total for All Other Councilor's
14. *Principle 11: Operational Cost* – This group of accounts provides for all expenditure items not specifically provided in any other category and replace the customary “miscellaneous, general, sundry, other, etc.” classification. An operating expense is a day-to-day expense such as sales and administration, or research and development, accounting expenses, license fees, advertising, office expenses, utilities such as telephone, insurance, property management, travel and vehicle expenses.
15. *Principle 12: Operating Leases* – This group of accounts is based on the fixed and intangible asset categories as explained in design principle 5.
16. *Principle 13: Transfers and Subsidies* – The high-level categories applied in the mSCOA for Capital and Operational Transfers and Subsidies are based on the transfer categories as defined in the Reference Guide to the Economic Reporting Format (September 2009) for National and Provincial Departments, namely:
- Provincial Government
  - National Government
  - Departmental Agencies and Accounts

- District Municipalities
  - Higher Educational Institutions
  - Public Corporations and Technikons
  - Foreign Governments and International Organisations
  - Non-profit Organisations
  - Households
  - Municipal Entities
17. *Principle 14: Losses* - By definition “expenditure” includes “losses”. However, it should be noted that the mSCOA Classification provides for “losses” within the component of the Item Segment for “Gains and Losses”.
18. *Principle 15: VAT Indicators* - Included in the classification are VAT indicators to assign specific VAT categories to posting level accounts. Distinction is made between VAT charged at Standard Rate, Exempt and Zero Rated as indicated in the detailed SCOA Tables. More guidance is available from the Position Paper dealing with this matter.

## Legislative and Regulatory Requirements

19. The table below provides the Acts, Regulations, Guidelines or Circulars identified having an impact on the classification provided for in mSCOA and specifically the Item Expenditure segment as discussed in this section:

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<b>LEGISLATION</b>		
<b>Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b>	Section 17: Contents of Annual Budgets and Supporting Documents	<b><u>Appropriating expenditure</u></b> for the budget year under the different votes of the municipality is dealt with in this component (Expenditure) of the Item Segment together with the Function Segment.
	Section 20: Matters to be Prescribed -	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”. <b><u>Considered in the set-up of the SCOA segments.</u></b>
	Section 41: Monitoring of Prices and Payments for Bulk Resources  Section 42: Price Increases of Bulk Resources for the Provision of Municipal Services	<b><u>Bulk purchases</u></b> for example electricity is provided for in the classification structure for this component (Expenditure) of the Item Segment.
	Section 65: Expenditure Management	This component provides for the <b><u>expenditure classification</u></b>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
		inherent to maintaining an accounting and management reporting system.
	Section 66: Expenditure on Staff Benefits	The requirements of this section are provided for in the group of accounts set-up in this component for “ <b><u>Employee Related Cost</u></b> ”.
	Section 67: Funds Transferred to Organisations and Bodies outside Government	The requirements of this section are provided for in the group of accounts set-up in this component for “ <b><u>Transfers and Subsidies</u></b> ”.
	Section 71: Monthly Budget Statements	The SCOA classification structure within the component contributes to providing “ <b><u>actual expenditure by vote</u></b> ”.
	Section 72: Mid-year Budget and Performance Assessment	The SCOA classification structure within the component provides the revenue classification to inform the municipality’s <b><u>performance during the first half of the year</u></b> .
	Section 121: Preparation and Adoption of Annual Reports	The SCOA classification structure within the component informs the compilation of the <b><u>Statement of Financial Performance and the budget versus actual results</u></b> .

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
	Section 123: Disclosures on Intergovernmental and Other Allocations	The Item Segment within the SCOA classification structure provides for the information for disclosure purposes on Transfers and Subsidies Made.
<b>Constitution No 108 of 1996</b>	<p>Section 216: Treasury Control</p> <p>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:</p> <ul style="list-style-type: none"> <li>a) Generally, recognised accounting practice;</li> <li>b) Uniform expenditure classification; and</li> <li>c) Uniform treasury norms and standards</li> </ul> <p>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.</p>	<b>SCOA Segments</b> set-up to assist in achieving this Constitutional requirement. .

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<b>Water Services Act, 1997 (Act No. 108 of 1997)</b>	To provide for the gathering of information in a national information system and the distribution of that information; to repeal certain laws; and to provide for matters connected therewith.	The reporting requirements of the <b>Department of Water Affairs</b> have been considered in the compilation of the SCOA classification framework.
<b>REGULATIONS</b>		
<b>The Municipal Budget and Reporting Regulations, 2009</b>	Chapter 1, Part 3, Paragraph 10 Funding of Expenditure and Paragraph 11 Funding of Capital Expenditure  A5: Capex  SA 10: Funding Measurement	The SCOA Classification Framework informs the <b><u>Budget Reporting Tables and the Annual Financial Statements.</u></b>
<b>CIRCULARS</b>		
<b>MFMA Circular 45: 2008/09 MTREF Budget</b>	Specific Revenue and Expenditure Items	Provision is made for this requirement within this component (Expenditure) of the <b><u>Item segment.</u></b>
<ul style="list-style-type: none"> <li>• <b>MFMA Circular 45: 2008/09 MTREF Budget</b></li> <li>• <b>MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</b></li> <li>• <b>MFMA Circular 55: Municipal Budget Circular for the 2011/12 MTREF</b></li> <li>• <b>MFMA Circular 70: Municipal Budget</b></li> </ul>	<ul style="list-style-type: none"> <li>• Budgeting for Maintenance</li> <li>• Focus on Repairs and Maintenance</li> <li>• Renewal and Repairs and Maintenance of Existing Assets</li> <li>• Under Spending on Repairs and Maintenance</li> </ul>	The <b><u>expenditure classification</u></b> within the Item Segment provides for all possible expense items on “maintenance and repairs” provided for as a project in the <b><u>Project Segment.</u></b>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<p>Circular for the 2014/15 MTREF</p> <ul style="list-style-type: none"> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> </ul>		
<ul style="list-style-type: none"> <li>• MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</li> <li>• MFMA Circular 59: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 64: Revenue Management</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 70: Municipal Budget Circular for the 2014/15 MTREF</li> <li>• MFMA Circular 72: Municipal Budget Circular for the 2014/15 MTREF</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on Personnel Budget</li> <li>• The ratio of Personnel Expenditure to Operating Expenditure</li> <li>• Employee Related Costs</li> </ul>	<p><b>Employee Related Cost</b> within the expenditure component of the Item Segment provide for a detail classification.</p>
<ul style="list-style-type: none"> <li>• MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF</li> </ul>	<ul style="list-style-type: none"> <li>• Eskom Bulk Tariff Increases</li> </ul>	<p><b>Bulk purchases</b> of electricity are provided for in this component of the Item Segment.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
<ul style="list-style-type: none"> <li>• MFMA Circular 55: Municipal Budget Circular for the 2011/12 MTREF</li> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 59: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 72: Municipal Budget Circular for the 2014/15 MTREF</li> </ul>		
<ul style="list-style-type: none"> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 67: Municipal Budget</li> </ul>	<ul style="list-style-type: none"> <li>• Spending on non-priorities</li> <li>• Eliminating Non-Priority Spending</li> <li>• Cellular Telephone and Data Contract Policy</li> <li>• Cost Containment Measures</li> </ul>	

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
Circular for the 2013/14 MTREF		
<ul style="list-style-type: none"> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> </ul>	<ul style="list-style-type: none"> <li>• Revaluations in terms of GRAP 17 and the treatment of Depreciation in the Budget</li> <li>• Debt Impairment, Depreciation and Other Non-Cash Expenditure Items</li> </ul>	<p><b><u>Bulk purchases</u></b> of electricity are provided for in this component of the Item Segment.</p>
<ul style="list-style-type: none"> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 70: Municipal Budget Circular for the 2014/15 MTREF</li> <li>• MFMA Circular 72: Municipal Budget Circular for the 2014/15 MTREF</li> </ul>	<ul style="list-style-type: none"> <li>• Benefits to Mayors and Councillors</li> <li>• Remuneration of Councillors</li> </ul>	<p><b><u>Councillor's remuneration</u></b> is provided for in this component of the Item Segment.</p>
<ul style="list-style-type: none"> <li>• MFMA Circular 74</li> <li>• MFMA Circular 75</li> </ul>	Municipal Budget Circular for the 2015/16 MTREF	Discussion of various matters relevant to the preparation of municipal

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on SCOA
		budgets. <b><u>Nothing was identified that is not addressed in the mSCOA Tables.</u></b>
<b>MFMA Circular 78</b>	Municipal Budget Circular for the 2016/17 MTREF	Discussion of various matters relevant to the preparation of municipal budgets. <b><u>In addition, provision needs to be made in mSCOA Tables Version 5.5 for the Municipal Demarcation Transition Grant (MDTG).</u></b>

## Transactions by Business Process to be allocated in this Segment

20. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting is a source document from an activity within a business process initiating the activity to flow through a defined business processes ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
21. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the municipality’s financial application.
22. Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
23. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee held during October 2010. This initial determination was confirmed by the mSCOA Project Steering Committee in October 2016.

Transaction Type	Allocate Yes/ No	Comments
Net Assets	No	
Assets	No	
Liabilities	No	
Revenue	No	
Expenditure	Yes	

24. Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

### Category Links and Business Rules

25. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. 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.
26. Proposals identified at this stage of the development of mSCOA:
- Bad Debt Written Off to be linked to specific functions similar to “Trading Service Debtors”.
  - Salaries and Wages Senior Managers to be customised according to the requirements of the municipality.
  - Boards Members of Entities to be customised according to the requirements of the municipal entity.
  - Employee Related Cost – less capitalised to automate as capitalised to the respective projects and the construction work-in-progress account in the Item Segment Assets.
  - Depreciation and amortisation, impairment contributions and specific losses to be automatically linked to operational cost relating to movable and immovable assets or municipal running cost.

## Discussion of the Classification Structure

27. Transactions are classified in the “expenditure component” according to the “nature”. The combination of the Item- and Function segment provides information relating to “function”.

## Bad Debts Written-off

**Definition:**

The irrecoverable debts that are written off during the financial year (as approved by the Council) and allocated according to the type of service provided to the customer. This account would also include the write-off of accounts in terms of the debt prescription rules. The accounting implication is a reduction from the impairment adjustment not to overstate the movement on impairment in the Statement of Financial Position.

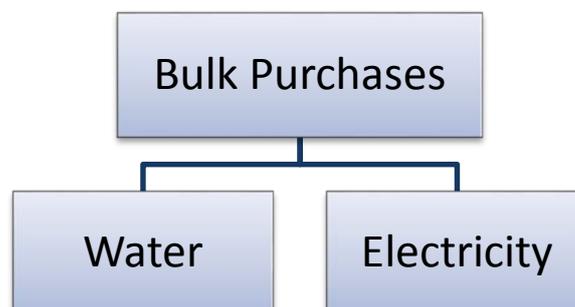
28. The account for Bad Debts Written-off is at posting level with no further breakdown required.
29. The principle adopted in setting-up “impairment adjustments, increase/ decrease in the impairment and bad debts written-off” is to bring “bad debts written-off” as a separate reporting line for statistical and analytical purposes and not to treat the actual debt write-off as a “set-off” from impairment. The transaction to this account will result in an equal adjustment to impairment.
30. National Treasury prepared a Position Paper on Impairment and Bad Debt Written-off to provide further guidance.
31. Debt write-off need specific approval from council and is considered to be information in the interest of ratepayers from a reporting perspective.
32. The irrecoverable debts that are written off during the financial year as approved by the council allocated according to the type of service provided to the customer, within the Function Segment.

## Bulk Purchases

**Definition:**

Bulk purchases of electricity and water from Eskom (including alternative service providers) and Water Sources such as Water Boards and other providers.

33. At the highest-level this group of accounts provides for water and electricity purchases in bulk for distribution to consumers.



### *Water*

34. Water bulk purchases have been included in mSCOA Version 5.4 to provide for an alternative treatment if the municipality is not in a position to comply with water balance reporting. National Treasury will be issuing a Position Paper on Water Balance Reporting and the proposed transitional arrangement.

### *Electricity*

35. The accounts set-up for “electricity” is based on the Regulatory Reporting Requirements determined by NERSA. This account should record the cost of all electricity purchased for resale.

#### **Definition**

**Eskom:** This account provides for bulk purchases from Eskom.

**Independent Power Producers (non-posting level):** The candidates are earmarked to contribute 14216MW to South Africa’s total installed capacity, as part of the Department of Energy’s renewable energy bidding programme. NERSA has approved the licensing of 28 independent power producers as preferred bidders for the first phase of the government’s renewable energy programme. The programme aims to produce 3725MW of electricity from wind, solar concentration, photovoltaic, small hydro-gas, biogas, biomass and landfill gas by 2016. The programme is a change for South-Africa, which gets less than 2 per cent of its energy from renewable resources and has only one substantial electricity provider, state utility Eskom. SA relies on coal, a non-renewable resource, for more than 90 per cent of its energy requirements.

**Green Electricity (non-posting level):** This account is to record purchase of electricity from "green electricity" sources.

**Charges:** The cost for the bulk purchases of electricity from darling wind farm for resale.

**Rights and Certificates:** Certification and rights for the purchase of electricity from darling wind farm for resale

**Renewable, Cogen, etc.:** Provides for other types of energy sources.

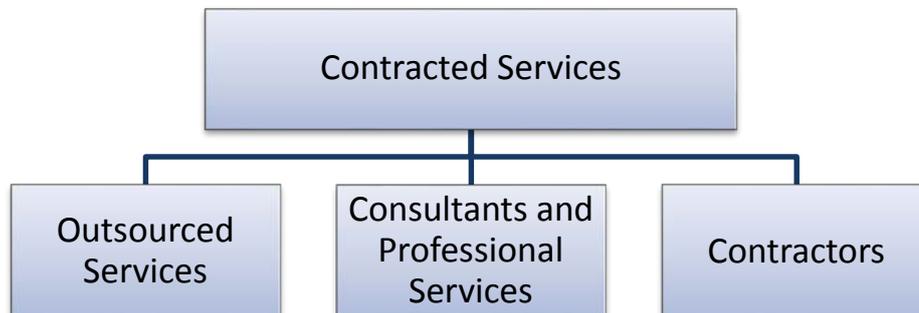
**Self-Generation:** Production of electricity for own use with a captive power plant installed usually on one's own premises. It may be owned by the consumer, or by a third-party under a power-supply contract.

## Contracted Services

**Definition:**

This group of accounts distinguish between "Outsourced Services, Consultants and Professional and Special Services and Contractors.

36. Contracted services at the highest-level provides for a distinction between:



### *Outsourced Services*

**Definition:**

Outsourced Services refers to "services" the municipality should have the capacity and expertise to carry out certain services, but for some reasons not utilising their own staff. The reasons might include temporary incapacity or the outsourcing of services to save costs, for example cleaning, security and recruitment. In evaluating the classification of agency/ outsourced services it should be established whether the services being procured could have been provided by the municipality itself. It could also be that the municipality ordinarily has the expertise to provide the service but temporarily could not do so or to save costs.

37. The posting-level (non-breakdown allowed) detail for this category includes the following accounts:

**Definitions:**

**Administrative and Support Staff:** Making use of agency staff or outsourced staff for administrative, support staff and "traffic point duty".

**Alien Vegetation Control:** External service providers used by the municipality for the control of alien vegetation being 1) declared noxious weeds (toxic to humans or cattle and which can infest agricultural crops 2) declared invasive weeds (usually less dangerous than the former but are none the less invasive and thus threaten the survival of other species and 3) plants perceived as "weeds" which are not classified within the two former groups and are not "declared" as such. [Conservation of Agricultural Resources Act, 1983 (Act No. 43 of 1983)]

**Animal Care:** Making use of external service providers to assist with animal care, such as the SPCA, Wet Noise or volunteers.

**Burial Services:** External service providers are used to render this service. Cash payments to households for burial services should be classified as transfers to households and must not be included under this item. Included under this item will be environmental management contracts for grave digging and pauper burials.

**Business and Advisory:** This group of accounts provides for Business and Advisory Services provided by Consultants and Professional Service Providers which is inherent to the functions and responsibilities of the municipality. Posting level accounts (non-breakdown allowed) provide for the following:

- Accountants and Auditors
- Business and Financial Management
- Commissions and Committees
- Communications
- Human Resources
- Occupational Health and Safety
- Organisational
- Project Management
- Research and Advisory
- Qualification and Verification
- Quality Control
- Valuers

**Catering Services:** Catering services outsourced for detainees, patients, prisoners, communities, armed forces, social welfare facilities, universities, training colleges and schools. This category specifically excludes internal catering which is provided for separately as entertainment.

**Call Centre:** Municipalities make use of call centres for various reasons and functions. If these call centres are handled by external service providers the related costs need to be recorded to this item.

**Cleaning Services:** The use of an external service provider for the cleaning of office buildings.

**Clearing and Grass Cutting Services:** The municipality making use of external service providers for assisting in the clearing and cleaning of bushes, erven, fire belt, alien, invasive trees and tree/ grass cutting the cost need to be recorded to this item. This would include the hiring of the unemployed for assisting in these tasks.

**Fire Services:** If the municipality make use of external service providers for assisting in providing fire services.

**Hygiene Services:** External service providers used by the municipality in providing hygiene services such as public toilets, toilet facilities in municipal buildings, waste and rain water causing hygiene concerns and problems, sewerage spills resulting from blocked drains, etc.

**Internal Auditors:** Contracted-in and co-sourced audit services where the municipality make use of external service providers.

**Illegal Dumping:** If the municipality make use of external service providers to remove and clean-up "illegal dumping" of waste and refuse.

**Litter Picking and Street Cleaning:** External service providers or making use of contract workers to assist in litter picking in cleaning the municipal area.

**Medical Waste Removal:** Hospitals, clinics, medical practitioners and laboratories generate various forms of medical waste to be disposed of in terms of waste legislation. In order to ensure the appropriate removal of waste the service is outsourced to specialist external services providers by the municipality.

**Meter Management:** The municipality makes use of external service providers for the management of water and electricity meters including checking for tampering, calibration, replacing meters, reading meters and securing meters if instructed to disconnect and reconnect.

**Medical Services [Medical Health Services and Support]:** The municipality making use of private nurses at clinics and includes nursing and ambulance services.

**Mini Dumping Sites:** If the municipality makes use of external service providers to manage "mini dumping sites" including activities such as collecting dumping fees, ensuring that only permissible waste is dumped, take care of the site according to environmental requirements and secure the site from illegal settlements.

**Organic and Building Refuse Removal:** If the municipality makes use of external service providers for assisting in the removal of organic (garden) and building refuse removal the cost need to be recorded to this item.

**Personnel and Labour:** Staff contracted in to fill temporary vacancies or fill ad hoc positions (non-professional staff). Excluded from this allocation is personnel and labour directly contracted in/ appointed by the municipality remunerated through the payroll system.

**Post Mortem:** The municipality making use of outsourced services for examining deceased bodies in cases where death is unknown or where a post mortem has been specifically requested.

**Professional Staff:** Outsources services for professional staff in providing services normally within the scope of the municipality's activities.

**Connection/ Dis-connection:** The cost of services rendered by external parties in terms of the disconnection/ re-connection of meters and new installations of meters for electricity and water. The posting level accounts available within this classification provides for 1) Electricity, 2) Restricted Water Flow and 3) Water.

**Refuse Removal:** External service provider used for the removal of municipal waste (trash, garbage, refuse or rubbish) being a waste type consisting of everyday items we consume and discard. It predominantly includes food and yard waste, containers and product packaging, inorganic waste for residential, commercial, institutional and industrial sources. Examples of inorganic wastes are appliances, newspapers, clothing, food scrapes, boxes, disposable tableware, office and classroom paper, furniture, wood pallets, rubber tires, and cafeteria wastes. Municipal solid waste does not include industrial/ agricultural waste and sewage sludge. The term residual waste relates to waste left from household sources containing materials that have not been separated out or sent for reprocessing. The removal of any other waste not specifically provided for are included in this account.

**Removal of Structures and Illegal Signs:** The use of contractors to remove illegal structures, signage, posters, advertisements, etc. This item excludes Informal Settlement Management.

**Researcher:** Outsourcing of routine research, such as market research, surveys, research for land claims conducted for the municipality.

**Security Services:** Cost incurred for the rendering of security services including safe guarding of cash in transit, personal bodyguards, guard services for public events and functions, monitoring of alarms, crime prevention, access control to buildings and public places, rapid and armed response both public and staff.

**Sewerage Services:** Contractors used for sewerage and sanitation services, including suction pump vehicle (honey suckers) and removal of sludge from drying beds.

**Swimming Supervision:** Outsourcing of supervision at municipal swimming pools.

**Translators, Scribes and Editors:** External translator, interpreting service, speech writing and editing used by the municipality to assist at public participation meetings, newsletters, public hearings and addresses, communications, letters, newsletters, etc.

**Traffic Fines Management:** Costs incurred for services rendered by persons caring for sick, hurt or injured animals. Included are consultation fees, medication and hospitalisation of animals.

**Veterinary Services:** Service provider to assist the municipality in providing transportation services to the public and staff, for example Integrated Rapid Transport (IRT) services.

**Transport Services:** Contractor for the production of new card licences

**Drivers Licence Cards:** Contractors for providing new card licences.

**Electrical:** Cost incurred in the use of electrical contractors (electricians) for installing cabling, meters, transformers and transmitters, cable replacement in the maintenance of electrical infrastructure and equipment.

**Water Takers:** Contractors used for taking water to informal settlements.

## Consultants and Professional Services

### Definition:

Consulting services refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. Therefore, a consultant is a professional person appointed by the municipality to provide technical and specialist advice or to assist with the design and implementation of specific project/ programs.

38. The legal status of this person can be an individual a partnership or a corporation. The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified.
39. The provision of advice or service is in line with a contractual arrangement. Remuneration is usually based on an hourly fee or a fixed fee for a product/ deliverable.
40. This category consists of groups for "business and advisory services", "infrastructure and planning", "laboratory" and "legal service". The following posting-level accounts (non-breakdown allowed) are included:

### Definitions:

**Business Advisory:** This group of accounts provides for business and advisory services provided by consultants and professional service providers.

- Accounting and Auditors: Consultancy services provided by registered accountants and auditors.
- Air Pollution: Consultancy services provided to assist the municipality in monitoring air pollution resulting from the introduction of chemicals, particular matter or biological materials that cause harm

or discomfort to humans or other living organisms, or cause damage to the natural environment or built environment into the atmosphere.

- Audit Committee: Compensation paid to external audit committee members for attending meetings.
- Board Member: Consultation fees incurred for external board member's attendance at board meetings.
- Business and Financial Management: Provision of specialised professional services regarding Financial Management and Procurement Management that cannot be maintained in-house. The legal status can be an individual, partnership or corporation.
- Commission and Committees: Services to members for special commissions of enquiry and committees other than the audit committee, performance committee, etc.
- Communications: Professional advice to the municipality on its external and internal communication strategies.
- Human Resources: Specialised professional services of a technical or specialised nature related to Human Resources Management that cannot be maintained in-house.
- Medical Examinations: Consultancy services for referring employees for medical examinations at the expense of the municipality, for example if more than the acceptable sick leave is taken within a cycle, etc.
- Occupational Health and Safety: Consultancy services relating to occupational safety, health and risk assessment consultants, which is a cross-disciplinary area concerned with protecting the safety, health and welfare of people engaged in the work- or employment environment. As a secondary effect, it may also protect co-workers, family members, employers, customers, suppliers, nearby communities and other members of the public who are impacted by the workplace environment. Risk assessment is the determination of quantitative or qualitative value of risk related to a concrete situation and a recognised threat which involve the calculations of risk, magnitudes of loss and the probability that the loss will occur.
- Organisational: Professional advice to the municipality on the organisational structure, including advice on transformation, streamlining and stabilisation of the municipality and its service-delivery activities.
- Project Management: Professional fees for persons (individuals) or companies contracted to manage specific large projects on behalf of the municipality.
- Research and Advisory: Specialist research and advisory services related to the development, refinement or evaluation of policies to the municipality. Usually these kinds of specialist research and advisory services would be done by recognised specialists in the relevant field, who very often are working as individuals, universities or research institutes. Also, environment studies done for land under claim to determine the impact a change of business will have on the land and

surrounding environment and needs assessments are done whilst settling the claims to assess what the community's requirements are and if it will be met by the way the claim is settled.

- Qualification Verification: Professional services for qualification verification of employees and candidates for positions.
- Quality Control: Consultancy services are the provision of specialised professional services of a technical or specialised nature related to quality control that cannot be maintained in-house. The legal status can be an individual, partnership or corporation, including electricity, water and air.
- Valuer and Assessors: Professional services of valuers for valuing property, plant and equipment or providing assistance with compilation of the municipal valuation roll, insurance requirements, etc.
- Forensic Investigators: Provision of Investigative Forensic Services.
- Credit Rating Agencies: Professional services provided to assess the municipalities financial stability, ability to fulfil financial commitments and net worth and give a credit rating reporting.
- Actuaries: Actuaries appointed to provide actuarial information on post-retirement benefits, financial modelling and planning, etc.

#### **Infrastructure and Planning:**

This group of accounts provides for infrastructure and planning consultants and professionals.

- Architectural: Architectural services being the art and science of designing buildings and structures. This service may include the design of the total built environment: from the macro level of town planning, urban design and landscape architecture to the micro level of construction details and, sometimes, furniture.
- Agriculture: Consultancy services relating to infrastructure and planning specific to agriculture being the science, art and business of cultivating soil, producing crops, and raising livestock; farming.
- Ecological: Consultancy services relating to ecology, such as studies in the science of the relationship between organisms and their environment, or studying the relationships between human groups and their physical and social environment and the study of the detrimental effects of modern civilisation on the environment, with a view toward prevention or reversal through conservation.
- Engineering: Consulting services refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis, this group specifically provides for the engineering sector. The disciplines provided for in this category are:
  - *Aeronautical*
  - *Agricultural*
  - *Chemical*

- *Civil*
- *Electrical*
- *Industrial*
- *Mechanical*
- *Metallurgical*
- *Mining*
- *Structural*

**Geodetic, Control and Surveys:** A Geotechnical engineer is an expert who evaluates and stabilises foundations for buildings, roads and other structures. Geotechnical engineering deals with geology, soil and rock mechanics, foundation engineering, ground improvement, land reclamation, deep excavation, underground construction and related work. A Landfill Site report is a further example.

**Geoinformatic Services:** Consultancy services related to the creation of geographic information from manipulating geographic data in a computerised system. Typical applications are land registration, hydrology, cadastral, land evaluation, planning or environmental observation. Service may come in many different forms, such as maps or images taken from the air or from space, for example, remote sensing data. Geodata is stored in a database, having special extensions for storing, handling and manipulation. Geoinformation is the useful output, produced by analysing data with a computer program called a "geographic information system".

**Geologist:** Professional service provider relating to the science of geology, such as studying the physical structure and processes of the earth and planets of the solar system.

**Land and Quantity Surveyors:** This item broadly refers to the control of the cost on construction projects. The methods employed cover a range of activities which may include cost planning, value engineering, feasibility studies, cost benefit analysis, lifecycle costing, valuation and cost estimation.

**Landscape Designer:** Professional service normally provided by a landscape designer, being the planning, design and sometimes oversight of an exterior landscape or space.

**Town Planner:** Town planners consider environmental matters such as sustainable development, air pollution, traffic congestions, crime, land values, legislation and zoning codes. They are usually hired by developers, private property owners, private planning firms, and local municipalities to assist in the large-scale planning of master planned communities, private/ public housing, commercial development, community redevelopment, environmental expertise, public facilities, and public transportation systems.

**Laboratory Services:** This group of items includes the cost associated with making use of consultants or professionals for laboratory services such as scientific experiments, research, and manufacturing of drugs or chemicals, observation and testing.

**Agriculture:** Consultants or professionals for laboratory services such as scientific experiments, research, manufacturing of drugs or chemicals, observation and testing specifically relating to agriculture.

**Medical:** Consultants or professionals for laboratory services (including the national health laboratory services and "other services providers") such as scientific experiments, research, manufacturing of drugs or chemicals, observation and testing specifically relating to human health (medical).

**Roads:** Consultants or professionals for laboratory services provided for testing of road surfaces and any other tests relating to roads.

**Water:** Consultants or professionals for laboratory services provided for testing of water samples, water quality and water related laboratory services.

**Legal Cost:** Costs incurred for legal services including legal advice, messenger of court, and conveyance for both private and law firms.

- *Legal Advice and Litigation*
- *Issue of Summons*
- *Collection*

## Contractors

**Definition:**

**Contractors** are required to provide services that are not the core business of the municipality. It is normally not cost effective to maintain these skills within the department. Contractors include costs associated with the use of contracted individuals or businesses on projects or tasks. This does not include amounts payable to contractors in respect of provision of services such as cleaning and security even if a staff element can be identified. Note also that it is common practice that the said contractor provides all the materials required for the project – the tenders are for the whole project, materials included.

41. The following "posting level accounts are relevant to contractors:

**Definitions:**

**Aerial Photography:** Aerial photography is the process of taking photographs from a camera mounted in an aircraft or balloon. Aerial photographs are used extensively in cartography to provide detailed geographical information in the production of maps.

**Aerial Surveillance:** Aerial surveillance service being the gathering of surveillance, usually visual imagery or video, from an airborne vehicle, such as helicopters or military aircrafts for reasons such as crime prevention, emergency and disaster management, high way patrols, helicopter Services, etc.

**Artists and Performers:** The hiring of artists and/ or performers for festivals organised by the municipality.

**Auctioneers:** Services rendered by an auctioneer who conducts a public sale in which goods and capital assets are sold to the highest bidder. This payment usually equals a fixed percentage of the selling price obtained.

**Audio-visual Service:** Services provided by a person, not employed by the municipality relating to the recording and reproduction of sound and sight. Consultants used in the creation, development and production of videos, films, DVD or other audio-visual materials.

**Bore Waterhole Drilling:** Bore waterhole drilling on municipal properties for communities who occupy the land or municipal services or internal use. This only includes the cost of drilling the bore hole.

**Bottling and Packaging:** Contracted services to either pack, label or bottle goods produced by the municipality, for example the bottling and labelling of wine or packaging of for example vegetables that are produced by community projects themselves. The contractor will in most instances provide the packaging material, labour and necessary machinery and equipment to do the packaging, labelling and bottling. *This item excludes wrapping and packaging materials purchased by the municipality for their own purpose.* The latter is allocated in the inventory category under goods and services.

**Building:** Building contractors providing services not recognised as capital but rather repairs and maintenance.

**Chipping:** Chipping of solid waste for recycling such as tires, metal, glass, wood, etc.

**Catering Services:** Catering services outsourced for detainees, patients, prisoners, communities, armed forces, social welfare facilities, universities, training colleges and schools. This category specifically excludes internal catering which is provided for separately as entertainment.

**Distribution of Electricity by Others:** This account should record amounts payable to others for distribution of the utility's electricity using distribution power system facilities owned by others [NERSA GG 626]. Posting level accounts (non-breakdown allowed) are provided for the following:

- Network Charges
- Ancillary Charges
- Reliability Charges

**Electrical:** Cost incurred in the use of electrical contractors (electricians) for installing cabling, meters, transformers and transmitters, cable replacement in the maintenance of electrical infrastructure and equipment.

**Employee Wellness:** Service providers for internal seminars and awareness programs in assisting employees in addressing specific needs and problems either in their workplace or private affairs. This includes programs relating to psychological, physical, financial, etc. Examples of such programs will include HIV awareness, financial awareness or self-defence classes by contractors who come to the workplace to instruct etc. *It is important to note that this item excludes medical wellness programs which include physical tests such as cholesterol, blood pressure, diabetes or advisory services by dieticians or any other medical related issue.* The latter should be classified under the specific item for medical services and also does not include training programmes as defined in the training definitions; neither should the cost for any materials, or venues and facilities for those wellness contractors be classified under this item, but to the specific items as available for those items on the chart.

**Event Promoters:** Promoters develop marketing strategies for events ranging from concerts to sporting tournaments. Event promoters work with television, radio, special-events coordinators, ticket sellers, reviewers, bulk mailers, and local merchants to market a product/ service. They are also involved in locating and booking the venues, artists, performers, stage and sound crew as well as the marketing strategies. It will also include market related cost payable to motivational speakers at public events, team building sessions etc.

**First Aid:** Contractors with regards to first aid facilities required for government occupied buildings. These facilities are fixed to the walls in the building. All costs incurred should be allocated to this item even if procured from an external service provider.

**Fire Protection:** Contractors in the prevention of fires and for fire brigade charges.

**Fire Services:** Contractors and other authorities' in respect of the prevention of fires and for fire brigade charges.

**Gardening Service:** Gardening services provided by service organisations. All costs incurred should be allocated to this item even if procured from an external service provider.

**Gas:** Contractors providing service related to the usage and supply of gas.

**Graphic Designers:** Design or create graphics to meet specific commercial or promotional needs, such as packaging, displays, or logos. May use a variety of mediums to achieve artistic or decorative effects.

**Grading of Sport Fields:** Contractors used for grading (1 per cent – 5 per cent slope allowed from the centre of the field to outer corners) and drainage of sports fields according to generally accepted norms and standards. Essential process in constructing sports fields.

**Haulage:** Transport of waste between sites and from sites for recycling. Service provided by a contractor.

**Interior Decorator:** This item provides for the expertise of an interior decorator to provide advice in the art of decorating a room so that it is attractive, easy to use, and functions well with the existing architecture.

**Inspection Fees:** Contractors used for water and electricity meter inspections to detect tampering and confirm accuracy of metering use.

**Maintenance of Buildings and Facilities:** Contractors for maintaining and repairing of buildings and facilities. Transactions allocated to this item are applicable only if the maintenance and repair does not extend the useful life of the asset and result in future cash inflows into the organisation. Examples would be painting, waterproofing, replacing carpets, fix broken windows, etc. Detail of buildings and facilities to be selected from the project segment.

**Maintenance of Equipment:** Contractors for maintaining and repairing of equipment. Transactions allocated to this item are applicable only if the maintenance and repair does not extend the useful life of the asset and result in future cash inflows. Examples would be replacing filters or gas in an air conditioner, servicing of machinery and equipment and ordinary service of a motor vehicle. Detail of plant and equipment to be selected from the project segment.

**Maintenance of Unspecified Assets:** Contractors for maintaining and repairing of buildings and facilities. Transactions allocated to this item are applicable only if the maintenance and repair does not extend the useful life of the asset and result in future cash inflows into the organisation. Included in this item are maintenance of all other assets, not included under the categories for machinery and equipment for example, biological assets, software and intangible assets, heritage assets. Examples would be maintenance of other assets such as roads, harbours and other infrastructure assets (all other assets not included in property maintenance or machinery and equipment). Detail of "other assets" to be selected from the project segment.

**Management of Informal Settlements:** Contractors used for removal of illegal settlements, structures and occupants.

**Medical Services:** Clinics might from time to time require the services of private medical practitioners to render services when staff shortages occur. This is a short-term arrangement for a specific requirement or need. Includes payment to private medical practitioners for services to employees as a result of injury on duty. Costs incurred by private medical centres for examination of sick patients of which the cost is carried by the municipality. Municipalities acquire the services of medical staff to render medical services to employees at the workplace to enhance employment wellness.

**Mint of Decorations:** Draft/ mint of decorations/ medals for the mayor and deputy mayor not subjected to capitalisation.

**Pest Control and Fumigation:** Contracting in pest control services for managing pests in the municipal area, such as rats, cockroaches, termites, including fumigation cost using chemicals to prevent pests.

**Photographer:** Services rendered by photographer for official photos.

**Plants, Flowers and Other Decorations:** Contractors for providing plants, flowers, wreaths used at memorial services, special events, offices, public spaces, etc.

**Prepaid Electricity Vendors:** Contractors for vending of "prepaid electricity".

**Preservation/ Restoration/ Dismantling/ Cleaning Services:** Services relating to restoration and preservation of items that should be stored for a long period of time whilst not in use and the restoration of art items. Excluded from this item are normal maintenance and repairs. Also included are the cost for dismantling and cleaning of assets to be stored for an unspecified period of time as well as the cost associated with the demolition of assets.

**Relief Drivers:** Contractors used for assisting in driving municipal vehicles during strikes or other shortages of drivers occur.

**Tracing Agents and Debt Collectors:** Contracted services rendered by collecting firms with regard to outstanding accounts, including legal fees in this regard.

**Traffic and Street Lights:** Contractors appointed for the management of traffic and street lights such as replacing light bulbs, poles and traffic lights damaged in accidents, etc.

**Transmission of Electricity by Other:** This account should record amounts payable to others for transmission of the utility's electricity using transmission power system facilities owned by others. [NERSA GG 626]. Posting level accounts (non-breakdown allowed) are provided for the following:

- o Network Charges
- o Ancillary Charges
- o Reliability Charges

**Transportation:** Contractor for furniture removal, removal of abandoned vehicles, pounding of vehicles and "tow-in" of municipal vehicles and motors practitioners restricting entrance/ exit gates.

**Safeguard and Security:** Contracted services relating to safeguarding of property, for example armed response provided by ADT, Chubb or other(s) and security services for example reception or motor entrances access control outsourced.

**Sewerage Services:** Contractors used for sewerage and sanitation services, including suction pump vehicles (honey suckers) and removal of sludge from drying beds.

**Sports and Recreation:** A person, not appointed permanently by the municipality, assisting specifically with sport and recreation. Sport being an activity involving physical exertion and skill in which an individual or team competes against another for recreation and enjoyable leisure.

**Stage and Sound Crew:** Contractors hired who specialise in setting-up stage and sound at special events, festivals and celebrations.

**Prepaid Water Vendors:** Contractors for vending of "prepaid water", including maintenance of vending machines.

**Exhibit Installations:** Contractors hired for the installation of exhibits

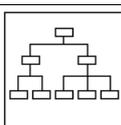
**Shark Nets:** Contractors used for the maintenance of shark nets.

**Stream Cleaning and Ditching:** Contractors employed to clear blocked streams.

**Removal of Hazardous Waste:** Deals with any chemical waste that needs to be disposed of but not medical waste

**Forestry:** Reforestation deals with protection of environmentally sensitive areas. This involves removal of alien vegetation, planting of indigenous trees, maintenance of wetlands, etc.

**Air Traffic and Navigation:** These are contractors that are engaged for the services outsourced to control air traffic at municipal airports. They basically direct air traffic in the air space above the Airport and direct planes for landing and take-off. They perform the same function as Air Traffic controllers at all the airports. Where the skills are not present internally professionals must be engaged to undertake this function on behalf of the airport.



***Maintenance is still provided for in “Contractors”. Why if “Repairs and Maintenance”, does the transaction need to be reflected as a project within the Project Segment?***

The account for “Contractors: Maintenance Unspecified” identifies the “type” of service rendered to the municipality. This is only one type of expenditure that could be incurred as part of the processes for maintaining assets.

Other type of expenditure may be a reallocation of primary cost recognised in the Item Segment Expenditure through the Costing Segment, for example cost of using internal staff, materials and supplies issued through the stores and transport cost.

## Depreciation and Amortisation

### Definition:

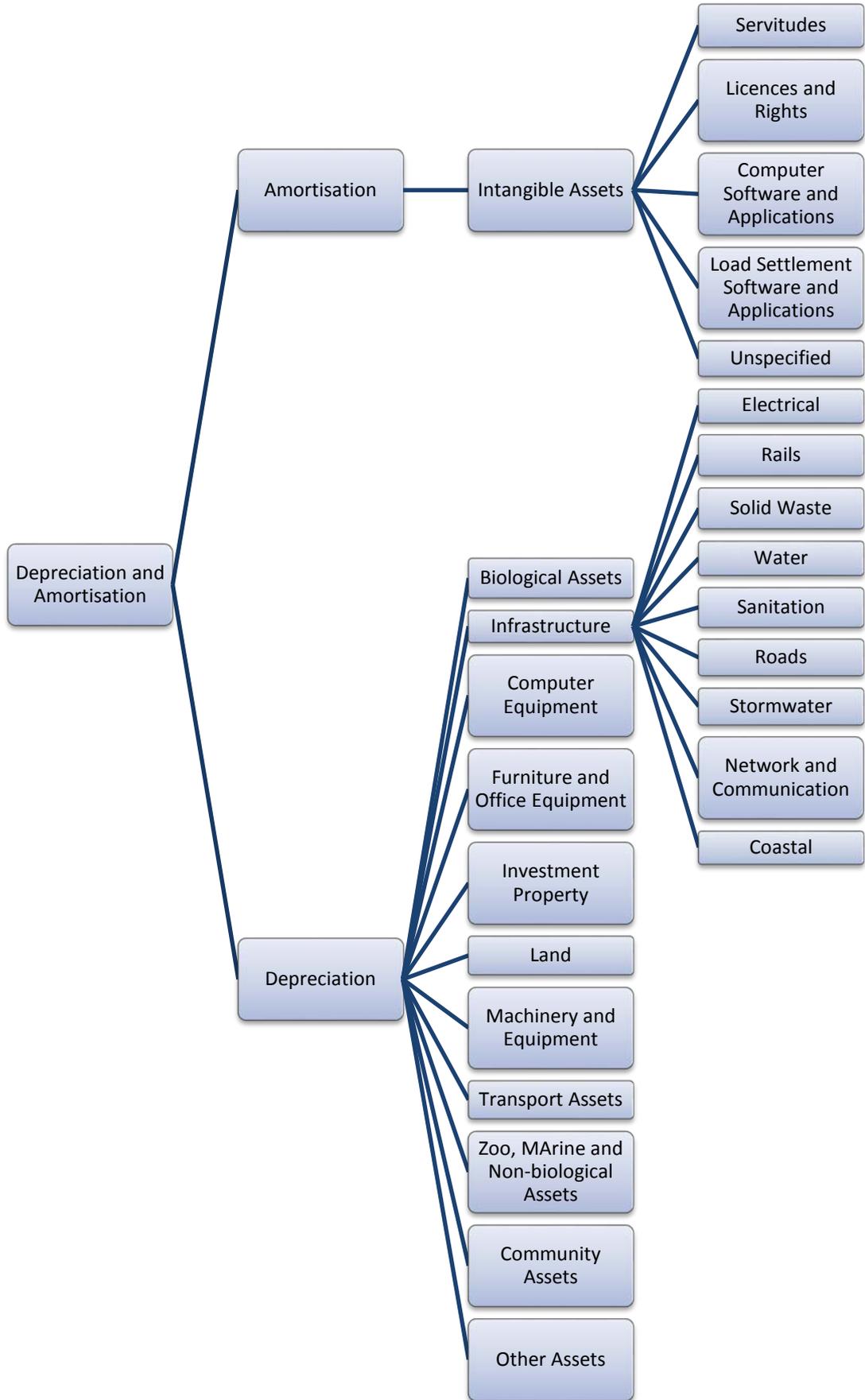
**Depreciation** is the systematic allocation of the cost of an asset from the statement of financial position to depreciation expense on the statement of financial performance over the useful life of the asset.

**Amortisation** is the systematic allocation of the discount, premium or issue cost of a financial instrument over the life of the instrument, or an intangible asset over a certain period.

42. Depreciation allocates the original cost of an asset to expense in the periods in which the asset is consumed. Depreciation is calculated whether the asset is infused or idle. Furthermore, accumulated depreciation is the portion of an asset’s original cost that has

already been written off as a depreciation expense in prior periods – it is not a sum of cash waiting to be used.

43. The depreciation charge for each period will be recognised as an expense unless it is included in the carrying amount of another asset, for example depreciation included in the capital costs of another asset. The calculation of future funding requirements for asset replacement should be part of the asset management planning processes that should feed into the annual budget.
44. The accounting transaction for depreciation is a debit for depreciation (an expense) and a credit for accumulated depreciation (an offset against the assets cost).
45. mSCOA provides detail posting levels based on the high-level property, plant and equipment categories as illustrated in the diagram below:



46.

**Definitions:****Intangible Assets:** Amortisation of intangible assets [GRAP 101.77/121]

- Servitudes: Amortisation of intangible assets [GRAP 101.77/121] Accounts added to align to CIDMS Classification Structure in Version 5.5.
- Licences and Rights - Amortisation of intangible assets [GRAP 101.77/121] Accounts added to align to CIDMS Classification Structure in Version 5.5.
- Computer Software and Applications - Amortisation of intangible assets [GRAP 101.77/121] Accounts added to align to CIDMS Classification Structure in Version 5.5.
- Load Settlement Software and Applications: Amortisation of intangible assets [GRAP 101.77/121] Accounts added to align to CIDMS Classification Structure in Version 5.5.
- Unspecified: Amortisation of intangible assets [GRAP 101.77/121] Accounts added to align to CIDMS Classification Structure in Version 5.5.

**Depreciation:** Depreciation is the systematic allocation of the cost of an asset from the Statement of Financial Position to depreciation expense on the Statement of Financial Performance over the useful life of the asset.

- Biological Assets: Depreciation of biological assets recognised at cost if fair value is not available. [GRAP 101.52]
- Computer Equipment: Depreciation recognised on computer equipment, distinction made for complying to the NERSA reporting requirements or if not an alternative classification to be applied.
- Furniture and Office Equipment: Depreciation recognised on furniture and office equipment, distinction made for complying to the NERSA reporting requirements or if not an alternative classification to be applied.
- Electrical Infrastructure: Depreciation recognised on infrastructure electricity. Terminology aligned to CIDMS Classification in mSCOA Version 5.5.
- Rails Infrastructure: Depreciation recognised on infrastructure railways. Terminology aligned to CIDMS Classification.
- Solid Waste Infrastructure: Depreciation recognised on infrastructure waste management. Infrastructure Waste Management changed to Solid Waste Infrastructure to align with CIDMS Classification.
- Water Supply Infrastructure: Depreciation recognised on infrastructure water. Infrastructure Water changed Water Supply Infrastructure to align terminology in mSCOA Version 5.5 to the CIDMS Classification.

- Sanitation Infrastructure: Depreciation recognised on Sanitation Infrastructure. Infrastructure Waste Water Management changed in mSCOA Version 5.5 to align terminology with CIDMS Classification.
- Investment Property: Depreciation on investment property recognised on the cost model. [GRAP 16.88]
- Land: Depreciation recognised on land. Landfill Sites changed in mSCOA Version 5.5 to Land to align terminology to CIDMS.
- Machinery and Equipment: Depreciation recognised on machinery and equipment, distinction made for complying to the NERSA reporting requirements or if not an alternative classification to be applied.
- Transport Assets: Depreciation recognised on transport assets, distinction made for complying to the NERSA reporting requirements or if not an alternative classification to be applied.
- Libraries: Depreciation recognised on libraries.
- Zoo, Marine and Non-Biological Animals: Depreciation recognised on zoo, marine and non-biological animals.
- Roads Infrastructure: Depreciation recognised. Classification added to align to CIDMS Classification in mSCOA Version 5.5.
- Storm water Infrastructure: Depreciation recognised. Classification added to align to CIDMS Classification in mSCOA Version 5.5.
- Network and Communication Infrastructure: Depreciation recognised. Classification added to align to CIDMS Classification in mSCOA Version 5.5.
- Coastal Infrastructure: Depreciation recognised. Classification added to align to CIDMS Classification in mSCOA Version 5.5.
- Community Assets: Depreciation recognised. Classification added to align to CIDMS Classification in mSCOA Version 5.5.
- Other Assets: Depreciation recognised. Classification added to align to CIDMS Classification in mSCOA Version 5.5.

## Employee Related Cost

**Definition:**

This item includes all payments to employees except social contributions, defined below. Employee related cost distinguish between senior managers and other staff as section 124(1)(c) of the MFMA require disclosures of the details of remuneration for all senior managers.

