



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

STANDARD CHART OF ACCOUNT SPECIFIC TO LOCAL GOVERNMENT

SCOA for MUNICIPALITIES - mSCOA

Funding Segment

January 2023 – mSCOA Version 6.7

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FUNDING SEGMENT

Background to the Segment

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

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.

To monitor expenditure (operational and capital) against the source of the fund utilised, this segment contains the sources of funds available to the municipality.

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).

In addition to internally generated funds, transfers and subsidies, municipalities may make use of external borrowings to finance capital projects.

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?”*

With the introduction of movement accounting in the 6.2 version of the chart the cash flow can be populated using a combination of the relevant items where cash is paid or received linked

to the Fund segment that identifies specific fund sources. 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.

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. At a budgeting stage the fund segment must be utilised to plan the expenditure well. (Refer to Circular 11 on the application of the Funding segment.

Illustration: High-level Classification

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 chart and is still used in the 6.5 chart.



Definitions:

Operational: Operational revenue provides for funds from all sources of income that is not capital funding. It includes service charges, property rates and all other sources of revenue as listed in the chart

Capital: Capital funding refers to all funds for capital application for example Capital grants, borrowings and transfer from operational revenue for the purpose of paying for capital from own revenue sources.

Non-funding Transactions: The recording of transactions not specific to a funding source. Opening balances must be non-funding.

Design Principles

The following design principle(s) have been used in preparing the Funding segment outline:

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.

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.

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.

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).

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. The use of the Fund segment provides various balancing of the budget of available funding and testing the allocation of DoRA funding in the planning stages of budgeting. Information on payment rates can also be derived from the implementation of this segment.

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 Budget and Implementation Plan(SDBIP)) and reporting (monthly, mid-year performance assessment and annual financial statements).

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.

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.

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, 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 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.

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.

Principle 12: NERSA Regulatory Reporting Requirements - NERSA as explained in the 'Regulatory Reporting Manual as amended periodically. *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.

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 wastewater 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.

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 rule. 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* chart:

Indicator	Yes	No
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 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.

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.

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.

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 fund and allocating the payments made relevant to the source of fund to the specific fund. At any given time, the balance available in terms of funding and spending on a fund would be available.

Principle 18: Budget Reporting Format - The Budget Return Forms ¹(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 14 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.

Principle 19: Operational versus Capital - Operational expenditure should be funded from “operational funding” and Capital should be funded from “capital funding” in accordance with sound financial management principles.

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 22 of the Local Government Municipal Property Rates Act, 2004 (Act No. 6 of 2004) as amended. The posting-level detail to be populated by the municipalities.

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.

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 and monetary allocations received.

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.

Principle 24: Transfers and Subsidies (Provincial Departments) - The Local Government MTREF Allocations Information Sheet was used to design the categories proposed. This approach has been amended in chart version 6.3. Two main categories for Provincial Grants

¹ The Municipal Budget and Reporting Regulations, 2009.

were created under capital and operational transfers and subsidies namely: Infrastructure and Capacity building. Provincial Government should indicate how municipalities must specify posting the levels for provincial grants for reporting purposes when they gazette the provincial grants. To ensure data credibility in reporting, the Item Revenue, Liabilities and Funding segment must be aligned and used consistently.

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.

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.

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.

Principle 28: Reporting - The Position on “seamless alignment” between the annual financial statements and Budget Reporting Tables as defined in the Municipal Budget and Reporting Regulations, 2009 must also be followed in the alignment of *mSCOA*. 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 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. Further to this at any point in time the information contained in the *m*SCOA chart in combination will be able to reconcile and report on 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 local government accounting cycle should be followed to ensure all the approvals is in place before any funds is spend. If projects are funded internally until grant funding is secured there must be a council resolution to this effect. The data string submission must be aligned to the approved plans for spending.

Principle 30: Whole of Government Reporting - The Primary Objective set for the *m*SCOA 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.

