



national treasury

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REPUBLIC OF SOUTH AFRICA

STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

SCOA for MUNICIPALITIES - mSCOA

Project Segment

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PROJECT SEGMENT

Background to the Segment

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

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.

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.

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.

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.

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.

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.

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.

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.

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?

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

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.

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.

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.

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

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 this is in relation to capital and operational projects. 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.

The projects are also linked to the Medium Term Strategic Framework (MTSF) and the Integrated Urban Development Framework (IUDF) to determine how the project is contributing to the National Development Plan.

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.

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.

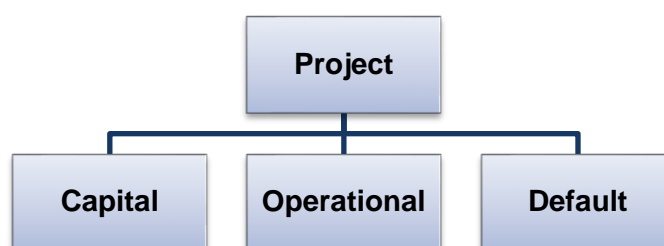
Legislative Framework – MFMA Section 19 determines that a municipality may spend money on a capital project only if 1) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in MFMA section 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.

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)).

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.

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. These projects are normally typical of nature and should be standard across the local government landscape and is therefore included as part of the annual chart review until exhausted and a complete picture of the local government project environment. 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

The following design principles have been used in preparing the segment outline:

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.

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.

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.

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.

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.

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).

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.

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.

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 (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.

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.

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, 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.

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 the requirements of NERSA as entrenched in the relevant sets of legislation.

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 wastewater 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.

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** as 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:

Indicator	Yes	No
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Posting Level	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.
Breakdown Required	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.

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.

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.

Principle 17 Cities’ Infrastructure Delivery and Management System (CIDMS) – The Cities’ Infrastructure Delivery and Management System (CIDMS) is a fully compliant SANS 55001 asset management system. 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 accelerated economic growth, as well as social upliftment through the production of serviced land, housing and complimentary municipal public amenities. The guidelines establish a framework for robust management of infrastructure across lifecycles and asset portfolios. The CIDMS Toolkit can be accessed on <https://cidms.co.za/>.

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 the CIDMS Toolkit on <https://cidms.co.za>

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 the CIDMS Toolkit.

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.

Principle 21: Classification for Capital Projects - Capital spending on the highest level consist of spending on:

- Infrastructure assets; and
- Non-infrastructure assets.

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
- Zoo's, Marine and Non-Biological Animals

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

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.

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.

Principle 26: Project Naming Convention – The segment requires a specific naming convention for projects, whereby every project must be listed in a project file that provides the following detail:

- Demarcation code of the Municipality
- Financial Year end
- Budget type ORGB= PROR, TABB= PRTA, ADJB= PRAD
- Project GUID including extension(project nr)
- MTSF Service delivery Outcomes codes (01-14)
- IUDF Integrated Urban Development Framework codes(01-04)

- Own Strategic objectives(250 characters)
- Own Project description(250 characters)
- Location GPS coordinates
- No duplicate project GUIDS

All project files must be created and loaded to the Local Government Database Reporting System as aligned and in support of the budget it relates to.

Principle 27: All Operational and Capital Expenditure – Capital and Operational expenditure need to be reflected in the project segment without exception. Items that do not related to direct expenditure items such as depreciation, impairment, amortisations, fair value adjustments, interest payments, etc. will be reflected in “municipal running cost”.

Principle 28: Classification for Capital Projects - Capital spending on at the highest level consist of spending on:

- Infrastructure assets; and
- Non-infrastructure assets.

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.”

Principle 30: Non-infrastructure assets - This category provides for movable and immovable assets other than those classified as "Infrastructure".

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 improving the lifespan of an existing asset. Capital expenditure on existing assets are further divided into “renewal or upgrade”.

Expenditure on an existing asset extends the service potential of the asset or expected useful life of the asset. ‘*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 materially improves the original service potential of the asset.

- Projects of a capital nature undertaken to create "new-infrastructure assets" must be done as per definition of an "infrastructure asset" in GRAP 17.

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 refers to 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 and can be:
 - 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 (e.g. in case of emergency).

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 this is also

aligned to the guidance provided in the interpretation guidance of the Generally Recognised Accounting Practises(iGRAP). The users should note the different treatment of indigent support that is classified under cost of free basic services and the providing for discount as per council approved policies and tariffs that must be allocated under the Typical workstreams for Revenue cost of Free services

Legislative and Regulatory Requirements

For the legislative and regulatory requirements refer to Annexure A of the PSD.

Transactions by Business Process to be allocated in this Segment

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.

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.

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

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.

Proposals that were considered at the development stage 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.
 - The use of projects in the debit and credit transactions is introduced with the concept of balance sheet budgeting. This means that similar projects will be used for the debit and credit transactions to ensure that the information is complete in all transactions. This will not duplicate information as movement accounting introduced in *m*SCOA chart 6.2 provided added functionality to the use of the *m*SCOA chart.
 - National Treasury has built validation rules into the Local Government Database to validate the data that are submitted. Once of these rules cater for the use of capital and operational projects against balance sheet transactions where applicable.