47. At the highest-level this group of accounts provides for senior management and municipal staff as illustrated in the diagram below:



### *Senior Management*

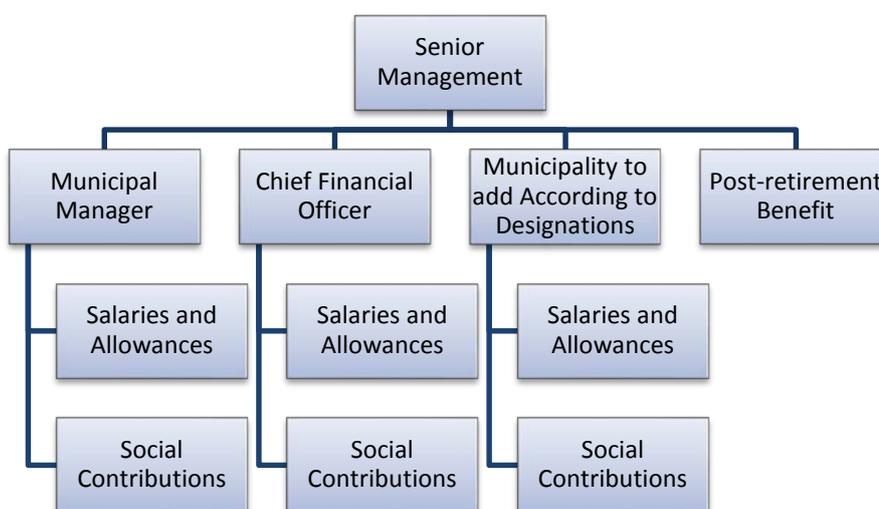
**Definition:**

Key management personnel in the context of municipalities, referring to the senior management group, including the chief executive (municipal manager).

48. At the highest-level provision is made for salaries and allowances and social contributions.
49. Section 75 Municipal Systems Act, 2000. As required by Section 124(1)(c) of the MFMA disclosure is required of the remuneration for all senior managers and IPSAS 20 (Standard of GRAP 20 Related Party disclosures when effective). For example, the Municipal Manager, Chief Financial Officer and Senior Directors/ Executives. Compensation related cost and allowances excluding Social Contributions.
50. Further to the above, provision is made by “type” of employee related cost for capitalisation to construction work-in-progress for property, plant and equipment. The

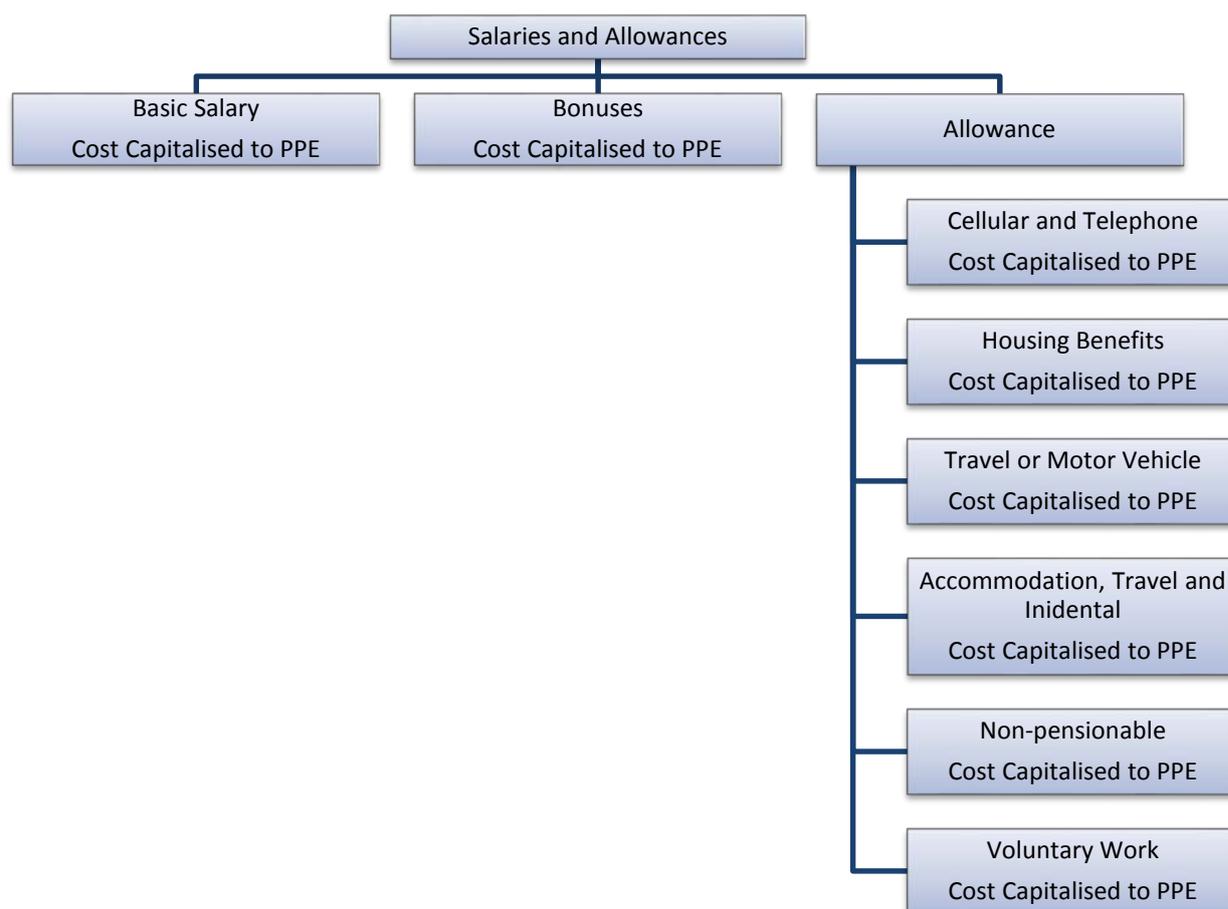
Budget Reporting Framework requires an estimate and presentation of cost capitalised related to employees.

51. The structure for “senior managers” needs to individually provide for the designations used by the municipality in mSCOA for extracting reporting information for annual financial statement disclosure purposes. mSCOA Version 6.1 provides for categories of accounts of which Municipal Manager and Chief Financial Officer have been created with the remainder of accounts for customisation by the municipality. If the municipality requires more classifications than provided for in mSCOA Version 6.1 a request need to be logged to the mSCOA Frequently Asked Questions (FAQ) Database for consideration by the mSCOA Technical Committee.



**Definitions:**

- **Senior Management:** Section 75 of the Municipal Systems Act, 2000. As required by Section 124(1)(c) of the MFMA disclosure is required of the remuneration for all senior managers and IPSAS 20 (the Standard of GRAP 20 Related Party Disclosure when effective). For example, the Municipal Manager, Chief Financial Officer and Senior Directors/ Executives. Compensation related cost and allowances excluding Social Contributions.
- **Municipal Manager (MM)/ Chief Financial Officer (CFO):** Municipal Manager/ Chief Financial Officer added as these designations are required. The municipality to customise the classification provided for the requirements of their municipality.

**Definitions:**

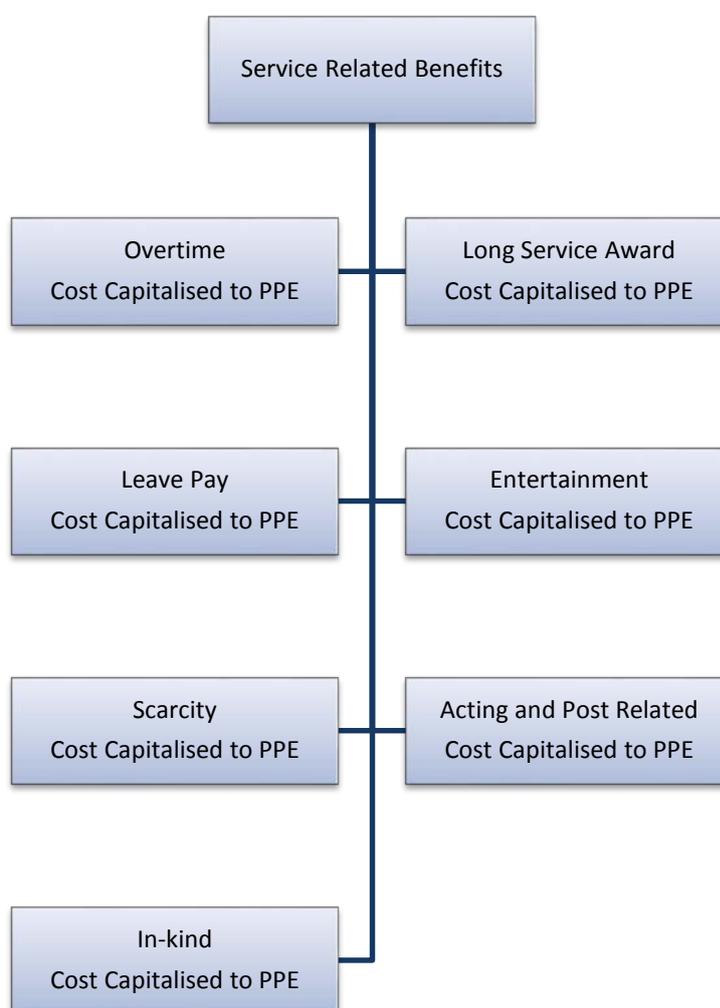
**Salaries and Allowances:** This group of accounts provides (by senior manager) a breakdown of the compensation paid to the employee classified according to "annual remuneration, performance and bonuses, travel, motor vehicle, accommodation, subsistence and service related benefits".

- **Basic Salary:** Annual remuneration refers to basic salary as per IRP5 excluding allowances, benefits, performance and other bonuses and service related awards. Annual bonus in the form of a 13<sup>th</sup> cheque included in basic salary.
- **Basic Salary - Cost Capitalised to PPE (Credit Account)** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Bonuses:** A form of additional compensation paid/ accrued to an employee or department as a reward for achieving specific goals or hitting predetermined targets. A performance bonus is compensation beyond normal wages and is typically awarded after a performance appraisal and analysis of projects completed by the employee over a specific period of time. Included in this account is any other form of bonus given to employees.

- Bonuses - Cost Capitalised to PPE (Credit Account): This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- Allowance: Allowances paid in accordance with the municipality's policy for senior managers and conditions of employment.
- Cellular and Telephone: Cellular and Telephone Allowances paid to employees for compensation for official use of private phones.
- Cellular and Telephone Cost Capitalised to PPE (Credit Account): This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- Housing Benefits: Assistance given to employees for acquiring accommodation as guided by the municipalities housing policy and conditions of employment.
- Housing Benefits: Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- Travel or Motor Vehicle: A travel allowance is any allowance paid or advance given to an employee in respect of travelling expenses for business purposes. Any allowance or advance in respect of travelling expenses not to have been expended on business travelling to the extent that it has been spent on private travelling (this includes travelling between the employee's place of residence and his/ her place of employment). The following two situations are envisaged, namely 1) a travel allowance given to an employee to finance transport (for example, a set rate or amount per pay period); and 2) a reimbursement given to an employee based on actual business travel. [Section 8(1)(b) of the Income Tax Act, 1962]
- Travel or Motor Vehicle: Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- Accommodation, Travel and Incidental: This account provides for accommodation, travelling and incidental cost paid to employees as provided for in terms of service contracts.
- Accommodation, Travel and Incidental: Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and

Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.

- Non-pensionable: An amount other than salaries or wages, paid to employees as per conditions of service which are either fixed or advised based on time and materiality. Examples included here: - First Aid Allowance - Fire Driving Allowance - Diving Allowance - Sewer Allowance – etc.
- Non-pensionable: Cost Capitalised to PPE (Credit Account) - Non-pensionable allowance capitalised
- Voluntary Work: Additional compensation paid to employees for volunteering services during municipal elections.



**Definitions:**

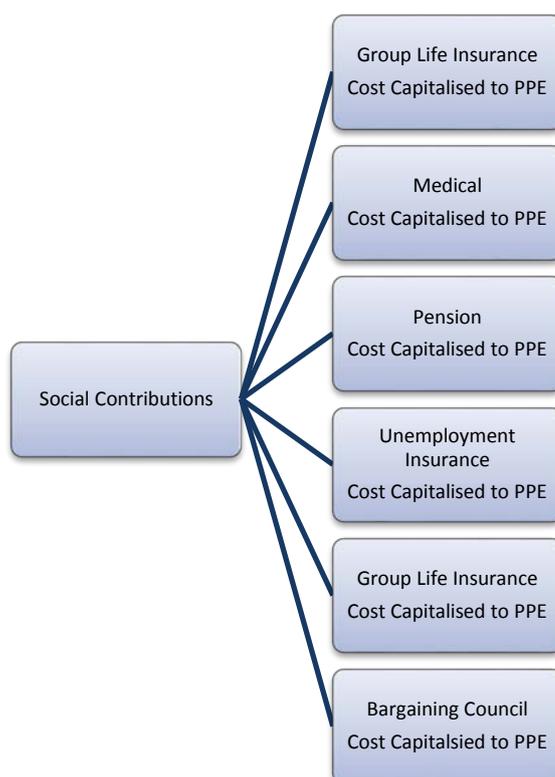
**Service Related Benefits:** This group of accounts provides for Service Based Benefits and Bonuses such as 13<sup>th</sup> cheques, cashing in on leave (if provided for in the Leave Policy of the Municipality) and

awards given based on long service (if provided for by the Long Service Award policy of the Municipality):

- **Overtime:** Overtime paid to senior managers as agreed. Typical senior managers are not getting paid overtime. Exceptional circumstances might exist justifying the payment off overtime in terms of a council approved municipal policy.
- **Overtime Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Long Service Award:** Long Service Benefit paid to employees as determined in term of the municipality's policy either and/ or conditions of employment.
- **Long Service Award:** Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Leave Pay:** Discounting accumulated leave for cash payment if the municipality's policy provides for discounting include leave accrued or provided.
- **Leave Pay:** Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Entertainment:** Allowance given to officials in terms of employment contracts.
- **Entertainment:** Cost Capitalised to PPE (Credit Account) - Entertainment cost capitalised to Property Plant and Equipment (PPE).
- **Scarcity:** This allowance is paid in terms of a Scarce Skills Policy aiming at identifying scarce skills within the municipality, recruiting individual with such scare skills and retaining the employees with these skills.
- **Scarcity:** Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Acting and Post Related Allowances:** Acting Allowance payable within the provision of the municipality's policy to an employee who is "acting in a position of another employee in his/ her absence" and in addition remains responsible for his original duties, functions and powers.

Allowance specific to hold off a position and job related included in this allocation, for example danger pay, secondment, etc. (This allowance is paid to an employee that is required to perform duties in a higher position in a different or the same Directorate and is being released of his/ her current duties. The allowance is the difference between the remuneration of the current position and that of the position being seconded to. It is not the same as "acting" where you are required to perform your own duties as well as the duties in the position you are required to act in.)

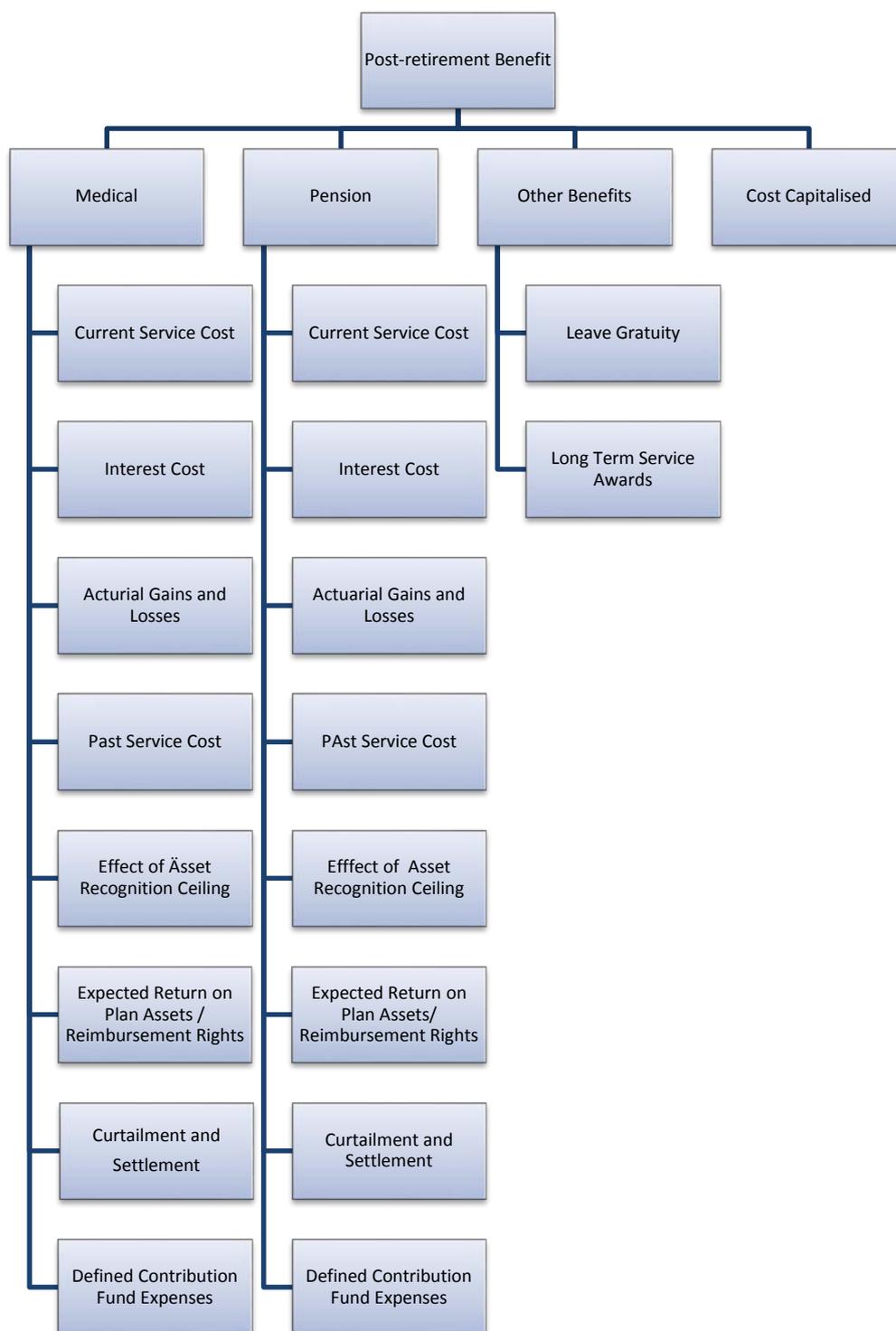
- **Acting:** Cost Capitalised to PPE (Credit Account) - Acting allowance capitalised
- **In-kind Benefits:** In-kind benefits provides for the inclusion of the benefit determined at the fair value thereof and include any benefit given to an employee that is not cash, for example a free medical check-up once a year.
- **In-kind Benefits - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.



#### Definitions:

**Social Contributions:** Payments, actual or imputed, by government units to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits.

- **Group Life Insurance:** Employer contributions to insurance schemes.
- **Medical:** Employer contributions to medical schemes.
- **Pension:** Employer contributions to pension funds and unemployment insurance fund.
- **Unemployment Insurance:** Employer contributions to the Unemployment Insurance Fund (UIF).
- **Group Life Insurance - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Medical - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Pension - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Unemployment Insurance - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Bargaining Council:** Employer contributions to the South African Local Government Bargaining Council.
- **Bargaining Council Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.



**Post-retirement Benefit:** The actuarial present value of the post-retirement benefits of an employer that are attributed to employee service that is rendered to a particular date. These benefits are those other than pensions.

**Medical:** Post-retirement benefit for medical.

**Current Service Cost:** The increase in the present value of the defined benefit obligation resulting from employee service in the current period. [GRAP 25.08]

**Interest Cost:** Increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. [GRAP 25.08]

**Actuarial Gains and Losses:** Actuarial gains/ losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

**Past Service Cost:** Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.

**Effect of 'asset recognition ceiling':** Adjustments arising from applying the "limit - asset recognition ceiling" as guided by the *Standard of GRAP 25 Employee Benefits*, paragraph 68.

**Expected return on Plan Assets/ Reimbursement Rights:** Expected return on plan assets is based on expectations, at the beginning of the reporting period, of returns over the entire life of the related obligation. The expected return reflects changes in fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

**Curtailement and Settlement:** Curtailment is the act or process of reducing the municipality's operations; this is often linked to restructuring. The effects of curtailments are the reduction in the obligation due to restructuring. Settlement occurs when the municipality enters into a transaction that eliminates future legal or constructive obligations for part or all the benefits provided under a defined benefit plan.

**Defined Contribution Fund Expenses:** Payments made to defined contribution funds

**Pension:**

**Current Service Cost:** The increase in the present value of the defined benefit obligation resulting from employee service in the current period. [GRAP 25.08]

**Interest Cost:** The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. [GRAP 25.08]

**Actuarial Gains and Losses:** Actuarial gains/ losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.

**Past Service Cost:** Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits.

**Effect of 'asset recognition ceiling':** Adjustments arising from applying the "limit - asset recognition ceiling" as guided by the *Standard of GRAP 25 Employee Benefits*, paragraph 68.

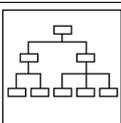
**Expected return on Plan Assets/ Reimbursement Rights:** Expected return on plan assets is based on expectations, at the beginning of the reporting period, of returns over the entire life of the related

obligation. The expected return reflects changes in fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

**Curtailment and Settlement:** Curtailment is the act or process of reducing the municipality's operations; this is often linked to restructuring. The effects of curtailments are the reduction in the obligation due to restructuring. Settlement occurs when the municipality enters into a transaction that eliminates future legal or constructive obligations for part or all the benefits provided under a defined benefit plan.

**Defined Contribution Fund Expenses:** Payments made to defined contribution funds

**Less: Cost Capitalised:** *This account is to be used for recording the allocation of employee related cost capitalised to property, plant and equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction, provides reporting information on the "gross" employee related cost but also provides the "net" position.*



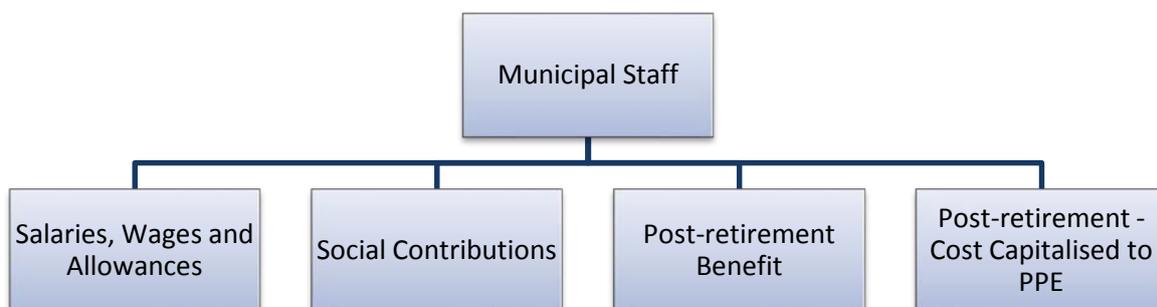
**Posting Level Detail to be customised according to the municipality's establishment for defining senior managers by designation.**

The account structure for senior management was replicated and provides for Municipal Manager (MM) and Chief Financial Officer (CFO). The municipality to change the account description as indicated in Version 6.1 of the mSCOA Tables to provide for the requirements as per the municipalities staff establishment.

*Municipal Staff*

52. This category provides for compensation paid to employees excluding social contributions other than senior management.

**Definitions:**  
**Municipal Staff:** This category provides for compensation paid to employees other than senior management. Included are interns paid through the payroll system.



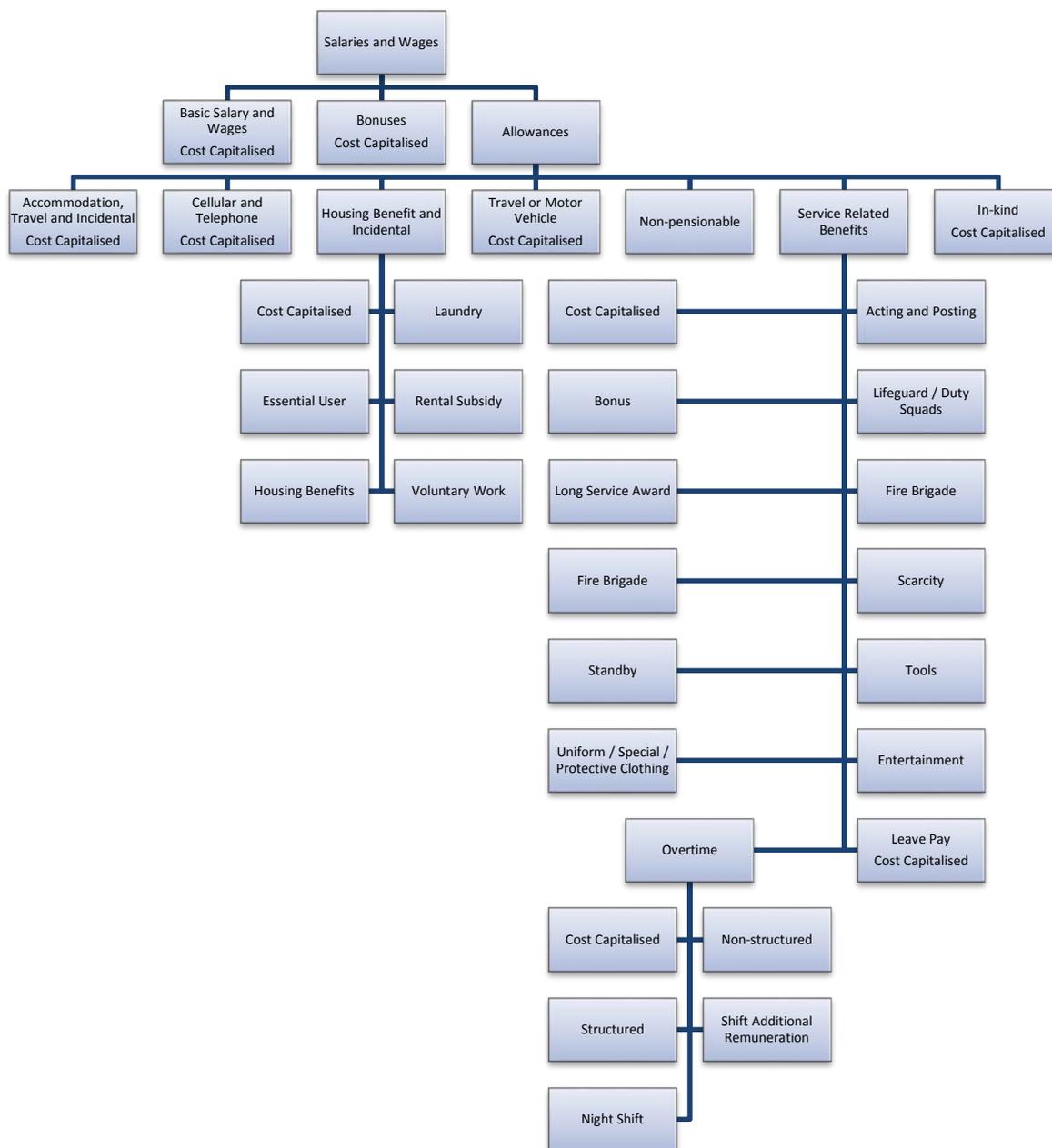
**Definitions:**

**Municipal Staff:** This category provides for compensation paid to employees other than senior management. Included are interns paid through the payroll system.

**Salaries, Wages and Allowances:** This group of accounts provides a breakdown of the compensation paid to the employee classified according to "annual remuneration, performance and bonuses, travel, motor vehicle, accommodation, subsistence and service related benefits".

**Social Contributions:** Payments, actual or imputed, by government units to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits.

**Post-retirement Benefit - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.



**Definitions:**

**Basic Salary and Wages:** Basic salary excludes any fringe benefits, allowances or overtime compensation for services rendered by a permanent employee according to a scale as negotiated.

**Basic Salary and Wages - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.

**Bonuses:** A form of additional compensation paid/ accrued to an employee or department as a reward for achieving specific goals or hitting predetermined targets. A performance bonus is compensation

beyond normal wages and is typically awarded after a performance appraisal and analysis of projects completed by the employee over a specific period of time. Included in this account is any other form of bonus given to employees.

**Bonuses - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.

**Allowances:** Allowances paid in accordance with the municipality's policy for senior managers and conditions of employment:

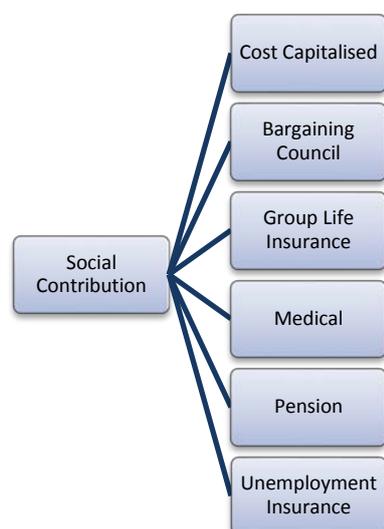
- **Accommodation, Travel and Incidental:** This account provides for accommodation, travelling and incidental cost paid to employees as provided for in terms of service contracts.
- **Accommodation, Travel and Incidental - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Cellular and Telephone:** Cellular and Telephone Allowances paid to employees for compensation for official use of private phones.
- **Cellular and Telephone: Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Housing Benefits and Incidental:** Assistance given to employees for acquiring accommodation as guided by the municipalities housing policy and conditions of employment.
- **Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Essential User:** Transport allowance paid to employees qualifying for the Essential User Scheme as per their conditions of service.
- **Housing Benefits:** Assistance given to employees for acquiring accommodation as guided by the municipalities housing policy and conditions of employment.
- **Laundry:** Compensation for out of pocket cost for cleaning of clothes whilst away from home for official business.

- **Rental Subsidy:** Assistance given to employees for renting accommodation as guided by the municipalities housing policy and conditions of employment.
- **Voluntary Work:** Additional compensation paid to employees for volunteering services during municipal elections.
- **Travel or Motor Vehicle:** A travel allowance is any allowance paid or advance given to an employee in respect of travelling expenses for business purposes. Any allowance or advance in respect of travelling expenses not to have been expended on business travelling to the extent that it has been spent on private travelling (this includes travelling between the employee's place of residence and his/ her place of employment). The following two situations are envisaged, namely 1) a travel allowance given to an employee to finance transport (for example, a set rate or amount per pay period); and 2) a reimbursement given to an employee based on actual business travel. [Section 8(1)(b) of the Income Tax Act, 1962]
- **Travel or Motor Vehicle:** Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Non-pensionable:** An amount other than salaries or wages, paid to employees as per conditions of service which are either fixed or advised based on time and materiality, examples being First Aid Allowance, Fire, Driving, Diving, Sewer, etc.
- **Service Related Benefits:** This group of accounts provides for Service Based Benefits and Bonuses such as 13<sup>th</sup> cheques, cashing in on leave (if provided for in the Leave Policy of the Municipality) and awards given based on long service (if provided for by the Long Service Award policy of the Municipality) and due to the conditions of employment as agreed.
- **Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Acting and Post Related Allowances:** Acting Allowance payable within the provision of the municipality's policy to an employee who is "acting in a position of another employee in his/ her absence" and in addition remains responsible for his original duties, functions and powers. Allowance specific to hold off a position and job related included in this allocation, for example cashiers, danger pay, secondment. (This allowance is paid to an employee that is required to perform duties in a higher position in a different or the same Directorate and is being released of his/her current duties. The allowance is the difference between the remuneration of the current position and that of the position being seconded to. It is not the same as "acting" where you are required to perform your own duties as well as the duties in the position you are required to act in.)

- **Bonus:** 13<sup>th</sup> cheque as determined in terms of the conditions of employment and package structure or any other method in accordance with the municipality's policy and conditions of employment including provision and accruals.
- **Lifeguard/ Duty Squads:** Additional allowance paid to life and duty guards as per the municipality's employee compensation policy and conditions of employment.
- **Long Service Award:** Employees who has completed an exceptional number of years get this award. Including accrual.
- **Fire Brigade:** Operational Allowance to Fire Department employees or "Mess Fees Contribution".
- **Scarcity Allowance:** This allowance is paid in terms of a Scarce Skills Policy aiming at identifying scarce skills within the municipality, recruiting individual with such scare skills and retaining the employees with these skills.
- **Standby Allowance:** Is a compensatory allowance which is paid to an employee when he/ she is instructed to keep himself/ herself readily available to work after normal working hours for standby duty.
- **Tools Allowance:** An allowance given for staff making use of "own tools" for business purposes as determined by the employee compensation policy and conditions of employment.
- **Uniform/ Special/ Protective Clothing:** If a condition of employment prescribes that whilst on duty to wear a special uniform which is clearly distinguishable from ordinary clothing this tax-free allowance is paid to them to enable the purchase of this uniform or protective clothing.
- **Entertainment:** Allowance given to officials in terms of employment contracts.
- **Overtime:** Overtime as defined by the Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997), Chapter 2 Section 10 consisting of payments, accruals and provisions.
- **Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Non-structured:** Compensation for prior approved and agreed overtime payable to shift workers for hours work in addition to the shift hours and to all non-shift workers for hours worked outside their normal working hours including hours worked on Public Holidays and Sundays.
- **Structured:** Compulsory compensation payable as result of the requirement to work on Sundays and Public Holidays as part of a shift in a shift roster.
- **Shift Additional Remuneration:** Inconvenience allowance for working shifts other than normal business hours.
- **Night Shift:** Night shift allowance in general refers to work performed after 18:00 and before 6:00 the next day. An employer may only require or permit an employee to perform night work is so

agreed and if an employee is compensated by the payment of an allowance, which may a shift allowance as per the Bargaining Council Agreement, or by reduction of working hours. Night shift allowance should not be paid out to employees who are already receiving standby allowance. Transport is available between employee's place of work at the commencement and conclusion of employee's shift.

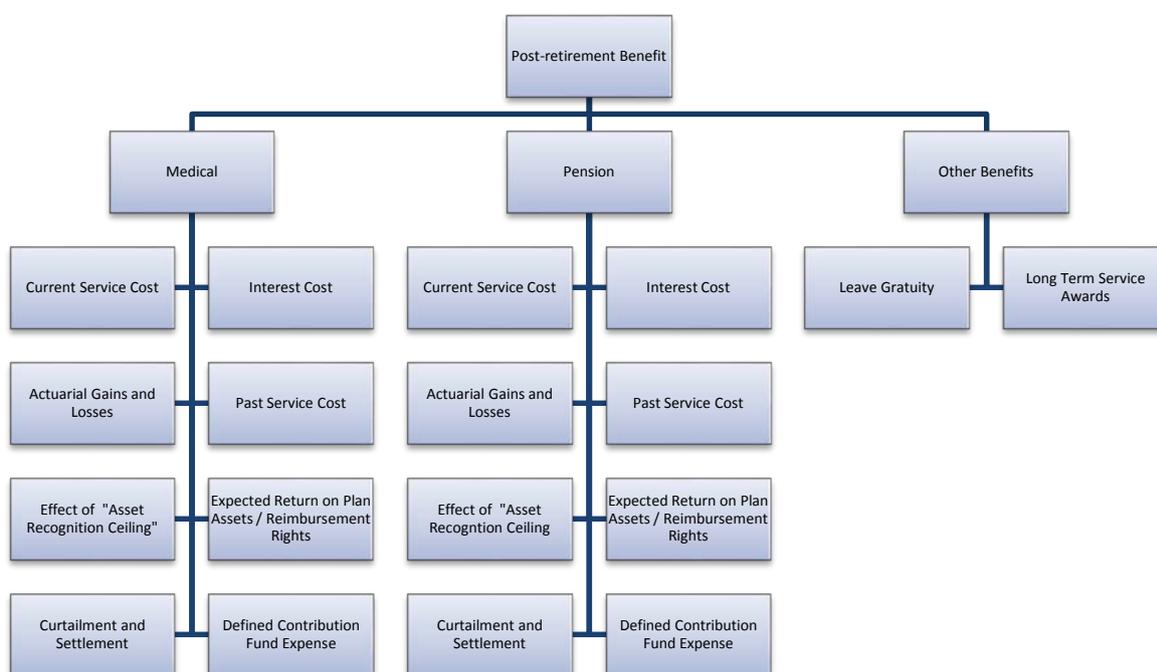
- **Leave Pay:** Discounting accumulated leave for cash payment if the municipality's policy provides for discounting including leave accrued or provided.
- **Leave Pay:** Cost Capitalised to PPE (Credit Account): This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **In-kind Benefits:** In-kind benefits provides for the inclusion of the benefit determined at the fair value thereof and include any benefit given to an employee that is not cash, for example a free medical check-up once a year.
- **In-kind Benefits:** Cost Capitalised to PPE (Credit Account) - This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.



#### Definitions:

**Social Contributions:** Payments, actual or imputed, by government units to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits.

- **Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Bargaining Council:** Employer contributions to the South African Local Government Bargaining Council.
- **Group Life Insurance:** Employer contributions to insurance schemes.
- **Medical:** Employer contributions to medical schemes.
- **Pension:** Employer contributions to pension funds.
- **Unemployment Insurance:** Employer contributions to unemployment insurance fund.

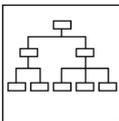


**Post-retirement Benefit:** Under defined benefit plans the municipality's obligation is to provide the agreed benefits to current and former employees and actuarial risk (that benefits will cost more than expected) and investment risk fall in substance, on the municipality. If actuarial or investment experience are worse than expected, the municipality's obligation may be increased. This account is for recording the contribution to this provision.

- **Medical:** Post-retirement benefit for medical.
- **Current Service Cost:** The increase in the present value of the defined benefit obligation resulting from employee service in the current period. [GRAP 25.08]
- **Interest Cost:** The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. [GRAP 25.08]

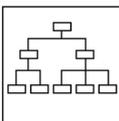
- **Actuarial Gains and Losses:** Actuarial gains/ losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.
- **Past Service Cost:** Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefit.
- **Effect of "asset recognition ceiling":** Adjustments arising from applying the "limit - asset recognition ceiling" as guided by the *Standard of GRAP 25 Employee Benefits*, paragraph 68.
- **Expected return on Plan Assets/ Reimbursement Rights:** Expected return on plan assets is based on expectations, at the beginning of the reporting period, of returns over the entire life of the related obligation. The expected return reflects changes in fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.
- **Curtailement and Settlement:** Curtailment is the act or process of reducing the municipality's operations; this is often linked to restructuring. The effects of curtailments are the reduction in the obligation due to restructuring. Settlement occurs when the municipality enters into a transaction that eliminates future legal or constructive obligations for part or all the benefits provided under a defined benefit plan.
- **Defined Contribution Fund Expenses:** Payments made to defined contribution funds
- **Pension:** Post-retirement benefit for pension.
- **Current Service Cost:** The increase in the present value of the defined benefit obligation resulting from employee service in the current period. [GRAP 25.08]
- **Interest Cost:** The increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement. [GRAP 25.08]
- **Actuarial Gains and Losses:** Actuarial gains/ losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.
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- **Effect of "asset recognition ceiling":** Adjustments arising from applying the "limit - asset recognition ceiling" as guided by the *Standard of GRAP 25 Employee Benefits*, paragraph 68.
- **Expected return on Plan Assets/ Reimbursement Rights:** Expected return on plan assets is based on expectations, at the beginning of the reporting period, of returns over the entire life of the related obligation. The expected return reflects changes in fair value of plan assets held during the period as a result of actual contributions paid into the fund and actual benefits paid out of the fund.

- **Curtailment and Settlement:** Curtailment is the act or process of reducing the municipality's operations; this is often linked to restructuring. The effects of curtailments are the reduction in the obligation due to restructuring. Settlement occurs when the municipality enters into a transaction that eliminates future legal or constructive obligations for part or all the benefits provided under a defined benefit plan.
- **Defined Contribution Fund Expenses:** Payments made to defined contribution funds.
- **Other Benefits:** This group of accounts provide for other post-retirement benefits that require recognition in terms of the *Standards of GRAP 25 Employee Benefits*.
- **Leave Gratuity:** On the termination of an employee's service they will be paid the value of annual leave credit at the time of termination of service.
- **Long Term Service Awards:** Long service awards are intended to acknowledge the loyalty and longevity of service of staff members are not linked to salary or performance of the individual.
- **Post-retirement Benefit - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.



***Employees appointed on “contract” to fill vacancies on the establishment – should they be classified under “Employee Related Cost or Contracted Services”?***

Persons appointed on fixed or variable term contracts to fill vacancies on the establishment are considered to be salaried employees. These types of contracts would be subjected to PAYE and accordingly paid through the salary system and issued with an IRP5 at the end of the tax year.



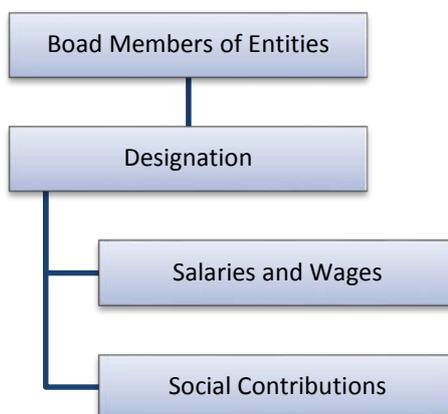
***Workers specifically appointed for the Expanded Public Works Programme (EPWP) to be classified as “Contracted Services or Employee Related Cost”?***

This classification typically depends on the conditions of employment. A worker may be paid through the payroll if the appointment is of a longer duration or municipal worker may be released for the EPWP. If short term

	<p>and specific appointments are made not necessary resulting in an appointment per the staff establishment, then Contractors: Personnel and Labour would be appropriate.</p> <p>The typical work stream project for the EPWP serve as the cost collector assisting in reporting to the Department of Public Works for benefiting from the incentive grant.</p>
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### Board Members of Entities

53. As required by Section 124(1)(c) of the MFMA disclosure is required of the remuneration for all senior managers and IPSAS 20 (Standard of GRAP 20 Related Party Disclosure, when effective). For example, the Municipal Manager, Chief Financial Officer and Senior Directors/ Executives. Compensation related cost and allowances excluding Social Contributions.
54. The account description provides for “designation” with a replication of the group of accounts. The municipality need to change the account description according to the requirements for the municipality. This change had been made in mSCOA Version 6.1:

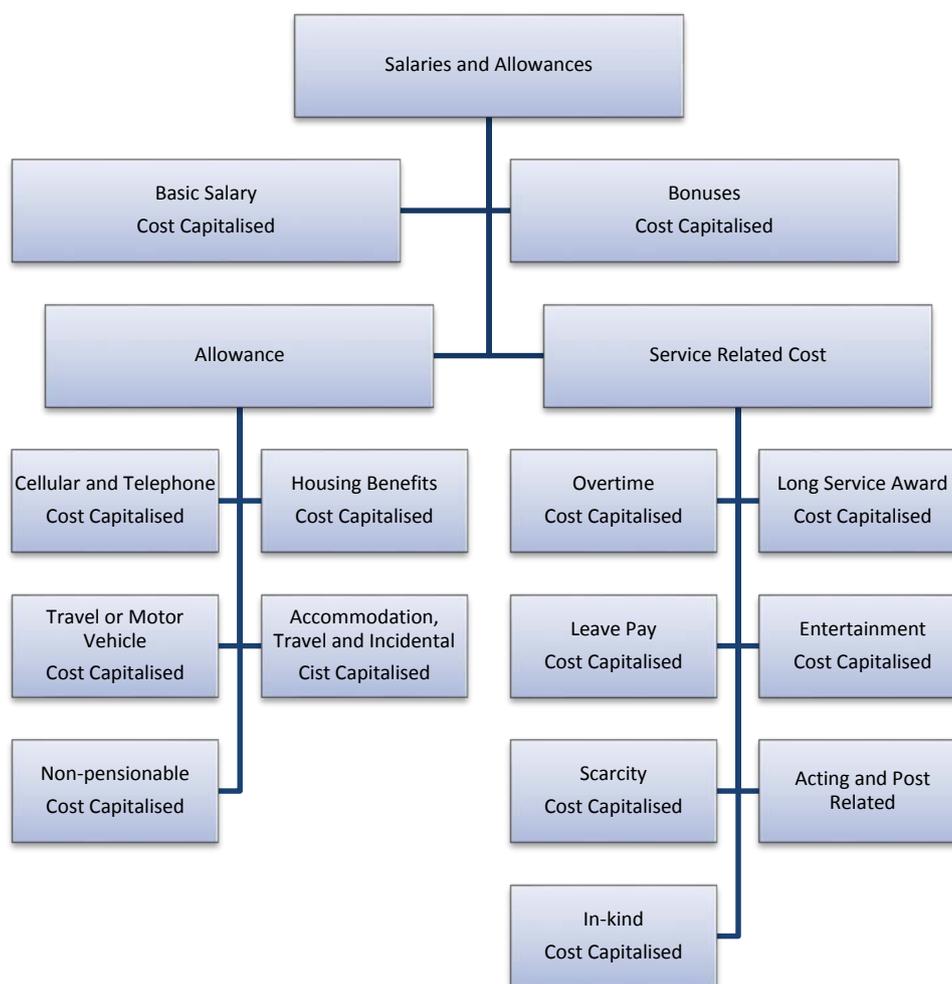


#### Definitions:

**Designation:** Senior Management need to provide for the different dispensation within the group for the extraction of reporting information from SCOA. Provision is made for typical designation within the group "senior manager". The structure need to be duplicated based on the organisational structure/ requirements of the individual municipality.

**Salaries and Allowances:** This group of accounts provides by senior manager a breakdown of the compensation paid to the employee classified according to "annual remuneration, performance and bonuses, travel, motor vehicle, accommodation, subsistence and service related benefits".

**Social Contributions:** Payments, actual or imputed, by government units to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits.

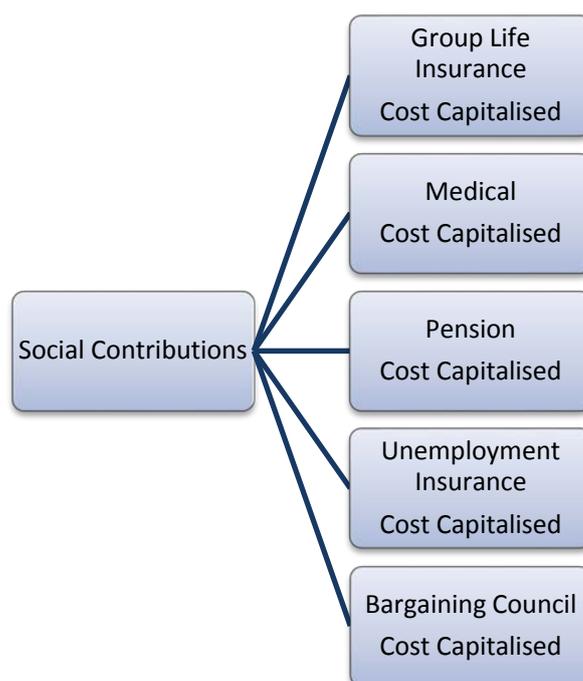


**Definitions:**

**Allowance:** Allowances paid in accordance with the municipality's policy for senior managers and conditions of employment.

- **Cellular and Telephone:** Cellular and Telephone Allowances paid to employees for compensation for official use of private phones.
- **Cellular and Telephone Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Housing Benefits:** Assistance given to employees for acquiring accommodation as guided by the municipalities housing policy and conditions of employment.