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.

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 *m*SCOA Technical Committee (through the *m*SCOA Frequently Asked Questions (FAQ) Database) to create these accounts in the next annual *m*SCOA release.

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

For the legislation and regulatory requirement 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 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.

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.

Identification of transactions by typical business processes thus would provide a standardisation of specific transactional types for recording within the various segments of *mSCOA*.

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 in October 2022.

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

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

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 have been updated with the introduction of movement accounting for the treatment of cash flow transactions. The correct set up must be utilised to ensure the information populates correctly in the reporting schedules

Linking proposals included in the design principles 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. Movement accounting introduced in the 6.2 chart introduced additional functionality that could now be used to assist in determining the cash flow as well as payment rates and collection rates.

- Link funding source to all accounts to ensure the multi-dimensional use of the chart. Although some transactions are not cash transactions it is not non-funding. The use of non-funding is currently limited to the linking of opening balances.
- 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.
- Allocation in-kind are not represented by “cash” but might be contributing to a specific fund and project and thus be considered “funding”.

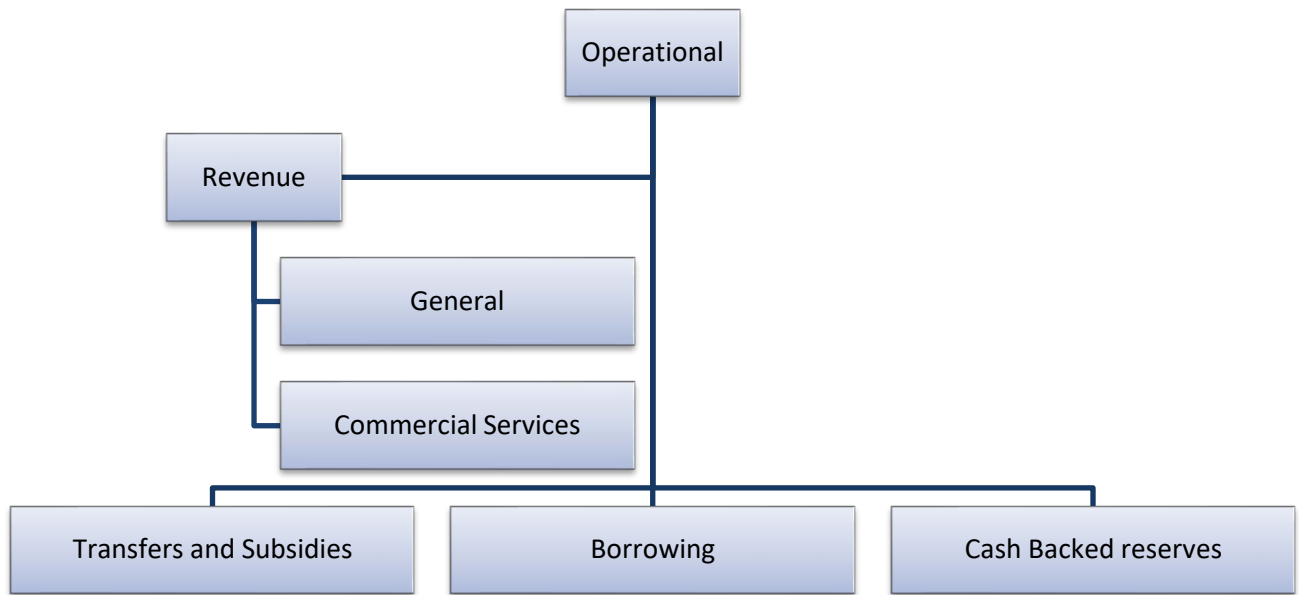
Setting-up posting-level accounts for:

- *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. This practice has been institutionalised. When a fund/ revenue or liability that relates to the other segment all segments are updated.
- *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

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*”:



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

Definitions:

Revenue - 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 COID²-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.