Discussion of the Project Segment

The “Project” segment distinguishes projects according to the nature of the expense, whether it is a capital or an operational expense.

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.

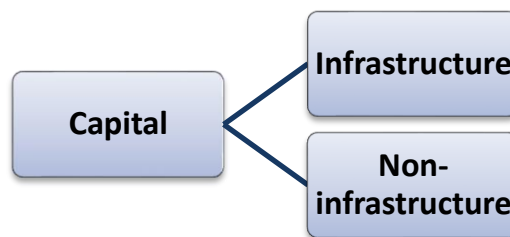
The definitions and explanations provided below intend to clarify the use of the account contributing towards standardisation of allocations in this segment.

Capital

“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.

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.

At the highest-level capital projects distinguish between infrastructure projects and non-infrastructure projects:



Capital: Infrastructure

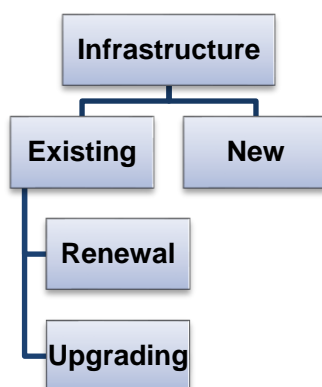
Projects are classified in this category if complying with the definition of an “Infrastructure Asset”. Some assets are commonly described as “infrastructure assets” – while there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following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

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. ‘

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".

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".

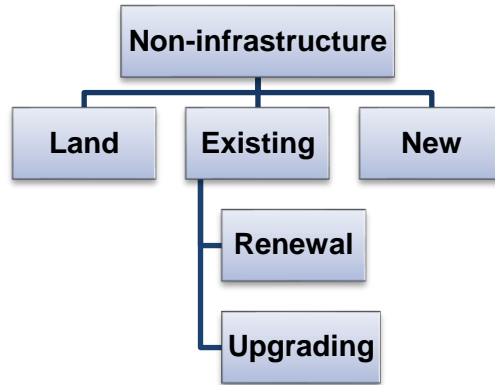
New infrastructure would provide for own account construction as well as outsourced developments. Further detail on the “creation” of these assets in the context of input costs is available from the “Item” segment thus providing more detail of the composition of the new-asset creations.

Capital: Non-infrastructure

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".

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”.

The outline for this group of accounts is 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".

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

Default Transactions

Default projects are the classification required to record a transaction within all the segments of the *mSCOA* where no specific project is referred to.

The use of default projects has been amended in version 6.4 of the chart to cater for the recording of projects to ensure the transactions populate the data for identifying the debit and credit transactions relating to the capital and operational projects, as the project segment now plays a vital role in identifying cash flow transactions.

This is in line with the movement accounting that was introduced with version 6.2 of the chart as part of the principles of balance sheet budgeting.

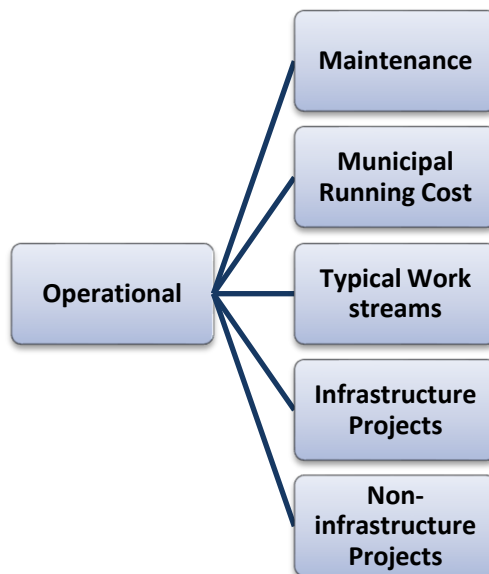
Default projects is used in transactions where no project detail is required such as Revenue transactions.

The opening balances is required to be a default project.

Operational

“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”.

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



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.

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 Municipality where the assets created will be transferred to another entity. The entity creating the asset will not capitalise it in their books or be required to maintain this asset on behalf or for another entity.

Non infrastructure Projects: Non infrastructure projects undertaken by the Municipality where the assets created will be transferred to another entity. The entity creating the asset will not capitalise it in their books or be required to maintain this asset.

Maintenance

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.