- **Housing Benefits:** Cost Capitalised to PPE (Credit Account): This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Travel or Motor Vehicle:** A travel allowance is any allowance paid or advance given to an employee in respect of travelling expenses for business purposes. Any allowance or advance in respect of travelling expenses not to have been expended on business travelling to the extent that it has been spent on private travelling (this includes travelling between the employee's place of residence and his/ her place of employment). The following two situations are envisaged, namely 1) a travel allowance given to an employee to finance transport (for example, a set rate or amount per pay period); and 2) a reimbursement given to an employee based on actual business travel. [Section 8(1)(b) of the Income Tax Act, 1962]
- **Travel or Motor Vehicle:** Cost Capitalised to PPE (Credit Account): This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Accommodation, Travel and Incidental:** This account provides for accommodation, travelling and incidental cost paid to employees as provided for in terms of service contracts.
- **Accommodation, Travel and Incidental: Cost Capitalised to PPE (Credit Account):** *This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.*
- **Non-pensionable:** An amount other than salaries or wages, paid to employees as per conditions of service which are either fixed or advised based on time and materiality. Examples included here:
  - First Aid Allowance - Fire Driving Allowance - Diving Allowance - Sewer Allowance – etc.
- **Non-pensionable: Cost Capitalised to PPE (Credit Account):** Non-pensionable allowance capitalised



**Social Contributions:** Payments, actual or imputed, by government units to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits.

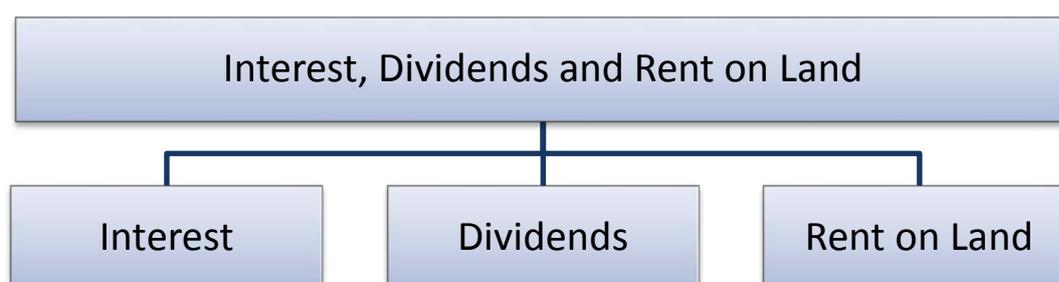
- **Group Life Insurance:** Employer contributions to insurance schemes.
- **Medical:** Employer contributions to medical schemes.
- **Pension:** Employer contributions to pension funds and unemployment insurance fund.
- **Unemployment Insurance:** Employer contributions to the Unemployment Insurance Fund (UIF).
- **Group Life Insurance - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Medical - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Pension - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction

provides reporting information on the "gross" employee related cost but also provides the "net" position.

- **Unemployment Insurance - Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.
- **Bargaining Council:** Employer contributions to the South African Local Government Bargaining Council
- **Bargaining Council Cost Capitalised to PPE (Credit Account):** This account is to be used for recording the allocation of employee related cost capitalised to Property, Plant and Equipment. By providing this account as a separate line item containing the credit entry of the capitalisation transaction provides reporting information on the "gross" employee related cost but also provides the "net" position.

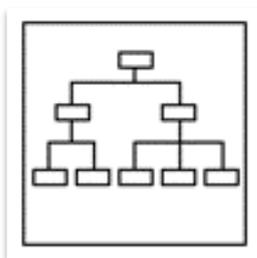
## Interest, Dividends and Rent on Land

55. This item includes the total value of interest payments, dividends and payment for the use of land owned by another party.
56. At the highest-level provision is made for interest, dividends and rent on land:



57. Dividends are distributions paid to shareholders holding shares in municipal entities.
58. Interest provides for the total value of interest payments. These are payments associated with debt, for example interest on borrowing and overdraft facilities. Interest payments on bills and bonds issued by other government units are also included here. Interest paid on overdue accounts should also be included under this item. Interest includes public sector (domestic and foreign) and private sector (domestic and foreign).

59. Posting level accounts available within this group do not require any further breakdown and include:



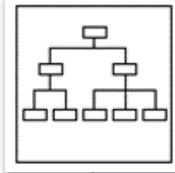
## Interest

- Arrears Salaries
- Bank Overdraft
- Borrowings (not posting level)
- Discounting of Financial Instruments
- Finance Leases
- Interest Cost Non-current Provision
- Sporting and Other Bodies
- Overdue Accounts
- Overpayment of Interest
- Deposits
- Intercompany/Parent-sub subsidiary Transactions Bursary Obligation
- Transfers and Subsidies Payable
- Long Service Awards

60. Rent on land includes only rent of land, and royalties, exploration and rights of use. Rent of buildings is included in operating leases. The "land" portion of the financial lease of buildings must also be included here.

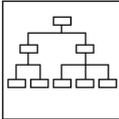
## Inventory

61. The number of inventories recognised as an expense during the period. Often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold, exchanged or distributed, and unallocated production overheads and abnormal amounts of production cost of inventories.
62. Included in this classification are direct purchases (for example swimming pool chemicals delivered on site and used immediately) as well as goods and material taken up in inventory (for example chemicals procured in place in store and issued on request) and issued for use.
63. Provide for in the group of accounts are:



## Inventory

- Consumables
- Finished Goods
- Materials and Supplies
- Water
- Housing Stock
- Agricultural
- Land



***The municipality procure some inventory items “directly” and expensed the items as such. Inventory accounting is not applied under these circumstances. How should this type of transaction be classified in mSCOA?***

mSCOA adopted the principles of inventory accounting in defining the classification framework. Accordingly, all purchases of consumables, material and supplies, water, etc. are considered to be received by the “stores” department and this reflected in the inventory records and then issued to the requesting department. If this is not the actual position, then the concept of “virtual” stores needs to be applied in the system.

## Remuneration of Councillors

64. Remuneration as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998). Salary of full-time councillors consisting of executive mayor or mayor, speakers, deputy executive mayor or deputy mayor, members of the executive committee or mayoral committee, whip and chairperson of a sub-council. Remuneration as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998). Salary of full-time councillors consisting of:

- Speaker
- Chief Whip

- Executive Mayor
- Deputy Executive Mayor
- Executive Committee
- Total for All other Councillors

65. At the highest-level distinction is made for the designation of the councillors to assist in providing reporting information in the mSCOA. The structure to be “duplicated” to provide for all designations.

66. Remuneration to councillors consist of “allowances and service related benefits”, “basic salary” and “social contributions”. Speaker/ Chief Whip/ Executive Mayor/ Deputy Executive Mayor/ Executive Committee/ Total for All Other Councillors: Designations as set-up in mSCOA Tables Version 6.1.

**Allowances and Service Related Benefits:** Allowances as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No 20 of 1998). Salary of full-time councillors consisting off Executive Mayor or Mayor, Speakers, Deputy Executive Major or Deputy Mayor, Members of the Executive Committee or Mayoral Committee, Whip and Chairperson of a sub-council.

**Office-bearer Allowance:** An office-bearer allowance as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) including a 3G card allowance.

**Out of pocket Expenses:** A reimbursement for reasonable and actual out of pocket expenses incurred during the execution of official and ceremonial duties as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No 20 of 1998).

**Travelling Allowance:** An allowance as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) based on selection of options and additional allowances.

**Use of Personal Facilities:** An allowance as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) of a monthly amount in respect of a full-time councillor who does not have the use of council owned facilities.

**Market Related Non-Pensionable Allowance:** An allowance paid to attract and retain a suitably qualified and competent person where the approved pay range is not sufficient to attract and retain such a person, and is paid in addition to the total remuneration package.

**Basic Salary:** Salary as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998). Salary of full-time councillors consisting off Executive Mayor or Mayor, Speakers, Deputy Executive Major or Deputy Mayor, Members of the Executive Committee or Mayoral Committee, Whip and Chairperson of a sub-council.

**Cell phone Allowance:** An allowance as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) of a fixed monthly amount.

**Housing Allowance:** A fixed housing allowances as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998) of a monthly amount provided that such an allowance is not payable where the municipal council makes housing available to the councillor concerned.

**In-kind Benefits:** In-kind benefits provides for the inclusion of the benefit determined at the fair value thereof.

**Motor Vehicle Allowance:** This is the motor vehicle allowance paid to councillors to acquire a personal motor vehicle.

**Social Contributions:** Payments, actual or imputed, by municipalities to social insurance schemes to obtain entitlement to social benefits for their employees, including pensions and other retirement benefits.

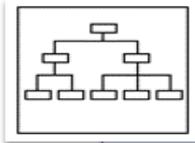
**Pension Fund Contributions:** Contributions to be made by the municipal council to the pension fund are determined as a percentage of the member's salary as determined by the Act, the Act being the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998)

**Medial Aid Benefits:** Contributions to be made by the municipal council to the medical aid fund are determined as a 2/3 of the membership fee limited to an amount as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998)

## Operating Leases

67. An operating lease is a lease other than a finance lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Land use portion of a building finance lease must be recorded under Rental of Land.
68. The posting level detail for this group of account is based on the fixed, intangible and infrastructure classifications as listed in design principles 5 and 6.

Operating Leases



- Biological
- Computer Equipment
- Furniture and Office Equipment
- Heritage Assets
- Infrastructure:
  - Electrical*
  - Roads*
  - Solid Waste Disposal*
  - Rails*
  - Sanitation*
  - Storm Water*
  - Network and Communication*
  - Coastal*
- Intangible
- Investment Properties
- Machinery and Equipment
- Transport Assets
- Land
- Liabraries
- Zoo, Marine and Non-biological Assets
- Other Assetts

## Operational Cost

69. An operating expense is a day-to-day expense such as sales and administration, or research and development, accounting expenses, license fees, advertising, office expenses, utilities such as telephone, insurance, property management, and travel and vehicle expenses.
70. The following “posting level accounts not “break-down” allowed are provided for within the group of accounts for Operational Cost:

**Definitions:**

**Achievements and Awards:** Cost incurred in giving awards in reconnection of achievements.

**Advertising, Publicity and Marketing:** Communication intended to inform potential customers about products and services. Advertising media includes television, radio, movies, magazines, newspapers, video games, internet, billboards, etc.

- **Auctions:** Cost incurred in publishing advertisements for auctions to dispose of obsolete assets in compliance with procurement and asset management policies.
- **Bursaries (Non-employees):** Cost incurred in the publishing of notices in a local or national newspaper for students not employed by the municipality to apply for bursaries offered by the municipality.
- **Corporate and Municipal Activities:** Costs incurred relating to the promotion and selling of products or services related to the activities of the municipality by any media, for example TV, radio and newspapers. Included in this account would be draft and final budget adverts, council meeting and public participation, notice and town planning on sub-divisions, rezoning town development etc.
- **Customer/ Client Information:** Advertising to encourage payment of municipal accounts, client and customer payment and service centres or special discounts for settlement of accounts in arrears.
- **Gifts and Promotional Items:** Costs incurred in providing gifts without charge to the recipient (an individual or entity) or for the promotion of an event carrying the municipality, the states' or projects slogan. Gifts must be of a gratuitous nature and be a token of appreciation. Promotional items should serve the purpose of promoting the image of the municipality, project or state. This item includes tracksuits, T-shirts and other promotional items.
- **Municipal Newsletters:** Cost incurred for printing and distribution of municipal newsletters.
- **Signs:** Cost incurred in placing poster, signs and boards for municipal activities.
- **Staff Recruitment:** Cost incurred in the publishing of notices in a local or national newspaper for recruiting potential candidates to apply for vacancies on the establishment. Also, included in this item are advertisements to recruit interns.
- **Tenders:** Cost incurred in publishing tender requests for the attention and information of potential providers of goods and service in compliance with procurement policies made to newspapers and other agencies for the placement and design of advertisements for tenders.
- **Custom Duties:** Custom duties paid for exhibiting overseas on south African produce imported.

**Assets less than the Capitalisation Threshold:** Plant and equipment procured at less than the asset threshold to be expensed under this item. Capitalisation Threshold is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specifically the Statement of Financial Position) is extracted.

**External Audit Fees:** The Constitution of South Africa Section 188 determines that the Auditor-General must audit and report on the accounts, financial statements and financial management of all national and provincial departments and administrations, as well as all municipalities.

**Bank Charges, Facility and Card Fees:** The item includes all charges and levies imposed by a financial institution or other provider of financial services for the benefit of using a current account or bank charge card/ credit card, deposit or investment or financing account excluding interest charged on overdue accounts or bank overdrafts.

- **Bank Accounts:** Bank charges and card fees payable to financial institutions.
- **Third Parties:** Bank charges incurred by third party service providers by whom financial transactions are managed on behalf of municipalities, for example third party vending of pre-paid electricity includes both cash handling and debit/ credit card bank charges. These costs need to be recorded separately in the municipalities records so as to manage and report accordingly.
- **Fleet and Other Credit/ Debit Cards:** Bank charges and services charged on credit/ debit/ fleet/ charged cards.
- **Investments:** Charges levied for the administration of investments held by institutions administrated under the Bank Act, for example First National Bank, ABSA, Nedbank, etc. All charges levied are allocated to this account, except for interest paid on bank overdrafts.
- **Lease Payments:** Bank charges and services fees charged on finance agreements with banks, etc.
- **Long and Short-Term Loans and Borrowings:** Bank Fees and other administrative levies charged by financial institutions on providing long and short term loans, borrowings and bonds on property to the municipality.

**Bargaining Council:** Agency shop fees payable to the South African Local Government Bargaining Council determined by the Collective Agreement as a percentage of the employee's monthly salary up to a specified maximum ceiling contribution.

**Bond Issue Amortisation Costs:** Capitalise and defer over period of bond.

**Brokers Fees:** Fees paid for the utilisation of Insurance Brokers.

**Bursaries (Employees):** Bursaries include payments made to provide direct support to employees for studying at universities or other tertiary institutions, where all the conditions and terms have been complied with in terms of the contract with the bursary holder.

**Cash Discount:** Discount given to customers for early payment of amounts owing by them also referred to as "settlement discount".

**Cleaning Services:** Cleaning cost for car valet services and laundry incurred by the municipality if these services are not outsourced.

- **Laundry Services:** Dry cleaning and laundry services for items other than those that form part of the building which will be allocated to owned and leasehold expenditure.

- **Car Valet and Washing Services:** Car valet and washing services for municipal vehicles.

**Commission:** Commission is a form of payment to an agent for services rendered.

- **Third Party Vendors:** The commission payable to external bodies for the collection of income via for example "easy pay" or other pre-paid systems.

- **Prepaid Electricity:** Commission paid to Vendors for selling "Prepaid Electricity" to consumers.

**Cost relating to the Sale of Houses:** Cost incurred relating to the selling of municipal property such as houses, erven and buildings.

**Courier and Delivery Services:** Costs incurred in the use of courier services for transporting documents/ parcels from one to a specified destination. Examples - DoceX, XPS, DHL, etc.

**Communication:** Expenditure incurred for the usages of telephones, faxes, telegraphs and telex for communication purposes, including costs for teleconferences. Communication by telephones and faxes includes the sending of messages electronically for example the sending of a message, image or document via a fax machine or a telephone or cell phone. Telex is a communications system using tele-printers that communicate via telephone lines. Teleconference is a meeting via telecommunications equipment: a meeting held among people in different places by means of telecommunications equipment. Includes all costs for the usage of telecommunication equipment, including rentals.

- **Cellular Contract (Subscription and Calls):** Monthly service provider subscription fees, call costs, itemised billing, CLI, 3G and other operating expenses for cellular phones should be allocated to this item.

- **Licences (Radio and Television):** Annual payment made to the SABC and other licensing authorities (SAMRO) for a permit to view television programs and to listen to the radio or "music license's". Annual payment made to obtain a television and radio licence including ICASA Radio licences, alarm systems, etc.

- **Postage/ Stamps/ Franking Machines:** Postage is the amount payable for the carrying of the article by post, including any special charge or additional fee payable for special services supplied in relation to the carrying of the article. Stamps is the officially issued postage label, often adhesive, attesting that payment has been rendered for mail delivery. Franking Machine is the machine which prints a franked impression on an envelope to record the amount of postage paid. Advance payment is made to the Post Office based on the average usage of the franking machine. Excluded are courier services for delivering of documents and articles, for example by DHL Speed Services and XPS.

- **Radio and TV Transmissions:** Costs incurred in broadcasting a message to the public are included in the account for example television and radio communication. Acquisitions of radio

transmissions include all costs relating to the use of electromagnetic waves for communication i.e. narrowcasting has traditionally been understood as the dissemination of information (usually by radio or television) to a narrow audience, not to the general population. In the context of out-of-home television, this term often refers to the display of content on large Plasma or LCD screens run over a broadcast network.

- **Rent Private Bag and Postal Box:** Costs incurred in the renting of post boxes and private bags from the Post Office or Post Net usually on an annual basis. This is usually an annual payment.
- **Satellite Signals:** Cost include monthly subscription for Mnet and DSTV.
- **SMS Bulk Message Service:** Subscriptions fees or bundle charges for sending bulk or customised SMS messages.
- **Telephone, Fax, Telegraph and Telex:** Payments for the usages of telephones, faxes, telegraphs and telex for communication purposes, including costs for teleconferences. Communication by telephones and faxes includes the sending of messages electronically for example the sending of a message, image or document via a fax machine or a telephone or cell phone. Included in this item are the monthly charges for routers on the current Telkom PABX systems. Telex is a communications system using tele-printers that communicate via telephone lines. Teleconference is a meeting via telecommunications equipment: a meeting held among people in different places by means of telecommunications equipment. Payments include all costs for the usage of telecommunication equipment, including rentals. Telecommunication equipment includes phones, faxes, telegraphs and telex excluding cellular phones.
- **Telemetric Systems:** Telephone bills for the systems - related to alarm systems used at reservoirs and water lines
- **Telephone Installation:** Expenditure incurred for the installation of telephone systems excluding any capital outlays. This is usually of a once off nature.

**Contribution to Provisions:** Provisions need to be reviewed at each reporting date and adjusted to reflect the current best estimate. Where discounting is used, the carrying amount of a provision increase in each period to reflect the passage of time. This increase is recognised in interest charges.

- **Alien Vegetation:** Provision to be made for the management of alien vegetation in terms of environmental requirements.
- **Decommissioning, Restoration and Similar Liabilities:** Decommission, dismantling and or restoration cost refers to the liability for the legal obligation associated with the retirement of a tangible long-lived asset that a company is required to settle as a result of an existing or enacted law, statute, ordinance or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppels. An asset retirement cost represents the amount capitalised when the liability is recognised for the long-lived asset that gives rise to the legal obligation.

- **Landfill Sites:** The initial estimates of the costs of rehabilitation of landfill sites are included in the cost of the asset. The contra entry is recorded in this account. The obligation to incur such costs arises either when the entity acquires the asset, or as a result of using the asset over a certain period, except when the asset is used to produce inventory during the period. This account would also provide for the discounting interest on the present obligation recognised in the surplus or deficit for the period.
- **Non-specific:** Decommission, restoration and similar liabilities applicable to assets other than landfill sites.

**Copy Right Fees:** Payment of copyright fees and royalty's payable to music companies for the right to play music at public events, etc.

**Deeds:** Fees payable to the Registrar of Deeds for extraction of information on ownership of property. Not search fees but copies of title deeds.

**Drivers Licences and Permits:** Payment of drivers' licence costs for an incumbent whose job requires a drivers licence and costs are carried by his/ her employer. The driver of the motor vehicle is required to be licensed in terms of the National Road Traffic Act, 1996. Including retesting fees.

**Dumping Fees (District Council):** District fees for dumping including the dumping fees and fixed cost.

**Eskom Connection Fees:** Once-off payment to Eskom for new substations (Non-Capitalised Cost).

**Electricity Compliance Certificate:** Section 14 of the National Building Regulations and Building Standards Amendment Act, 1995 require any person licensed or authorised by a local authority to carry out the installation, alteration or repair of any electrical wiring connected or of which connection is desired with the electrical supply or distribution works of such local authority or any statutory body, shall, at the request of the owner of a building of which the erection has been completed or of any person having an interest therein (or of the local authority) issue a certificate if he is satisfied that the electrical wiring and other electrical installations in such building are in accordance with the provisions of all applicable laws. All costs incurred should be allocated to this item even if procured from an external service provider.

**Entertainment:** Entertainment expenditure incurred by members of the Senior Management Service (SMS) as well as the Mayor and his/ her office bearers in performance of their duties. Such expenditure includes, but is not limited to: (a) Luncheon meetings held with colleagues, foreign delegations and/ or other individuals in and outside the municipality; and (b) purchase of dinner during authorised overtime. This item does not include, but is not limited to, spending on: (a) Gifts (including flowers) to individuals; (b) Private entertainment; (c) Cost of meals claimed by individuals when away from home on official duty.

- **Mayor:** Entertainments expenditure incurred for entertainment expenses by the Mayor and Deputy Mayor as determined by the council's policy.
- **Councillors:** Entertainment expenditure incurred for entertainment expenses by the Councillors as determined by the council's policy.

- **Senior Management:** Entertainments expenditure incurred for entertainment expenses by the Senior Manager as determined by the council's policy.

**External Computer Service:** Expenses incurred from computer services provided by external/outsourced service providers.

- **Data Lines:** Communication lines at the municipal control centre and server room and other remote offices where data lines are operational.
- **GPS Licence Fees:** Licence fees paid for GPS licensing (GIS Information).
- **Information Services:** Any other computer services provided by external service providers.
- **Internet Charge:** Costs incurred for internet connectivity to other service providers other than SITA, for example Mweb, World online, lafrica, etc.
- **Mainframe Time:** Costs incurred for the use of the mainframe computer facilities and data centres.
- **Network Extensions:** Costs incurred for moving, adding or replacing network extensions and cables as required.
- **Remote Server Access:** Costs incurred for utilising remote server access.
- **Recovery Centre Hosting Charges:** Costs incurred for making use of recovery centre hosting.
- **Software Licences:** Costs incurred to obtain a document granting permission for the use of computer programs to ensure that the operators of materials and resources are acknowledged and rewarded for their work, as well as ensuring that the materials are used legally and without risk of prosecution.
- **Specialised Computer Service:** Services provided by contractors to promote the effective utilisation of information technology to enhance the efficiency at the municipality.
- **System Adviser:** Costs incurred for the provision of technical, functional and business advice and support regarding information technology.
- **System Development:** System development costs incurred for services rendered with regard to developing and establishing network operating systems.
- **Wireless Network:** Services provided for setting up and maintaining wireless networks.

**Firearm Handling Fees:** Costs incurred by officials wearing firearms for protection purposes, for example flight carrier fees.

**Freight Services:** Costs incurred for the transport of goods in bulk by truck, train, ship or aircraft.

**Full Time Union Representative:** Compensation paid to "full time union representative" not included in compensation of employees.

**Honoraria (Voluntarily Workers):** Payment given to a person (professional or voluntary assistance) for services for which fees are not legally or traditionally required. This gratuity is usually not equal to

the economic value of the service provided. Motivational speakers delivering a resume at a training session without charging the department at the normal hourly rates. Payments made equal to market rates should be classified as "Consultants, contractors and special services" under the type of consultant/ contractor delivering the service. Example of this would include services rendered by volunteer during the municipal elections.

**Insurance Underwriting:** Allocation to be used for the classification of insurance related costs including self-insurance funds.

- **Insurance Aggregation:** Insurance aggregation is a process of finding multiple insurance quotes at once, so the buyer can make an accurate comparison of insurance policies based on identical information given to each company.
- **Claims paid to Third Parties:** Claims paid to third parties.
- **Insurance Brokers Fees:** Insurance Brokers Fees expenses
- **Insurance Claims:** Costs paid towards claims incurred for damages to municipal property and assets, for example material, subcontractor costs, etc. [Self-insured - pay-outs]
- **Excess Payments:** An excess payment, also known as a deductible, is a fixed contribution that must be paid each time a car is repaired with the charges billed to an automotive insurance policy. Normally this payment is made directly to the accident repair "garage" when the car is collected. If the accident was the other driver's fault, and this fault is accepted by the third party's insurer, then the vehicle owner may be able to reclaim the excess payment from the other person's insurance company. If the insurance company settles a claim in terms of the insurance contract a fixed agreed amount as determined by the agreement with the insurer are usually deducted from the settlement payment either paid by the municipality when making replacements.
- **Risk Management Programs:** Risk Management Program expenses.
- **Premiums:** Monthly premiums paid towards short term insurance either transfers made to the general insurance fund or self-insurance fund.

**Land Alienation Costs:** Various land related costs.

**Learnerships and Internships:** Learnerships are introduced in the Skills Development Act, 1998. Section 18(2) are learnerships provided for unemployed people. The cost elements included in this category comprise: 1) Additional staff required to oversee and manage learnerships. 2) Cost of supervision and mentorship (e.g. an additional consolidated increment for every mentor). 3) Off-the-job education and training costs (including transport and fees for training provider). 4) Assessment costs for each learner. 5) Recruitment costs. 6) Range of allowances to be paid for these learners. 7) Office set-up costs for these learners (including office equipment, computers, stationery, phone and fax facilities).

**Levies Paid - Water Resource Management Charges:** The payment of charges raised by the Department of Water Affairs based on a specified cent value per KI on Bulk Water purchased and

include Catchment Management Areas Levy, Water Research Levy and Trans Caledon Tunnel Authority (TCTA) charges.

**Licences:** Expenses incurred for obtaining "licences" such as drivers licences, motor vehicle licence and registrations, public driver permits, etc.

- **Licence Agency Fees:** Expenses incurred for making use of "Licence Agency" for collecting drivers' licences, motor vehicle licence registrations, etc. from the municipality.
- **Motor Vehicle Licence and Registrations:** Expenses incurred in obtaining motor vehicle licence and registration renewals or new issues.
- **Performing Arts:** SAMRO licences for playing music.

**Management Fee:** Expenses paid to an entity/ department charging a management fee for rendering various services, for example housing scheme administration, property management services, running of municipal services, including body corporate levies.

**Municipal Services:** Costs incurred relating to electricity, power, water, sewerage, waste removal and property rates required for municipal occupied buildings. Included in this account will be prepaid electricity bought for satellite offices of the municipality.

**Personnel Agency Fees [Personnel Recruitment Costs]:** Costs incurred for service rendered by agencies/ entities that specialises in recruiting candidates across sectors and disciplines as well as the administration and support of candidates for the municipality. The agency/ entity typically recruits for permanent appointment.

**Registration Fees:** Registration fees may refer to payments made in relation to image registration (part of computer or vision), printing registration (part of printing visible colour), FCC registration programme for telephone equipment. Also, registration fees payable for attending events, seminars and conferences.

- **Professional and Regulatory Bodies:** Registration fees paid to register with professional and regulatory bodies excluding the annual membership or subscription fees. Usually these bodies levy a "once-off" registration fees for enrolling new members.
- **Seminars, Conferences, Workshops and Events:** Registration fees paid for attending workshops and seminars. This item would exclude accommodation and travel cost to attend and be included in Travel and Subsistence.
- **National:** *Fees paid for the attendance of National congresses/ seminars/ symposiums and workshops. Excludes accommodation and transport which must be allocated to travelling and subsistence.*
- **International:** *Fees paid for the attendance of International congresses/ seminars/ symposiums and workshops. Excludes accommodation and transport which must be allocated to travelling and subsistence.*

**System Access and Information Fees:** Cost incurred to get access to data information used for research and analysis purposes and systems for example, ITC, Home Affairs system, AKTEX system, Statistics SA or SARS data information. Also, monies payable to the deeds trading account to obtain deeds registration certificates. This is for WAN access to users of this information database and not the software use license fee. The information provided is not seen as an intangible asset of the entity and constitutes the payment for a good or service current payments. This information could be in the form of a DVD, CD or another hardcopy format or directly online.

**Travel Agency and Visa's:** Cost incurred for services rendered by Travel Agency including cost for acquiring visa's. Fees for the administration and management of travel arrangements of employees. It is important to note that any transaction administration fee payable to a service provider is excluded from the scope of the agency fee account. In addition, a fee payable to a car rental service provider in respect of traffic fines should not form part of expenditure, but should be recovered from the employee receiving the traffic fine. Included in this account as visa costs for officials and councillors travelling abroad.

**Office Decorations:** Cost incurred in procuring office decorations such as flowers, small ornaments, paintings, plants, table cloths, etc. of low value and thus not capitalised.

**Printing, Publications and Books:** Printing, publications and books, not inventory related and including development of photos, subscriptions to newspapers, magazines and periodic, law amendments and updates, accounting and tax handbooks only used for limited period and then gets updated. This item includes reference and library books.

**Professional Bodies, Membership and Subscription:** Where an employee or official are required to pay fees to an independent institution in order to fulfil the role as required by their employment contract or the position they have been appointed in and fees payable to maintain occupation where maintenance of standards is required for public safety, (for example auditors with IRBA). Other examples of items to be included are SAICA, CIA, SAIGO, Institute of Mechanical Engineers, MASA, etc. Excluded from this item are course registration fees which is allocated under training expense.

**Remuneration to Ward Committees:** Remuneration to ward committee members [framework]

**Resettlement Cost:** Cost paid for re-imbursing an employee if transferred from one city to another. This would include transport of household, own transport, temporary accommodation, etc.

**Rewards Incentives:** Expenditure incurred as a reward for "whistle-blowers" associated with forensic auditing and the fraud hotline.

**Road Worthy Test:** "Roadworthy", in relation to a vehicle, means a vehicle which complies with the relevant provisions of the Road Traffic Act (Act) otherwise in a fit condition to be operated on a public road; A roadworthy certificate, is a certificate issued in terms of section 64 of this Act requiring the examination of motor vehicle and issue of roadworthy certificate and roadworthy certificate disc. Upon receipt of an application referred to in section 63, an appropriately graded examiner of vehicles shall

test and examine the motor vehicle concerned in the manner and in respect of the features as prescribed.

**Skills Development Fund Levy:** Employers must pay 1 per cent of their employers pay to the skills development levy.

**Search Fees:** Cost incurred in extracting documents from CIPRO, AKTEX, NCA, etc.

**Servitudes and Land Surveys:** Cost incurred for conducting land surveys and obtaining servitudes to allow land use arrangements.

**Signage:** The purchasing and erection of all street name signs and name boards.

**Storage of Files (Archiving):** Cost incurred for archiving of files and documents to be kept in terms of the MFMA.

**Storage of Assets and Goods:** Cost incurred for storage of furniture and equipment or any other movable assets or goods.

**Small Differences Tolerances:** Small losses on cashier deposits and petty cash floats.

**Taking over Contractual Obligations:** Taking over of study loan incurred by an employee for full time study before appointed by the municipality. In return the employee agrees to work for the department for a specified period of time in the event the term of service is not completed a pro-rata refund could be claimed from the employee depending on the agreement with the municipality.

**Toll Gate Fees:** Toll gates fees paid to SANRAL for making use of National Roads

**Transport Provided as Part of Departmental Activities:** Expenses associated with transport provided by the municipality for transporting people during the execution of its mandate. Expenditure includes transport to public events, transport of scholars, patients and corps, illegal immigrant's deportation, excursions and children vagrants.

- **Events:** The conveyance of school children and the public to venues in celebration of special events such as Heritage Day, etc.
- **Funerals:** Transport provided to employees to attend funerals of family members and other officials.
- **Patients and Corpses:** The conveyance, by means of a motor vehicle, of a patient to any place where he is to receive medical treatment from a person authorised to administer such treatment in terms of any law relating to the medical profession, or from any place where he has received such treatment; and the conveyance of any coffin or corpse, "excluding the conveyance of coffins for the purpose of supplementing stock;" Costs incurred for transporting patients from one hospital facility to another and corps from hospitals to mortuaries. Excluding transport of patients by ambulance and corpses.
- **Municipal Activities:** Transport cost relating to municipal employees, for example for working overtime.

**Travel and Subsistence:** Travel and subsistence includes all domestic and foreign travel related expenditure paid for employees and non-employees. This item in specific covers expenditure on accommodation cost, food and beverage, incidental cost, and car rental paid for official travelling purposes. Departmental policies apply when these expenditures are incurred.

- **Domestic:** Travel and subsistence expenditure for local trips within the borders of South Africa.
- **Accommodation:** *If an employee must take an official journey the employer shall meet reasonable actual accommodation costs, if any. Accommodation includes a room, building or space where someone may stay or live. This item includes the accommodation cost either directly paid by the department or reimbursed to the employee.*
- **Daily Allowance:** *Special daily allowance (smaller tariff) to compensate for incidental expenses where actual expenses are claimed meaning that the actual accommodation and meals cost are paid to a travel agency, or hotel or the claimant be re-imbursed. Those expenses are allocated to the specific items provided for in the chart. Fixed daily subsistence allowance (bigger tariff) is payable in circumstances where actual expenses are not claimed for example a person would stay with family and no accommodation or meals are paid to a third party. Also under this item provision is made for daily allowances payable to camping personnel. The separation allowance should also be allocated to daily allowance.*
- **Food and Beverage (Served):** *Actual purchases of food and beverages served over the counter (take aways) or in a restaurant.*
- **Incidental Cost:** *Requisitions of minor, casual or sub-ordinate nature, for example telephone cost, toll fees, parking fees, making of photocopies when on an official trip.*
- **Transport without Operator:** *Transport expenditure without an operator for local trips within the borders of South Africa. This category includes car rental and Km allowances.*
  - Car Rental: Car hire costs incurred on behalf of an employee required to travel to various locations within South Africa in performing his official duties. Examples of services providers are AVIS, Imperial, Budget, etc.
  - Own Transport: If an employee must use private transport to carry out his/her duties, the employer may: 1) provide an allowance to cover reasonable actual costs, and/or compensate the employee according to tariffs prescribed.
- **Transport with Operator:** *Transport expenditure with an operator for local trips within the borders of South Africa. This category includes chauffer and shuttle services, air tickets, train tickets, taxi and boat transport.*
  - Other Transport Provider: A motor vehicle is obtained from a private rental firm together with a driver. Example is a chauffeur driven vehicle such as Unity car hire.
  - Public Transport: Transport with operator implies public transport for example air, railways, road and water with an operator. (bus with a driver)
  - Air Transport: Scheduled freight and passenger services, departing from national and international airports within the boundaries of South Africa. Travelling to Cape Town for portfolio committee meetings, SCOPA hearings and any other official business making use of air travel. Include are the airport taxes, luggage handling fees, VAT and cost of the ticket. Excluded is the travel agency fees.

- Railway Transport: Scheduled freight and passenger services using trains, departing from railway networks within the boundaries of South Africa.
- Road Transport: Scheduled freight and passenger services, for example bus services and unscheduled taxi and shuttle services within the South African Boundaries.
- Water Transport: Scheduled freight and passenger services by boat or ship, departing and arriving and South African harbours and ports.
- **Foreign:** If an employee must take an official journey outside the borders of SA, the employer shall meet reasonable actual expenditure.
- **Accommodation:** *If an employee must take an official journey outside the borders of SA, the employer shall meet reasonable actual accommodation costs, if any. Accommodation includes a room, building or space where someone may stay or live. This item includes the accommodation cost either directly paid by the department or reimbursed to the employee.*
- **Daily Allowance:** *Special daily allowance (smaller tariff) to compensate for incidental expenses where actual expenses are claimed meaning that the actual accommodation and meals cost are paid to a travel agency, or hotel or the claimant be re-imburse. Those expenses are allocated to the specific items provided for in the chart. Fixed daily subsistence allowance (bigger tariff) is payable in circumstances where actual expenses are not claimed for example a person would stay with family and no accommodation or meals are paid to a third party. Also under this item provision is made for daily allowances payable to camping personnel. The separation allowance should also be allocated to daily allowance.*
- **Food and Beverage:** *Actual purchases of food and beverages served over the counter (take always) or in a restaurant.*
- **Incidental Cost:** *Acquisitions of minor, casual or sub-ordinate nature, for example telephone cost, toll fees, parking fees, making of photocopies.*
- **Transport without Operator:** *Transport expenditure without an operator for foreign trips outside he borders of South Africa. This item includes car rental in a foreign country.*
- Car Rental: Car hire costs incurred on behalf of an employee required to travel to various locations on official journeys outside South Africa.
- **Transport with Operator:** *Transport expenditure with an operator for foreign trips outside the borders of South Africa. This category includes chauffer and shuttle services, air tickets, train tickets, taxi and boat transport.*
- Other Transport Providers: A motor vehicle is obtained outside the borders of SA, from a private rental firm together with a driver. Example is a chauffeur driven vehicle.
- Public Transport: Public transport provided to or in foreign countries to government officials such as air tickets, taxis, boats, trains on official foreign trips.
- Air Transport: Scheduled freight and passenger services, departing from national and international airports outside the boundaries of South Africa. Travelling outside South Africa for official business making use of air travel. Include are the airport taxes, luggage handling fees, VAT and cost of the ticket. Excluded is travel agency fees.

- Railway Transport: Scheduled freight and passenger services, departing from railway and underground networks outside the boundaries of South Africa.
- Road Transport: Scheduled freight and passenger services, for example bus services and unscheduled taxi and shuttle services outside the South African boundaries.
- Water Transport: Scheduled freight and passenger services, departing and arriving at harbours and ports outside the South African boundaries.
- **Non-employees:** Travel and subsistence cost paid to an individual not in the employment of the municipality. Examples include re-imbursing a candidate attending an interview. This item excludes transport provided for municipal activities.

**Uniform and Protective Clothing:** Uniform and Protective clothing purchased for issue to employees.

**Vehicle Tracking:** This is used to record all payments associated with vehicle tracking; including the initial payment of the installation of the tracking device as well as the associated monthly tracking fees.

**Warrantees and Guarantees:** Warrantees and guarantees form part of the elements of cost at initial purchase price of an asset which should be capitalised. However, once the warrantee has expired and need to re-new such warrantee the cost should be expensed against this item.

**Wet Fuel:** Payment for fuel supplied by vendor (Topping up) when hiring fleet, plant or equipment (externally).

**Workmen's Compensation Fund:** Contribution made to the workmen's compensation fund.

**Intercompany/ Parent-subsidiary Transactions:** Expenses due to exchange transactions between municipalities and their subsidiary municipal entities.

**Indigent Relief:** Monthly payments to Eskom to re-imburse their portion of the free basic electricity provided to indigents.

**Samples and Specimens:** Purchase of samples for testing, as an example food for health and safety testing.

**Parking Fees:** Parking space for staff and visitors.

**Seating Allowance for Traditional Leaders:** Traditional leaders forming part of the Council is paid a seating allowance for attending meetings.

**Hire Charges:** Hire charges for venues, equipment, machinery, etc. for short periods of time.

**Remuneration to Section 79 Committee Members:** According to section 79 of the Municipal Structures Act, 1998, a municipal council may establish one or more committees necessary for the effective and efficient performance of its functions or the exercise of any of its powers. The council appoints the members of these committees, and may dissolve the committee or remove a member at any time. The council must determine the functions of a section 79 committee and may determine its procedures and delegate powers and duties to them. The functions of the committee should flow immediately from the terms of reference drawn up for the committee in terms of section 53 of the Municipal Systems Act, 2000. The council may delegate powers to the committee in terms of section

59 of the Municipal Systems Act, 2000 and appoints its chairperson. Section 79 committees may co-opt advisory members who are not Councillors, provided they have the authorisation of the council.

**Atmospheric Emission Licence:** This is paid in terms of the National Environmental Management Air Quality Act, 2004 for our crematoria that emit smoke into the atmosphere.

**Fines and Penalties:** This group of accounts provides for the payment by municipalities of fines and penalties levied in terms of legislation.

- **Road Traffic and Other Fines:** Fines and penalties levied in terms of road traffic ordinances.
- **Breach of Contract:** Penalties incurred as imposed in terms of contract breach.
- **SARS:** Penalties levied by SARS for late submission of VAT Returns, etc.

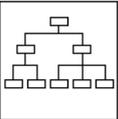
**Witness Fees:** In terms of the Commission for Conciliation, Mediation and Arbitration rule 38, a witness subpoenaed in any proceedings in the Commission must be paid a witness fee in accordance with the tariff of allowances published by notice in the Government Gazette in terms of section 142(7) of the Amended Labour Relations Act, 1995. Rule 38 states that the witness fee must be paid by (a) the party who requested the Commission to issue the subpoena; or (b) the Commission, if the issue of the subpoena was not requested by a party or if the Commission waives the requirement to pay witness fees in terms of section 142(7)(c).

**Environmental Levy:** Environmental levy paid to SARS for electricity generated by the municipality.

**Supplier Development Programme:** The aim of the Supplier Development Programme is to encourage/ promote the growth of informal traders and retailers by providing trade credit that is accessible and has minimal risk for the municipality, especially to micro enterprises. The Supplier Development Programme is a pilot project (6 months) of which the Small Enterprise Finance Agency (SOF) Ltd commonly known as SEFA is currently testing. If the programme is successful, the SEFA will be prepared to provide a 100 per cent guarantee of all credit facilities that are made available to informal traders and retailers. Associated with the credit facility is a 5 per cent per annum facilitation fee that is charged on the outstanding balance at the end of every month. The COT has agreed to pay this 5 per cent credit facility fee.

**Entrance Fees:** Entrance fees paid for attending events, exhibitions, shows, golf days, etc.

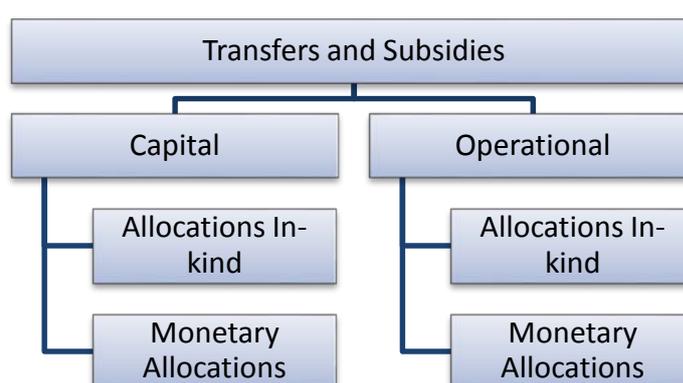
**Repayment of Forfeited Deposits:** Deposits repaid after forfeited and Council decision.

	<p><b><i>Why does mSCOA provide for an account “Assets less than Capitalisation Threshold”, if this in principle is not provided for in the Standards of GRAP?</i></b></p>
	<p>Some municipalities did implement “thresholds” determined within the municipality’s materiality/ significance framework. If the municipality opted</p>

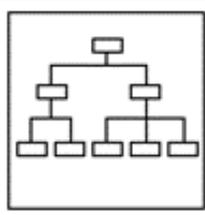
	to adopt a capitalisation threshold it is their responsibility to substantiate compliance to the Standards of GRAP and ensure that this policy is not resulting in a material misrepresentation of any class of Property, Plant or Equipment.
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## Transfers and Subsidies

71. Transfers and subsidies include all unrequited payments made by the municipality to another institution, businesses and individuals; it does not constitute final expenditure by the municipality.
72. A payment is unrequited provided that the municipality does not receive anything directly in return for the transfer to the other party.
73. Subsidies are unrequited payments that municipalities' make to public corporations and private enterprises, these payments usually have a direct policy outcome, either by subsidising the price of goods and services or by influencing the level of production.
74. Donations and Public Contributions had a separate classification pre-mSCOA. This type of contributions made to various institutions and organisations are incorporated in the classification for "Transfers and Subsidies".
75. The diagram below summarises the high-level structure provide for in mSCOA for recording "transfers and subsidies":



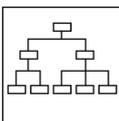
76. The following group of accounts are set-up within the above classifications:



Account Groups

- Departmental Agencies and Accounts
- District Municipalities
- Foreign Government and International Organisations
- Households
- Non-profit Institutions
- Private Enterprise
- Provincial Government
- Public Corporations
- Higher Educational Institution
- Municipal Entities

77. Careful consideration need to be given to the entities provided at a posting-level for capturing transaction detail. If the lists provided are not sufficient these additions need to be submitted to National Treasury (mSCOA Technical Committee) through submitting requests on the mSCOA Frequently Asked Questions (FAQ) Database.



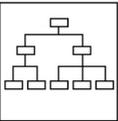
***Posting Level Detail required to be provided by the municipality to National Treasury for setting up posting level accounts***

***Provincial Government***

The provincial treasuries in consultation with the departments within the province had to provide to the National Treasury the detail of transfers and subsidies made by municipalities, for inclusion in mSCOA Version 5.5 to define posting level accounts. This would also be part of the annual reviews of the mSCOA following implementation.

***District Municipalities***

The provincial treasuries in consultation with the district municipalities within the province had to provide to the National Treasury the detail of transfers and subsidies made by municipalities, for inclusion in Version 5.5 to define posting level accounts. This would also be part of the annual reviews of the mSCOA following implementation.

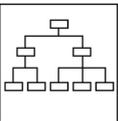
	<p><b><i>Donations, contributions and transfers are made during the year not necessarily known in advance to enable a request to National Treasury to provide the required posting level accounts. How would this be addressed in the mSCOA classification?</i></b></p> <p>An account labelled as “unspecified” has been added in mSCOA Version 5.4 to assist municipalities to be able to transact if the need does arise. These accounts provide for breakdown allowed for the municipality to set-up “posting level” accounts as may be needed. The municipality need to consider in defining the posting level detail, the frequency of payments to the organisation, the value/ significance of these payments and if this would be done annually.</p> <p>The above-mentioned options are available for the following categories:</p> <ul style="list-style-type: none"> <li>• Foreign Government and International Organisations</li> <li>• Households</li> <li>• Non-profit Institutions</li> <li>• Private Enterprises</li> <li>• Public Corporations</li> <li>• Higher Educational Institutions</li> </ul>
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### *Capital*

78. Capital transfers and subsidies generally refers to contributions either in-kind or in monetary value of a capital nature or intended to be used towards capital expenditure of the receiving entity

#### **Capital: Allocations In-kind**

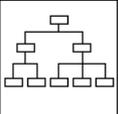
79. This group of accounts for “Capital: Allocations In-kind” provides for allocations made in-kind to other entities recognised at fair value or cost. By implications no consideration is received in return for the in-kind contributions made by the municipality from the beneficiary.

	<p><b><i>What would be typical examples of transfers made in-kind of a capital nature?</i></b></p>
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	<p>The municipality donate computers not-in-use to a local school. The transaction will be recognised in expenditure at the carrying value based on the Property, Plant and Equipment Register.</p> <p>Redundant components from upgrading water, electricity or waste water networks may be given at no consideration to other municipalities in need of parts.</p>
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#### Capital: Monetary Allocations

80. This group of accounts for “Capital: Monetary Allocations” provides for allocation made in “R-value” to other entities recognised.

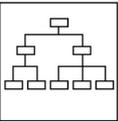
	<p><b><i>What would be typical examples of transfers in R-value of a capital nature?</i></b></p> <p>The municipality donating money to a local school for improving sports grounds.</p> <p>The municipality making a contribution towards the erecting of fences at an open space used by the SPCA for animal care in the community.</p>
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#### Operational

81. Transfers and Subsidies include all unrequited payments made by the municipality to another institution, businesses and individuals; it does not constitute final expenditure by the municipality. This category provides for operational transfers made by a municipality to another entity.

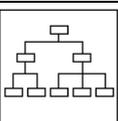
#### Operational: Allocations In-kind

82. This group of accounts for “Operational: Allocations In-kind” provides for allocations made in-kind to other entities recognised at fair value or cost. By implication no consideration is received in return for the in-kind contributions made by the municipality to the beneficiary.

	<p><b><i>What would be typical examples of transfers in-kind of an operational nature?</i></b></p> <p>The municipality providing animal food and medication to the local SPCA.</p> <p>The municipality providing blankets, food parcels, cloths and water to the community after a fire in the settlement.</p>
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**Operational: Monetary Allocations**

83. This group of accounts for “Operational: Monetary Allocations” provides for allocations made in “R-value” to other entities recognised.

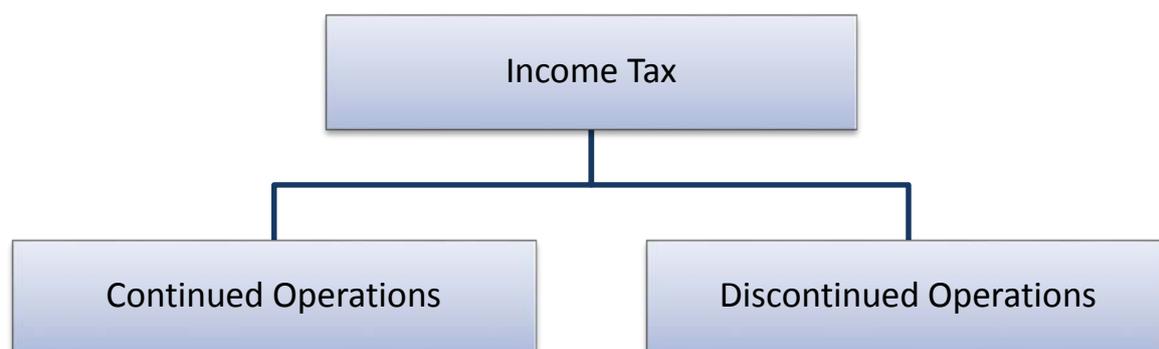
	<p><b><i>What would be typical examples of transfers in monetary value of an operational nature?</i></b></p> <p>The municipality making an annual contribution to the operational expenditure of the local SPCA.</p> <p>The municipality give a donation to the local school for the child-feeding scheme.</p>
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**Statutory Payments other than Income Taxes**

84. This account should record the amounts of all other taxes assessed, except income taxes. Such taxes may include "payments in-lieu of taxes", municipal and school’s taxes, property taxes, property transfers taxes, commodity taxes and franchise fees.

**Income Tax**

- 85. South African normal income tax to be paid by municipalities’ entities in a tax paying position.
- 86. At the highest-level distinction is made between “Continuing and Discontinued Operations”.



## Discontinued Operations

87. This account provides for the classification of the effects of discontinued operations and disposals of non-current assets (or disposal groups) including revenue. [GRAP 100.35(b)]

## Share of Deficit attributable to Associate

88. The municipality's share of the surplus or deficit of the investee recognised is classified in this account.

## Share of Deficit attributable to Joint Venture

89. The consolidated statement of financial performance of the municipality (the venture) includes its share of the revenue and expenses of the jointly controlled entity, recognised in this account.

## Share of Deficit attributable to Non-Controlled Entities

90. In accounting, non-controlling interest is the portion of a subsidiary equity that is not owned by the parent. The magnitude of the non-controlled interest in the subsidiary is generally less than 50 per cent of outstanding shares, otherwise the entity would generally cease to be a subsidiary of the parent. Non-controlled interest belongs to other investors and is reported on the consolidated statement of financial position of the owning company to reflect the claim on assets belonging to other, non-controlling shareholders. Also, non-controlled interest is reported on the consolidated statement of financial performance as a share of profit belonging to non-controlling shareholders.

## Preparation for mSCOA Implementation

91. Bringing about effective conversion to an 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.
92. The system developers responsible for applications commonly used by the municipalities are 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 recognises the complexities inherent to the implementation of the mSCOA requirements.
93. If the municipality envisage to “discontinuing operations” this formal decision need to be taken prior to the commencement of the budget planning cycle in order to present a budget that provides for the financial impact. The details need to be given to the mSCOA Technical Committee for creating specific posting level accounts within the mSCOA Classification Framework for this purpose.
94. The NERSA Regulatory Reporting Requirements provided for in Bulk Purchases, Depreciation and Amortisation need to be carefully considered in terms of identifying and classification based on the requirements. This may have a significant impact on supporting systems.
95. Municipalities having interest in associates, subsidiaries and joint ventures need to provide the name of the entities to the mSCOA Technical Committee for creating specific posting level accounts within the mSCOA Classification Framework for this purpose.
96. The municipality need to provide the detail of surcharges and taxes to the mSCOA Technical Committee to add posting level accounts to the mSCOA Classification Framework.
97. District Municipalities need to provide the allocations to be made to municipalities to the mSCOA Technical Committee in order to add posting level accounts to the mSCOA Classification Framework.
98. In addition to the above specific requirements the next step would be to identify the differences between the charts of accounts currently in use by the municipality, compared to the mSCOA classification, and incorporate these requirements into the standard operating procedures and work methods.

## Annual Maintenance and Matters Pending

### Annual Maintenance

99. Update of Transfers and Subsidies posting level accounts.
100. The account for “Libraries” included in Depreciation need to be removed. According to the CIDMS Framework “Libraries” should be included in Community Assets.

### Matters Pending

101. Posting level accounts not populated for district municipalities due to information not forthcoming despite ample requests.
102. Transfers and Subsidies made to municipal entities are not set-up according to posting-levels.



# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[SCOA for MUNICIPALITIES]*

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**Project Detail:**

**Section 6.3 – Item Segment –  
Gains and Losses**

*November 2017 (Version 6.1)*

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## SECTION 6.3: ITEM SEGMENT- GAINS AND LOSSES

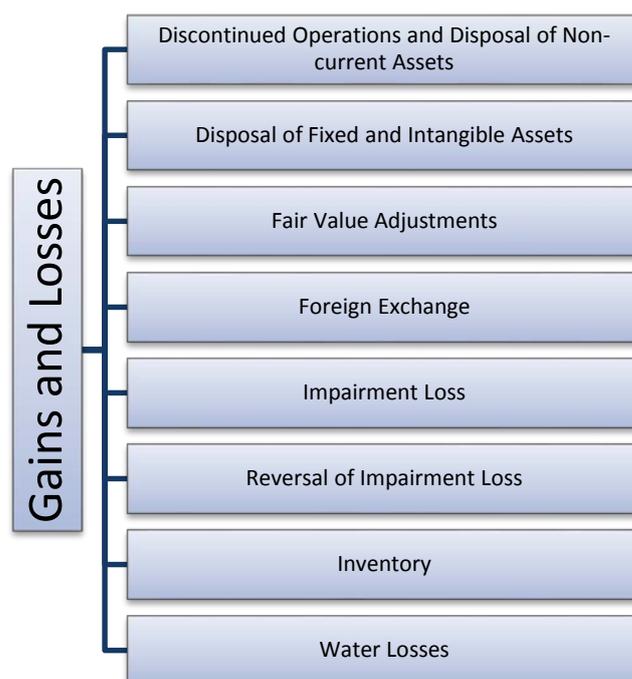
### Background to the Item Gains and Losses Segment

1. The *Standards of GRAP 1 Presentation of Financial Statements* determines that gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
2. Accounts are defined within this Gains and Losses component of the “Item” segment, based on the above requirements from the Standard of GRAP. Accounts defined give consideration to separate reporting whether material or not. Consideration will be given to the separate disclosure of gains and losses if material in the setting up of reporting information and how this type of transaction will be dealt with in the preparation of annual financial statements.
3. The definition of revenue encompasses both revenue and gains. Revenue arises in the course of the operating activities of the municipality, and includes the items presented in “Item” segment Revenue. However, **gains are categorised in this Gains and Losses component separate from revenue**. The classification of accounts within the components of the “Item” segment does not drive the presentation in the budget reporting tables, in-year reporting and annual financial statements.
4. Gains represent other items that meet the definition of revenue and may, or may not arise in the course of the operating activities of the municipality. Gains represent increases in economic benefits or service potential and as such are no different in nature from revenue.
5. Gains include for example those arising on the disposal of non-current assets. The definition of revenue also includes unrealised gains; for example, those arising on the revaluation of financial instruments and those resulting from increases in the carrying amounts of long-term assets.
6. When gains are recognised in the statements of financial performance or the statement of changes in net assets, they are usually displayed separately, because knowledge of them is useful for the making of economic decisions.

7. The definition of expenses includes losses as well as those expenses that arise in the course of the operating activities of the municipality. Expenses that arise in the course of the operating activities of the municipality include, for example, cost of sales or cost of services rendered, wages and depreciation refer to the “Item” segment: Expenditure. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment. However, losses are categorised in this Gains and Losses component separate from expenditure. The classification of accounts within the components of the “Item” segment does not drive the presentation in the budget reporting tables, in-year reporting and annual financial statements.
8. Losses represent other items that meet the definition of expenses and may, or may not, arise in the course of the operating activities of the municipality. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses.
9. Losses include for example those resulting from disasters such as fire and flood, as well as those arising on the disposal of non-current assets. The definition of expenses also includes unrealised losses, for example, those arising from the effects of increases in the rate of exchange for a foreign currency in respect of the borrowings of the municipality in that currency.
10. When losses are recognised in the statement of financial performance, they are usually displayed separately because knowledge of them is useful for the making of economic decisions. Losses are often reported net of related revenue to reflect the substance of the transaction or event.
11. Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or the incurrence of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

## Illustration: High-level Classification

12. At the highest-level Item Segment: “gains and losses” provides for the following groups of accounts in the mSCOA classification:

**Definitions:**

**Gains and Losses:** Gains and losses are treated as a separate group of accounts due to the nature of these transaction. Gains arise from the proceeds of the transaction exceeding the recognised value and losses from the recognised value exceeding the proceeds realised from the transaction.

**Discontinued Operations and Disposals of Non-Current Assets:** The gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operations. [GRAP 100.35(b)(iv) and .22 to .27]

**Disposal of Fixed and Intangible Assets:** The gain or loss arising from the derecognition of an asset determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in surplus or deficit when the asset is derecognised.

**Fair Value Adjustment:** The loss arising from the change in the fair value of a financial asset or liabilities measured at fair value recognised in surplus or deficit. Included in this account would be loss on financial instruments and discounting of debtors.

**Foreign Exchange:** This item is for the recognition of gain/ loss incurred in foreign exchange transactions.

**Impairment Loss:** Impairment is a decrease in the value of an asset to an amount that is less than the amount under the cost basis.

**Reversal of Impairment Loss:** Reversal of impairment losses recognised in surplus/ deficit in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Asset. [GRAP103.83(c)]

**Inventory:** The amount of any write-down of inventories to net realisable value and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

**Water Losses:** Water losses are calculated as the difference between the system input volume and the authorised consumption. Water losses are broken down into commercial or apparent and physical or real losses.

## Design Principles

13. The design principles below must be considered together with those defined for the Item Segment in the Item Segment: Introduction:
14. *Principle 1: 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, being the exception rather than the principle. The indicators provided guide on the posting level and breakdown required and reflect the minimum requirements from the National Treasury's perspective.

Discretionary breakdowns added by the municipality as explained ARE NOT INFORMATION National Treasury has an interest in and thus will not be part of the string downloaded for upload by the Local Government Database and Reporting System.

Breakdown required however, provides for information that MUST BE ADDED BY THE MUNICIPALITY and National Treasury has an interest therein.

Hence the table below explains the indicators used in the columns provided in the mSCOA Tables:

Indicator	Yes	No
<b>Posting Level</b>	Defines the level of capturing the transaction.	Not a posting level, therefore follows the guidance for breakdown required and the principle as explained for detail to be added.

<b>Breakdown Required</b>	The municipalities are required to define the level for capturing the transaction, expand the parent-child code structure and adopt the guide 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.
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15. *Principle 2: Applicability* - This column indicates the minimum requirements a municipality need to comply with in the implementation of this 'Gains and Losses: Item 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.
16. *Principle 3: The Standards of GRAP 1 Presentation of Financial Statements* - Determines that gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material. The accounts defined for "gains and losses" thus provide separately for "gains and losses" to be recognised for the high-level groups as defined in paragraph 12.
17. *Principle 4: Water Balance Reporting as per the Department of Water and Sanitation (DWS)* – Non-revenue Water Losses are included based on the requirements as defined by this guide. National Treasury developed a Draft Position Paper on Water Balance Reporting to conceptualise the Guide issued by DWS. The content of this guide need to be considered together with the proposed mSCOA Classification.

## Legislative and Regulatory Requirements

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>LEGISLATION</b>		
<p><b>Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b></p>	<p>Section 32: Unauthorised, Irregular or Fruitless and Wasteful Expenditure</p> <p>Section 78(1)(c): Senior Managers and Officials of Municipalities need to take all reasonable steps that any unauthorised, irregular, fruitless and wasteful expenditure and any other losses are prevented.</p> <p>Section 102: Irregular or Fruitless and Wasteful Expenditure</p>	<p>Gains and losses are difficult to estimate for <b>budget preparation</b>. These non-routine transactions may have a significant impact on “unauthorised and fruitless expenditure” if not adequately budgeted for.</p>
	<p>Section 125: Other Compulsory Disclosures</p>	<p>The information provided for in this segment will assist in the <b>reporting</b> of “any material losses and any material irregular or fruitless and wasteful expenditure”, including in the case of a municipality, any material unauthorised expenditure, which occurred during the financial year and whether these are recoverable.</p>
	<p>Section 122: Preparation of Annual Financial Statements – “Both annual financial statements and consolidated annual financial statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91(1)(b) of the Public Finance Management Act, 1999.</p>	<p>The classification provided for in this component is based on the <b>Standards of GRAP</b> and this supports the compilation of annual financial statements on this basis.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>Constitution No 108 of 1996</b>	<p>Section 216: Treasury Control</p> <p>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:</p> <ul style="list-style-type: none"> <li>a) Generally, recognised accounting practice</li> <li>b) Uniform expenditure classification; and</li> <li>c) Uniform treasury norms and standards</li> </ul> <p>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.</p>	The Segments are set-up to assist in the extraction of information to use in the rates assessment process.
<b>REGULATIONS</b>		
<b>Municipal Budget and Reporting Regulations, 2009</b>	Consistency in bases of measurement and accounting policies	Consideration will be given to this requirement in <b>aligning budget reporting and the annual financial statements</b> format and layout.
<b>CIRCULARS</b>		

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>MFMA Circular 70 Municipal Finance Management Act</b>	Municipal Budget Circular for the 2014/15 MTREF  Annexure B – Accounting Treatment for Non-Revenue Water and Electricity	Illustrating the accounting entries to be applied for the recording of water and electricity losses.

## Transactions by Business Process to be allocated in this Segment

18. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting it is a source document from an activity within a business process initiating the activity to flow through a defined business processes ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
19. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the municipality’s financial application.
20. Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
21. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee during October 2010. These were again confirmed by the mSCOA Project Steering Committee, without making any changes, during October 2016 meeting:

Transaction Type	Allocate Yes/ No	Comments
Net Assets	Yes	

Transaction Type	Allocate Yes/ No	Comments
Assets	Yes	
Liabilities	Yes	
Revenue	Yes	
Expenditure	Yes	

22. Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

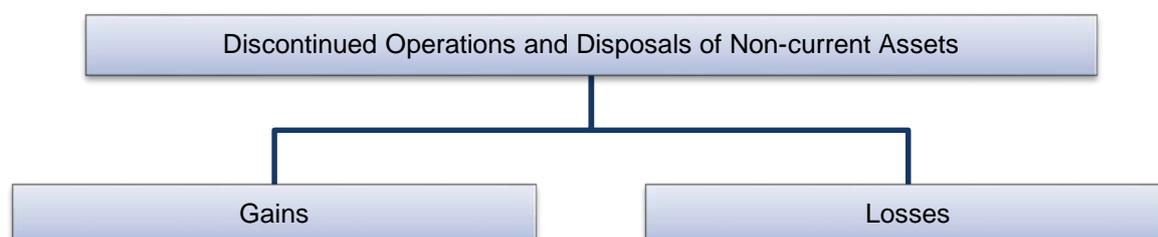
## Category Links and Business Rules

23. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. 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.
24. Proposals identified at this stage of the development of mSCOA Version 6.1:
- “Fund” Segment: Gains and losses are mostly non-cash items and thus need to “default” in the segment.
  - “Project” Segment: Gains and losses are mostly non-cash items and thus need to “default” in the segment.
  - “Regional” Segment: Gains and losses are mostly non-cash items and thus need to “default” in the segment to “whole of the metro/ municipality/ district municipality”.
  - “Costing” Segment: Gains and losses are mostly non-cash items and thus need to “default” in the segment.
  - “Function” Segment: Gains and losses need to be reflected within the function responsible for the event.

## Discussion of the Segment

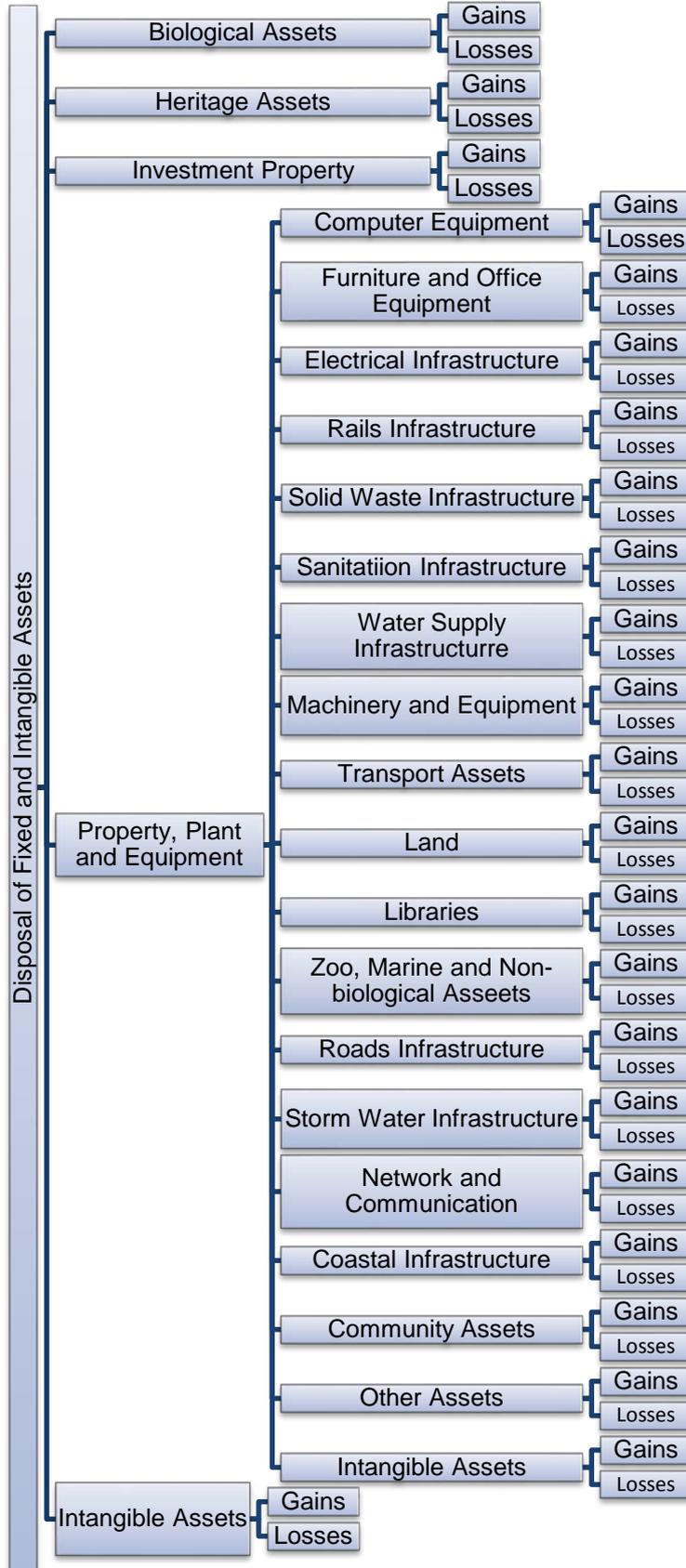
### Discontinued Operations and Disposals of Non-Current Assets

25. Discontinued operation is a component of the municipality/ municipal entity that either has been disposed of or is classified as held for sale, and:
- represents a distinguishable activity, group of activities or geographical area of operations,
  - is part of a single coordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations, or
  - is a controlled entity acquired exclusively with a view to resale?
26. This group of account provides for posting level accounts to recognise:
- the post-tax surplus or deficit of discontinued operations (See Item Segment Revenue); and
  - the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal of the assets or disposal group(s) constituting the discontinued operation (dealt with in this component).
27. The posting level accounts available in Version 6.1 provides for:



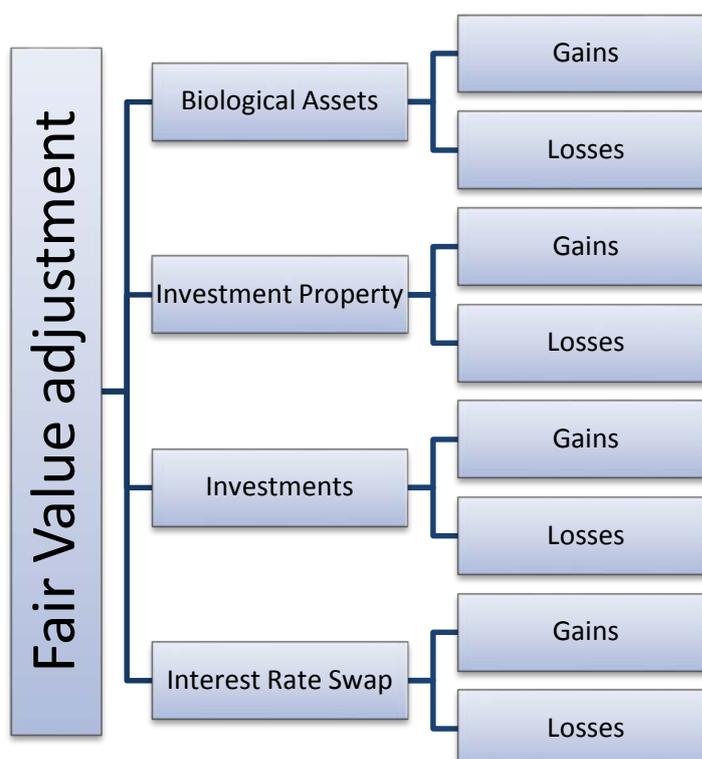
### Disposal of Fixed and Intangible Assets

28. Disposal of a fixed asset is the withdrawal of a fixed asset/ intangible asset from use upon the completion of its useful life or due to lower productivity in its later life.
29. In a rare situation where the salvage value of the fixed asset/ intangible asset is zero, there will be no cash flow and no gain or loss. However, if an asset has a salvage value; it is likely that the disposal will cause a gain or a loss.
30. When a fixed/ intangible asset is sold at a price higher than its carrying amount at the date of disposal, the excess of sale proceeds over the carrying amount is recognised as gain.
31. If a fixed/ intangible asset is sold at a price lower than its carrying amount at the date of disposal, a loss is recognised equal to the excess of carrying amount over the sale proceeds.
32. If the carrying amount of a fixed/ intangible asset at the date of disposal is equal to the sale proceeds there is neither gain nor loss.
33. The following fixed/ intangible assets have been provided for with separate accounts for gains and losses:



## Fair Value Adjustments

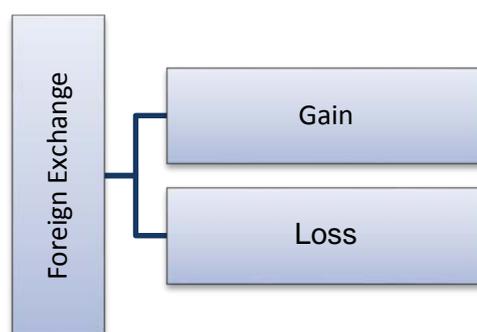
34. A fair value adjustment is a type of accounting process that makes it possible to reassess the fair value when there is a considerable difference between that figure and the current book value of an asset. Managing this type of adjustment requires taking some time to engage in what is known as revaluing in order to bring the two figures into closer harmony.
35. There are a number of reasons why a fair value adjustment may be necessary, including significant shifts in the market value of the assets involved, or when the assets are involved in a business acquisition.
36. The following assets have been provided for with separate accounts for gains and losses:



## Foreign Exchange

37. Currency gains and losses are based on exchange rate fluctuations that occur on transactions that involve more than one currency. Two types of gains and losses exist:
- Unrealised gains and losses; and

- Realised gains and losses.
38. Unrealised gains and losses are calculated on unpaid invoices the open portion of partially paid invoices at the end of a fiscal period, whereas realised gains and losses are calculated at the time of receipt.
  39. Providing for “foreign exchange” gains and losses does not override the Municipal Finance Management Act, 2003 section 47(b) placing a condition to applying for short-term and long-term debt that “the debt is denominated in Rand and is not indexed to, or affected by, fluctuation in the value of the Rand against any foreign currency”.
  40. Posting level accounts have been created for recording gains and losses pertaining to foreign exchange in separate accounts.



## Impairment Loss

41. Impairment of an asset is an abrupt decrease of its fair value due to damage, obsolescence etc. When impairment of an asset occurs, the business has to decrease its value in the statement of financial position and recognise a loss in the statement of financial performance.
42. The following assets have been provided for at a posting level, [and are due for update in version 6.2 of the chart](#):
  - Biological Assets
  - Heritage Assets
  - Intangible Assets
  - Investment Property

- Property, Plant and Equipment
- Buildings
  - Computer Equipment
  - Furniture and Office Equipment
- Infrastructure:
  - Electrical
  - Rails
  - Storm Water
  - Roads
  - Solid Waste
  - Sanitation
  - Water Supply
- Machinery and Equipment
- Transport Assets
- Libraries
- Zoo, Marine and Non-Biological Assets
- Other Receivables from Non-Exchange Revenue
  - Non-specific Accounts
  - Property Rates
- Trade and Other Receivables from Exchange Transactions
  - Electricity
  - Non-specific Accounts
  - Waste Management
  - Waste Water Management
  - Water

## Reversal of Impairment Loss

43. The municipality need to assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist

or may have decreased. If any such indication exists, the recoverable service amount of that asset needs to be established.

44. An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to its recoverable service amount. That increase is a reversal of an impairment loss.
45. The following assets have been provided for at a posting level:
  - Biological Assets
  - Heritage Assets
  - Intangible Assets
  - Investment Property
  - Property, Plant and Equipment
  - Buildings
  - Community Assets
  - Other Assets
  - Computer Equipment
  - Furniture and Office Equipment
  - Infrastructure:
    - Electrical
    - Rails
    - Storm Water
    - Roads
    - Storm Water
    - Transportation
    - Solid Waste
    - Sanitations
    - Water Supply
    - Network and Communication Infrastructure
    - Coastal Infrastructure
  - Machinery and Equipment

- Transport Assets
- Libraries
- Zoo, Marine and Non-Biological Assets
- Other Receivables from Non-Exchange Revenue
  - Non-specific Accounts
  - Property Rates
- Trade and Other Receivables from Exchange Transactions
  - Electricity
  - Non-specific Accounts
  - Waste Management
  - Waste Water Management
  - Water

## Inventory

46. The practice of writing inventories down below cost to net realisable value is consistent with the view that assets should not be carried in excess of the future economic benefits or service potential expected to be realised from their sale, exchange, distribution or use.
47. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.
48. The following accounts have been provided for to record write down to net realisable values and any other gains/ losses:
- Reversal of Write-down to Net-Realisable Value
  - Write-down to Net-Realisable Value
49. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## Non-revenue Water Losses

50. This group of accounts included in the mSCOA classification are informed by the reporting requirements of the Department of Water and Sanitation (DWS). As emphasised in Design Principle 2 a Position Paper (as a joint effort between DWS and National Treasury) is available on Water Balance Reporting that need to be read with this section.
51. The following accounts have been provided for at the request of the Department:
- Apparent Losses:
    - Unauthorised Consumption
    - Customer Meter Inaccuracies
  - Real Losses:
    - Leakage on Transmission and Distribution Mains
    - Leakage and Overflows at Storage Tanks/ Reservoirs
    - Leakage on Service Connections up to the point of Customer Metering
  - Data Transfer and Management Errors
  - Unavoidable Annual Real Losses

## Preparation for mSCOA Implementation

52. Bringing about effective conversion to a mSCOA compliant chart of accounts from the municipalities perspective is vital in achieving success.
53. The system developers responsible for applications commonly used by the municipalities are 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 recognises the complexities inherent to the implementation of the mSCOA requirements.

54. Integral to the alignment of this component of the “Item” Segment is setting-up the fixed and intangible asset categories in the asset register to correspond to the asset classification. This requirement also impacts on the Project Segment as well as the Expenditure, Assets, Liabilities and Net Assets components of the “Item” Segment. Refer to the following group of accounts:
- Disposal of Fixed and Intangible Assets
  - Fair Value Adjustments
  - Impairment Loss
  - Reversal of Impairment Loss
55. The classification requirements for “other receivables from non-exchange revenue and trade and other receivables from exchange transactions” need to be set-up. These classifications have an impact on Expenditure, Assets, Liabilities and Net Assets components of the Item Segment. The positing levels accounts presented below are applicable to the group of accounts for “Impairment Loss and Reversal of Impairment Loss”.
- Other Receivables from Non-Exchange Revenue
  - Non-specific Accounts
  - Property Rates
  - Trade and Other Receivables from Exchange Transactions
  - Electricity
  - Non-specific Accounts
  - Waste Management
  - Waste Water
56. The next step would be to identify the differences between the chart of accounts currently in use by the municipality compared to the mSCOA classification and incorporate these requirements into the standard operating procedures and work methods.

## Annual Maintenance and Matters Pending

### Annual Maintenance

57. None identified.

## Matters Pending

58. The categories provided for “Impairment and Reversal of Impairment” need to be revised in Version 6.2. Due to an oversight the categories have not been updated to reflect the changes made following the incorporations of the CIDMS classifications in mSCOA. The following assets have been provided for with separate accounts for gains and losses:

Description of Error/ and Proposed Correction	mSCOA Account Levels											GUID	
	1	2	3	4	5	6	7	8	9	#	#		1
Correct Structure with reasons as listed hereunder	<b>Segment:</b>	<b>Item -</b>											
	<b>Gains and Losses</b>												
No change		Impairment Loss											5e16ed1e-eb84-40e2-9cab-119aacecaa7f
No change			Biological Assets										d6d9e1d3-5fba-48d8-8cfe-3f307b75174e
No change			Heritage Assets										e35b4f47-ea54-44d8-8f01-b41b6aead2df
No change			Intangible Assets										517a2ff1-b0b5-4848-a673-ac7132f75a23
No change			Investment Property										33c341e9-bbb5-458e-90f7-34dc562ff741
No change			Property, Plant and Equipment										65a53046-11bb-4b7f-9c55-1ac7055c7f76
Removed and replaced with Community Assets and Other Assets	-	-	-	Buildings	-	-	-	-	-	-	-	-	<del>de4a6635-70e9-4204-b436-a88f8f44d272</del>
No change	-			Computer Equipment									b4ff4284-7d6a-41ee-8977-3c5072403825
No change				Furniture and Office Equipment									b84fdd8b-d75f-439c-9056-69f1a97d9104



Description of Error/ and Proposed Correction	mSCOA Account Levels											GUID	
	1	2	3	4	5	6	7	8	9	#	#		1
Replaced Buildings as per CIDMS Tables				Other Assets									
Additional category added as per CIDMS Tables				Infrastructure Information and Communication									
Additional category added as per CIDMS Tables				Infrastructure Coastal Infrastructure									
Classification omitted				Land									
No change		Reversal of Impairment Loss											7c381123-4c5d-4354-8052-05ae15270de6
No change			Biological Assets										cf6ce1dc-c316-4dae-8f0e-9ced00745ccd
No change			Heritage Assets										db7a8f56-bbbb-4ecf-975d-051bfe8aa3bd
No change			Intangible Assets										f133f7c4-de08-44e7-8620-15eec939baf9
No change			Investment Property										504dcd9f-f239-41b9-9cef-f9a908f9fff8
No change			Property, Plant and Equipment										33fc7e86-42d4-4693-bfb6-5b0c955567d7
Removed and replaced with Community Assets and Other Assets	-	-	-	Buildings	-	-	-	-	-	-	-	-	bb4e793a-3ba4-4d5f-b3e0-5e0a5ecf0e8d
No change				Computer Equipment									48d8542d-0ae6-44ec-853d-324956bea4be
No change				Furniture and Office Equipment									f8fb7a06-c6a5-42fc-ac7f-df8619609370



Description of Error/ and Proposed Correction	mSCOA Account Levels												GUID
	1	2	3	4	5	6	7	8	9	#	#	1 2	
Replaced Buildings as per CIDMS Tables				Other Assets									
Additional category added as per CIDMS Tables				Infrastructure Information and Communication									
Additional category added as per CIDMS Tables				Infrastructure Coastal Infrastructure									
Classification omitted				Land									

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**national treasury**

Department:  
National Treasury  
REPUBLIC OF SOUTH AFRICA

# STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

*[SCOA for MUNICIPALITIES]*

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## Project Detail:

### Section 6.4 – Item Segment – Assets, Liabilities and Net Assets

*November 2017 (Version 6.1)*

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## SECTION 6.4: ASSETS, LIABILITIES AND NET ASSETS

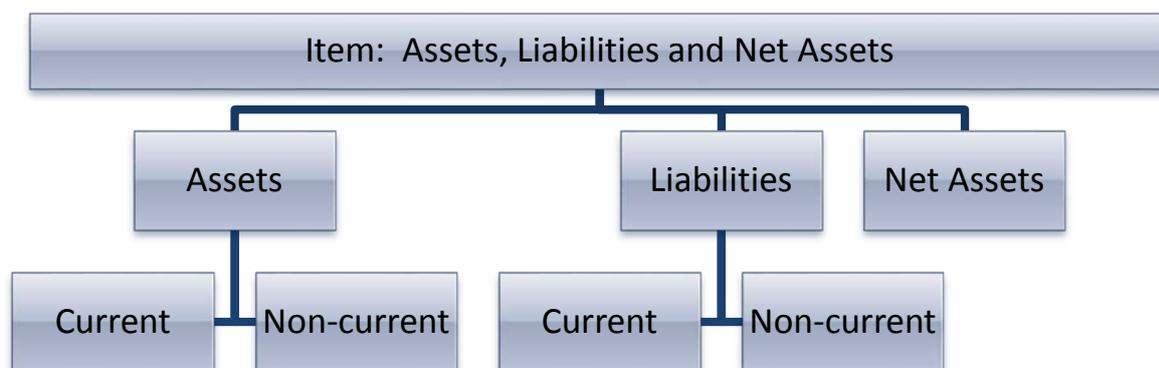
### Background to the Segment

#### Relevance of the Item Segment Assets, Liabilities and Net Assets, Methodologies and Application thereof in the context of mSCOA

1. The financial position of the municipality is affected by the resources it controls, its financial structure, its liquidity and sustainability, and its capacity to adapt to changes in the environment in which it operates. The Item Segment with its component for assets, liabilities and net assets hosts the classification structure for providing this information.
2. The sequence of accounts depicted in the code structure defined in the mSCOA Tables does not indicate the order or format in which items are to be presented in the annual financial statements, resulting in a contradiction to the presentation requirements provided for in the Standards of GRAP 1<sup>i</sup> Presentation of Financial Statements.
3. In addition, **the requirement to apply judgement** on whether additional items are separately presented based on an assessment of the nature and liquidity of assets, the function of assets within the municipality; and the amounts, nature and timing of liabilities **does not change at the implementation of mSCOA**. mSCOA requires the information as guided by the classification framework as a minimum, and does not focus as such on determining materiality. Standard classification is critical to collecting comparable, uniform and quality information for statistical and oversight reporting. Management must (as in the past) continue to apply judgement in financial statement compilation within the materiality framework relevant to the municipality in presenting information.
4. National Treasury envisage compiling Illustrative Financial Statements to provide guidance on linking the mSCOA accounts to the financial statement presentations.

## Illustration: High-level Classification

5. The illustration of the high-level classification structure for this segment directly relates to the main classifications required in the Statement of Financial Position in accordance with the requirements of the *Standards of GRAP 1 Presentation of Financial Statements*.
6. The determination on classifying assets and liabilities as current or non-current need to be guided by the requirements set-out in the above Standard of GRAP read with any other requirements set-out in a Standard of GRAP. The definitions provide brief explanations in the context of mSCOA, but might not be sufficient in determining the current versus non-current classifications.



### Definition:

**Assets:** Assets are resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

**Current Assets:** An asset shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realised in, or is held for sale or consumption in, the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the reporting date; or
- (d) it is cash or a cash equivalent asset (as defined in the Standard of GRAP on Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

**Non-current Assets:** All other assets not classified as current according to the definition above shall be classified as non-current.

**Liabilities:** Present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

**Current Liabilities:** A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the entity's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. (Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification).

**Non-current Liabilities:** All other liabilities not within the above definition shall be classified as non-current

**Net Assets:** The residual interest in the assets of the municipality after deducting all its liabilities.

## Design Principles

7. The design principles defined and included in the Item segment Introduction need to be considered together with the following design principle(s):
8. *Principle 1: Cash and Cash Equivalents, Bank Overdraft* - Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The municipality need to add the detail based on their unique cash management portfolio being the "posting-level account". The naming convention indicates both the name of the financial institution and account or reference number. Accounts set at a posting level with GUID's<sup>1</sup> included for municipalities to change the description to the respective account numbers. Accounts within the specific bank accounts are presented by specific accounts by transaction type to reflect the movement in the general ledger between opening and closing balance.

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<sup>1</sup> Globally Unique Identifier (GUID).

9. *Principle 2: Unallocated Deposits* – The account for unallocated deposits consists of deposits made to the municipalities bank account. Due to a lack of information on the purpose of the deposit, beneficiary information not complete or correct, reference numbers not provided, capacity, timing differences, etc. these transactions could not be recognised as revenue or allocated to a customer account. Typically, these type of transactions remains as “reconciliation item” on the respective bank accounts. Due to the significance of the value involved, lack of control in place over these outstanding items and the VAT implication of these transactions, mSCOA provides and account for municipalities to allocate these transactions.
10. *Principle 3: Construction Contracts and Receivables* - The municipality would be considered the “contractor” if performing construction work pursuant to a construction contract by entering into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity. The *Standards of GRAP 11 on Construction Contracts* need to be applied in accounting for construction contracts.
11. *Principle 4: Current Portion of Non-Current Receivables/ Non-current Receivables* – MFMA Circular 8 of 2004 directs on “forbidden loans”. mSCOA provides for accounts dealing with “forbidden loans” not legitimising these actions but correctly recording them for presentation purposes.
12. *Principle 5: Receivables from Non-Exchange Transactions* – This account is used for recording amounts receivable due from Non-Exchange Transactions, such as insurance claims, rates and other taxes, subsidies, road reinstatements, and repayments resulting from unauthorised expenditure. Non-Exchange Transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
13. *Principle 6: Operating Lease - Straight Lining* - Operating lease receivables whereby the smoothing of an operating lease expense results in a receivable.
14. *Principle 7: Control, Clearing and Interface Accounts (Current Liabilities and/ or Current Assets)* – These accounts may have debit or credit balances at the end of the reporting period. This group of accounts are used for the recording of uncleared credit/ debit amounts resulting from control, interface and clearing accounts required

by the general ledger system to import transactions/ balances from the sub ledger or other systems such as billing, procurement, asset modules, payroll, electronic funds transfer (EFT) processes, etc. This may be an asset or liability and not to be considered accordingly in preparing financial statements.

15. *Principle 6: Income Tax Receivable, Deferred Tax Assets, Income Tax Payable, Deferred Tax Liabilities* - The use of these accounts would be confined to municipal entities registered with SARS for Income Tax Purposes.
16. *Principle 7: Inventory* – mSCOA provides for high-level categories within which the municipality may add detail posting-level accounts. These categories are:
  - Agricultural Assets
  - Consumable Stores
  - Finished Goods
  - Materials and Supplies
  - Water
  - Work-in-progress
  - Housing Stock
  - Land
17. *Principle 8: Inventory: Water Balance Reporting* – The National Treasury Draft Position Paper on Water Balance Reporting read with the Guideline on Water Balance Reporting issued by the Department of Water and Sanitation serve as the basis for the classification incorporated in the inventory classification. The accounts provided for in the movement analysis is explained in detail in this Position Paper.
18. *Principle 9: Trade and Other Receivables from Exchange Transactions* - Revenue from non-exchange transactions are transactions that are not exchange transactions as per *Standard of GRAP 23 Revenue from non-exchange transactions*. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. This principle applies to the classification of “receivables” within mSCOA.

The movement on the various account groups are set-up according to “transaction types” to extract information on the movement from opening to closing balance during the reporting period.

19. Principle 10: VAT Receivable and Payable – The VAT Modules utilised by the financial system would ultimately determine the detail classification for these accounts. Sufficient detail need to be available from the financial system to complete the VAT 201 return. The accounts presented in mSCOA Version 6.1 is based on specific requests made by vendors and does not support a standardised approach. At the time of finalising this project detail document the outcomes and proposal following the National Treasury/ SARS Workgroup has not been conceptualised and fully documented. The following information requires disclosures on the VAT 201 returns:

- Supply of Goods/ Services
- Standard rate (excluding goods and/ or services and accommodation) net of VAT and VAT amounts.
- Standard rate (only capital goods and/ or services) net of VAT and VAT amounts.
- Zero rate (excluding goods exported) amounts.
- Zero rate (only exported goods) amounts.
- Exempt and non-supplies.
- Supply of accommodation.
- Calculation of Input Tax.
- Capital goods and/ or services supplied to you.
- Capital goods imported to you.
- Other goods and/ or services supplied to you (not capital goods).
- Other goods imported by you (not capital goods).
- Adjustments:
  - Change in use
  - Bad debts
  - Other

20. *Principle 11: Biological Assets* - mSCOA provides for the following categories of Biological Assets:

- Dairy Cattle
- Feathered Animals (Eggs and Feathers)
- Forests and Plantations
- Fruit Trees
- Game Animals
- Animals for Reproduction (Cattle, Goats, Sheep and Pigs)
- Animals for Wool or Milk (Goats and Sheep)
- Dogs (Law Enforcement and Working)
- Horses (Law Enforcement and Working)
- Vines
- Plants (Production of Seeds)

21. *Principle 12: Heritage Assets* - mSCOA provides for the following categories of heritage assets aligned to the CIDMS Classification Framework:

- Other Heritage Assets:
  - Archives
  - Municipal Jewelry
  - Historic Buildings
- Works of Art:
  - Antiques and Collection
  - Paintings
  - Sculptures
  - Works of Art and Collections
- Monuments:
  - Cultural Significant Buildings
  - National Monuments
- Conservation Areas:
  - National Parks

22. *Principle 13: Intangible Assets* - mSCOA provides for the following categories of Intangible Assets:

- Intangible Assets under Development
- Capital Development Cost
- Computer Software
- Franchises and Consents
- Incorporation and Organisational Start-up
- Patents, Licenses, Copyrights, Brand Names and Trademarks
- Recipes, Formulae, Prototypes, Design and Models
- Service and Operating Rights (Land Rights)

23. *Principle 14: Property, Plant and Equipment* - The Cities Infrastructure Development Management System (CIDMS) provides the bases for the high-level classes used in the mSCOA Tables. National Treasury do take cognisance of the implementation timeframe defined for the implementation of the CIDMS model. However, for purposes of mSCOA the full CIDMS is already applied in mSCOA V6.1:

- Land
- Machinery and Equipment
- Computer Equipment
- Furniture and Office Equipment
- Libraries
- Zoos, Marine and Other Non-Biological Assets
- Community Assets
- Other Assets
- Transport Assets
- Infrastructure:
  - Electrical
  - Water Supply
  - Solid Waste
  - Transportation
  - Rails
  - Roads
  - Storm Water

- Information and Communication
  - Coastal Infrastructure
24. *Principle 15: Trade and Other Payables Non-Exchange Transactions - Transfers and Subsidies (Unspent)* - These accounts are used for the recording of operation and capital transfers received, but unspent at the end of the reporting period. The mSCOA provides for the accounts based on the set-up applied for transfers and subsidies within revenue. The balance maybe receivable or payable at the end of the reporting period. The System Rules provides guidance to the System Developers on the system requirements in this regard.
25. *Principle 16: Trade and Other Payables Non-Exchange Transactions - Transfers and Subsidies (Unspent) National Departments* - The classifications provided for under this group of accounts are based on Schedule 4, 6 and 7 of the Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA). The content of this classification requires annual updates based on the allocations published in the DoRA for the reporting period.
26. *Principle 17: Trade and Other Payables Non-Exchange Transactions - Transfers and Subsidies (Unspent) Provincial Departments* - The Local Government MTEF Allocations 2013/14 Information Sheet was used to populate the categories proposed. This document does not provide the economic classification of the transfers and subsidies but only the name of the transfer and the transferring department. In some instances, the information provided on the Information Sheet differ from the DoRA for the Province, Provincial Appropriation Bills and Budget Statements.
27. *Principle 18: Trade and Other Payables Non-Exchange Transactions - Transfers and Subsidies (Unspent) District Municipalities* - Limited information is available from the local government database thus the “functional classification” is used for the purpose of classifying district transfers and subsidies to local municipalities in the absence of specific detail.
28. *Principle 19: Trade and Other Payables Non-Exchange Transactions - Transfers and Subsidies (Unspent) (Departmental Agencies, Foreign Government and International Organisations, Households, Non-profit Institutions, Private Enterprises, Public Corporations, Higher Educational Institutions and Parent Municipalities to Municipal Entities)* - Limited information is available from the local government database,

accordingly” entities” added to these categories are based on the detail defined by the mSCOA for Departments revised for municipalities. Requests for comments to municipalities following the “road shows” (preceding the release of the draft mSCOA regulations) revealed little inputs from municipalities to revise the content of these categories comprising about 70 per cent of the detail populated in this segment. Municipalities are therefore required to request additional information to be considered either during the comments processes following the release of the mSCOA Draft Regulations, or during the formal annual process for requesting changes/ revisions to the mSCOA Technical Committee through the mSCOA Frequently Asked Questions (FAQ) Database.

29. *Principle 20: Reserves and Funds* – National Treasury released a Draft Position Paper on Reserves and Funds. Consideration will only be given to add specific accounts if these accounts are provided for by the municipality in a policy and is cash backed. mSCOA provides for the following accounts in this group:

- Compensation for Occupational Injuries and Diseases
- Housing Development Fund
- Revaluation Reserve
- Self-Insurance Reserve
- Capital Replacement Reserve
- Employee Benefit Reserve
- Non-current Provision Reserve
- Valuation Reserve
- Investment in Associates
- Capitalisation Reserve
- Share Premium

30. *Principle 21: Borrowing (Current and Non-current)* – Borrowing provides for a classification based on “financial Institution” with a breakdown for defining the account number by the municipality. Provision is made for including detail at a breakdown level by changing the description of the account available in mSCOA for this purpose. These accounts do provide a “GUID<sup>2</sup>” and the “uniqueness” defined in

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<sup>2</sup> Globally Unique Identifier (GUID).

the Local Government Database and Reporting System (LGDRS) by the “municipal code, reporting period and GUID”. If more accounts are needed than provided for currently, a request in this regard need to be made through the mSCOA Frequently Asked Questions (FAQ) Database for the mSCOA Technical Committee to provide for these in the next mSCOA release.