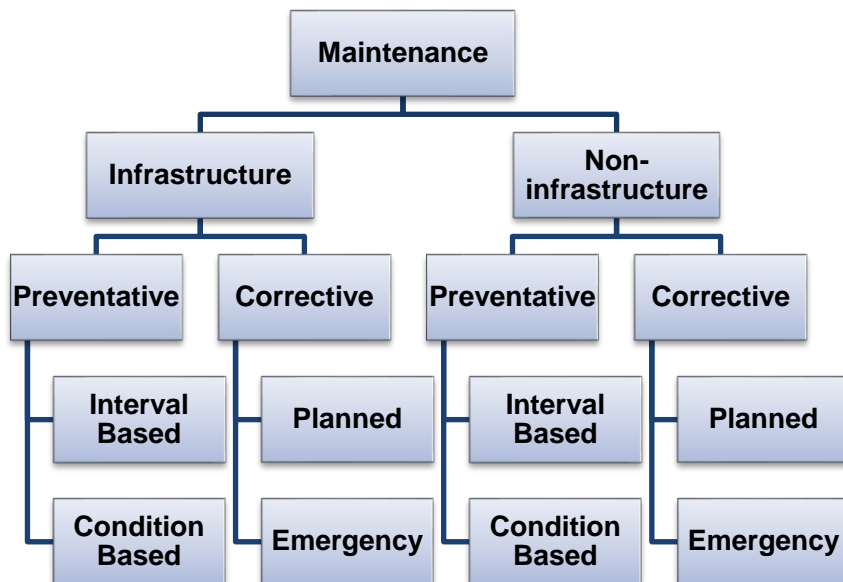
Recurrent expenditure as required to ensure that the asset achieves its intended useful life. Maintenance is funded through the entity’s operating budget, and such expenditure is expensed in the entity’s Statement of Financial Performance.

Design Principle 24 explains the “level of detail” provided for in this group of accounts.

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.

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

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

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.

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.

In addition to the maintenance and repairs 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.

This classification provides for projects typical to municipalities but is not necessarily conclusive. As determined by the IDP the Municipality might identify further projects for inclusion or expanding existing categories.

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 6.5 for a comprehensive list of classifications:

Account Description		Definitions
Typical Streams	Work	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

Account Description	Definitions
	guidance, but these could be 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	Projects of an operational nature relating to development agency establishment
District Initiatives and Assistance to Municipalities	Projects of an operational nature relating to district initiatives and assistance to municipalities.

Account Description	Definitions
Drinking Water Quality	Projects of an operational nature relating to drinking water quality.
Efficient and Effective 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.
Human Resources	Projects of an operational nature relating to human resources.
Indigent Cultural Management and Services	Projects of an operational nature relating to indigent management including basic services for water, electricity, refuse and sanitation.
Junior Council	Projects of an operational nature relating to junior council.

Account Description	Definitions
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	Projects of an operational nature relating to 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.
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	Projects of an operational nature relating to municipal properties.

Account Description	Definitions
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.
Service Connections	Projects of an operational nature relating to service connections.
Shared Service Centre	Projects of an operational nature relating to municipal properties.
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.

Account Description	Definitions
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	Projects of an operational nature relating to 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.
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

Account Description	Definitions
Cost of Free Basic Services	<p>This project serves as a collection for the accounting for the Cost of Free Basic Services – It includes the free basic municipal services provided to the indigent residents according to national policy, for example 6 kl water, 50 kWh electricity, free sewerage and free weekly refuse removal. The tariff charged for the services will be provided as a discount with any more usage than these to be payable by the consumers. This places emphasis on the tariff charged for these services to be cost reflective..to be the actual cost to the municipality for providing these services The revenue cost (expenditure) 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. This item should be deducted from the revenue to reflect the net. Entry: debit the project :cost of free basic services linked to the revenue item as a positive value . The credit transaction will be reducing the billing on the posting level of monthly billing. (</p>
Revenue Cost of Free Basic Services	<p>Covers all discount given on services in excess of the national policy.. Includes 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(expenditure) 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 Project: Revenue cost of Free Basic Services linked to the revenue item and credit the charging of the service.</p>
Property rebate rates	<p>This project caters for revenue foregone in terms of approved council tariffs and the Municipal Property Rates act. Act no. 29 of 2014 as amended.. Revenue foregone consist of section 15 of the Municipal Property Rates Act, Exemptions, Reductions and Rebates and</p>

Account Description	Definitions
	excludes section 17 "Other Impermissible Rates" and section 21 "Compulsory Phasing-in of Certain Rates" as well as Indigent Owners.. Purpose is to record Property rates at Gross and provide for revenue foregone as a Deduction. The cumulative impact of this type of revenue given away need to be extracted. Entry would be Property Rates Debtors Credit, Project :Revenue Foregone linked to the revenue item of property rates category to be debited. Need to indicate to OAG the importance from Budget Perspective and being transparent in reporting in AFS.

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

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.

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.

Non infrastructure Projects

This group of accounts provide for non infrastructure projects done by a municipality on behalf of another party, for example the municipality building a sport and recreation facility to be transferred to another entity to take ownership and manage

mSCOA Implementation

Municipalities by now are far along with the *mSCOA* implementation.

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.

National Treasury have provided comprehensive guidance in *mSCOA* Circular no.7 to 11 as implementation challenges have been identified.

Annual Maintenance and Matters Pending relating to the Project Segment

Annual Maintenance

Two projects posting levels were added to Typical workstreams Revenue cost of free services 1. Temporary relief of Distress and 2. Fines as part of the changes made to the Project segment in the *mSCOA* version 6.6.

Matters Pending

There were no 'matters pending' identified for the Project Segment at the time of finalising the Project Summary Document (PSD) for Version 6.6.