31. *Principle 22: Movement Analysis* – Movement analysis was included in mSCOA Version 6.1 from “opening” to “closing” balance for the following groups of accounts:

- Provision and Impairment
- Transfers and Subsidies
- Unspent
- Defined Benefit Obligation

## Legislative and Regulatory Requirements

32. The research and development into the Item segment, categories and detail accounts, were guided by the legislation and regulations read with circulars and guidelines issued by the National Treasury and summarised in the table below. Furthermore, brief comments on the impact of the requirement are included in the column “Impact on mSCOA”:

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>LEGISLATION</b>		
<b>Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003)</b>	Section 20: Matters to be Prescribed	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

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
		municipal service or other function”. <b><u>Considered in the set-up of the mSCOA segments.</u></b>
	Section 45: Short-term Debt	Short-term Debt is classified within the category for <b><u>current liabilities</u></b> within this component of the Item Segment.
	Section 46: Long-term Debt	Long-term Debt is classified within the category for <b><u>non-current liabilities</u></b> within this component of the Item Segment.
	Section 49: Disclosure	The mSCOA classification structure informs reporting and this disclosure within the annual financial statements.
	Section 63: Asset and Liability Management	The mSCOA classification structure assists the accounting officer in maintaining a <b><u>system of internal controls and an accounting and information system</u></b> to account for assets and liabilities.
	Section 64: Revenue Management	The mSCOA classification structure within the component contributes to a <b><u>management, accounting and information system</u></b>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
		which recognises revenue when it is earned, accounts for debtors, and accounts for receipts of revenue.
	Section 65: Expenditure Management	The mSCOA classification structure within the component contributes to accounting for <b>creditors</b> .
	Section 71: Monthly Budget Statements	The mSCOA classification structure within the component contributes to providing " <b><u>actual expenditure by vote</u></b> ".
	Section 72: Mid-year Budget and Performance Assessment	The mSCOA classification structure within the component provides the revenue classification to inform the municipality's <b><u>performance during the first half of the</u></b> year.
	Section 121: Preparation and Adoption of Annual Reports	The mSCOA classification structure within the component informs the compilation of the <b><u>Statement of Financial Performance and the budget versus actual results</u></b> .
	Section 122: Preparation of Annual Financial Statements – "Both annual financial statements and consolidated annual financial	The classification provided for in this component is based on the <b>Standards of GRAP</b> and this supports the

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
	statements must be prepared in accordance with generally recognised accounting practice prescribed in terms of section 91(1)(b) of the Public Finance Management Act, 1999.	compilation of annual financial statements on this basis.
	Section 123: Disclosures on Intergovernmental and Other Allocations	The Item Segment within the mSCOA classification structure provides for the information for disclosure purposes on <b><u>transfers and subsidies made and received.</u></b>
	Section 124: Other Compulsory Disclosures	The mSCOA classification structure assist in providing the information required for <b><u>disclosing in the notes to the annual financial statements</u></b> the following information: <ul style="list-style-type: none"> <li>• Name and type of bank accounts</li> <li>• Opening and closing balances in the above bank accounts</li> <li>• Summary of all investments</li> </ul>
	Section 164: Forbidden Activities	The mSCOA classification structure provides for the classification of transactions to reveal instances of engaging in forbidden activities.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>The Constitution</b>	<p>Section 216: Treasury Control</p> <ul style="list-style-type: none"> <li>• National legislation must establish a National Treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government by introducing:               <ol style="list-style-type: none"> <li>a) Generally, recognised accounting practice</li> <li>b) Uniform expenditure classification; and</li> <li>c) Uniform treasury norms and standards</li> </ol> </li> <li>• 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.</li> </ul>	<p>Segments set-up to assist in the extraction of information to use in the rates assessment process.</p>
<b>Water Services Act, 1997 (Act No. 108 of 1997)</b>	<p>To provide for the gathering of information in national information system and the distribution of that information; to repeal certain laws; and to provide for matters connected therewith.</p>	<p>The reporting requirements of the <b><u>Department of Water Affairs</u></b> have been considered in the compilation of the mSCOA classification framework.</p>
<b>REGULATIONS</b>		

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<p><b>Municipal Budget and Reporting Regulations, 2009</b></p>	<p>Consistency in bases of measurement and accounting policies</p>	<p>Consideration will be given to this requirement in <b><u>aligning budget reporting and the annual financial statements</u></b> format and layout.</p>
<p><b>CIRCULARS</b></p>		
<p><b>MFMA Circular 8</b></p>	<p>Forbidden Loans</p>	<p>The mSCOA classification structure provides for the classification of transactions to reveal instances of engaging in <b><u>forbidden activities</u></b>.</p>
<p><b>MFMA Circular 26</b></p>	<p>Long Term Borrowing</p>	<p>Long-term Debt is classified within the category for <b><u>non-current liabilities</u></b> within this component of the Item Segment.</p>
<ul style="list-style-type: none"> <li>• <b>MFMA Circular 48: Municipal Budget Circular for the 2009/10 MTREF</b></li> <li>• <b>MFMA Circular 51: Municipal Budget Circular for the 2010/11 MTREF</b></li> <li>• <b>MFMA Circular 55: Municipal Budget Circular for the 2011/12 MTREF</b></li> </ul>	<p>Accounting Treatment of Conditional Grants</p>	<p><b><u>Transfers and Subsidies</u></b> provided for in this classification for transfers and subsidies not yet received and unspent balances.</p>

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<ul style="list-style-type: none"> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 59: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</li> <li>• MFMA Circular 70: Municipal Budget Circular for the 2014/15 MTREF</li> </ul>		
<ul style="list-style-type: none"> <li>• MFMA Circular 58: Municipal Budget Circular for the 2012/13 MTREF</li> <li>• MFMA Circular 72: Municipal Budget Circular for the 2014/15 MTREF</li> </ul>	Cash Backing Provided in Capital Replacement Reserve	<b><u>Capital Replacement Reserves</u></b> provided for in this component of the Item Segment and linked in <b><u>the Funding Segment</u></b> to the “cash backing”.
MFMA Circular 61	Banking, Overdraft and Investment	<b><u>Bank overdraft and investments</u></b> provided for in this component of the Item Segment.

Act, Regulations, Guideline or Circular	Section and Requirement	Impact on mSCOA
<b>MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</b>	Unbundling of Investments	<b><u>Investments</u></b> provided for in this component of the Item Segment.
<b>MFMA Circular 64: Revenue Management</b>	Revenue Enhancement and Debt Management	Detail classification provided for in this component of the Item Segment for <b><u>Accounts Receivable</u></b> .
<b>MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</b>	Unbundling of Debtors	
<b>MFMA Circular 66: Municipal Budget Circular for the 2013/14 MTREF</b>	Debt Impairment, Depreciation and other Non-Cash Expenditure	
<b>MFMA Circular 67: Municipal Budget Circular for the 2013/14 MTREF</b>	Municipal Water Infrastructure Grant and Non-Revenue Water and Water Balance Reporting including Reporting on Water Losses	Provision made within Inventory of this component of the Item Segment for Water Balance.

## Transactions by Business Process to be allocated in this Segment

33. Business processes are the set of activities taking place from the initiation of a process to the completion thereof. Typical in the context of financial reporting is a source document from an activity within a business process initiating the activity to flow through a defined business processes ultimately resulting in the transaction being captured within a financial model in the system and updating the general ledger.
34. The mSCOA classification framework provides a classification structure within the general ledger to “record” transactional information within “fields” within the database functioning in the background of the municipality’s financial application.

35. Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of mSCOA.
36. The transaction types reflected here are based on the initial discussions of the mSCOA Project Steering Committee during October 2010. This initial determination was confirmed by the Project Steering Committee during October 2016.

<b>Transaction Type</b>	<b>Allocate Yes/ No</b>	<b>Comments</b>
<b>Net Assets</b>	Yes	
<b>Assets</b>	Yes	
<b>Liabilities</b>	Yes	
<b>Revenue</b>	Yes	
<b>Expenditure</b>	Yes	

37. Pending the outcome of the Standard Operating Procedures Project undertaken by the National Treasury: Office of the Accountant General this table may need to be expanded to include business cycles and activities.

## Category Links and Business Rules

38. Category links and business rules refer to programming rules that system developers of financial and business applications for local government are required to provide for in their applications. 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.
39. Proposals identified at this stage of the development of mSCOA:
- Transfers and Subsidies Expenditure link to Current Liabilities Transfers and Subsidies Payable.

- Transfers and Subsidies Revenue link to fund and Current Assets Transfers and Subsidies Receivables/ Unspent. The System Rules provides guidance on the system requirements respective to this account being “unspent or receivable” at the reporting date.
- Borrowing link to current and non-current liabilities within the Item Asset Liabilities.
- Reserves and Funds cash backed link to fund.
- Construction work-in-progress link to project.
- Cash and Cash Equivalents require “accounts to be renamed and the corresponding change” to be made in the Fund segment.
- Bank overdraft placed within current liabilities within the Item Segment structure is included in the discussion. The mSCOA is in principle the same account as the bank account, to be reclassified as a non-current asset if in overdraft.
- Opening/ Closing Balance – not a posting level, rollover from period to period to be provided within the system requirements. This is account further need to be used for capturing “take-on balances” at the time of mSCOA implementation. This requirement is relevant to:
  - Property Rates
  - Trade and Other receivables from Exchange Transactions and the Impairment thereof.
  - Prepayments and Advances including the impairment thereof.
  - Trading Service Debtors including the impairment thereof.
  - Biological Assets, Accumulated Depreciation and Impairment.
  - Heritage Assets including Accumulated Impairment.
  - Intangible Assets including Accumulated Impairment and Accumulated Amortisation.
  - Investment Property including Accumulated Depreciation and Impairment.
  - Property, Plant and Equipment including Accumulated Depreciation and Impairment.
- The Income Tax Receivable/ Payable accounts are in essence “the same” and all depends on the balance at the reporting date. System requirements need to provide for functionality to be able to relate these accounts and depending on the balance, classify as either a current liability or current asset.

- Impairment and Depreciation dealt with as a “negative asset” in mSCOA applicable to:
  - Biological Assets
  - Heritage Assets
  - Intangible Assets
  - Investment Property
  - Property, Plant and Equipment
- Impairment dealt with as a “negative asset” in mSCOA applicable to:
  - Property Rates
  - Trade and Other Receivable from Exchange Transactions
  - Prepayments and Advances

## Discussion of the Segment

### Assets

40. The high-level classification for assets provides for the recording of a transaction within the definition of assets as defined in the *Standards of GRAP 1 Presentation of Financial Statements* being “resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality”.
41. The next level within the mSCOA Tables provides for a distinction between current and non-current assets. Guidance on this distinction is available from the *Standards of GRAP 1 Presentation of Financial Statements*.

### Current Assets

42. An asset shall be classified as current when it satisfies any of the following criteria:
  - it is expected to be realised in, or is held for sale or consumption in, the municipality’s normal operating cycle;
  - it is held primarily for the purpose of being traded;

- it is expected to be realised within twelve months after the reporting date; or
  - it is cash or a cash equivalent asset (as defined in the Standard of GRAP on Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.
43. The illustration below provides the high-level group of accounts included in current assets. This group of accounts consists of multiple posting level accounts for classifying transactions. If the municipality is required to add a further breakdown to define the posting level the context within which these accounts need to be added is discussed as well as the naming convention supporting the account description:



### Cash and Cash Equivalents

**Definition:**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

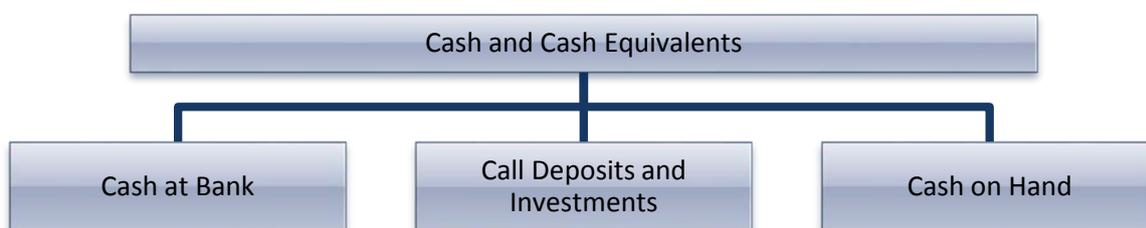
- 44. The *Standards of GRAP 2 on Cash Flow Statements* indicates that the municipality shall disclose the components of cash and cash equivalents and shall present a

reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.

45. The Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires the following disclosures:

- in response of each bank account held by the municipality or entity during the relevant financial year, the name of the bank where the account is or was held, and the type of accounts; and
- year-opening and year-end balances in each of these bank accounts.

46. The account structure within the group for “Cash and Cash Equivalents” consists of the following “non-posting level accounts”:



**Definitions:**

**Cash at Bank:** This group of accounts include current accounts and savings accounts held at commercial banks (primary and secondary) bank accounts and savings accounts. {Primary Bank account as determined in terms of section 8 of the MFMA}.

**Call Deposits and Investments:** Investing money with an enterprise with the expectation of earning a return on the investment in the form of interest for a short term usually less than 12 months.

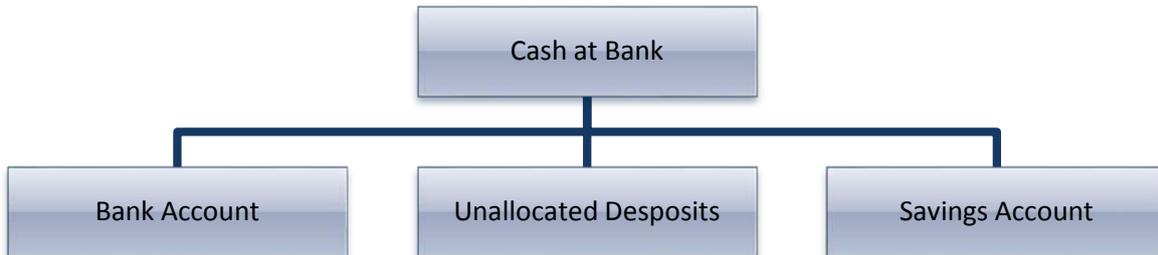
**Cash on Hand:** Cash held for petty cash, cashier surplus, un-deposited money, etc. Petty Cash

*Cash at Bank*

47. Indicated below are the account groups provided for within Cash at Bank. This is a non-posting level. The posting level accounts are set-up within the breakdown structure provided in the classification:

48. mSCOA Version 6.1 revised the ‘breakdown required – request’ that was included in the earlier versions of the mSCOA Tables. Accounts are provided with description “Specify (replace with account description)”.

49. The municipality need to change the account description “Specify (Replace with Account Description)” to the Financial Institution and specific account numbers relevant to the municipality:



50. The posting levels are set within the above structure providing for accounts giving a reconciliation from “opening to closing balance”. The opening balance is not a posting level account but an “automated account” rolling the closing balance at year-end closure forward to the new financial year. However, it should be noted that this account will need to be used for “take-on balance” at initial implementation of mSCOA. The closing balance account provides for the “movement accounts” including opening balance to automatically close to this account at year end closure. The closing balance must be rolled forward to the new financial year. The movement accounts (excluding opening and closing balance accounts provides for:

- Deposits
- Withdrawal
- Interest Earned
- Charges

**Definitions:**

**Bank Accounts:** This account relates to the cash held in bank accounts and other transactions impacting on the cash held in the bank.

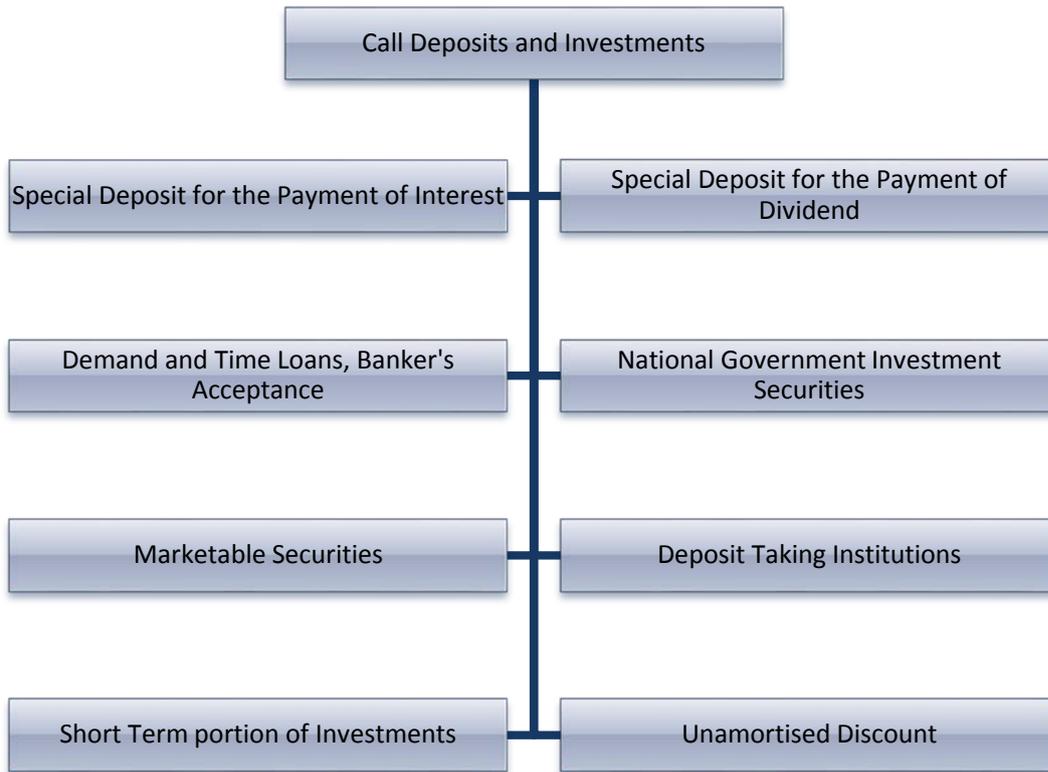
**Unallocated Deposits:** Direct deposits not sufficiently referenced to enable allocation of the payments to customer accounts.

**Savings Accounts:** These accounts are used for money kept in savings accounts to earn interest on the daily balance.

51. The account for unallocated deposits consists of deposits made to the municipality's bank account. Due to a lack of information on the purpose of the deposit, beneficiary information not complete or correct, reference numbers not provided, capacity, timing differences, etc. these transactions could not be recognised as revenue or allocated to a customer account. Typically, these type of transactions remains as "reconciliation item" on the respective bank accounts. Due to the significance of the value involved, lack of control in place over these outstanding items and VAT implication of these transactions, mSCOA provides and account for municipalities to allocate these transactions to.
52. Bank overdraft placed within current liabilities within the Item Segment structure is included in the discussion. The mSCOA is in principle the same account as the bank account to be reclassified as a non-current liability if in overdraft. The section dealing with matters to consider in the future on the mSCOA Tables include an item for further consideration in this regard.

*Call Deposits and Investments*

53. Indicated below are the account groups provided for within Cash at Bank. This is a non-posting level. The posting level accounts are set-up within the breakdown structure provided in the classification:
54. mSCOA Version 6.1 revised the 'breakdown required – request' included in earlier versions of the mSCOA Tables. Accounts are provided with the description "Specify (replace with account description)".



55. The posting levels are set within the above structure providing for accounts giving a reconciliation from “opening to closing balance”. The opening balance is not a posting level account but an “automated account” rolling the closing balance at year-end closure forward to the new financial year. However, it should be noted that this account will need to be used for “take-on balance” at initial implementation of mSCOA. The closing balance account provides for the “movement accounts” including the opening balance to automatically close to this account at year end closure. The closing balance must be rolled forward to the new financial year. The movement accounts (excluding opening and closing balance accounts) provides for:

- Deposits
- Withdrawal
- Interest Earned
- Charges

**Definitions:**

**Special Deposit for the Payment of Interest:** This account is used for the recording of accounts specifically used for the payment of interest. [NERSA RRM V2: Electricity [121]]

Special Deposit for This account is used for the recording of accounts specifically used for the payment of dividends. [NERSA RRM V2: Electricity [121]]

Short-term debt obligations secured by the bank. That is, a bank promises to pay a creditor if a borrower defaults. It is also called a documented discount note. [NERSA RRM V2: Electricity [121]]

Transaction record in this account is for security investments issued by National Government in the form of Government Stock or Securities. [NERSA RRM V2: Electricity [121]]

Transaction record in this account is for securities/ bonds which could be exchanged in an open market prior to maturity. [NERSA RRM V2: Electricity [121]]

Call deposits and investments redeemable within 12 months from the reporting period made at banks and deposit taking institutions.

Short terms portion of non-current investments to be recalled/ available within 12 months after the reporting period.

Unamortised bond discount refers to the difference in the cost to purchase a bond (its market price) and its par or face value. The issuing company can choose to expense the entire amount of the discount or can handle the discount as an asset to be amortised. An amount that has yet to be expenses is referred to as unamortised bond discount.

## Construction Contracts and Receivables

**Definition:**

Amounts due from clients resulting from construction contracts undertaken by the municipality. A Construction contract is a contract or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Construction contracts include contracts for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects and contracts for the destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. A construction contract may also deal with the construction

of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use. Examples of such contracts include those for the construction of reticulated water supply systems, refineries and other complex infrastructure assets.

56. The municipality would be considered the “contractor” if performing construction work pursuant to a construction contract by entering into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity. The term “contractor” includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

	<p><b><i>How would this be applicable to municipalities?</i></b></p> <p><b><i>Example 1</i></b></p> <p>The district municipality undertaking a capital project for a local municipality, for example building reservoirs. The project will be classified as an operational project in the Project Segment by the district municipality. The recognition of the cost incurred in creating the reservoir is classified as Inventory Work-in-progress (Current Asset)</p>
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57. Contractors which prepare and present financial statements under the accrual basis of accounting apply the *Standards of GRAP 11 on Construction Contracts* in accounting for construction contracts.
58. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different reporting periods.
59. Certain construction contracts entered into by the municipality may not specify an amount of contract revenue. Rather, funding to support the construction activity is provided by an appropriation or similar allocation of general government revenue, or by aid or grant funds. In these cases, the primary issue in accounting for construction contracts is the allocation of construction costs to the reporting period in which the construction work is performed and the recognition of related expenses.



***How would this be applicable to municipalities?***

***Example 2***

The municipality may receive an allocation from a provincial department of housing for the housing support programme in terms of which the building or house may be required

***Example 3***

Various arrangements where the municipality qualify as the “contractor” in the Context of the Standard of GRAP 11 on Construction Contracts are found within the municipal environment, for example housing development on behalf of provincial departments.

The “arrangements” need to be considered in terms of the contractual arrangements and funding agreements to be conclusive on the classification of transactions within the scope of these arrangements. Municipalities are encouraged to bring these arrangements to the attention of National Treasury to assist in defining classification principles and to promote uniform classification within budget and annual reporting.

Accounting for arrangements undertaken in terms of the National Housing Programme may be classified as “Construction Contracts” depending on the conditions of the agreement between the provincial department of housing and the municipality. Usually funds are transferred to the municipality in compensation of the expenditure incurred. These houses get transferred according to the National Housing Programme and thus the municipality does not recognise the asset created as a result of the construction work undertaken.

- 60. Construction contracts entered into by the municipality may be established on a commercial basis or a non-commercial full- or partial cost recovery basis. In these cases, the primary issue in accounting for construction contracts is the allocation of both contract revenue and contract costs to the reporting periods in which the construction work is performed.
- 61. A contractor engages in contracting activities. Accordingly, buildings constructed by the municipality for itself do not constitute contracting activities. In determining the

appropriate accounting for such items, the entity needs to refer to the *Standards of GRAP 17 on Inventories or Property, Plant and Equipment*.

62. Contract revenue comprises (a) the initial amount of revenue agreed in the contract; and (b) variations in contract work, claims and incentive payments to the extent that: (i) it is probable that they will result in revenue; and (ii) they are capable of being reliably measured.
63. Costs that relate directly to a specific contract include:
- site labour costs, including site supervision;
  - costs of materials used in construction;
  - depreciation of plant and equipment used on the contract;
  - costs of moving plant, equipment and materials to and from the contract site;
  - costs of hiring plant and equipment;
  - costs of design and technical assistance that are directly related to the contract;
  - the estimated costs of rectification and guarantee work, including expected warranty costs; and
  - claims from third parties.
64. Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:
- insurance;
  - costs of design that are not directly related to a specific contract; and
  - construction overheads.
65. Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll.
66. Costs that are specifically chargeable to the customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.
67. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract. Such costs include:

- general administration costs for which reimbursement is not specified in the contract;
  - selling costs;
  - research and development costs for which reimbursement is not specified in the contract; and
  - depreciation of idle plant and equipment that is not used on a particular contract.
68. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.
69. Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amounts of contract revenue billed for work performed on a contract whether or not they have been paid by the customer. Advances are amounts of contract revenue received by the contractor before the related work is performed.
70. The municipality presents:
- the gross amount due from customers for contract work as an asset; and
  - the gross amount due to customers for contract work as a liability.
71. The gross amount due from customers for contract work is the net amount of costs incurred plus recognised surpluses; less the sum of recognised deficits and progress billings for all contracts in progress for which costs incurred; plus, recognised surpluses to be recovered by way of contract revenue (less recognised deficits) that exceeds progress billings.
72. The gross amount due to customers for contract work is the net amount of:
- costs incurred plus recognised surpluses; less



interpreting section 164(1)(c) of the MFMA and to provide guidance on some specific questions raised by municipalities.

76. Section 164 commenced on 1 July 2004: No loans may be granted to or taken up by persons mentioned in section 164(1)(c) after 1 July 2004.
77. Loans granted to or taken up by persons mentioned in section 164(1)(c) before 1 July 2004 remain valid (legal) until the expiry, settlement or termination of such loans.
78. Policies, practices, agreements or other arrangements, including employment contracts, conditions of employment and collective bargaining agreements, allowing for the granting of loans to, or taking up of loans by persons mentioned in section 164(1)(c) after 1 July 2004 contravene the MFMA and are therefore illegal.
79. No person mentioned in section 164(1)(c) has a vested right in respect of the granting or taking up of loans after 1 July 2004 notwithstanding the application of such practices, agreements or other arrangements immediately prior to 1 July 2004.
80. Specifically, an official does not have a vested right to a loan by virtue of his or her conditions of employment. No term or condition of employment can violate an Act of Parliament.
81. Section 164(1)(c) prohibits a municipality or a municipal entity from making loans to three categories of borrowers:
  - councilors or officials of the municipality;
  - directors or officials of the municipal entity; and
  - members of the public.
82. The term “councillor” and the term “official” are defined in section 1 of the MFMA. The MFMA does not differentiate between categories of officials and therefore applies to all officials.
83. Directors of municipal entities refer to the directors of the board of a municipal entity.
84. In the context of section 164(1)(c), “member of the public” refers to all persons in the community as a whole. This includes both individual members of the public (natural persons) and organisations, associations, bodies corporate or the like (juristic persons). Therefore, a loan to a resident, business, company, non-governmental organisation, sports clubs and the like is not permitted.

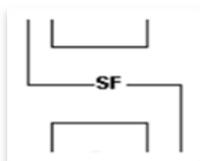
85. The MFMA does not define the term “loan”. A loan, in terms of law, has certain essential elements or characteristics. In essence a loan is the act of making something available to another for a limited period on the understanding that it or its equivalent will be returned.
86. Two types of loans are possible:
- Type 1: in this instance the subject of the loan, such as money, is made available and the ownership passes to the borrower. On expiry or termination of the loan an equivalent object must be returned to the lender. The borrower may be required to return the equivalent or more to the lender. In the case of money, the borrower may be required to pay interest on the money borrowed.
  - Type 2: in this instance the subject of the loan is made available free of charge and ownership remains with the lender. On expiry or termination of the loan the exact same object, such as a vehicle, must be returned to the lender. If there is a charge it is not considered a loan and may constitute a lease or hire purchase arrangement.
87. It is important to note that the MFMA distinguishes between the granting of loans on the one hand, and allowances, advances, instalment sales, hire purchase, leases and benefits such as a bursary donation on the other hand.
88. Municipalities and municipal entities are advised not to disguise the true nature of agreements in order to avoid or circumvent the prohibitions contained in section 164(1)(c). The courts will consider the true nature and substance of agreements and may regard them as “in fraud of the law”, resulting in the agreement being declared null and void.
89. If prior to 1 July 2004, the municipality or municipal entity entered into an agreement that, amongst other matters provided for the granting of a loan by the municipality on a future date (after 1 July 2004) or the taking up of a loan by a person mentioned in section 164(1)(c) on a future date, the loan portion of the agreement will be contrary to the MFMA and therefore illegal. Whether or not the entire agreement is illegal or only the loan portion thereof depends on whether the loan portion can be severed from the agreement or not. It will therefore require careful consideration of the entire agreement and may require renegotiation between all parties to resolve corrective action in relation to the offending provision(s).

90. The basic test for determining whether the loan provision is severable from the agreement is whether the parties intended it to be severable. This will normally require the following to be satisfied:
- the loan provision must be distinct from the rest of the agreement;
  - the loan provision must be subsidiary to the main purpose of the agreement such that its elimination would leave the substantial character of the agreement unchanged; and
  - the parties would have entered into the agreement even without the loan provision.
91. Attention is drawn to the requirements of sections 66(f) and 89(b)(vi) of the MFMA which require the accounting officer to report to the municipal council, expenditure on staff benefits (salaries, benefits, and allowances) and entities to report to their parent municipalities on remuneration packages paid to board members and staff. Furthermore, this information must be disclosed in the Annual Report (starting 2003/04) and the Annual Financial Statements (starting 2004/05). In all cases, this will require the reporting of new and existing loans.
92. The accounting officer of a municipality or municipal entity commits an act of financial misconduct if that person deliberately or negligently contravenes the MFMA. The provision of a loan in contravention of section 164(1)(c) would constitute grounds for financial misconduct.
93. A municipality or entity is required to investigate allegations of financial misconduct and, where warranted, institute disciplinary proceedings in accordance with the systems and procedures referred to in section 67 and schedules 2 and 3 of the Municipal Systems Act, 2000.
94. Where appropriate, criminal proceedings may be instituted where a conviction can lead to a fine or imprisonment for a period not exceeding five years.
95. The accounting officer is required to take all reasonable steps to ensure that the municipality and municipal entity does not engage in forbidden activities as legislated since 1 July 2004.
96. Policies, practices, agreements or other arrangements, including employment contracts, conditions of employment and collective bargaining agreements, allowing for the granting of loans to, or taking up of loans by persons mentioned in section 164(1)(c) after 1 July 2004 contravene the MFMA and are therefore illegal. Such

policies, practices, agreements or other arrangements should be reviewed, renegotiated where necessary and amended as soon as possible to ensure alignment with the MFMA.

97. In respect of existing policies, practices agreements and other arrangements within the municipality prior to 1 July 2004, municipalities are encouraged to apply the spirit of the legislation and to review all existing loans, which if entered into after 1 July 2004 would have constituted a forbidden activity. Where possible, these loans should be phased-out in an efficient and economical way.
98. Given the guidance as discussed above, contained in MFMA Circular 8 Forbidden loans, the mSCOA does make provision for these forbidden loans due to the reporting requirements in this regard. Furthermore, research indicates that accounts are still in use by municipalities for these types of loans. Whether this might be for “phasing-out” of arrangements prior to 1 July 2004 has not been confirmed.
99. Posting level accounts available within this group do not require any further breakdown and include:

**Receivables from Non-Exchange Transactions:**



Current Portion of Non-current Receivables

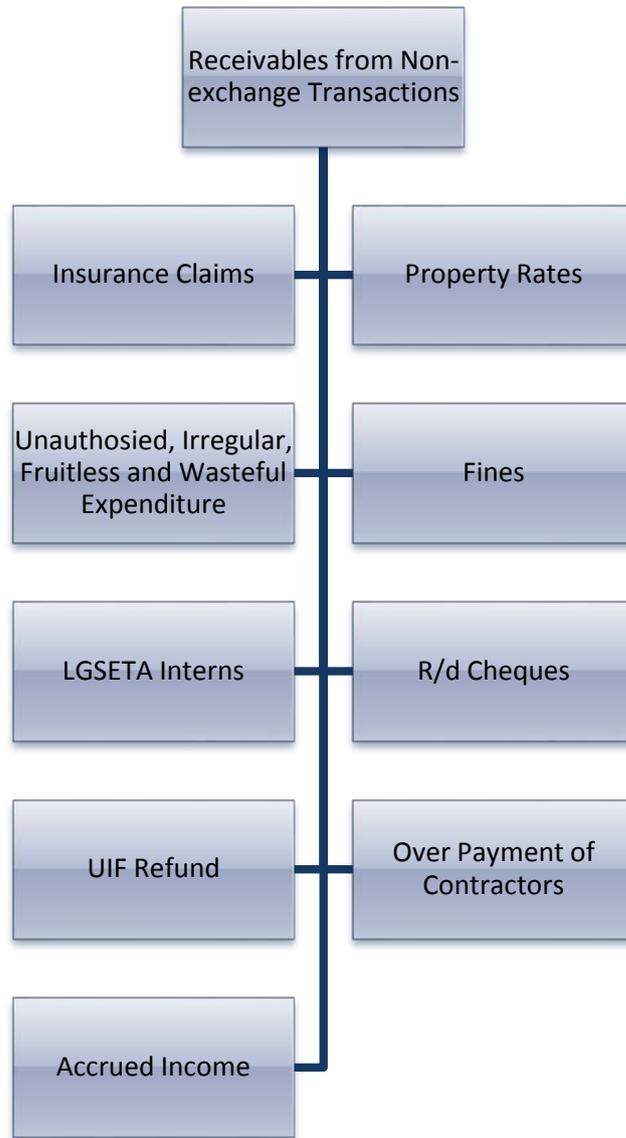
- Car
- Computer and Electronic Equipment
- Housing Selling Schemes
- Housing
- Housing Land Sale
- Sporting and Other Bodies
- Staff Loan Recoveries
- Finance Lease Receivable
- Intercompabny/Parent-subsiidiary Transactions Bursary Obligation
- Bursary Obligations
- Employee Benefits
- Associates
- Joint Ventures
- Subsidiaries
- Public Organisation
- Operating Lease

### Receivables from Non-Exchange Transactions

**Definition:**

This account is used for recording amounts receivable due from non-exchange transactions, such as insurance claims, rates and other taxes, subsidies, road reinstatements, repayments resulting from unauthorised expenditure. Non-exchange transactions are transactions that are not exchange transactions.

100. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
101. mSCOA provides for the following accounts in this group:



**Definitions:**

**Insurance Claims:** Insurance fund settlement/ payment for claims submitted covered in terms of an insurance contract with an insurer.

**Property Rates:** This account provides for amounts outstanding from rate payers levied in terms of the Municipal Property Rates Act, 2004 as amended.

**Unauthorised, Irregular or Fruitless and Wasteful Expenditure:** If a person could be held liable for that expenditure as directed by Section 32 of the Municipal Finance Management Act, 2003.

**Fines:** Receivable from non-exchange transactions recognised under GRAP 23 for receivables raised from fines.

**LGSETA Interns:** Money received from LGSETA to train interns.

**R/D Cheques:** Cheques received without the necessary funding in the bank.

**UIF Refund:** Unemployment Insurance Fund (UIF) Refund to councillors for incorrectly deducted from salaries.

**Over Payment of Contractors:** Refund for the over payment of contractors.

**Accrued Income:** Accrual for miscellaneous non-exchange revenue at the end of the reporting period but not yet invoiced.

### *Property Rates*

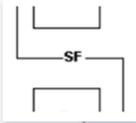
102. The Project Detail Document dealing with the Revenue Segment provides a detail discussion of the set-up of the classification structure in terms of the Municipal Property Rates Act, 2004 as amended.

103. The sub-classification set-up in accordance with the revenue classification for property rates includes the rate payers' categories as listed below, not at a posting level.

- Business and Commercial Properties
- Communal Land
  - Business and Commercial
  - Farm Property
  - Residential
  - Small Holdings
  - Other
- Farm Properties
  - Agricultural Purposes
  - Business and Commercial Purposes
  - Industrial Purposes
  - Residential Properties
  - Not used for any Purpose
  - Other Purpose than Above
- Formal and Informal Settlements
- Industrial Properties
- Municipal Properties
- National Monument Properties

- Privately Owned Towns Serviced by the Owners
  - Protected Areas
  - Public Benefit Organizations'
  - Public Service Infrastructure
  - Residential Properties
    - Developed
    - Vacant Land
  - Restitution and Redistribution Properties
    - Communal Property Associations Act
    - Land and Assistance Act or Restitution of Land Rights Act
  - Small Holdings
    - Agricultural Purposes
    - Business and Commercial Purposes
    - Industrial Purposes
    - Residential Purposes
    - Purposes other than the Above
  - Special Rating Are
  - State-owned Properties
    - National Government
    - Provincial Government
  - State Trust Land
  - Mining Properties
  - Agricultural Properties
  - Multiple Purposes
104. The posting level detail defined within the above categories for rate payers and the accounts groups defined for "Receivables from Non-Exchange Transactions" consist of accounts set-up to be able to extract information from the local government data base on the movement in a reporting period from opening to closing balance. The accounts defined for meeting this requirement are:

Posting Level



- *Opening Balance – not a posting level, rollover from period to period to be provided within the system requirements.*
- Monthly Billing - posting level.
- Interest Charges - posting level.
- Prior Period Corrections and Adjustments – posting level.
- Collections – posting level.
- Debt Write-offs – posting level.
- *Closing Balance – not a posting level, rollover from period to period to be provide within the system requirements.*
- Impairment
  - *Opening Balance – not a posting level, rollover from period to period to be provide within the system requirements.*
  - Recognised - posting level.
  - Reversal - posting level.
  - *Closing Balance – not a posting level, rollover from period to period to be provide within the system requirements.*

Operating Lease - Straight Line

**Definition:**

Operating lease receivables whereby the smoothing of an operating lease expense results in a receivable.

Control, Clearing and Interface Accounts

105. This group of accounts are used for the recording of uncleared credit/ debit amounts resulting from control, interface and clearing accounts required by the general ledger system to import transactions/ balances from sub ledger or other systems such a billing, procurement, asset modules, payroll, EFT (electronic funds transfer) processes, etc. May be an asset or liability and need to be considered accordingly in preparing financial statements.
106. These accounts are not to be seen as a replacement for traditional suspense accounts. Entries to this account must be automated and be within specific requirements for the system functionalities supporting the financial application to

running transaction processing, including dealing with interface related matters from sub-systems and modules.

107. Transactions reflected in this account must automatically clear without manual interference. In practice the balance at month/ year end may not necessary be zero due to timing differences.
108. The posting level detail for Control, Clearing and Interface accounts have been added based on information provided by the pilot municipalities in consultation with their respective system developers. The accounts provided for in mSCOA Version 6.1 of the mSCOA Tables includes the following posting levels:
- Rural Project Labour
  - Licensing Redistribution
  - Cost Redistribution
  - Employee Net Pay and Bond Payment
  - Employee Salary Advance Payment
  - Deduction in arrear and recovery
  - Garnishee Payments
  - Fraud Payroll Payments
  - Merchandising, Jobbing and Contracts
  - Legal Fees
  - Accrued Interest
  - CPA Vehicle license
  - Private telephone calls
  - Over/ Under Banking
  - Third Party Refunds

### **Income Tax Receivable/ Payable**

109. Income Tax Receivable provides for South African Normal Company Tax Refund due from SARS and Income Tax Payable as being the amount due to SARS.
110. The Income Tax Receivable/ Payable accounts are in essence “the same”, all depends on the balance at the reporting date. System requirements need to provide

for functionality to be able to relate these accounts and depending on the balance, classify such as either a current liability or current asset.

## Inventory

**Definition:**

Inventories are assets in the form of materials or supplies to be consumed in the production process, in the form of materials or supplies to be consumed or distributed in the rendering of services, held for sale or distribution in the ordinary course of operations, or in the process of production for sale or distribution.

111. Inventories include goods purchased and held for resale including, for example, merchandise purchased by the municipality and held for resale, or land and other property held for sale. Inventories also include finished goods produced, or work in progress being produced, by the municipality.
112. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. In a municipality's inventories, these will relate to the provision of services. In the case of a service provider, inventories include the costs of the service, for which the municipality has not yet recognised the related revenue.
113. The mSCOA provides for the following classification within this group of accounts:
  - Agricultural
  - Consumable
  - Finished Goods
  - Materials and Supplies
  - Work-in-progress
  - Housing Stock
  - Land
  - Water
114. At present the above classifications are posting levels accounts with detail to be added at the discretion of the municipality, except for "water".

115. Consumable Stores include, amongst other items unique to a municipality, the following:

- Ammunition and Security
- Batteries
- Brooms and Brushes
- Building and Construction Materials
- Cell Phone Accessories
- Camping Materials
- Corporate Gear
- Crockery and Cutlery
- Disposable Paper and Plastic
- Electrical Supplies
- Farming Supplies
- Fencing Material
- Fertilizer
- Firearm Spares Non-military
- Food and Food Supplies
  - Baby and Special Foods
  - Bread and Confectionery
  - Eggs and Egg Products
  - Fruit and Vegetables
  - Groceries
  - Meat, Poultry and Fish
  - Milk and Milk Products
- Fuel, Oil and Gas
  - Chemicals
  - Fuel, Oil and Lubricants
  - General Gas
  - Household Gas
  - Medical Gas

- Gardening Supplies
- Hardware
- Insecticides
- Irrigation Materials
- Laboratory Chemicals
- Laboratory Supplies
- Learning and Teaching Support Materials
  - Media Collections
    - Books, Magazines and Publications
    - Materials
    - Library, Media Film Material
  - Learning Supporting Materials
    - Consumable Materials
    - Durable Materials
    - School Stationery
    - Text and Prescribed Books
- License Plates
- Linen
- Livestock and Plants for Consumption
- Livestock, Fodder and Animal Feed
- Medical Supplies:
  - Application Sets
  - Artificial Aids
  - Bandages and Dressings
  - Blood Product and Plasma
  - Catheters, Tubes and Urine Bags
  - Contraceptives
  - Crutches
  - Dental Consumables
  - Disposable Nappies

- First Aid Kits
- Gloves, Disposables and Sundries
- Heart Valves and Pacemakers
- HIV/ AIDS Kits
- Implantable Sets
- Intravenous Feeds
- Occupational Therapy
- Optical Items and Hearing Aids
- Orthopedic Artificial Limbs
- Patient Clothing
- Radio-isotopes
- Renal Dialysis
- Stoma Therapy Requisitions
- Surgical Consumables
- Surgical Implant Prosthesis
- Surgical/ Medical Supplies
- Sutures, Ligature and Skin Staples
- Syringes and Needles
- Therapeutic Requisites
- Wheelchairs
- X-ray Consumables
- Medicine
  - Animal Medicine
  - Animal Vaccines
  - Antiretroviral Drugs
  - Medicine Medical Depot
  - Medicine Other
  - Medicine Vaccines
  - Oral Contraceptives
  - Tablets, Capsules and Lozenges
- Needlework and Accessories

- Notice Boards and Signs
- Packing Material
- Painting Material
- Redistribution Items
- Road and Construction Supplies
- Road Signs
- Seeds and Seedlings
- Spares and Accessories
- Sport and Recreational Consumables
- Stationery and Printing
  - Art Requirements
  - Audio Visual Materials
  - Binding
  - Books, Journals, etc
  - Drawing Materials
  - IT Consumables
  - Magazines and Newspapers
  - Photographic Material
  - Print Cartridges
  - Printing Departmental
  - Printing Paper
  - Stationery
- Toiletries
- Tube light and Light Bulbs
- Tires and Tubes
- Uniform and Protective Clothing
- Washing and Cleaning Detergent
- Water
- Wood and Coal
- Workplace Decoration

- Workshop Accessories
116. The Position Paper on Water Balance Reporting read with the Guideline on Water Balance Reporting issued by the Department of Water and Sanitation serve as the basis for the classification incorporated in the inventory classification. The accounts provided for in the movement analysis is explained in detail in this Position Paper. The mSCOA classification structure provide for the following accounts:
- Opening Balance (not posting level)
  - System Input Volume:
    - Water Treatment Works
    - Bulk Purchases
    - Natural Sources
  - Authorised Consumption:
    - Billed Authorised Consumption:
      - Free Basic Water
      - Subsidised Water
      - Revenue Water
    - Billed Unmetered Consumption:
      - Free Basic Water
      - Subsidised Water
      - Revenue Water
    - Unbilled Authorised Consumption:
      - Unbilled Metered Consumption
      - Unbilled Unmetered Consumption
    - Water Losses:
      - Apparent Losses:
        - Unauthorised Metered Consumption
        - Customer Meter Inaccuracies
      - Real Losses:
        - Leakage on Transmission and Distribution Mains
        - Leakage and Overflows at Storage Tanks/Reservoirs

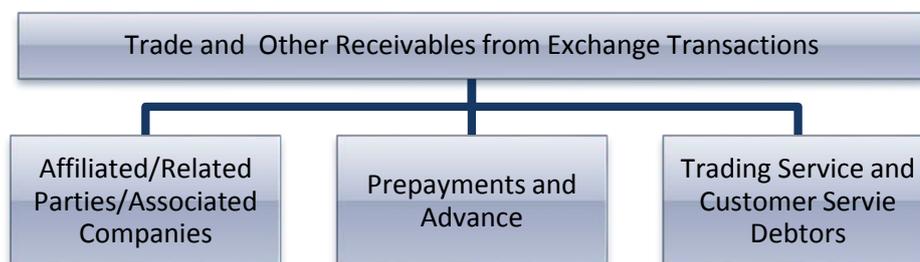
- Leakage on Service Connections up to the point of Customer Meter
- Data Transfer and Management Errors
- Unavoidable Annual Real Losses
- Non-revenue Water
- Closing Balance (not posting level)

## Trade and Other Receivables from Exchange Transactions

**Definition:**

Exchange transactions are transactions in which one entity receive assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

117. A current asset resulting from selling goods or services on credit (on account). Invoice terms such as (a) net 30 days or (b) 2/10, n/30 signify that a sale was made on account and was not a cash sale.
118. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
119. This group of accounts consists broadly of the following categories with the respective explanations/ definitions:



**Definitions:**

**Affiliated/ Related Parties/ Associated Companies:** This account should record all receivables due from associated companies carried at costs other than the use of services at arm's length.

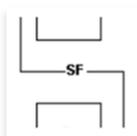
**Prepayments and Advances**      **Pre-payments:** are payments in advance for goods and services to be received in future. The actual amount paid is known. A current asset representing amounts paid in advance for future expenses. As the expenses are used or expire, expense is increased, and prepaid expense is decreased.

**Trading Service Debtors:** This group of accounts is used for debtors from trading services and other services rendered by the municipality.

*Affiliated/Related Parties/ Associated Companies*

120. The account for affiliated, related parties and associated companies should only be used for reflecting transactions between the municipality and entities, for example Mangaung Metropolitan Municipality and Centlec for recording inter-entity transactions not at arm’s length or on normal business terms available to any other external party to the municipality.

121. The posting level detail defined within the above category consist of accounts set-up to be able to extract information from the local government data base on the movement in a reporting period from opening to closing balance. The accounts defined for meeting this requirement are:

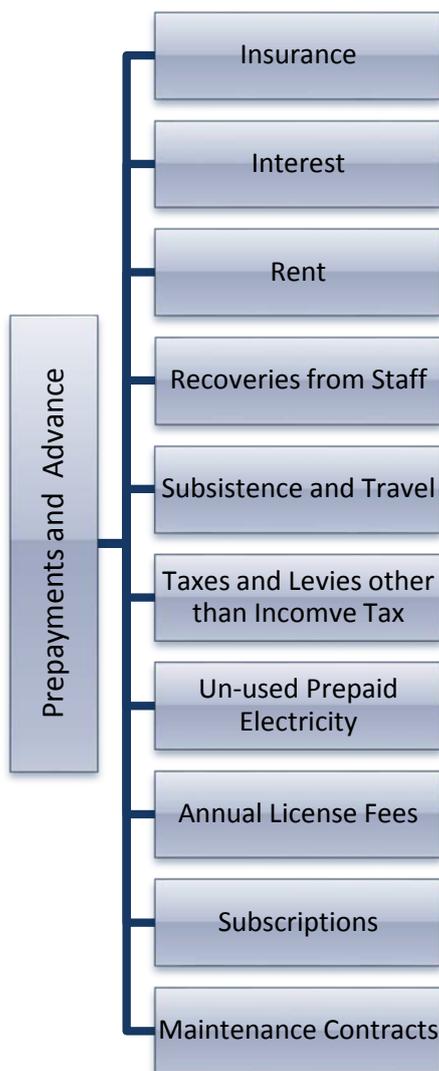


**Posting Level Accounts**

- *Opening Balance – not a posting level, rollover from period to period to be provided within the system requirements.*
- Monthly Billing - posting level.
- Interest Charges - posting level.
- Prior Period Corrections and Adjustments – posting level.
- Collections – posting level.
- Debt Write-offs – posting level.
- *Closing Balance – not a posting level, rollover from period to period to be provide within the system requirements.*
- Impairment
  - *Opening Balance – not a posting level, rollover from period to period to be provide within the system requirements.*
  - Recognised - posting level.
  - Reversal - posting level.
  - *Closing Balance – not a posting level, rollover from period to period to be provide within the system requirements.*

*Prepayments and Advances (including Impairment)*

122. Impairments accounts are available for each of the posting levels which are at a non-posting level. Impairment accounts provide for a movement between opening and closing balance.
123. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has/ have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment, since it may have been the combined effect of several events that did so.
124. Impairment is dealt with in the mSCOA Tables as "negative assets" due to typical financial statement presentation disclosing impairment as a deduction from the asset balance. Important, it is not a set-off against the asset balance. The opening/ closing balance accounts are not posting level accounts.
125. Prepayments and Advances (including impairment) includes the following classifications at a non-posting level:



**Definitions:**

**Insurance:** This account is used for insurance prepayments paid in advance or at the beginning of the month for the month. Impairment Insurance (Credit Account): Impairment on insurance prepayments.

**Interest:** This account is used for interest paid in advance. Impairment Interest (Credit Account): Impairment on interest.

**Rent:** This account is used for rent paid in advance or at the beginning of the month for the month. Impairment Rent: Impairment on rent.

**Recoveries of Employee Expenses:** Recovery of salary and other advances given to an employee in anticipation of service to be delivered. This is excluded from prohibited loans. The account is used to record amounts given to, for example an employee with the expectation of repayment. If an employee is given money and the money is expected to be repaid or spent for official purposes, the amount will be recorded in this account until it is repaid or until the expense documentation is provided.

**Impairment Recoveries of Employee Expenses:** Impairment on recoveries of employee expenses.

**Subsistence and Travel:** The account is used to record amounts given to, for example an employee with the expectation of repayment. If an employee is given money and the money is expected to be repaid or spent for official purposes, the amount will be recorded in this account until it is repaid or until the expense documentation is provided.

**Impairment Subsistence and Travel:** Impairment on subsistence and travel.

**Taxes and Levies other than Income Tax:** This account is used for provisional tax payments if applicable. A current asset representing amounts paid in advance for future expenses. As the expenses are used or expire, expense is increased, and prepaid expense is decreased.

**Impairment Taxes and Levies other than Income Tax:** Impairment on taxes and levies other than income tax.

**Un-used Prepaid Electricity:** Prepaid electricity sold by year end but not consumed by users.

**Impairment Un-Used Prepaid Electricity:** Impairment on un-used prepaid electricity.

**Annual Licence Fees:** This account is used for annual licence fees paid in advance or at the beginning of the month for the month.

**Impairment Annual Licence Fees:** Impairment of annual licence fees.

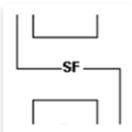
**Subscriptions:** This account is used for subscription fees paid in advance or at the beginning of the month for the month.

**Impairment Subscriptions:** Impairment on subscriptions.

**Maintenance Contracts:** This account is used for maintenance contracts paid in advance or at the beginning of the month for the month.

**Impairment Maintenance Contracts:** Impairment on maintenance contracts.

126. The posting level detail defined within the above category consist of accounts set-up to be able to extract information from the local government data base on the movement in a reporting period from opening to closing balance. The accounts defined for meeting this requirement are:



**Posting Level Accounts**

- *Opening Balance – not a posting level, rollover from period to period to be provided within the system requirements.*
- Monthly Billing - posting level.
- Interest Charges - posting level.
- Prior Period Corrections and Adjustments – posting level.
- Collections – posting level.
- Debt Write-offs – posting level.
- *Closing Balance – not a posting level, rollover from period to period to be provide within the system requirements.*
- Impairment
  - *Opening Balance – not a posting level, rollover from period to period to be provide within the system requirements.*
  - Recognised - posting level.
  - Reversal - posting level.
  - *Closing Balance – not a posting level, rollover from period to period to be provide within the system requirements.*

*Trading Service and Customer Service Debtors*

127. mSCOA provides for detailed accounts per type of service rendered by the municipality. Also, included in this group of accounts in addition to the four main trading services are merchandising, jobbing and contracts, property rental debtors, service charges, housing selling scheme, water and sanitation service authority,

market agency and land sale debtors. These accounts are at a “non-posting level” and the “posting level” is discussed below:



128. The table below provides a summary of the “type of services” defined in the category with a brief definition/ explanation:

**Definitions:**

**Electricity:** This account should record all receivables other than those amounts due from Associated Companies carried at costs receivable for the use of electricity by customers

**Merchandising, Jobbing and Contracts:** This account should record all receivables other than those amounts due from Associated Companies carried at costs for merchandising, jobbing and contracts.

**Property Rental Debtors:** This account is to be used for rental dues for letting of municipal property to other entities and the community based on a contractual agreement whether it be for long or short term use.

**Service Charges:** This account should be used for other services provided by the municipality to the community paid on account, for example cleaning of bushes, grass cutting, replacement of water/ electricity meters, removing of drain blockages, etc.

**Waste Management:** This account should record all amounts due from customers for waste removal services rendered by the municipality.

**Waste Water Management:** This account should record all amounts due from water users for waste water management services.

**Water:** This account should record all amounts due from water users to the municipality.

**Housing Selling Scheme:** This account should record all amounts due from buyers benefiting from housing selling schemes.

**Water and Sanitation Service Authority:** Debtor created as a net result of providing water and sanitation function on behalf of the district municipality.

**Market Agency:** Amounts payable by Buyers at the Market where they purchase in excess of value loaded on the buyer's cards. This is a short-term debt, two to three days as the buyer is not permitted to purchase if they do not settle this debt. Does not go through the billing system, maintained on a separate Market System. Note that municipalities are Agents for the retailers that are renting at the Market.

**Land Sale Debtors:** This excludes Housing Land Sales. This is for land sold by the municipality, in terms of a sale agreement; the purchaser has to make payment within 30 days of the transfer of the property.

129. The detail provides for reconciliation on a periodic basis of opening balance to closing balance movements required for analytical purposes and benchmarking. The accounts used to provide for the movement on the trading services debtors are:

<b>Account Description</b>	<b>Definition</b>
<b>Opening Balance (not a posting level account)</b>	Opening Balance from prior period pertaining to the specific trading service debtor. Non-posting level, automated for recording the roll forward of the closing balance, at the end of the reporting period to the next period.
<b>Monthly Billings (posting level account)</b>	Monthly billings pertaining to the respective account.
<b>Interest Charge (posting level account)</b>	Interest charges to the respective account.
<b>Prior Period Corrections and Adjustments (posting level account)</b>	Prior period corrections and adjustments pertaining to the respective account.
<b>Collections (posting level account)</b>	Collections made pertaining to the respective account.
<b>Debt Write-offs (posting level account)</b>	Debt Write-offs pertaining to the respective account.
<b>Closing Balance (not a posting level account)</b>	Closing Balance pertaining to the respective account. At the end of the reporting period the respective movement accounts, close to this account and roll forward to the opening balance account.
<b>Accrued Revenue (posting level)</b>	Accrual for the respective trading service for service used by consumers at the end of the reporting period but not yet invoiced.

130. Impairment is dealt with in the mSCOA Tables as a “negative assets” due to typical financial statement presentation disclosing impairment as a deduction from the asset balance. Important that this is not a set-off against the asset balance.

Account Description	Definition
<b>Opening Balance (non-posting level)</b>	The opening balance on impairment from previous reporting period. Non-posting level, automated for recording the roll forward of the closing balance at the end of the reporting period to the next period. Non-posting level, automated for recording the roll forward of the closing balance at the end of the reporting period to the next period.
<b>Bad Debt Written-off (posting level)</b>	Reduction of impairment for bad debt written off to be directly expensed - see bad debt written-off included in expenditure.
<b>Adjustment (posting level)</b>	Adjustment of impairment recognised in surplus and deficit. See gains and losses.
<b>Reversal (posting level)</b>	Reversal of impairment recognised in surplus and deficit. See gains and losses.
<b>Closing Balance (non-posting level)</b>	The closing balance on impairment from previous reporting period. At the end of the reporting period the respective movement accounts, close to this account and roll forward to the opening balance account.

### VAT Receivable and Payable

131. Since the inception of VAT in 1991, municipalities were required to register as VAT vendors, and special rules were applicable in respect of supplies by municipalities.
132. The main difficulties which gave rise to the special rules were that municipal property rates charges were not taxable for VAT purposes and that a profitability or breakeven test was applied in respect of certain activities to determine whether the suppliers concerned were taxable or not.

133. These special rules proved to be somewhat complicated and resulted in municipalities having to face significant apportionment difficulties and administrative problems.
134. Due to these challenges and uncertainties, numerous applications for rulings from tax consultants and municipalities were submitted to SARS requesting clarification of the law. It was therefore proposed in the Minister’s Budget Speech in February 2006, that certain changes in regard to the VAT treatment of municipalities be made, including that municipal property rates be zero-rated for VAT purposes with effect from 1 July 2006. The primary objectives of these proposals were:
- to increase the extent of taxable supplies made by municipalities so that municipalities could be treated the same as any other business;
  - to unlock the input tax incurred in connection with non-taxable or “out-of-scope” supplies made which could not previously be deducted; and
  - to simplify the accounting and tax administration of municipalities.
135. Various amendments were therefore introduced in the Small Business Tax Amnesty and Amendment of Taxation Laws Act, 2006 to give effect to these objectives.
136. One of the most important changes was that the VAT law no longer referred to a “local authority”, but rather to a “municipality”.
137. The other important change was that charges for municipal property rates became taxable at the zero rate.
138. These changes to the law came into effect from 1 July 2006.
139. In addition to the main changes to the law which came into effect from 1 July 2006, it should also be noted that, the receipt of certain payments from government which are made under the annual Division of Revenue Act are subject to VAT at the zero rate with effect from 1 April 2005.
140. Please refer to the above guide for guidance and clarity on the VAT treatment of supplies made by municipalities from 1 July 2006.
141. This is provided for in mSCOA as informed by the system developers for financial application used by the municipalities and are:
- Current Assets
    - Input VAT Accrual

- Input VAT General
- Input VAT Capital
- VAT Control
- Current Liabilities
  - VAT Payable

142. System requirements for the VAT Modules would ultimately determine the detail posting-level accounts required for the various financial applications used by the municipalities. The System Vendors need to provide the “unique” set of accounts required for VAT purposes to the mSCOA Technical Committee, through submitting queries to the mSCOA Frequently Asked Questions (FAQ) Database for inclusion in the mSCOA Tables.

### Deposits

143. This account added in mSCOA Version 6.1 for Deposits made by a municipality for fuel, ESKOM, properties, etc. is at a posting level. Discretionary further breakdown, if the municipality is interested in more detail, may be done.

### Non-current Assets

### Biological Assets

**Definition:**

**A Biological asset:** is a living animal or plant. Biological assets differ from other types of assets as they are used for agricultural purposes, for example the intended use is to actively manage the biological assets' biological transformation.



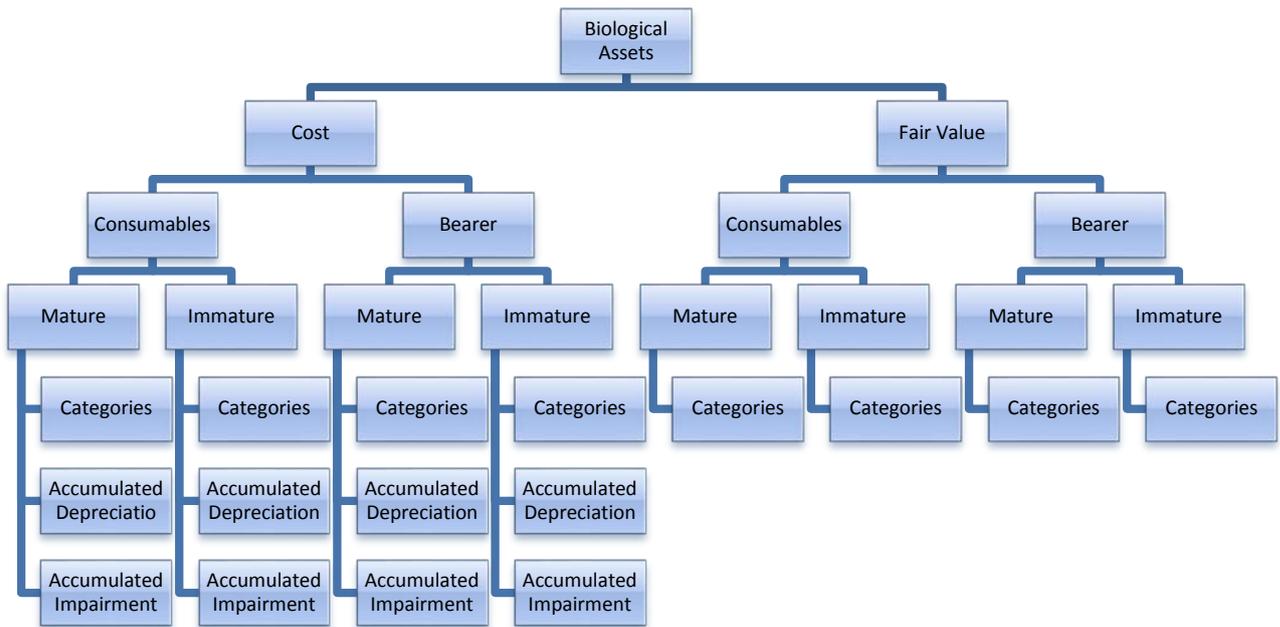
***When would a “biological assets” be classified as property, plant and equipment?***

***Example 4***

Examples where biological assets are not held for agricultural activity (and therefore fall outside the scope of Standards of GRAP 101 on Agriculture) include trees in parks, police horses and dogs, management of biological

	<p>assets held for research, experimental or public recreational purposes, including raising animals in zoos and game parks.</p> <p>Version 5.4 provides for this classification as Zoo's, Marine and Non-Biological Assets within the group of accounts for PPE.</p>
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144. Biological assets or agricultural produce are only recognised when they meet the definition and the recognition criteria. Biological transformation is the process of growth, degeneration, production or procreation that causes qualitative and quantitative changes in a biological asset.
145. The illustration below summarises the classification structure for biological assets at a non-posting level. The paragraphs to follow discuss the various accounts provided within the overall structure:



146. At the highest-level the above categories distinguish between biological assets at cost and fair value.

**Definition:**

If fair value is not available, a biological asset is to be measured at cost less accumulated depreciation and any accumulated impairment loss. [GRAP 101.34] A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs, except if fair value is not available. In that case the biological assets are recognised at cost less accumulated depreciation and any accumulated impairment losses. [GRAP 101.15]

147. Further to the above classification distinction is made between “mature and immature assets”.

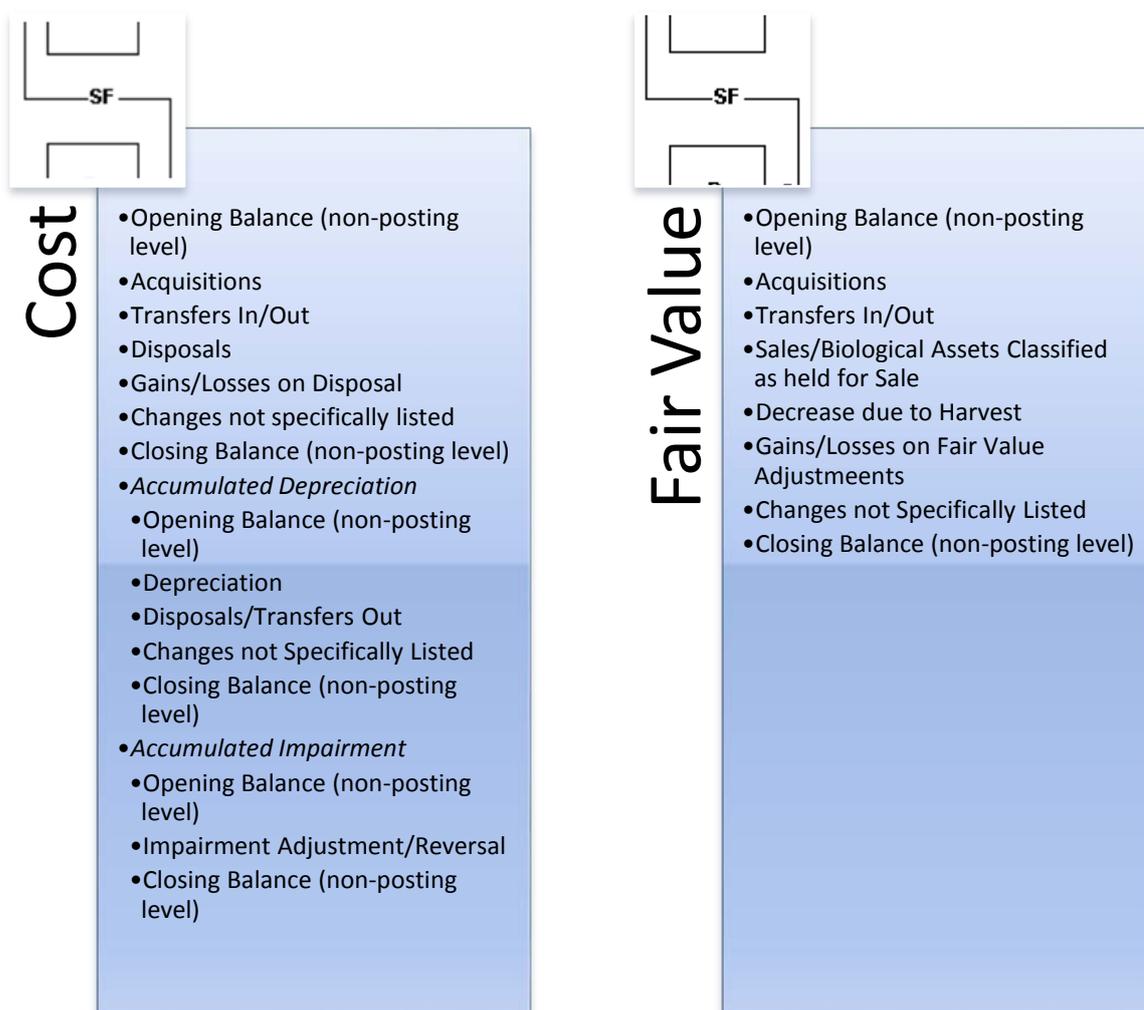
**Definition:**

Mature biological assets are those that have attained harvestable specifications (for consumable biological assets) or are able to sustain regular harvests (for bearer biological assets). Biological assets not yet ready for harvesting.

148. Provided for in the mSCOA are the following categories for Biological Assets at a non-posting level:

- Dairy Cattle
- Feathered Animals (Eggs and Feathers)
- Forests and Plantations
- Fruit Trees
- Game Animals
- Animals for Reproduction (Cattle, Goats, Sheep and Pigs)
- Animals for Wool or Milk (Goats and Sheep)
- Dogs (Law Enforcement and Working)
- Horses (Law Enforcement and Working)
- Vines
- Plants (Production of Seeds)

149. Within the above categories posting-level accounts are provided to classify the movement taking place within these categories in specific accounts. The following detail accounts are provided for in mSCOA:



### Defined Benefit Assets (Non-current Assets)/ Defined Benefit Obligations (Non-current Liability)

#### *Defined Benefit Assets (Non-current Assets)*

150. In a funded plan, contributions from the employer, and sometimes also from plan members, are invested in a fund towards meeting the benefits.
151. The future returns on the investments, and the future benefits to be paid, are not known in advance, so there is no guarantee that a given level of contributions will be enough to meet the benefits.
152. Typically, the contributions to be paid are regularly reviewed in a valuation of the plan's assets and liabilities, carried out by an actuary to ensure that the pension fund

will meet future payment obligations. This means that in a defined benefit pension, investment risk and investment rewards are typically assumed by the sponsor/ employer and not by the individual.

153. If a plan is not well-funded, the plan sponsor may not have the financial resources to continue funding the plan.

*Defined Benefit Asset (Current Assets)*

154. This account should record the unamortised portion of past service costs related to future benefits and pensions which will be expensed in future periods.

**Deferred Tax**

155. An asset that may be used to reduce any subsequent period's income tax expense. Deferred tax assets can arise due to net loss carryovers, which are only recorded as assets if it is deemed more likely than not that the asset will be used in future fiscal periods.

**Heritage Assets**

**Definition:**

**Heritage assets:** are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.



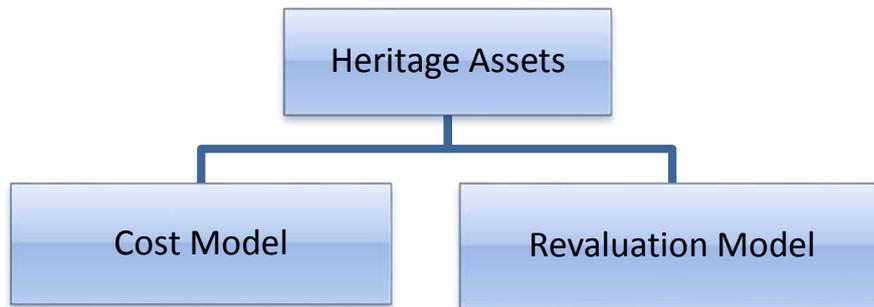
***When would an “asset” be classified as heritage assets?***

***Example 5***

Illustrations of the range of assets that can be regarded as classes of heritage assets include the following:

- works of art, antiquities and exhibits such as biological and mineral specimens or technological artifacts;
- collections of insects, butterflies and fossils;

	<ul style="list-style-type: none"><li>• collections of rare books, manuscripts, records, photographic positives and negatives and other reference material held by libraries to be preserved for their historical and cultural value;</li><li>• objects of scientific or technological interest;</li><li>• historical monuments, such as graves and burial grounds; archaeological and paleontology sites;</li><li>• conservation areas, such as national parks;</li><li>• historical buildings that have a significant historical association; movable objects, such as military insignia, medals, coins, stamp collections or objects of decorative or fine art; and</li><li>• recreational parks used for leisure to be preserved for the benefit of present and future generations.</li></ul>
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A municipality need to choose as its accounting policy either the cost model or the revaluation model and apply that policy to an entire class of heritage assets.

**Definition:**

**Cost model:** After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.

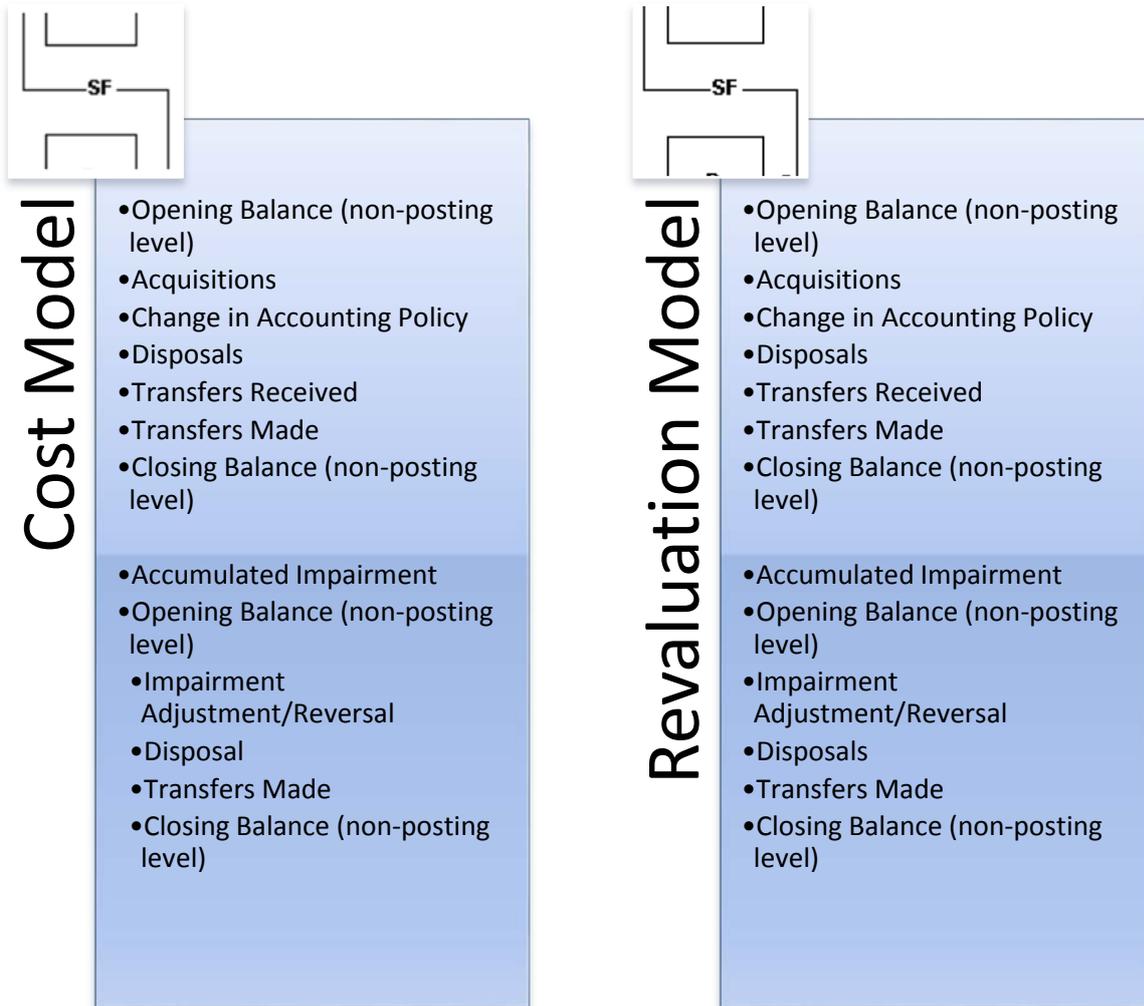
**Revaluation model:** After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses. Revaluations shall be made with sufficient

regularity to ensure that the carrying amount does not differ materially from what it would be, as determined by using fair value at the reporting date.

156. The categories provided for in mSCOA Version 6.1, aligned to the CIDMS Classification Framework for the classification of heritage assets includes:

- Other Heritage Assets:
  - Archives
  - Municipal Jewelry
  - Historic Buildings
- Works of Art:
  - Antiques and Collection
  - Paintings
  - Sculptures
  - Works of Art and Collections
- Monuments:
  - Cultural Significant Buildings
  - National Monuments
- Conservation Areas:
  - National Parks

157. The posting level accounts (unless indicated otherwise) defined within the above classification provides for a movement analysis from opening to closing balance together with the impairment on the respective class:



## Intangible Assets

**Definition:**

**Intangible Asset:** is an identifiable non-monetary asset without physical substance. In accounting terms, an asset is defined as a resource that is controlled by the municipality and which is expected to provide future economic benefits to it. The *Standards of GRAP 31 Intangible Assets* definition of an intangible asset requires it to be:

- non-monetary,
- without physical substance; and
- Identifiable.



### ***What would an intangible asset be?***

#### ***Example 6***

Examples of intangible assets include:

- Expenditure on advertising, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (for example a prototype), the physical element of the asset is secondary to its intangible component, for example the knowledge embodied in it.
- In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard.
- Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of the Standard of GRAP on Leases and are within the scope of the Standard on Intangible Assets.
- Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, acquired fishing licences, acquired import quotas, and relationships with customers.
- Not all the items described meet the definition of an intangible asset, for example identifiability, control over a resource and existence of future economic benefits or service potential. If an item within the scope of the Standard of GRAP on Intangible Assets does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred

158. At the highest level mSCOA distinguishes between internally generated and other intangible assets. The NERSA requirements for the Regulatory Reporting Tables are dealt with at the next level.

**Definition:**

Distinction is made between internally generated intangible assets and otherwise acquired intangibles (other as per the mSCOA classification).

159. At the next level a distinction is made between the cost and revaluation model also at a non-posting level.

**Definition:**

- **Cost model:** After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.
- **Revaluation model:** After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.



***What is the difference between an internally generated and an acquired asset (or other as per the mSCOA classification)?***

***Example 7***

- It is important in the application of the mSCOA classification tables to recognise the distinction between acquired (other) and internally generated assets. The Standards of GRAP 31 on Intangible assets only allow ACQUIRED intangible assets to be recognised in the Statement of Financial Position.
- This results in what is sometimes described as “internally generated goodwill”. This is the difference between the fair market value of a business and the value of its identifiable net assets per the statement of financial position. The treatment of this goodwill only changes if the

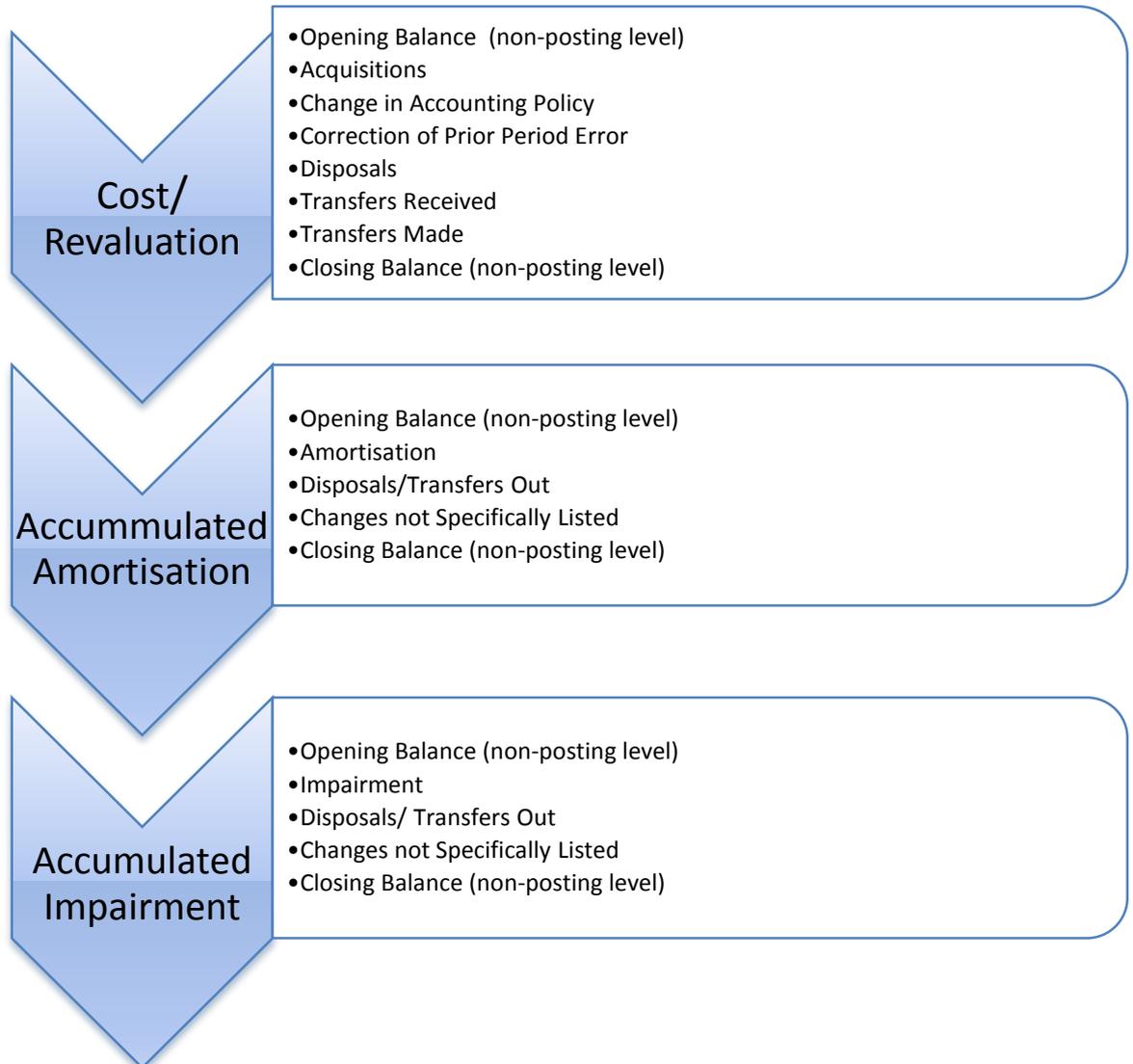
	<p>entity is acquired, converting the goodwill from internally generated to acquired.</p> <ul style="list-style-type: none"><li>➤ In the case of a finance lease, the underlying asset may be either tangible or intangible. After initial recognition, a lessee accounts for an intangible asset held under a finance lease in accordance with this Standard.</li><li>➤ Rights under licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights are excluded from the scope of the Standard of GRAP on Leases and are within the scope of the Standard on Intangible Assets.</li><li>➤ Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, customer lists, acquired fishing licences, acquired import quotas, and relationships with customers.</li><li>➤ Not all the items described meet the definition of an intangible asset, for example identifiability, control over a resource and existence of future economic benefits or service potential. If an item within the scope of the Standard of GRAP on Intangible Assets does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognised as an expense when it is incurred</li></ul>
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160. Provided for in mSCOA are the following categories following on the classification for “cost or revaluation model” for Intangible Assets at a non-posting level:

- Intangible Assets under Development
- Capital Development
- Computer Software
- Franchises and Consents
- Incorporation and Organisational Start-up
- Patents, Licenses, Copyrights, Brand Names and Trademarks

- Recipes, Formulae, Prototypes, Designs and Models
- Service, Operating and Land Rights

161. The classification for defining the posting level is within the above categories as illustrated, with the exception of the accounts as indicated not being at the posting level. This posting level classification is not applicable to Intangible Assets under Development and accordingly this account is at the posting level.



162. The NERSA Regulatory Reporting Requirements are based on tables BS1/11/13/14. The illustration provides an overview of the classification that meets the NERSA Regulatory Reporting Requirements.

163. National Treasury and NERSA engaged in a process to reconsider the reporting requirements as well as incorporating the classification to be able to meet the

requirements from the Cities Infrastructure Development Management System (CIDMS).

164. The definition and explanation extracted from the *Regulatory Accounting Manual: Volume 2: Electricity* is included to assist in understanding the requirements. The reference to electric plant per the referenced guidance includes intangible assets but is separated from general and distribution plant. The account numbers referred to in the definitions also refer to the NERSA account numbers as used in their Regulatory Reporting Table.

**Definitions:**

**Owned and In-use:** This account should contain the original cost of electric plant, included in accounts 301 to 499, prescribed herein, owned and in use by the Utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the Utility but held by nominees. [101]

**Future Use:** This account shall include the original cost of electric plant owned and held for future use in electric service under a definite plan for such use, to include: (1) Property acquired but never used by the utility in electric service, but held for such service in the future under a definite plan and (2) property previously used by the utility in service, but retired or mothballed from such service and held pending its reuse in the future, under a definite plan, in electric service. The property included in this account should be classified in a manner similar to detail in accounts 301 to 499 prescribed for electric plant in service and the account should be maintained in such detail as though the property were in service.

**Leased to Others:** Electric Plant Leased to Others. This account should record the original cost of electric plant owned by the Utility, but leased to others as operating units or systems, where the lessee has exclusive possession.

**Finance Leased:** Property under capital leases. This account should contain the amount recorded under capital leases for plant leased from others and used by the Utility in its utility operations. The property included in this account shall be classified according to the detailed accounts (301 – 409) prescribed for electric plant in service and this account shall be maintained in such detail as though the property were used by the owner in its utility operations.

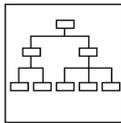
The electric property included in this account shall be classified separately according to the detailed accounts 301 to 499 prescribed for electric plant in service. [102]

## Investments in Associate

**Definition:**

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor an interest in a joint venture.

- 165. An associate is an entity in which another entity owns a significant portion of voting shares, usually 20–50 per cent. In this case, an owner does not consolidate the associate's financial statements.
- 166. Ownership of over 50 per cent creates a subsidiary, with its financial statements being consolidated into the parent's books.
- 167. Associate value is reported in the statement of financial position as an asset, the investor's proportional share of the associate's income is reported in the statement of financial performance and dividends from the ownership decrease the value on the statement of financial position.



***Posting Level Detail to be added at the Discretion of the Municipality***

The Municipality is encouraged by National Treasury to add, at the discretion of the municipality, posting level accounts for different associated companies. The guide assigned to the parent is to be used for the accounts (children) added to the account as per mSCOA Version 5.4.

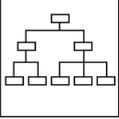
## Investments in Joint Venture

**Definition:**

A binding agreement whereby two or more parties are committed to undertake an activity that is subject to joint control.

- 168. A joint venture is a contractual business undertaking between two or more parties. It is similar to a business partnership, with one key difference: a partnership generally involves an ongoing, long-term business relationship, whereas a joint venture is based on a single business transaction.

169. Individuals or companies choose to enter joint ventures in order to share strengths, minimise risks, and increase competitive advantages in the marketplace. Joint ventures can be distinct business units (a new business entity may be created for the joint venture) or collaborations between businesses.
170. In collaboration, for example, a high-technology firm may contract with a manufacturer to bring its idea for a product to market; the former provides the know-how, the latter the means.

	<p><b><i>Posting Level Detail to be added at the Discretion of the Municipality</i></b></p> <p>The municipality is encouraged by the National Treasury to add, at the discretion of the municipality, posting level accounts for different joint ventures. The guide assigned to the parent is to be used for the accounts (children) added to the account as per mSCOA Version 5.4.</p>
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## Investment Property

**Definition:**

Property (land or building – or part of building – or both) held by (the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of operation.

	<p>What is recognised in terms of the <i>Standards of GRAP 16 on Investment Property</i>?</p> <p>Example 8</p> <p>The following are examples of investment property:</p> <ul style="list-style-type: none"> <li>➤ land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation which may be sold at a beneficial time in the future;</li> </ul>
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	<ul style="list-style-type: none"><li>➤ land held for a currently undetermined future use. (If an entity has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation.);</li><li>➤ a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties;</li><li>➤ a property owned by the entity and leased out at a below market rental; and</li><li>➤ property that is being constructed or developed for future use as investment property.</li><li>➤ The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.</li></ul> <p>What is NOT recognised in terms of the Standards of GRAP 16 on Investment Property?</p> <p>Example 9</p> <ul style="list-style-type: none"><li>➤ The following are examples of items that are not investment property and are therefore outside the scope of this Standard:</li><li>➤ Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see the Standard of GRAP on Inventories). For example, a municipality may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. The Department of Housing may routinely sell part of its housing stock in the ordinary course of its</li></ul>
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	<p>operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.</p> <ul style="list-style-type: none"><li>➤ Property being constructed or developed on behalf of third parties. For example, the Department of Housing may enter into construction contracts with entities external to its government (see the Standard of GRAP on Construction Contracts);</li><li>➤ Owner-occupied property (see the Standard of GRAP on Property, Plant and Equipment), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.</li><li>➤ Property that is leased to another entity under a finance lease.</li><li>➤ Property held to provide goods and services and also generates cash inflows. For example, an entity may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment; and Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.</li><li>➤ Some entities hold property to deliver goods and services rather than to earn rental or for capital appreciation. In such situations, the property will not meet the definition of investment property as its main purpose is the delivery of goods and services. This Standard is applicable if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For</li></ul>
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	<p>example, when an entity owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.</p> <ul style="list-style-type: none"><li>➤ In some cases, entities hold some property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a hospital or a university may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.</li><li>➤ In some cases, an entity provides ancillary services to the occupants of a property it holds. An entity treats such a property as investment property if the services are insignificant to the arrangement as a whole. An example would be where an entity owns an office building which is held exclusively for rental purposes and rented on a commercial basis and also provides security and maintenance services to the lessees who occupy the building.</li><li>➤ In other cases, the services provided are significant. For example, an entity may own a hostel. The services provided to residents are a significant component of the arrangement as a whole. Therefore, an owner-managed hostel is owner occupied property, rather than investment property because the main purpose and</li></ul>
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	<p>most significant use of the property is the provision of services to residents. It may be difficult to determine whether ancillary services are so significant that a property does not qualify as investment property. For example, an entity which is the owner of a hotel may transfer certain responsibilities to third parties under a management contract. The terms of such contracts vary widely. At one end of the spectrum, the entity's position may, in substance, be that of a passive investor. At the other end of the spectrum, the entity may simply have outsourced day-today functions while retaining significant exposure to variation in the cash flows generated by the operations of the hotel.</p>
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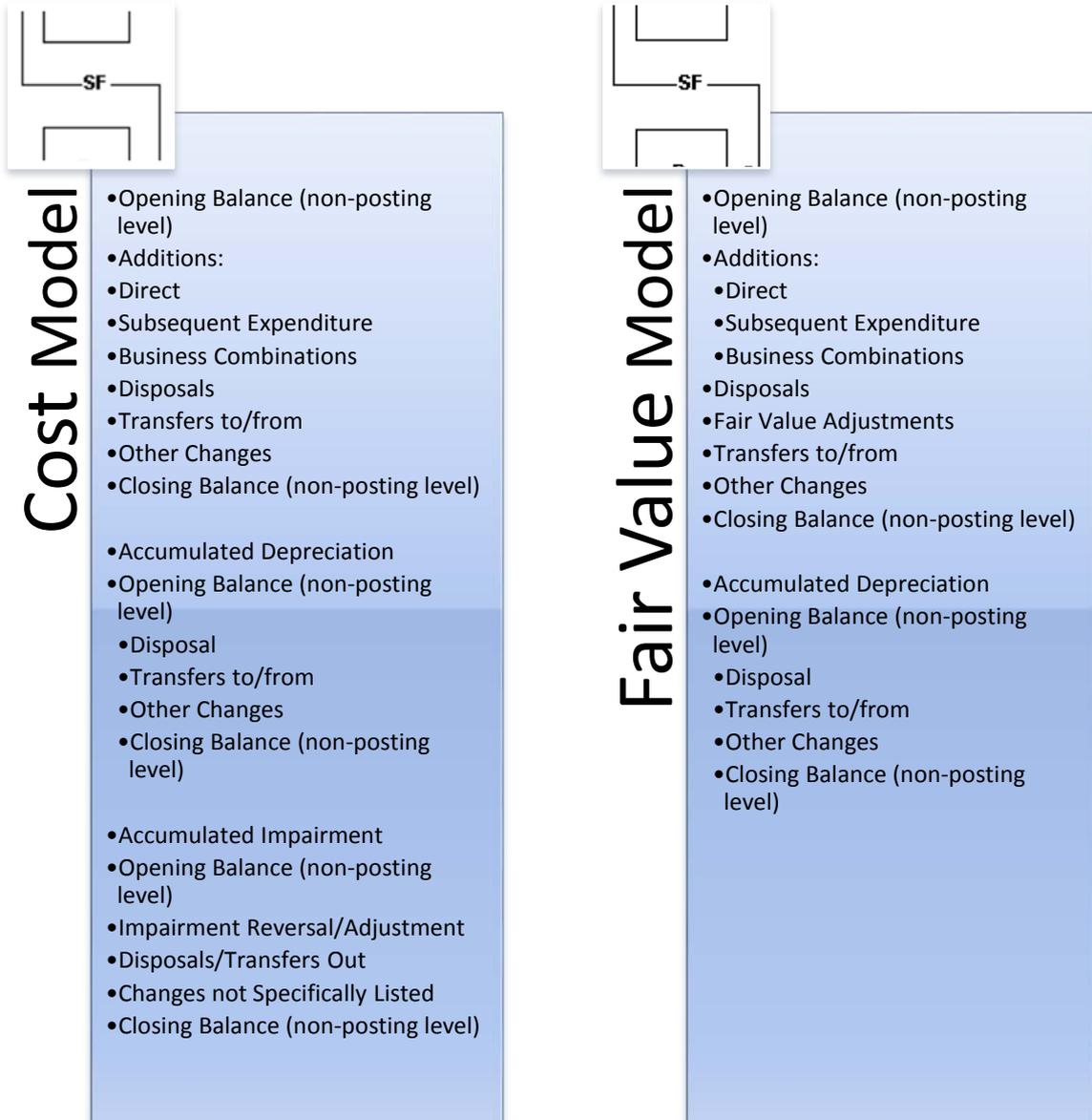
- 171. Investment property should be recognised as an asset when, and only, when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity and the cost or fair value of the investment property can be measured reliably.
- 172. At the next level a distinction is made between the cost and the fair value model also at a non-posting level.
- 173. Under the cost model assets are carried at cost less any accumulated depreciation and any accumulated impairment losses subsequent to recognition.

**Definition:**

The municipality shall choose as its accounting policy either the fair value model or the cost model and the municipality shall apply that policy to all of its investment property. Investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value. When a property interest held by a lessee under an operating lease is classified as an investment property the fair value model shall be applied.

- 174. With the above categories provision are made for the following posting-level accounts:



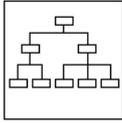
## Investment in Subsidiary

**Definition:**

A subsidiary is one in which another, generally larger, entity, known as the parent, owns all or at least a majority of the shares. As the owner of the subsidiary, the parent may control the activities of the subsidiary.

175. A posting level account is provided for this in mSCOA with optional breakdown by the municipality.

176. mSCOA Version 6.1 revised the ‘breakdown required - request’ contained in earlier versions of the mSCOA Tables. Accounts are provided with description “Specify (replace with account description)”. The municipality needs to change the description to the provide the name of the financial institution with the account number.



***Posting Level Detail to be added at the Discretion of the Municipality***

The municipality is encouraged by the National Treasury to add, at the discretion of the municipality, posting level accounts for different joint ventures. The guide assigned to the parent is to be used for the accounts (children) added to the account as per mSCOA Version 5.4.

## Investment

**Definition:**

Assets held primarily for the creation of wealth through receipt of distributions (such as interest, royalties, dividends and rentals), for capital appreciation.

177. mSCOA Version 6.1 revised the ‘breakdown required – request’ included in earlier versions of the mSCOA Tables. Accounts are provided with description “Specify (replace with account description)”. The municipality needs to change the description to the provide the name of the financial institution with the account number.



## Investments

- Bankers' Acceptance Certificate
- Deposit Taking Institutions
- Bank Repurchase Agreements
- Derivative Financial Assets
- Guaranteed Endowment Policies (Sinking)
- Listed/Unlisted Bonds and Stocks
- Municipal Bonds
- National Government Securities
- Negotiable Certificate of Deposits: Banks
- Unamortised Debt Expense
- Unamortised Preference Share expense
- Interest Rate Swap

### Definitions:

**Deferred Debits:** Prepaid expense (such as insurance, interest, or rent) carried forward as an asset, until the associated service or benefit is received. Also, called deferred asset.

**Unamortised Debt Expense:** This account should record expenses related to the issuance of debt securities. Amounts recorded in this account should be amortised over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortisation should be on a monthly basis, and the amount thereof shall be charged to the account for "Short Term Interest and other Interest Expense", or the account for "interest on long-term debt" as appropriate. [NERSA RRM V2: Electricity [180]]

**Unamortised Preference Share Expense:** This account should record expenses related to the issuance of preference shares. Amounts recorded in this account should be amortised over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization should be on a monthly basis, and the amounts thereof should be charged to the account for "Short Term Interest and Other Interest Expense" or the account for "Interest on long-term debt" as appropriate. [NERSA RRM V2: Electricity [181]]

**Operating Lease Receivable:** Unamortised balance for straight lining of operational lease payments resulting in a receivable.

**Intercompany/ Parent-subsidary Transactions:** Long term investment in subsidiary municipal entities and municipalities as a result of transactions between municipalities and their subsidiary municipal entities.

**Interest Rate Swaps:** interest rate swap is a liquid financial derivative instrument in which two parties agree to exchange interest rate cash flows based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another.

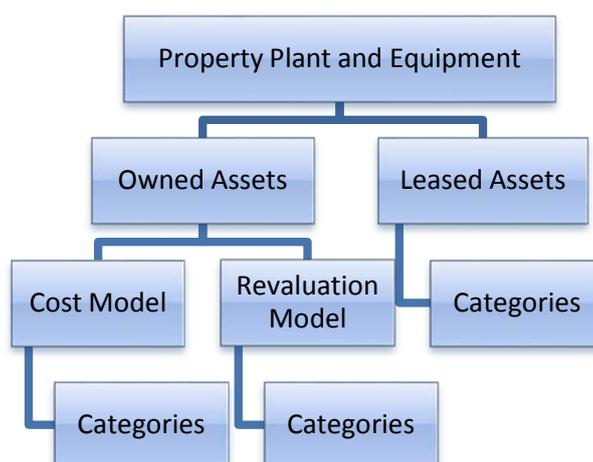
## Property, Plant and Equipment

**Definition:**

Tangible items that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes and are expected to be used during more than one reporting period.

	<p>Assets to be classified as property, plant and equipment?</p> <p>Example 10</p> <p>Property, plant and equipment is a major classification on the statement of financial position. Included are land, buildings, leasehold improvements, equipment, furniture, fixtures, transport assets, infrastructure, etc.</p>
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178. mSCOA distinguishes at the highest-level between "owned assets" and assets subjected to financial leases labelled as "leased assets":



179. Further distinction is made between cost and revaluation model. All of these accounts are at a non-posting level.

**Definitions:**

**Cost model:** After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

**Revaluation model:** After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

180. The categories identified and provided for within the mSCOA Table as indicated in the above diagram was initially based on the Local Government Capital Asset Management Framework, SCOA Departments and specific reporting requirements needed by NERSA, Department of Water and Sanitation, Statistics South Africa, South African Reserve Bank and the *Standards of GRAP 17 on Property, Plant and Equipment*.
181. The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and
  - the cost or fair value of the item can be measured reliably.
182. Spare parts and servicing equipment are usually carried as inventory and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as “property, plant and equipment” when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as “property, plant and equipment”.
183. An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.
184. The cost of an item of property, plant and equipment comprises:
- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
  - The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs costs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
185. Examples of directly attributable costs are:
- costs of employee benefits arising directly from the construction or acquisition of the item of property, plant and equipment,
  - costs of site preparation,
  - initial delivery and handling costs,
  - installation and assembly costs,
  - costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and its condition (such as samples produced when testing equipment), and
  - professional fees.
186. Examples of costs that are not the costs of an item of property, plant and equipment are:
- costs of opening a new facility,
  - costs of introducing a new product or service (including costs of advertising and promotional activities),
  - costs of conducting business in a new location or with a new class of customers (including costs of staff training), and
  - administration and other general overhead costs.
187. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item is not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant and equipment:

- costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity,
  - initial operating losses, such as those incurred while demand for the item's outputs builds up, and
  - costs of relocating or re-organising part, or all of the municipality's operations.
188. Some operations occur in connection with the construction or development of an item of property, plant and equipment, but are not necessary to bring the item to the location and condition required for it to be capable of operating in the manner intended by management.
189. This incidental operation may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition required for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised in surplus or deficit and included in their respective classifications of revenue and expense.
190. The municipality shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

#### *Revaluation Model*

191. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalue amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
192. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.
193. The fair value of items of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers.
194. The fair value of items of plant and equipment is usually their market value determined by appraisal. For many assets, the fair value will be readily ascertainable

by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of plant and equipment.

195. For some assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Municipalities may have significant holdings of such assets.
196. Where no evidence is available to determine the market value of an item of property in an active and liquid market, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions, may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available.
197. In the case of specialised buildings and other man-made structures, the municipality may need to estimate fair value using a depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a municipal building may be reproduced rather than replaced with alternative accommodation because of its significance to the community.
198. For items of plant and equipment of a specialised nature, fair value may be based on, for example, either reproduction cost or on depreciated replacement cost.
199. The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the referenced asset is the same as that of the asset being valued.
200. The frequency of revaluations depends upon the changes in the fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is

required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

201. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:
- restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
  - eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.
202. The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.
203. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.
204. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.
205. If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.
206. If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

207. The revaluation surplus included in net assets in respect of an item of property, plant and equipment may be transferred directly to accumulated surpluses or deficits when the asset is derecognised.
208. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the valued carrying amount of the asset and depreciation based on the asset's original cost.
209. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.

#### *NERSA Requirements*

210. The NERSA requirements for the Regulatory Reporting Tables are integrated in the classification structure.
211. The NERSA Regulatory Reporting Requirements is based on tables BS1/11/13/14. The illustration provides an overview of the classification to meet the NERSA Regulatory Reporting Requirements.
212. National Treasury and NERSA engaged in a process to reconsider the reporting requirements as well as incorporating the classification to be able to meet the requirements from the Cities Infrastructure Development Management System (CIDMS).
213. The definition and explanation extracted from the *Regulatory Accounting Manual: Volume 2: Electricity* is included to assist in understanding the requirements. The reference to electric plant per the referenced guidance includes intangible assets but is separated from general and distribution plant. The account numbers referred to in the definitions also refer to the NERSA account numbers as used in the Regulatory Reporting Table.

#### **Definitions:**

**Owned and In-use:** This account should contain the original cost of electric plant, included in accounts 301 to 499, prescribed herein, owned and in use by the municipality/ municipal utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the municipality/ municipal utility but held by nominees. [101]

**Future Use:** This account shall include the original cost of electric plant owned and held for future use on electric service under a definite plan for such use, to include: (1) Property acquired but never used by the utility in electric service, but held for such service in the future under a definite plan and (2) property previously used by the utility in service, but retired or mothballed from such service and held pending its reuse in the future, under a definite plan, in electric service. The property included in this account should be classified in a manner similar to detail in accounts 301 to 499 prescribed for electric plant in service and the account should be maintained in such detail as though the property were in service.

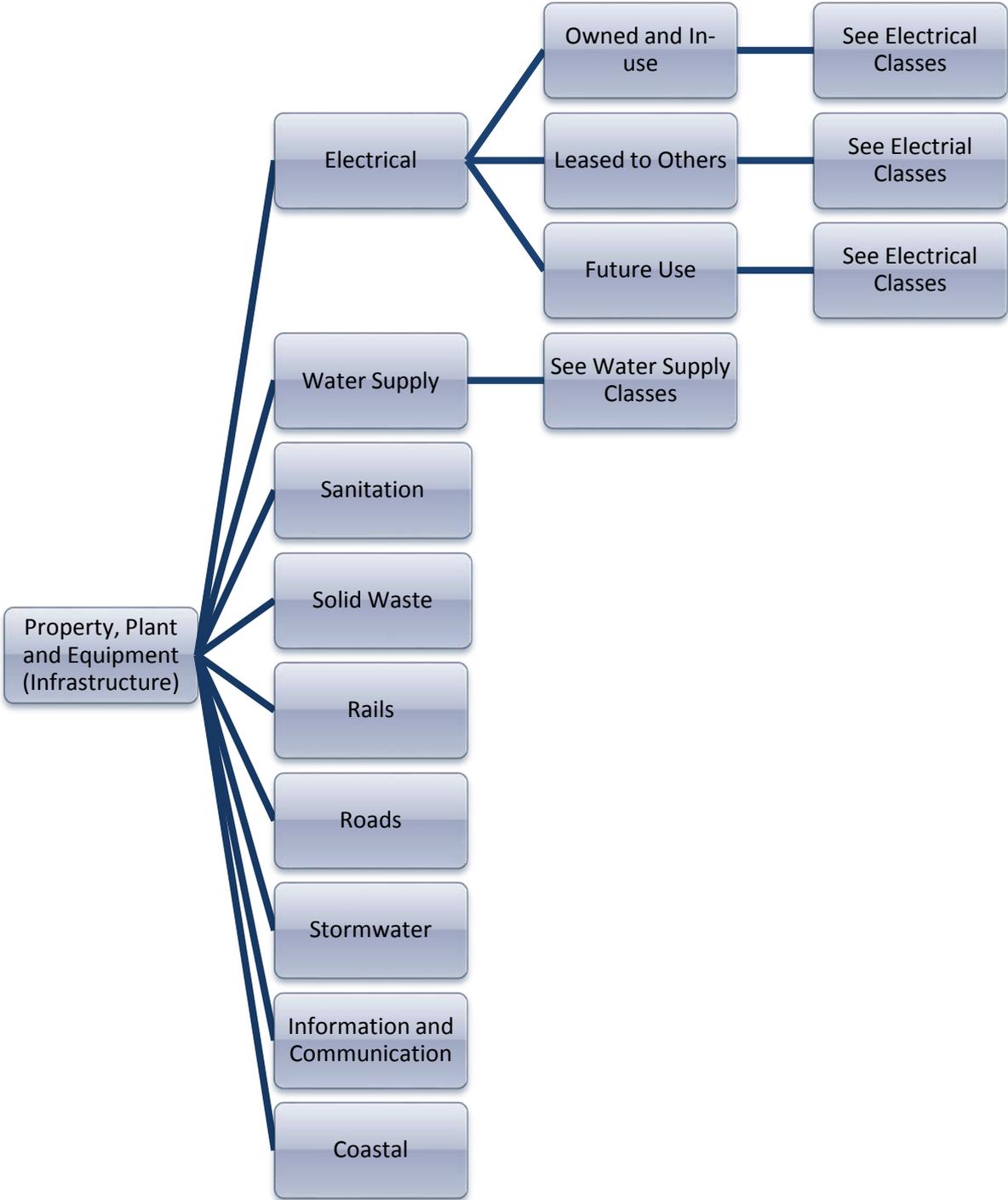
**Leased to Others:** Electric Plant Leased to Others. This account should record the original cost of electric plant owned by the municipality/ municipal utility, but leased to others as operating units or systems, where the lessee has exclusive possession.

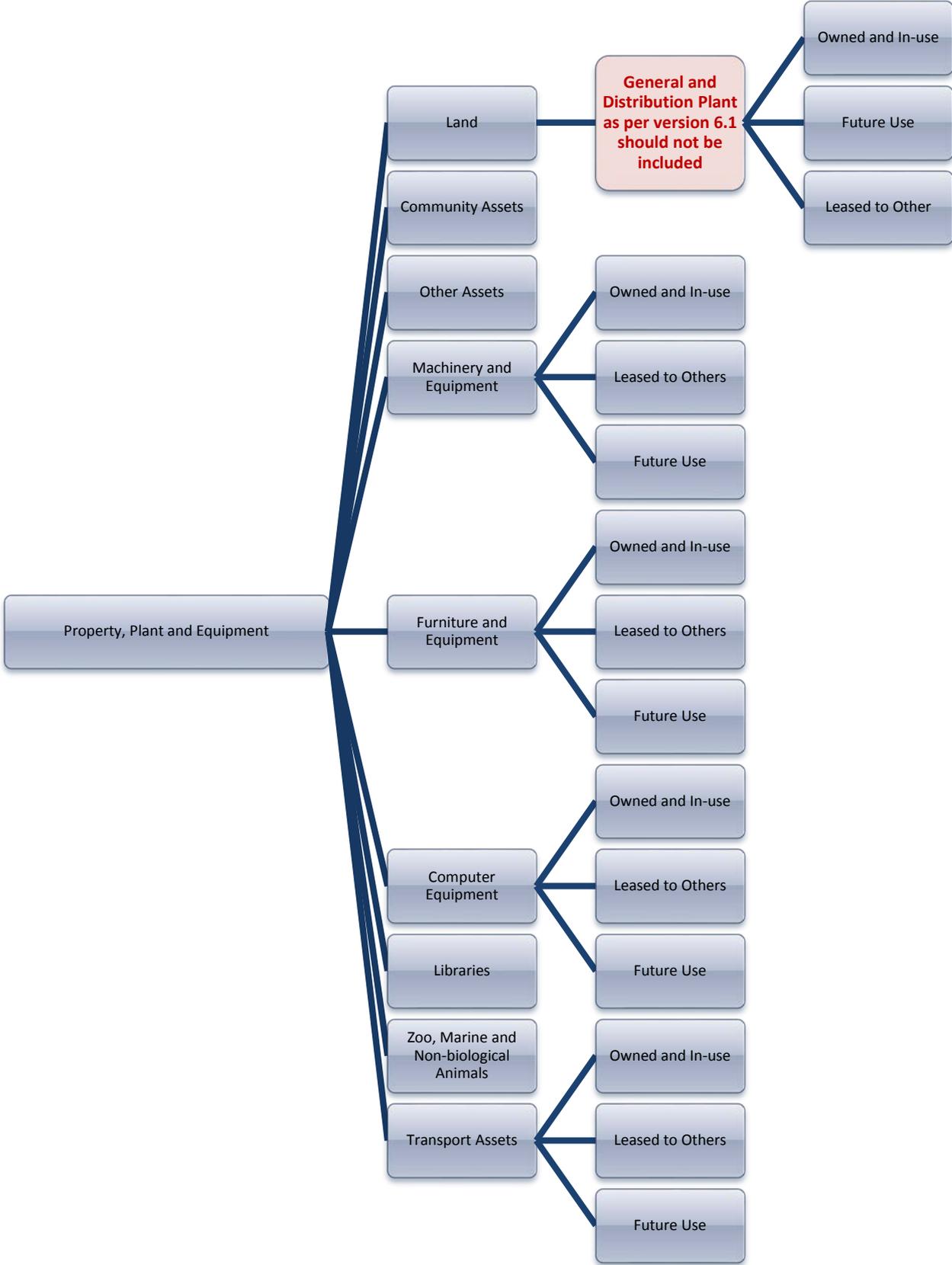
**Finance Leased:** Property under capital leases. This account should contain the amount recorded under capital leases for plant leased from others and used by the municipality/municipal utility in its utility operations. The property included in this account shall be classified according to the detailed accounts (301 – 409) prescribed for electric plant in service and this account shall be maintained in such detail as though the property were used by the owner in its utility operations.

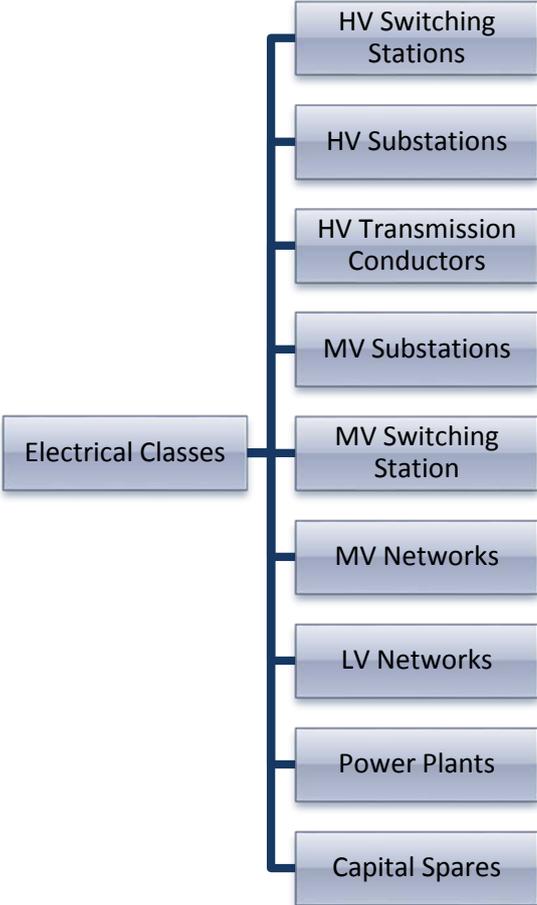
The electric property included in this account shall be classified separately according to the detailed accounts 301 to 499 prescribed for electric plant in service. [102]

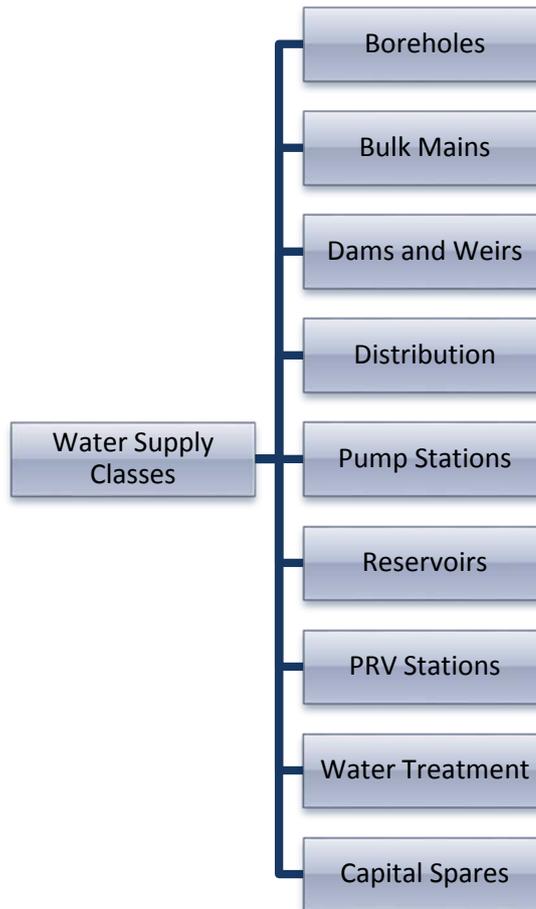
#### *Classes of Property, Plant and Equipment*

214. A class of property, plant and equipment is a grouping of assets of a similar nature or function in the municipality's operations
215. The mSCOA Tables provide for the following detail in the categories to be applied within the above high-level structure as indicated independent of being and owned or leased assets. These accounts are at a non-posting level:









*Depreciation and Accumulated Depreciation*

- 216. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- 217. The municipality allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part.
- 218. A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.
- 219. To the extent that the municipality depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item.

220. The remainder consists of the parts of the item that are individually not significant. If the municipality has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/ or useful life of its parts.
221. The municipality may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.
222. The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.
223. The depreciation charge for a period is usually recognised in surplus or deficit.
224. However, sometimes, the future economic benefits or service potential embodied in an asset are absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset and is included in its carrying amount.
225. Similarly, depreciation of property, plant and equipment used for development activities may be included in the cost of an intangible asset recognised in accordance with the *Standard of GRAP 102 on Intangible Assets*.
226. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.
227. The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the *Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors*.
228. Depreciation is recognised even if the fair value of the asset exceeds its carrying amount; as long as the asset's residual value does not exceed its carrying amount.
229. Repair and maintenance of an asset do not negate the need to depreciate it.
230. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.
231. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless

and until its residual value subsequently decreases to an amount below the asset's carrying amount.

232. Depreciation of an asset begins when it is available for use, for example when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes sidled or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.
233. The future economic benefits or service potential embodied in an asset are consumed principally through its use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains sidled, often result in the diminution of the economic benefits or service potential that might have been obtained from the asset.
234. Consequently, all the following factors are considered in determining the useful life of an asset:
- expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
  - expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
  - technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
  - legal or similar limits on the use of the asset, such as the expiry dates of related leases.
235. The useful life of an asset is defined in terms of the asset's expected utility to the municipality. The asset management policy of the municipality may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the municipality with similar assets.

236. Land and buildings are separable assets and are accounted separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.
237. If the cost of land includes the costs of site dismantlement, removal and restoration, the portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs.
238. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.
239. The depreciation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.
240. The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with *Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors*.
241. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life.
242. These methods include the straight-line method, the diminishing balance method and the units of production method:
- Straight-line depreciation results in a constant change over the useful life; if the asset's residual value does not change.
  - The diminishing balance method results in a decreasing change over the useful life.
  - The units of production method result in a change based on the expected use or output.

243. The municipality selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
244. To determine whether an item of property, plant and equipment is impaired, an entity applies the *Standard of GRAP 21 or 26 on Impairment of Assets*. This Standard of GRAP explains how an entity reviews the carrying amount of its assets, how it determines the recoverable amount or recoverable service amount of an asset and when it recognises, or reverses the recognition of, an impairment loss.
245. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.
246. Impairments or losses of items of property, plant and equipment, related claims for, or payments of compensation from third parties and any subsequent purchase or construction of replacement assets, are separate economic events and are accounted for separately as follows:
- impairments of items of property, plant and equipment are recognised in accordance with the Standard of GRAP 21 or 26 on Impairment of Assets,
  - derecognition of items of property, plant and equipment retired or disposed of is determined in accordance with this Standard,
  - compensation from third parties for items of property, plant and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable, and
  - the cost of items of property, plant and equipment restored, purchased or constructed as replacements is determined in accordance with this Standard.
247. The carrying amount of an item of property, plant and equipment shall be derecognised:
- on disposal, or
  - when no future economic benefits or service potential are expected from its use or disposal.

248. The gain or loss arising from the recognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised (unless the *Standard of GRAP 13 on Leases* requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.
249. The disposal of an item of property, plant and equipment may occur in a variety of ways (for example by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in the *Standard of GRAP on Revenue from Exchange Transactions*, for the purpose of recognising revenue from the sale of goods. The *Standard of GRAP 13 on Leases* applies to disposal by a sale and leaseback.
250. If the municipality recognises in the carrying amount of an item of property, plant and equipment the cost of replacement for part of the item, then it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practical for the municipality to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.
251. The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.
252. The consideration receivable on disposal of an item of property, plant and equipment is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue in accordance with the *Standard of GRAP on Revenue from Exchange Transactions*, thus reflecting the effective yield on the receivable.

*Assets Acquired and No Cost or Nominal Cost*

253. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.
254. An item of property, plant and equipment may be gifted or contributed to the municipality. For example, land may be contributed to a municipality by a developer

at nil or nominal consideration, to enable the municipality to develop parks, roads and paths in the development.

255. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired.
256. The measurement at recognition of an item of property, plant and equipment, acquired at nil or nominal cost, at its fair value does not constitute a revaluation. Accordingly, the revaluation requirements only apply where the municipality elects to revalue an item of property, plant and equipment in subsequent reporting periods.

#### *Infrastructure Assets*

257. Some assets are commonly described as “infrastructure assets”. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:
- they are part of a system or network,
  - they are specialised in nature and do not have alternative uses,
  - they are immovable, and
  - they may be subject to constraints on disposal.
258. Infrastructure assets meet the definition of property, plant and equipment and shall be accounted for in accordance with the above-mentioned Standard. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

#### *Leased Property, Plant and Equipment*

259. The *Standard of GRAP 13 on Leases* prescribe for lessees and lessors the appropriate accounting policies and disclosures to apply in relation to finance and operating leases

#### *Initial recognition*

260. At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be

used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is the determining practice, if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.

261. Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases, the substance and financial reality are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.
262. If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of the municipality are understated, thereby distorting financial ratios.
263. Therefore, it is appropriate for a finance lease to be recognised in the lessee's financial statements both as an asset and as an obligation to pay future lease payments.
264. At the commencement of the lease term, the asset and the liability for future lease payments are recognised in the financial statements at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.
265. It is not appropriate for the liabilities for leased assets to be presented in the financial statements as a deduction from the leased assets.
266. Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing leasing arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

#### *Depreciation and Accumulated Depreciation*

267. A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that

are owned, and the depreciation recognised shall be calculated in accordance with the Standard of GRAP on Property, Plant and Equipment and the International Accounting Standard on Intangible Assets.

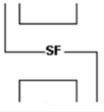
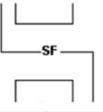
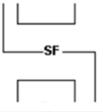
268. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.
269. The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.
270. The sum of the depreciation expense for the asset and the finance expense for the period is rarely the same as the lease payments payable for the period, and it is, therefore, inappropriate simply to recognise the lease payments payable as an expense. Accordingly, the asset and the related liability are unlikely to be equal in amount after the commencement of the lease term.

#### *Impairment*

271. To determine whether a leased asset has become impaired, the municipality applies the *Standard of GRAP 21 or 26 on Impairment of Assets*.

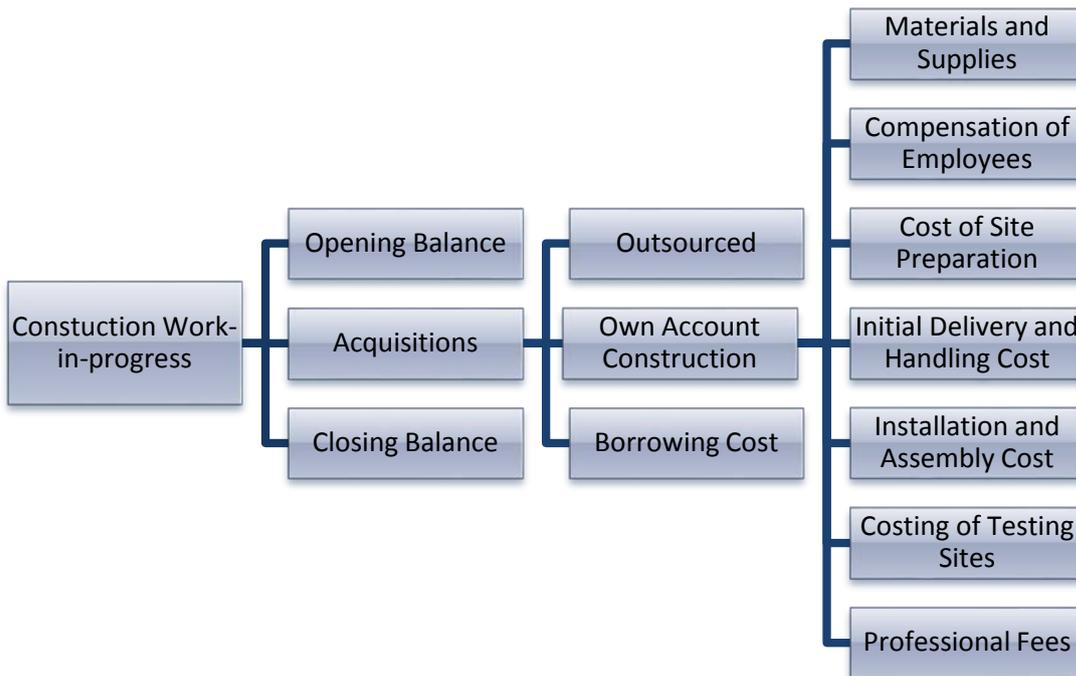
#### *Classes of Property, Plant and Equipment*

272. Lessees shall, in addition to meeting the requirements of the *Standard of GRAP 104 on Financial Instruments* make amongst other requirements the following disclosures for finance leases: “for each class of asset, the net carrying amount at the reporting date”.
273. *Standard of GRAP 13 Leases* does not define “for each class of asset” therefore, some classes are defined in the mSCOA for “owned” property, plant and equipment.

		
<p><b>Cost Model</b></p> <ul style="list-style-type: none"> <li>•Opening balance (Non-posting Level)</li> <li>•Acquisitions</li> <li>•Revaluations</li> <li>•Decommissioning, Restoration and Similar Liabilities</li> <li>•Correction of Error</li> <li>•Change in Accounting Policy</li> <li>•Disposals</li> <li>•Transfers Received</li> <li>•Transfers Made</li> <li>•Closing Balance (non-posting level)</li> </ul> <ul style="list-style-type: none"> <li>•Accumulated Depreciation (Not applicable to Land)</li> <li>•Opening Balance (Non-posting)</li> <li>•Other Charges</li> <li>•Depreciation</li> <li>•Disposals</li> <li>•Transfers</li> <li>•Closing Balance (Non-posting)</li> </ul> <ul style="list-style-type: none"> <li>•Accumulated Impairment</li> <li>•Opening Balance (Non-posting level)</li> <li>•Impairment</li> <li>•Disposals/Transfers Out</li> <li>•Changes not specifically Listed</li> <li>•Closing Balance (Non-posting level)</li> </ul>	<p><b>Revaluation Model</b></p> <ul style="list-style-type: none"> <li>•Opening Balance (Non-posting level)</li> <li>•Acquisitions</li> <li>•Revaluations</li> <li>•Decommissioning, Restoration and Similar Liabilities</li> <li>•Correction of Error</li> <li>•Change in Accounting Policy</li> <li>•Disposals</li> <li>•Transfers Received</li> <li>•Transfers Made</li> <li>•Closing Balance (Non-posting Level)</li> </ul> <ul style="list-style-type: none"> <li>•Accumulated Depreciation (No applicable to Land)</li> <li>•Opening Balance (non-posting)</li> <li>•Other Charges</li> <li>•Depreciation</li> <li>•Disposals</li> <li>•Transfers</li> <li>•Closing Balance (Non-posting )</li> </ul> <ul style="list-style-type: none"> <li>•Accumulated Impairment</li> <li>•Opening Balance (Non-posting level)</li> <li>•Impairment</li> <li>•Disposals/Transfers Out</li> <li>•Changes not specifically Listed</li> <li>•Closing Balance (Non-posting level)</li> </ul>	<p><b>Leased Assets</b></p> <ul style="list-style-type: none"> <li>•Opening balance (Non-posting Level)</li> <li>•Acquisitions</li> <li>•Revaluations</li> <li>•Decommissioning, Restoration and Similar Liabilities</li> <li>•Correction of Error</li> <li>•Change in Accounting Policy</li> <li>•Disposals</li> <li>•Transfers Received</li> <li>•Transfers Made</li> <li>•Closing Balance (non-posting level)</li> </ul> <ul style="list-style-type: none"> <li>•Accumulated Depreciation (Not applicable to Land)</li> <li>•Opening Balance (Non-posting)</li> <li>•Other Charges</li> <li>•Depreciation</li> <li>•Disposals</li> <li>•Transfers</li> <li>•Closing Balance (Non-posting)</li> </ul> <ul style="list-style-type: none"> <li>•Accumulated Impairment</li> <li>•Opening Balance (Non-posting level)</li> <li>•Impairment</li> <li>•Disposals/Transfers Out</li> <li>•Changes not specifically Listed</li> <li>•Closing Balance (Non-posting level)</li> </ul>

*Construction Work-in-progress*

- 274. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see the *Standard of GRAP 12 on Inventories*). Therefore, any internal surpluses are eliminated in arriving at such costs.
- 275. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in self-constructing an asset is not included in the cost of the asset.
- 276. The Project Segment Specifically Capital Projects provide the detail on the composition of the balance accumulated on this account.
- 277. The classification structure provided in mSCOA Tables Version 6.1 includes a movement analysis to reconcile opening to closing balance on Construction Work-in-progress.

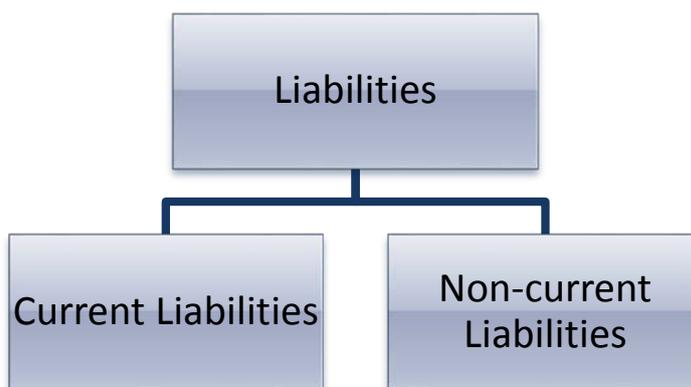


## Liabilities

**Definition:**

The present obligation of the municipality arising from past events, the settlement of which is expected to result in an outflow from the municipality of resources embodying economic benefits or service potential.

278. At the highest level the mSCOA classification structure distinguish between current and non-current liabilities.



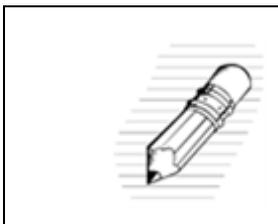
### Current Liabilities

**Definition:**

A liability shall be classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the municipality’s normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is due to be settled within twelve months after the reporting date; or
- it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. All other liabilities shall be classified as non-current.

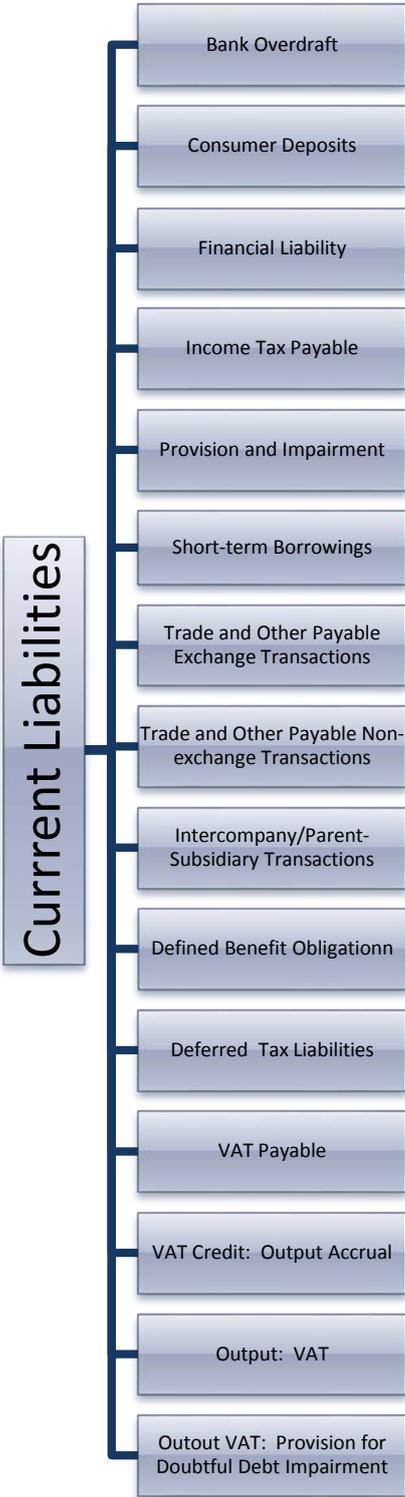


***Illustrations from the Standards of GRAP 1 Presentation of Financial Statements to assist in***

	<p><b><i>understanding the classification for current liabilities.</i></b></p> <p><b><i>Example 11</i></b></p> <ul style="list-style-type: none"> <li>➤ Some current liabilities, such as government transfers payable and accruals for employee and other operating costs, are part of the working capital used in the normal operating cycle of the entity. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of an entity’s assets and liabilities. When the entity’s normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.</li> <li>➤ Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities classified as held for trading (the Standard of GRAP on <i>Financial Instruments</i> provides guidance on the classification of financial liabilities), bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (for example are not part of the working capital used in the entity’s normal operating cycle), and are not due for settlement within twelve months after the reporting date, are non-current liabilities.</li> <li>➤ An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if the original term was for a period of longer than twelve months; and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.</li> </ul>
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279. The illustration below provides the high-level group of accounts included in current liabilities. This group of accounts consists of multiple posting level accounts for classifying transactions. If the municipality is required to add a further breakdown to

define the posting level the context within which these accounts need to be added is discussed as well as the naming convention supporting the account description:

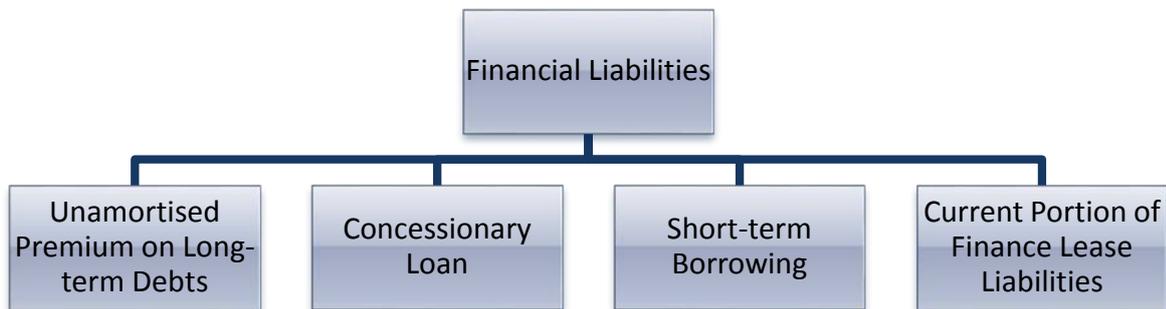




- Buying Card
- Valuation Appeal
- Wayleave
- Refuse

## Financial Liabilities

283. At the highest level, financial liabilities consist of:



### *Unamortised Premium on Long-term Debts*

**Definition:**

This account should record the excess of the cash value of consideration received over the face value upon the issuance or assumption of long-term debt securities. Amounts recorded in this account should be amortised over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization would be on a monthly basis, with the amounts thereof to be credited to account for "interest on long-term debt" or account for "short term interest and other interest expense as appropriate". [NERSA RRM V2: Electricity [225]]

### *Concessionary Loan*

**Definition:**

A concessionary loan is a loan received by an entity on terms that are not market related. On initial recognition, the entity calculates the part of the concessionary loan that is non-exchange revenue as the difference between the fair value of the loan and the loan proceeds received. The entity accounts for the concessionary loan as a financial liability and non-exchange revenue.

*Short-term Borrowing*

**Definition:**

Borrowing is money received with the implied or expressed intention of returning the same or an equivalent to the borrower with same interest.

284. This group of accounts provide for the portion of non-current liabilities to be redeemed within 12 months from the reporting date.
285. This account should record in a separate subdivision for each class and series of borrowings the face value of the actually issued and un-matured loans which have not been retired or cancelled; also, the face value of such loans issued by other, the payment of which has been assumed by the municipality, as well as, until maturity, all long-term debt not otherwise provided for.
286. Separate accounts should be maintained for each class of obligation, and records should be maintained to show for each class all details as to date of obligation, date of maturity, interest dates and rates, security for the obligation, etc.

**Definitions:**

**Annuity Loans:** This account is for recording annuity loans. An annuity loan is a loan repayable in fixed instalments (annual, monthly or agreed intervals) at a fixed interest rate.

**Bankers' Acceptance Certificate:** Bankers' acceptance is a promised future payment which is accepted and guaranteed by the bank and drawn on a deposit.

**Derivative Financial Liabilities:** Derivative Financial Liabilities are financial instruments under contracts that have one or more underlying and, one or more notional amounts. Derivative is a transaction or contract whose value depends on or, as the name implies, derives from the value of underlying assets such as stock, bonds, mortgages, market indices, or foreign currencies. One party with exposure to unwanted risk can pass some or all of the risk to a second party. The first party can

assume a different risk from a second party, pay the second party to assume the risk, or, as is often the case, create a combination. Derivatives are normally used to control exposure or risk.

**Government Loans:** This account is for recording loans given by national or provincial government.

**Local Registered Stock:** This account is for recording local registered stock. Local registered stock refers to "stock/ bond" issues made by the municipality through BESA being part of the JSE.

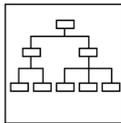
**Marketable Bonds:** These are for bonds which could be exchanged in an open market prior to maturity.

**Non-marketable Bonds:** Non-marketable securities are shares held in privately held companies for which there is no ready market. The municipality has to find its own buyer and negotiate its own price if it wish to sell its shares, for example shares in a family owned business.

**PPP Liabilities:** Recognition of a liability for an asset created by a Public Private Partnership if the asset qualifies for recognition in terms of *GRAP 17 Property, Plant and Equipment*. Where the control approach criteria have been met, the asset would be recognised and accordingly the liability.

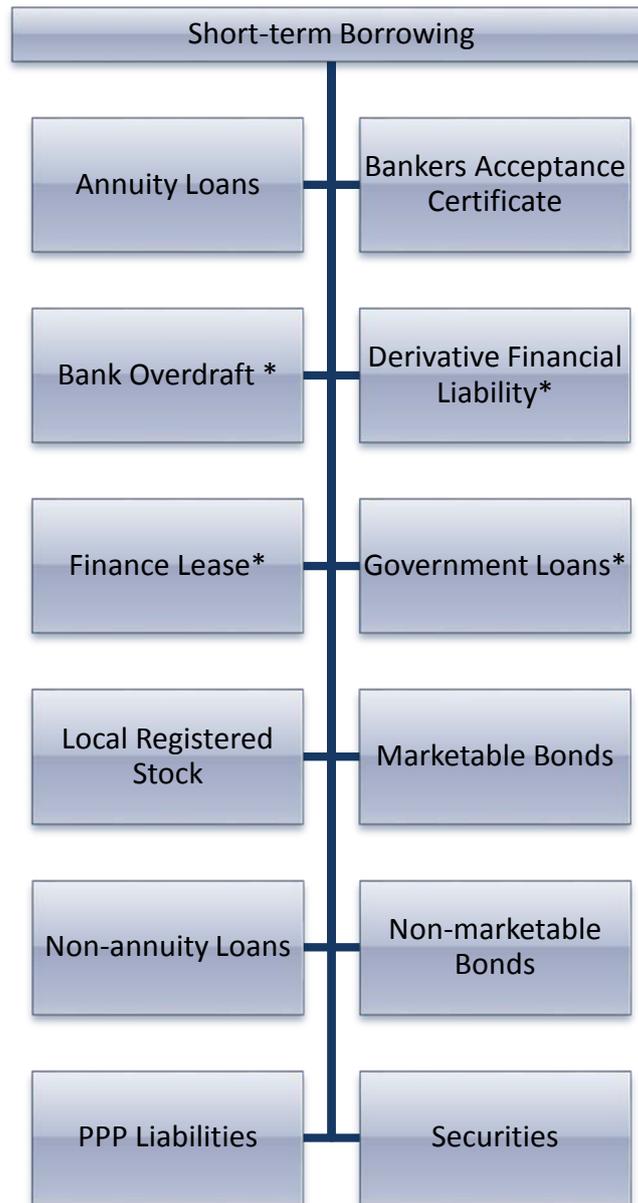
**Securities:** Securities are debt securities (banknotes, bonds and debentures), equity securities (shares and stock) and derivative contracts (forward, futures, options and swaps).

*Current portion of Non-Current Borrowings*



***Posting Level Detail required to be added by the municipality for current and non-current borrowing***

Municipalities need to add posting level accounts and the description to include the name of the institution and reference/account number. The same principle applies for current and non-current borrowings.



287. The next level which is a non-posting level the following classification is provided for (except for the financial instruments listed above marked with “\*“):

- General Public
- Banks: ABSA/ FNB/ Nedbank/ RMB/ Standard Bank/ Unspecified
- Development Bank of South Africa
- Infrastructure Finance Corporation
- Public Investment Commissioners
- Municipal Pension Funds

- Other Public Pension Funds
  - Public Corporation
  - Private Enterprises
  - Foreign Government and International Organisations
288. The posting level within the above classification is defined by an account with description “specify”. The municipality need to change the account description by including the account number or reference number for a specific instrument. The account set-up should align with the Current Borrowing Section in the Item: Liabilities Segment.

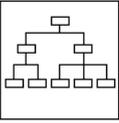
### Current/ Non-current portion of Finance Lease Liabilities

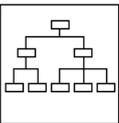
**Definition:**

At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

289. The discount rate to be used in calculating the present value of the minimum lease payment is the interest rate implicit in the lease, if this is the determining practice; if not, the lessee’s incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset.
290. If for the presentation of liabilities on the face of the statement of financial position a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.
291. Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability.
292. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are incurred.
293. In practice, in allocating the finance charge to periods during the lease term, a lessee may use some form of approximation to simplify the calculation.

294. In addition, the requirements for disclosure in accordance with the Standards of GRAP on Investment Property, Property, Plant and Equipment, Intangible Assets, Agriculture and Impairment of Assets apply to lessees for assets leased under finance leases.

	<p><b><i>Posting Level Detail required to be added by the municipality for current portion of finance lease liability and non-current finance lease liability</i></b></p> <p>Municipalities need to add posting level accounts and the description to include the name of the institution and reference/account number. The same principle applies for current and non-current finance lease liability.</p>
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	<p><b><i>Posting Level Detail to be added at the Discretion of the Municipality</i></b></p> <p>Municipalities may add detail discretionary posting levels to this account. More detail is not required by the National Treasury.</p>
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### Income Tax Payable

295. Income tax payable and receivable is the same account. Please refer to the discussion under current assets on income tax receivable in this regard.

### Current and Non-Current Provision and Impairment

#### Provision

**Definition:**

Provision is a liability of uncertain timing or amount. “Current” provision would be for the “anticipated” liability to realise within twelve months from the reporting date.

296. The *Standard of GRAP 19 Provisions, Contingent Liabilities and Contingent Assets*, define provisions, identify the circumstances in which provisions should be recognised, how they should be measured and the disclosures that should be made about them in the financial statements to enable users to understand their nature, timing and amount.
297. Provisions need to be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.
298. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.
299. The periodic unwinding of the discount shall be recognised in surplus or deficit as a finance cost as it occurs.
300. A provision shall be used only for expenditures for which the provision was originally recognised.
301. Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.
302. A liability shall be classified as current when it satisfies any of the following criteria:
- it is expected to be settled in the municipality's normal operating cycle;
  - it is held primarily for the purpose of being traded;
  - it is due to be settled within twelve months after the reporting date; or
  - the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
303. All other liabilities shall be classified as non-current.

#### **Impairment**

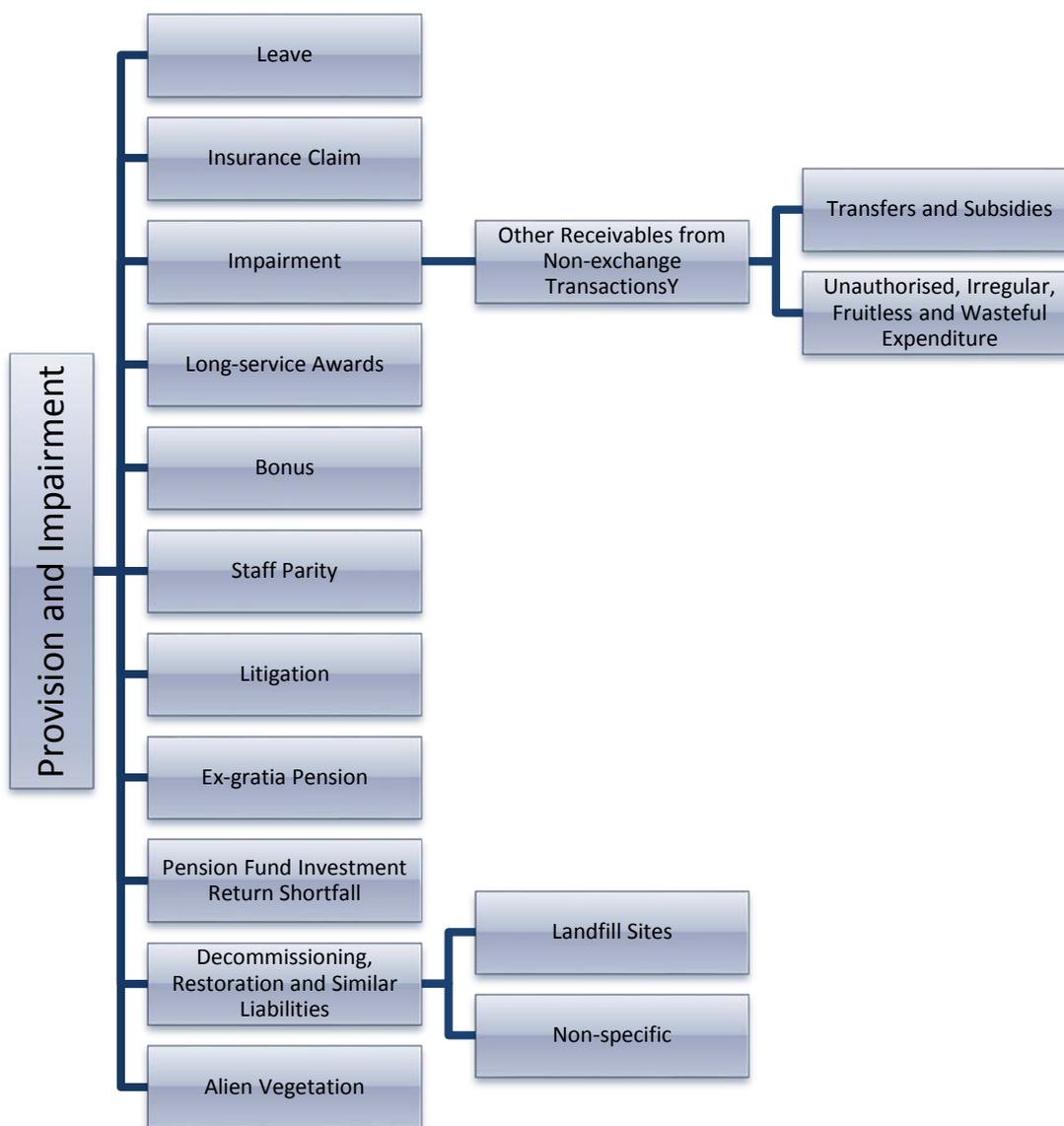
304. Reduction in the value of an asset because the asset no longer generates the benefits expected earlier as determined through periodic assessments. This could happen

because of changes in market value of the asset, business environment, government regulations, etc.

305. Cognisance is taken that impairment is not dealt with in the *Standard of GRAP 19 Provisions, Contingent Liabilities and Contingent Assets*<sup>3</sup>. Classification groups in mSCOA are not necessary driven by standards. Reporting in terms of the Standards of GRAP municipalities have the discretion to apply judgement as guided in the Position Paper on Reporting.
306. Provision and Impairment (Current/ Non-current) provides for the following classification at a non-posting level:

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<sup>3</sup> Standards of GRAP dealing with Impairment: GRAP 21 Impairment of Non-cash generating Assets/ GRAP 26 Impairment of Cash-generating Assets/ GRAP 104 Financial Instruments.



**Definitions:**

**Leave:** Vacation or annual leave is a short-term employee benefit. Vacation leave can either be vested or non-vested. "Vested" vacation leave means that the employee is entitled to a cash payment for unused leave, for example after a certain period of time has elapsed or on resignation. "Non-vested" leave means that if employees do not use their leave, it is forfeited. Unless a municipality has an enforceable right to defer the encashment or utilisation of leave, the liability is treated as a current liability, for example a municipality does not have an unconditional right to defer settlement if employees can utilise their leave due at any time or demand that their unused leave be paid.

**Insurance Claims:** This account is for recording provisions made for insurance excess payment or if the municipality is self-insured, to provide for claims from third parties for which either the amount or time of payment is uncertain.

**Landfill Sites:** The initial estimates of the cost of rehabilitation of landfill sites are included in the cost of the asset. The contra entry is recorded in this account. The obligation to incur such costs arises either when the entity acquires the asset, or as a result of using the asset over a certain period, except when the asset is used to produce inventory during the period. This account would also provide for the discounting interest on the present obligation recognised in the surplus or deficit for the period.

**Long-service Awards:** This account is for recording the provision made for long-service awards paid to municipal staff in terms of a policy.

**Bonus:** This account is for recording the provision made for performance bonuses payable to municipal staff in terms of a policy.

**Staff Parity:** This account is for making provision to give equal benefits to all staff based on specific criteria.

**Litigation:** This account is for recording of the provisions made for legal claims against the municipality.

**Ex-gratia Pension:** Ex-gratia pensions payable to former employees who did not belong to a pension fund due to exceeding the age limits at the time of appointment. In terms of GRAP 25 provision should be made for the future payments of the pensions to the former employees. The short-term portion is the amount to be paid in the next financial year. It is being calculated by way of Actuarial Valuations. Ex-gratia pension payments to former employees who did not belong to a pension fund in terms of the former Municipal Ordinance No 20 of 1974.

**Pension Fund Investment Return Shortfall:** The shortfall is an Employee Benefit which emanated from a shortfall in the investment returns from the pension fund. The rules of the fund states that each municipality must contribute (make good) an amount if the pension fund returns are less than 5 per cent for that year; if this did not happen in 1 year and the amount had to be provided in terms of GRAP 25.

**Decommissioning, Restoration and Similar Liabilities:** Municipalities may have obligations to dismantle, remove and restore items of property, plant and equipment. Under the Standard of GRAP on Property, Plant and Equipment the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during the period. Provision for clearing alien vegetation.

307. The posting levels are set within the above structure providing for accounts giving a reconciliation from “opening to closing balance”. Opening balance is not a posting

level account but an “automated account” rolling the closing balance at year-end closure forward to the new financial year. The closing balance account provides for the “movement accounts” including opening balance to automatically close to this account at year end closure. The closing balance to be rolled forward to the new financial year. The movement accounts (excluding opening and closing balance accounts) provides for:

- Increases
- Reductions (Outflow of Economic Benefits)
- Reductions (without Outflow of Economic Benefits)
- Reversals
- Increases (Passage of Time/Discounted Rate)

### **Decommissioning Restoration and Similar Liabilities**

308. Municipalities may have obligations to dismantle, remove and restore items of property, plant and equipment. Under the *Standard of GRAP 17 on Property, Plant and Equipment*, the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
309. Events that may change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:
- A change in the estimated outflow of resources embodying economic benefits (for example cash flows) or service potential required to settle the obligation.
  - A change in the current market-based discount rate (this includes changes in the time value of money and the risks specific to the liability).
  - An increase that reflects the passage of time (also referred to as the unwinding of the discount).
310. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, shall be accounted for as indicated below.

311. If the related asset is measured using the cost model:
- subject to changes in the liability there shall be additions to, or deductions from, the cost of the related asset in the current period.
  - the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.
  - if the adjustment results in an addition to the cost of an asset, the entity shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity shall test the asset for impairment by estimating its recoverable amount, and shall account for any impairment loss, in accordance with the Standards of GRAP on impairment of assets.
312. If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that: (i) a decrease in the liability shall be credited directly to revaluation surplus in net assets, except that it shall be recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and (ii) an increase in the liability shall be recognised in surplus or deficit, except that it shall be debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
  - that would have been recognised had the asset been carried under the cost model, the excess shall be recognised immediately in surplus or in the event that a decrease in the liability exceeds the carrying amount deficit;
  - a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets under.
313. If a revaluation is necessary, all assets of that class shall be revalued; and the Standard of GRAP 1 on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the

change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

314. The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability shall be recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.
315. The periodic unwinding of the discount shall be recognised in surplus or deficit as a finance cost as it occurs. Capitalisation under the *Standard of GRAP 5 on Borrowing Costs* is not permitted.

#### *Onerous Contracts*

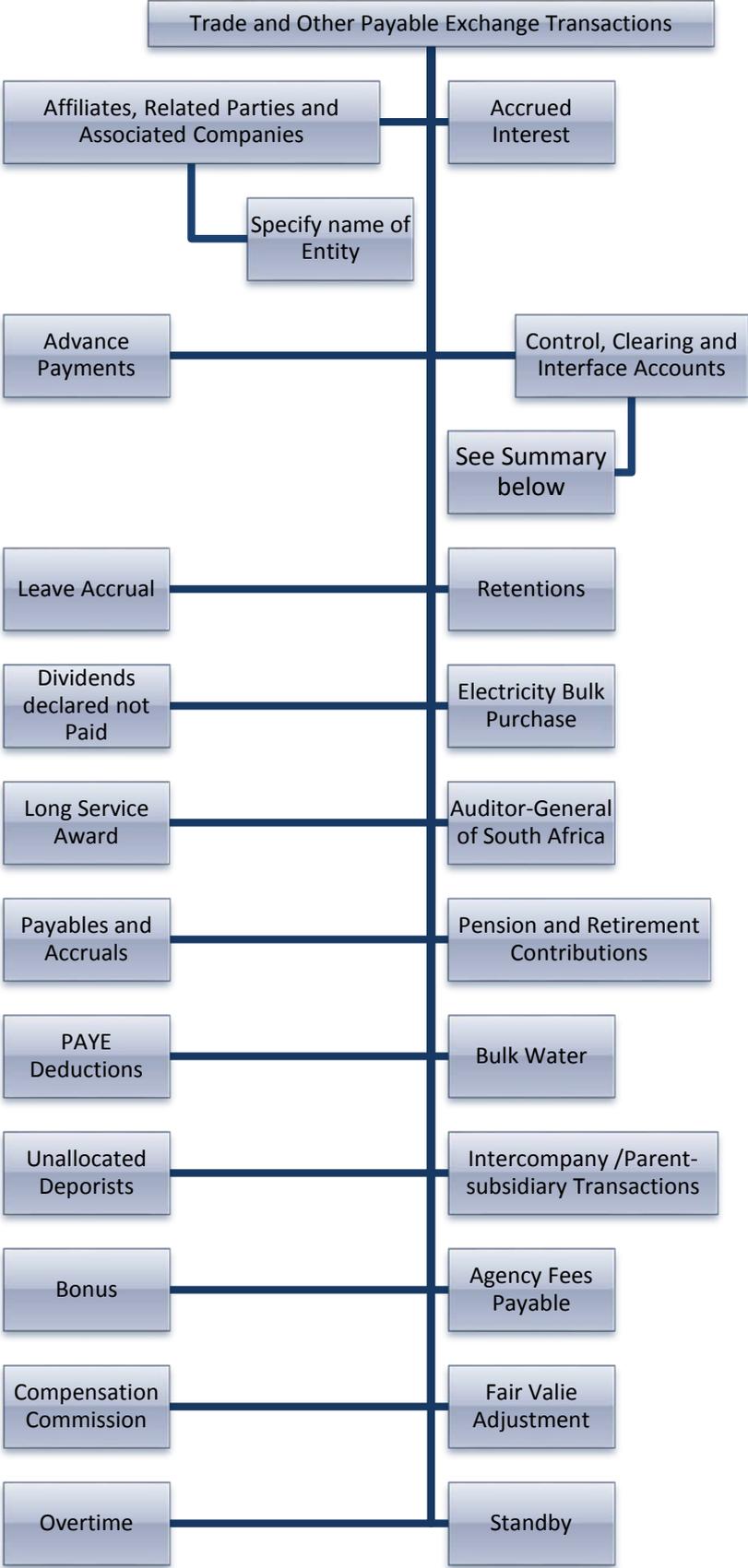
316. If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recognised and measured as a provision.

### Trade and Other Payable Exchange Transactions

**Definition:**

Accounts that are owed to suppliers (trade creditors) as distinguished from accrued interest, rent, salaries, taxes, and other such accounts. In exchange transactions, the municipality receives equal value for the payment made to the creditor.

317. The table below provides the posting level accounts (unless otherwise indicated) set-up in mSCOA for the group of accounts:



**Definitions:**

**Affiliates, Related Parties and Associated Companies:** These accounts should record amounts owing to associated companies on notes, drafts, acceptance, or other similar evidences of indebtedness, and, open accounts payable on demand, of not more than one year from date of issue or creation.

**Accrued Interest:** Accrued interest is the amount of loan interest that has already occurred, but has not yet been paid to the lender by the borrower. The accrued interest will be reported by the borrower as both an expense on its statement of financial performance, and a current liability on its statement of financial position.

**Advance Payments:** A liability account used to record an amount received from a customer before a service has been provided or before goods have been shipped. This account is referred to as a deferred revenue account and could be “entitled customer deposits” or “unearned revenues”. This account would include debtor’s accounts with credit balances.

**Control, Clearing and Interface Accounts (non-posting level):** This group of accounts are used for the recording of un-cleared credit amounts resulting from control, interface and clearing accounts required by the general ledger system to import transactions/ balances from sub ledger or other systems such as billing, procurement, asset modules, payroll, electronic funds transfer (EFT) processes, etc. This account need to clear automatically, without manual interference resulting from timing differences.

**Leave Accrual:** A statement of financial position liability account which reports the total amount owed to employees at the reporting date for future vacation days as a result of the employees' past work. The leave liability will be treated as an accrual or a provision depending on the level of uncertainty attached to either the timing or amount; the less uncertainty, the more likely that the liability will be an accrual. Vacation or annual leave is a short-term employee benefit. Vacation leave can either be vested or non-vested. "Vested" vacation leave means that the employee is entitled to a cash payment for unused leave, for example after a certain period of time has elapsed or on resignation. "Non-vested" leave means that if employees do not use their leave, it is forfeited. Unless a municipality has an enforceable right to defer the encashment or utilisation of leave, the liability is treated as a current liability, for example a municipality does not have an unconditional right to defer settlement if employees can utilise their leave due at any time or demand that their unused leave be paid.

**Retentions:** Usually an amount of money held back by the municipality to ensure that the contractor works properly. This retention money is due to the contractor as the work is completed, but will not be paid out. This is to ensure that contractors correct any defective work. Normally half of the retention money is paid to the contractor when the project is delivered (or the engineer issues the Certificate of Completion) and the other half is paid within 14 days after the end of the defects liability period.

**Dividends Declared not Paid:** Dividends declared by the company but not yet paid to the shareholders

**Electricity Bulk Purchase:** This account should record all payments and accruals due to service providers resulting from the purchase of electricity.

**Long Service Award:** Long service awards payable to employees in terms of a "long service award" policy.

**Auditor-General of South Africa:** Unpaid amounts due to the Auditor-General of South Africa.

**Payables and Accruals:** Any other payables and accruals not separately provide for in the detail accounts for trade creditors to be included here.

**Pension and Retirement:** Accrual provided for pension and retirement contributions deducted from employees' salaries but not yet paid to the respective institutions.

**PAYE Deductions:** UIF, SDL, PAYE, Workmen's Compensation deducted but not yet paid to SARS or other authorities.

**Water Bulk:** This account should record all payments and accruals due to service providers resulting from the purchase of water.

**Unallocated Deposits:** Direct deposits not sufficiently referenced to allocated payments to customer accounts.

**Intercompany/ Parent Subsidiary Transactions:** This account should record all current portions of intercompany loans payable between parent municipalities and their subsidiary municipal entities.

**Bonus:** Account to be used for bonuses not paid at the reporting date.

**Agency Fees Payable:** Amounts due by the municipality resulting from agency services provided on behalf of national/ provincial departments and district municipalities for example collection of traffic fines for the provincial department of transport.

**Compensation Commission (COID):** This account should be used for recording accruals due to COID. The Compensation for Occupational Injuries and Diseases Act, 1993 was formerly known as the Workmen's Compensation Act, which was implemented purely to protect an employee injured or killed in the line of duty. It is, in effect an 'umbrella' insurance for South Africa's workers. In a nutshell, in terms of this legislation employees are precluded from suing their employers (subject to a few exceptions) and all employers are compelled to register and to pay contributions to the fund (subject to a few exceptions). Although the owner of every business in South Africa is obligated by law to pay regular amounts to the Commissioner, municipalities may apply for exemption on condition to self-insure the underlying risk.

318. The following posting levels accounts were added to "Control, Clearing and Interface" accounts at the request of specific system vendors:

- Salary Clearing and Control
  - Salary Control
  - Travel Control
  - Leave Control
  - Tax Control
  - UIF Control
  - Skills Control
  - Pension Control
  - Medical Aid Control
  - Group Life Control
  - Unions Control
  - Employee Deductions FICS
- Disposal Clearing
- Goods Received/ Invoice Received
- Prepaid Electricity
- Cash and Bank
- Licensing and Registration
- Inventory Stores

### Trade and Other Payable Non-Exchange Transactions

**Definition:**

Accounts owed to suppliers resulting from non-exchange transactions

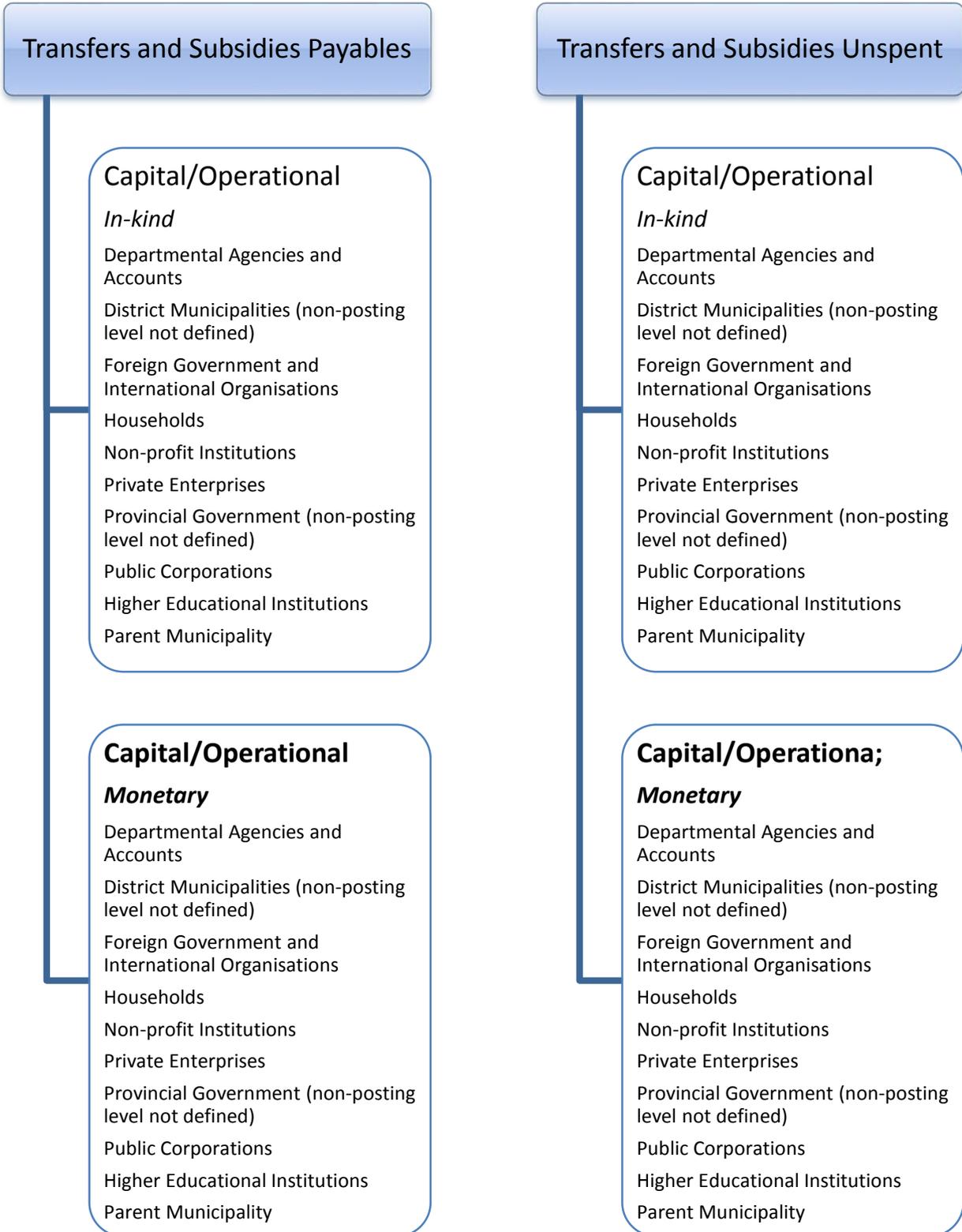
319. At the highest level this classification consists of two groups of accounts, being transfers and subsidies payable and unspent.

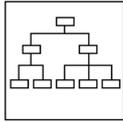
**Definition:**

**Transfers and Subsidies Payable:** Transfers and subsidies not made during the year payable to other entities by the municipality. This account excludes the unspent portion of transfers and subsidies received by municipalities.

**Transfer and Subsidies Unspent:** Transfers and subsidies received by the municipality but not used potentially refundable to the grantee.

320. The structure makes distinction between capital and operational transfers and subsidies with a further distinction based on whether the allocation is received “in-kind” or in “monetary value”.
321. Posting level accounts are defined within the structure illustrated below. If posting level accounts need to be set-up the requirement therefore is further discussed in the table at the end of the discussion on “trade and other payable non-exchange transactions”.





***Posting Level Detail required to be provided by the municipality to National Treasury for setting up posting level accounts***

***Provincial Government***

The provincial treasuries in consultation with the departments within the province need to provide to the National Treasury the detail of transfers and subsidies made to municipalities, for inclusion already in mSCOA Version 5.5 to define posting level accounts. This will be part of the annual reviews of the mSCOA following implementation.

***District Municipalities***

The provincial treasuries in consultation with the district municipalities within the province had to provide to the National Treasury the detail of transfers and subsidies made to municipalities, for inclusion already in mSCOA Version 5.5 to define posting level accounts. This would-be part of the annual reviews of the mSCOA following implementation.

**VAT Payable (Control)**

322. This is a posting level account added specifically for extracting information for the VAT 201 return.

**Definition:**

This account should record input and output tax transactions during the accounting period, corresponding with the debits credits being made to the appropriate accounts for input, output VAT and VAT refunds/offsets.

**VAT Credit: Output Accrual**

323. This is a posting level account added specifically for extracting information for the VAT 201 return.

**Definition:**

Accrual of VAT on Receivables (Contra Account).

## Output VAT

324. This is a posting level account added specifically for extracting information for the VAT 201 return.

**Definition:**

VAT 201 - VAT on Payments received from Debtors.

## Output VAT: Provision for Doubtful Debt Impairment

325. This is a posting level account added specifically for extracting information for the VAT 201 return.

**Definition:**

VAT on the Provision for Doubtful Debt (Contra AC).

## Intercompany/ Parent Subsidiary Transactions

326. This is a posting level account specifically for transactions between the municipality and entities.

**Definition:**

This account should record all current portions of Intercompany Loans payable between parent municipalities and their subsidiary municipal entities.

## Defined Benefit Obligations

327. Distinction is made at posting level for medical and pension within the defined benefit obligations.

**Definition:**

This account should record the unamortised portion of past service costs related to future benefits and pensions which will be expensed in future periods. Defined benefit plan obligations for medical and pension benefits.

## Deferred Tax Liabilities

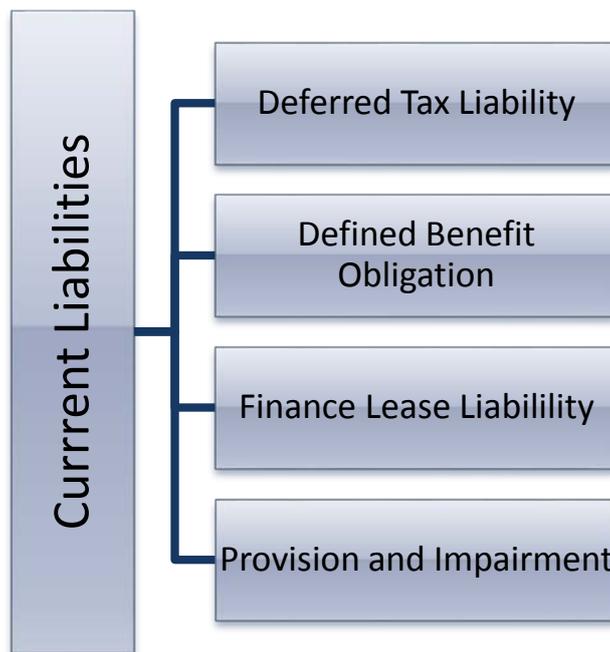
328. This is a posting level account to be used by taxpaying entities.

**Definition:**

A liability recorded on the statement of financial position that may be used to reduce the subsequent period's income tax expense.

### Non-current Liabilities

329. The diagram below provides the high-level group of accounts included in non-current liabilities. This group of accounts consists of multiple posting level accounts for classifying transactions. If the municipality is required to add a further breakdown to define the posting level the context within which these accounts need to be added is discussed as well as the naming convention supporting the account description:



### Deferred Tax Liabilities

330. Refer to the discussion of deferred tax liabilities included in current assets in this regard.

**Definition:**

A liability recorded on the statement of financial position that may be used to reduce a subsequent period's income tax expense.

### Defined Benefit Obligations

331. Refer to the discussion of deferred tax liabilities included in current assets in this regard.
332. This account should record the unamortised portion of past service costs related to future benefits and pensions which will be expensed in future periods.

### Financial Liabilities

**Definition:**

This account is to be used for recording any other "financial liability" not separately recorded somewhere else. Long-term debt with an original maturity of more than one year, other than Mortgage and Debenture Bonds and Advances from Associated Companies.

#### *Borrowings*

333. Refer to the discussion of deferred tax liabilities included in current assets in this regard.

**Definition:**

This account is for recording non-current borrowing. Borrowing is money received with the implied or expressed intention of returning the same or an equivalent to the borrower with same interest. This account should record in a separate subdivision for each class and series of borrowings the face value of the actually issued and un-matured loans which have not been retired or cancelled; also, the face value of such loans issued by other the payment of which has been assumed by the municipality, as well as, until maturity, all long-term debt not otherwise provided for. Separate accounts should be maintained for each class of obligation, and records should be maintained to show for each class all details as to date of obligation, date of maturity, interest dates and rates, security for the obligation, etc. [NERSA RRM V2: Electricity [221]]

#### *Finance Lease Liability*

334. Refer to the discussion of deferred tax liabilities included in current assets in this regard.

**Definition:**

A non-current finance lease liability.

#### *Operating Lease Liability*

335. Refer to the discussion of deferred tax liabilities included in current assets in this regard.

**Definition:**

Unamortised balance for straight lining of operational lease payments.

### Provision and Impairment

336. Refer to the discussion of deferred tax liabilities included in current assets in this regard.

**Definition:**

Provision is a liability of uncertain timing or amount. Impairment - Reduction in the value of an asset because the asset no longer generates the benefits expected earlier as determined through periodic assessments. This could happen because of changes in market value of the asset, business environment, government regulations, etc.

### Net Assets

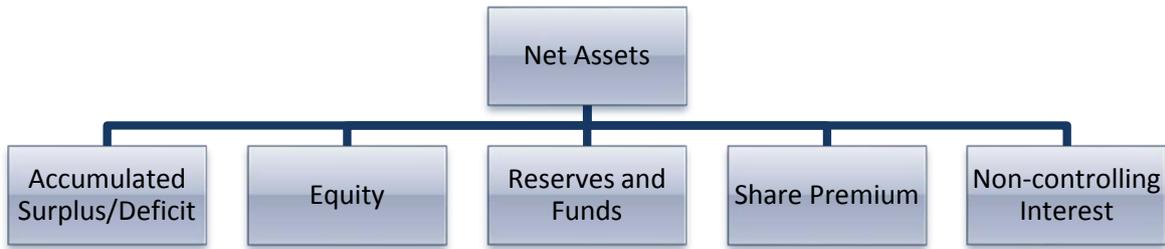
337. Reserves and Funds “Net assets” is the term used in the *Standards of GRAP 1 on the Preparation of Financial Statements* to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets may be positive or negative.

**Definition:**

The residual interest in the assets of the entity after deducting all its liabilities.

338. Although net assets are defined as a residual, it may be sub classified in the statement of financial position. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal- or other restrictions on the ability of the entity to distribute or otherwise apply its net assets.

339. The classifications provided for in the mSCOA in this regard are:



*Accumulated Surplus/(Deficit)*

**Definition:**

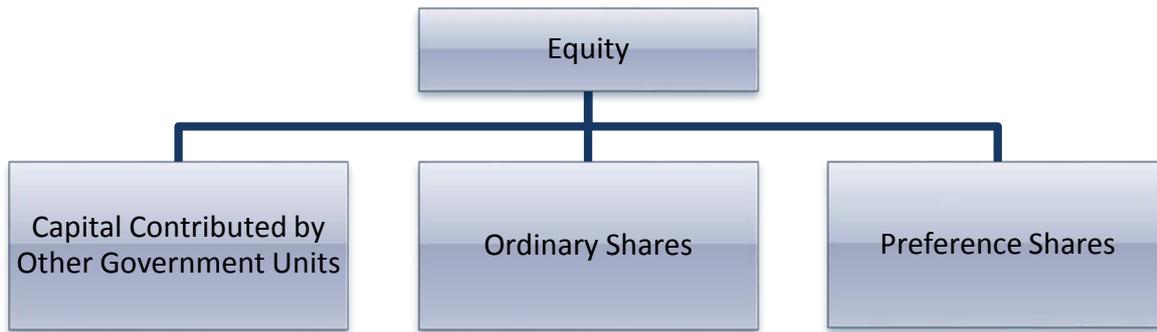
Retained earnings or accumulated deficit being the cumulative effect of differences between revenue and expenditure as per statement of financial performance.

340. This group of accounts provides for the following posting level accounts (unless indicated otherwise) with no further breakdown required:



*Equity*

341. Defined under “Equity” in the mSCOA are the following posting level accounts:



**Definitions:**

**Capital Contributed by Other Government Units:** This account provides for capital contributions made to the entity by other government units. “Contributions from owners” means future economic benefits or service potential that have been contributed to the entity by parties external to the entity, other than those that result in liabilities of the entity, and those that establish a financial interest in the net assets of the entity, which conveys entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/ or can be sold, exchanged, transferred or redeemed.”

**Ordinary Shares:** An ordinary share represents equity ownership in a company and entitles the owner to a vote in matters put before the shareholders in proportion to their percentage ownership in the company. Any shares that are not preferred shares and do not have any predetermined dividend amounts.

**Preference Shares:** Preference shares are shares with fixed dividend yields payable at defined intervals.

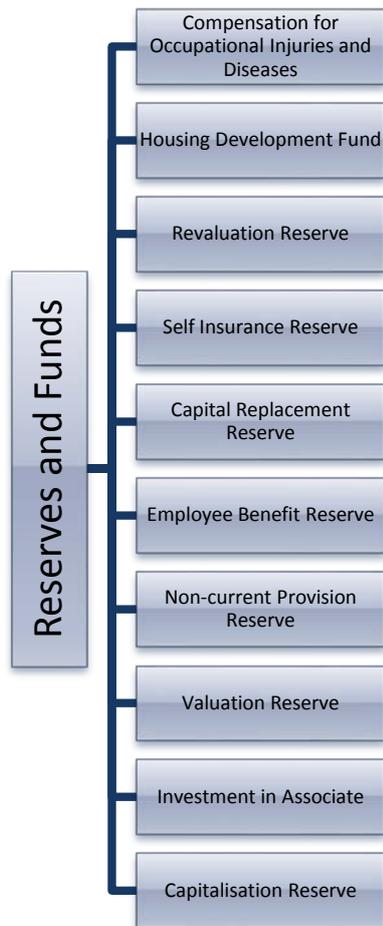
*Non-controlling Interest*

342. The interest in the net assets in a controlled entity not attributable, directly or indirectly, to a controlling entity. The accounts are set-up to provide a movement from the opening to the closing balance:



*Reserves and Funds*

- 343. The creation of reserves is sometimes required by statute or other law in order to give the municipality and its creditors an added measure of protection from the effects of future losses. The existence and size of these legal, statutory and tax reserves is for information to be relevant to the decision-making needs of users.
- 344. Transfers to such reserves are deemed to be appropriations of retained earnings, and not expenses. Any such transfers are disclosed in the statement of changes in net assets.
- 345. The Position Paper on Funds and Reserves need to be read with the content of this section.
- 346. The classifications provided for in the mSCOA in this regard are:



**Definitions:**

**COID Reserve:** This reserve is created to make provision for claims that have been submitted to the Commission for Occupational Injuries and Diseases. This is a self-insurance reserve.

**Housing Development Fund:** The Housing Development Fund was established in terms of the Housing Act, 1997 (Act No 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, 1997 all proceeds from housing developments which include rental income and sale of houses must be paid into the Housing Development Fund. Monies standing to credit of the Housing Development Fund can be used only to finance housing developments within the municipal areas subject to the approval of the Provincial MEC responsible for housing. Since the Housing Development Fund was established in terms of legislation it may be reported separately in the Statement of Financial Position and the Statement of Changes in Net Assets.

**Revaluation Reserve:** A Revaluation Reserve is established upon revaluation of a class of property, plant and equipment (PPE). GRAP 17 does not require entities to revalue items of property, plant and equipment. It does however; permit entities to revalue assets if they wish to do so. In other words, voluntary revaluation of land and building, and other assets for which there is an active market, is permitted. When land and buildings are revalued, a Non-Distributable Reserve (Revaluation NDR) is created. A transfer must be made from the NDR to the accumulated surplus account via the Statement of Changes in Net Assets to offset the additional depreciation charged as a result of the revaluation.

**Self-Insurance Reserve:** The self-insurance reserve is issued where the municipality/ entity opted to be "self-insurer".

**Capital Replacement Reserve:** This reserve is to be used for future capital expenditure from own funds only and may not be used for maintenance or other operating expenditure. The capital replacement reserve must be cash-backed. The annual contribution to be based on a funding and reserve policy.

**Employee Benefit Reserve:** The aim to the reserve is to ensure sufficient cash resources are available for the future payment of employee benefits. The contributions to the reserve must be made in accordance with the directives set in a funding and reserve policy.

**Non-current Provision Reserve:** The aim to the reserve is to ensure sufficient cash resources are available for the future payment of non-current provisions. The contributions to the reserve must be made in accordance with the directives set in a funding and reserve policy.

**Valuation Reserve:** The aim to the reserve is to ensure sufficient cash resources are available to undertake a general valuation as required in terms of the Municipal Property Rates Act, 2004 (Act No.

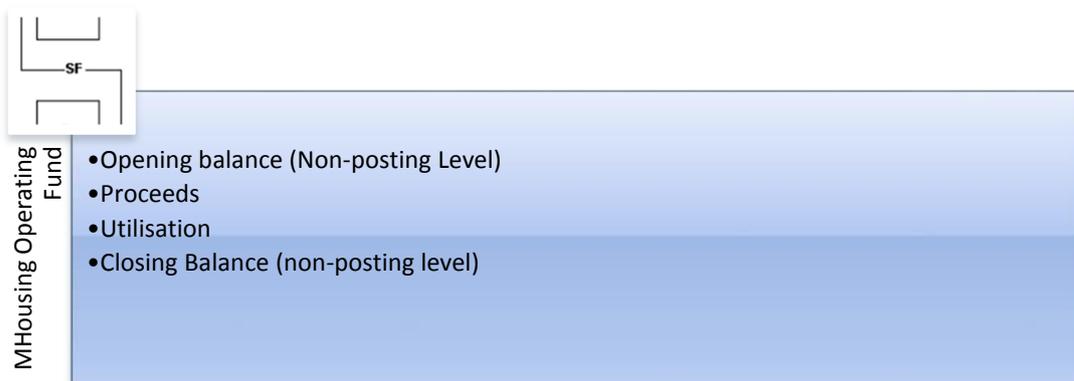
6 of 2004) as amended. The contributions to the reserve must be made in accordance with the directives set in a funding and reserve policy.

**Investment in Associate:** Ring-fencing of Reserves and Funds relating to Investment in associate,

**Capitalisation Reserve:** This reserve represents amount previously accumulated that were recovered from consumers through rates and tariffs and that have been used to acquire items of Property, Plant and Equipment. These amounts are therefore not available for any other purpose. This reserve should be depleted over time as no replenishment take place. This fund had been created from the consolidation of various statutory funds resulting from ordinances at the time of adopting the Standards of GRAP.

347. Distinction is made within the Housing Development Fund for the “Operating Fund” and the “Loan Extinguished”. The definition of the accounts is as indicated, on a non-posting level.

- Housing Development Fund: Operating Fund - Section 15(5) and 16 of the Housing Act, 1997 (Act No. 107 of 1997), which came into operation on 1 April 1998, requires that the municipality ensures that a separate housing operating account (known as the Housing Development Fund) is maintained by the municipality as required by sections 15(5) and 16 of the Housing Act No 107 of 1997. The net proceeds of any letting, sale of property or alienation, financed previously from government housing funds, are paid into a separate operating account and is utilised by the municipality for housing development in accordance with the National Housing Policy.



- Housing Development Fund: Loans Extinguished - Loans extinguished by government on 1 April 1998. This account would present the difference between

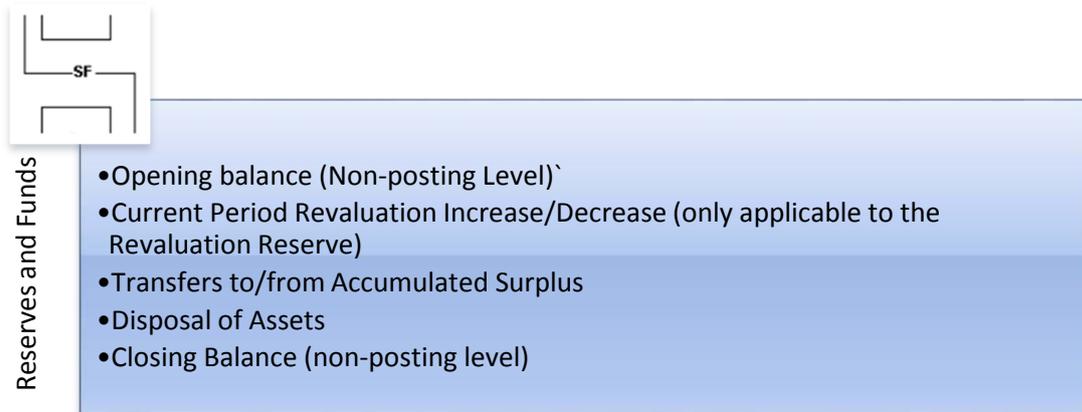
provincial and national government loans extinguished and used to finance housing selling schemes undertaken by municipalities with a transfer of the related assets (complete and in progress) to the fund. Monies standing to the credit of the Housing Development Fund could only be used to finance housing developments within the municipal areas subject to the approval of the Provincial MEC responsible for Housing.



Loans Extinguished

- Opening balance (Non-posting Level)
- Utilisation
- Closing Balance (non-posting level)

348. The posting level accounts available at a posting level, unless otherwise indicated excluding the Housing Development Fund are:



Reserves and Funds

- Opening balance (Non-posting Level)
- Current Period Revaluation Increase/Decrease (only applicable to the Revaluation Reserve)
- Transfers to/from Accumulated Surplus
- Disposal of Assets
- Closing Balance (non-posting level)

349. Share Premium account at a posting level provide for the excess amount received over the par value of issued shares, only applicable to municipalities and municipal entities.

## Preparation for mSCOA Implementation

350. 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.

351. The system developers responsible for applications commonly used by the municipalities are responsible for enhancing their software to be operated by business processes and are 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 recognises the complexities inherent to the implementation of the mSCOA requirements.
352. Identify and add detail of bank accounts, investments, call deposits, non-current investments by name of institution and account number to the mSCOA classification structure. These accounts need to be linked to the corresponding account within the Funding Segment.
353. Identify contract details and include posting-level accounts accordingly.
354. Link inventory categories to the existing detail within store and procurement modules.
355. Trade and Other Receivables from Exchange Transactions – posting level accounts is set up in far more detail than before, requiring extensive work to set-up.
356. Link “Capital Projects” defined in the Project Segment to the Construction Work-in-progress accounts.
357. Assess the progress made by the municipality in meeting the NERSA Regulatory Reporting Requirements in selecting the appropriate accounts to be activated for fixed and intangible assets.
358. In addition to the above specific requirements the next step would be to identify the differences between the charts of accounts currently in use by the municipality, compared to the mSCOA classification and incorporate these requirements into the standard operating procedures and work methods.

## Annual Maintenance and Matters Pending

### Annual Maintenance

359. Errors in mSCOA Tables: Assets requiring correction:

- Capital Development Should be Patents, Licenses, Copyrights, Brand Names and Trademarks Accumulated Impairment [13ad49de-a2cb-411a-8500-2bd21929f79f]
  - Capital Development should be Recipes, Formulae, Prototypes, Designs and Models Accumulated Impairment [2d81d6ec-b98c-46ef-b893-8c255bc35817]
  - Capital Development GRAP 31.104 should be Computer Software Accumulated Impairment [cf5c93c8-2fad-403e-b2a7-f14ecc69560a]
360. Consider removing the account for “Bank Overdraft” [1420f20e-8e28-4d1e-9991-86ef5b514c65] from Item segment: Liabilities as this is effectively a duplication of the accounts provided for within “Bank Accounts”.
361. Non-current Assets – Property, Plant and Equipment: The classification for “Land” provides for a distinction between “Distribution and General Plant” that need to be removed. The classifications for “Owned and In-use, Leased to Other and Future Use” need to remain. The accounts to be removed are:
- Distribution Plant: 07efe5b6-d6ac-4122-84f1-386641d8fb4b
  - General Plant: d231996c-67d0-4a65-937a-2ea0effe08b3
362. Libraries to be removed from the Non-Current Assets – Property, Plant and Equipment Classification. The following accounts to be removed:

Libraries	-	-	ea39c8d6-cf56-4841-9fe2-9ee833712836
-	Cost	-	b94b07ba-3b73-4fee-b9f2-9aec23706b7b
-	-	Opening Balance	5ead1a0e-a897-4db2-9855-1061273ed05c
-	-	Acquisitions	eeef9f2-c340-49aa-85bd-1da194edac23
-	-	Decommissioning, Restoration and Similar Liabilities	dcfff509-c1c7-4773-a177-031121122575
-	-	Correction of Error	18c141ab-d4a0-4df2-a906-d704b90772bc
-	-	Change in Accounting Policy	e3d495d3-e437-4f90-b760-ad0d1322a8c9
-	-	Disposals	8db48102-e8dc-4393-a0c4-d0b62aed33d
-	-	Transfers Received	e26e3bc2-9e9d-409c-b653-835b8ed8d6a0
-	-	Transfers Made	9091e8c6-590c-43b4-ab9a-de0364929b5a
-	-	Closing Balance	e2084d42-6a1b-4d4d-8cfa-1aa88189d09b
-	Accumulated Depreciation	-	8091d8ef-9aea-42e5-81a0-6922703266d6
-	-	Opening Balance	6a090f26-3387-4215-ad38-98551af66ac9
-	-	Other Changes	29dbf0b3-8d9c-459d-b2d3-0bfaa7f43ea9
-	-	Depreciation	7c300255-af9d-4904-93b8-5b6fea05c69c
-	-	Disposals	e73e90d4-434f-471a-acdb-0977a221222e
-	-	Transfers	671d92bc-ae50-4d85-abb8-9c2f335bd472
-	-	Closing Balance	24a84288-9848-498c-9361-82a818a4cd52

**Project Detail Document: Section 6.4 – Item Segment**

-	Accumulated Impairment	-	2422fe84-1b0e-431a-82f4-49842564a33b
-	-	Opening Balance	8ba08469-7405-4f87-ba28-46f035174c36
-	-	Impairment	a419951e-5a02-47d0-b999-5685d89e8fdf
-	-	Disposals/Transfers Out	54d3801e-3f82-42c6-883f-d7be09a9915d
-	-	Changes not specifically listed	a138c125-9d7b-4323-9c52-2db6f5794200
-	-	Closing Balance	862f53a8-51a2-43c9-827b-103aa13ecfe9
Libraries	-	-	7a0ffd08-0ed0-40df-9c91-084f426cfdc3
-	Cost	-	dfd1c21d-914f-44bd-bd3a-c11d5196ba45
-	-	Opening Balance	784ba389-3392-4e3c-a791-4ab2d871d41a
-	-	Acquisitions	be51396d-c1d5-46e3-9ada-4be8bd8f79fa
-	-	Revaluation	7289c827-3f6b-49a8-b86d-f321f23eb401
-	-	Decommissioning, Restoration and Similar Liabilities	47a400c6-37c7-4a66-8b01-ff59ff7d5691
-	-	Correction of Error	ed163dde-367f-4f54-a73b-887e06b5386e
-	-	Change in Accounting Policy	4baae70a-6e6c-4b7f-ad6a-7439fe04091f
-	-	Disposals	ae107ac0-f406-4ee8-a7c5-a8ff90b8ba4b
-	-	Transfers Received	50f0d757-eb89-4077-b7bb-b3e93d94d126
-	-	Transfers Made	6e0e527e-cb8f-480f-bede-397faa9cc971
-	-	Closing Balance	f6086e25-1487-4e60-970a-3c3834b4a4e9
-	Accumulated Depreciation	-	4a488139-dd2d-4b75-866f-2cc1763981ff
-	-	Opening Balance	cf7ab485-1621-4ed2-92fa-e7f04621bd01
-	-	Other Changes	77d52f7b-bee9-4485-b2cb-03f5466a3d95
-	-	Depreciation	9582ba69-1ff5-4cc6-8c06-706bc827e6c0
-	-	Disposals	eb0d7d00-1b0d-48af-a68a-242f05937df8
-	-	Transfers	66245034-0a18-40d4-a0c4-caccef7ce2ff
-	-	Closing Balance	965b539a-e8f3-4c4e-9ee7-5d5eff1431d5
-	Accumulated Impairment	-	62ea17e2-9342-4732-883b-c0664c165ffb
-	-	Opening Balance	0d60517d-ab35-41e8-b880-ab16499f263b
-	-	Impairment	99e70ecd-3d9e-424b-b59b-2e49ee977a06
-	-	Disposals/Transfers Out	cd2bb2ee-f655-42b4-8d61-9fff55dfcf60
-	-	Changes not specifically listed	1536726a-df1c-4d8f-97a4-3369d573138c
-	-	Closing Balance	aec95173-1312-423d-bbd3-589779d04828
Libraries	-	-	3c41941c-b096-4b4d-b909-f546cc541d40
-	Cost	-	2f48d7b6-421f-4697-94c7-8aca7551aed9
-	-	Opening Balance	e0524feb-369a-4e5e-a71d-0da74bb87445
-	-	Acquisitions	3c0f837c-2aa9-424f-8a1c-c66685882777
-	-	Decommissioning, Restoration and Similar Liabilities	3743eb7e-fae2-4826-a72f-efbe83540eca
-	-	Correction of Error	aa0c0750-0b36-4b12-9b9c-9efab0bf61d4
-	-	Change in Accounting Policy	414aab40-3dfe-4fc0-8ac2-c665e27e967b
-	-	Disposals	6dd21f56-4439-4e6b-b2f9-330c2d717621
-	-	Transfers Received	4b343fd0-f32c-4898-8d1a-24d781a2290d
-	-	Transfers Made	13cff834-e8f1-4e3f-85c6-0b27e4a948ce

-	-	Closing Balance	8d14a076-c7e3-43dd-86b4-4ad419f92dd3
-	Accumulated Depreciation	-	f2f48a61-53f2-4488-9246-102f93a15240
-	-	Opening Balance	56755aa5-a66d-4947-9bef-d0021e61f314
-	-	Other Changes	7ec021ef-f76e-48ad-8393-1c2faa63f8f7
-	-	Depreciation	d2005b90-3d7b-41a7-9860-a5747f223d73
-	-	Disposals	368bd9ff-dca0-44ab-b466-65141be02fb1
-	-	Transfers	6dd8cf4f-efa9-4c98-837f-def2df2d81f5
-	-	Closing Balance	546b9ac9-0172-4130-988c-4c5807f5454e
-	Accumulated Impairment	-	af938499-ac63-467d-be70-8d038cf3d635
-	-	Opening Balance	0bfc3662-b9e2-49f7-a453-857fc9556fb7
-	-	Impairment	4eb11cb9-981b-4b55-82d5-0ee136388b80
-	-	Disposals/Transfers Out	f0a66c03-93dd-4154-9256-f07a36806399
-	-	Changes not specifically listed	89925e77-04e6-4aab-a3c1-b0648fb580ec
-	-	Closing Balance	909810ed-dca8-4db5-96ae-83887642fde2

## Matters Pending

363. Illustrative Financial Statements will be prepared as part of the mSCOA project deliverables to provide guidance on linking the mSCOA accounts to the financial statement presentations.
364. Cash and Cash Equivalents: With reference to the mSCOA Project Steering Committee engagement during October 2016 the recommendation was accepted to treat “unallocated deposits” as part of the “bank account”. Research need to be done on reflecting “all bank reconciliation items” in a similar way. The effect thereof will be to reflect the balance as per bank statement as part of the financial position and not the “cash book balance”.
365. VAT Receivable and Payable – The VAT Modules utilised by the financial system would ultimately determine the detail classification for these accounts. Sufficient detail need to be available from the financial system to complete the VAT 201 return. The accounts presented in mSCOA Version 6.1 is based on specific requests made by vendors and does not support a standardised approach. At the time of finalising this project summary document the outcomes and proposal following the National Treasury/ SARS Workgroup was not yet conceptualised and fully documented. The impact of concluding on this activity may change the existing classification as well as the VAT Indicators available in mSCOA Version 6.1.

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<sup>1</sup>The Standards of GRAP 1 on the Presentation of Financial Statements requires that the municipality present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of its financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of their liquidity.