Revenue

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

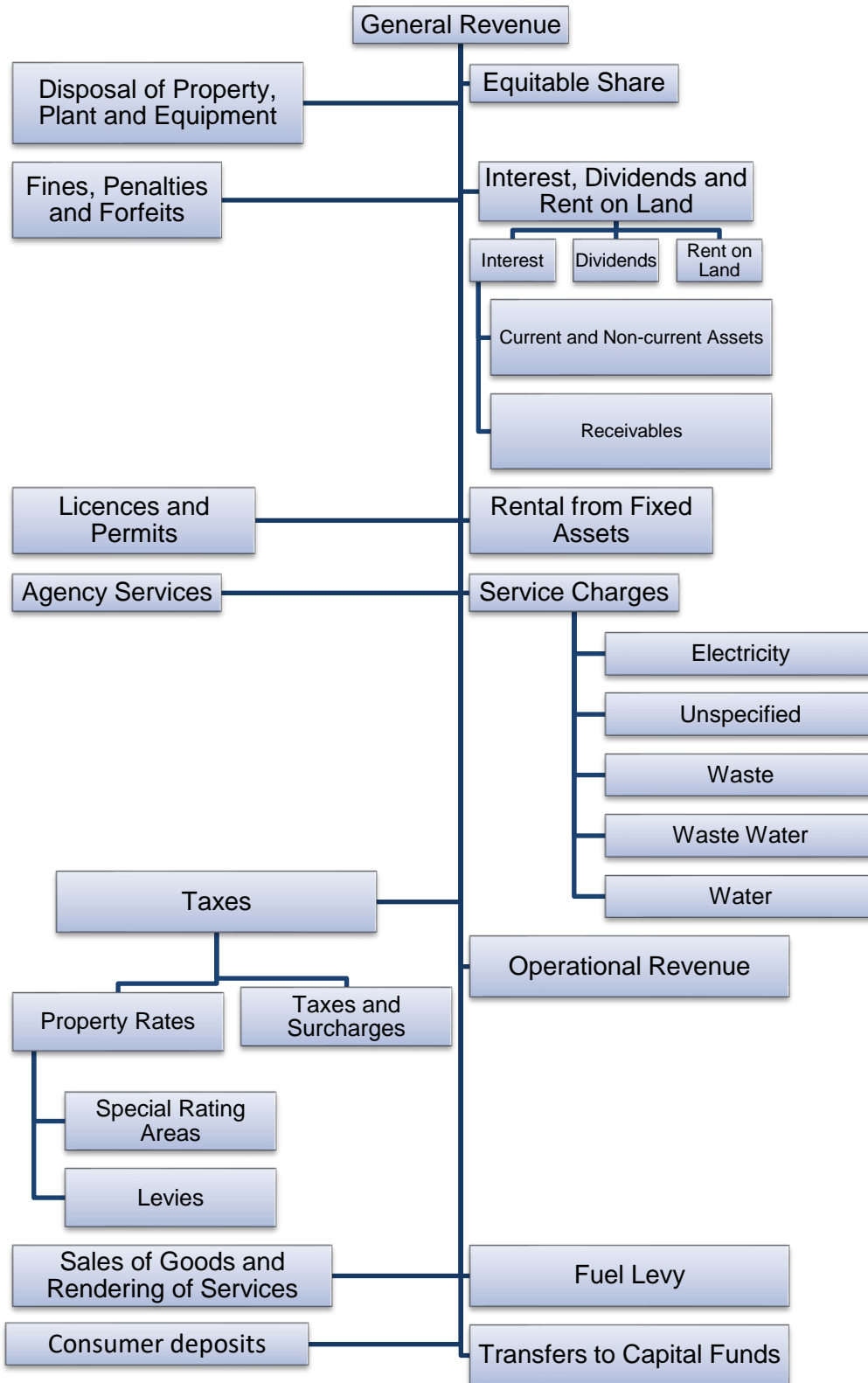
General revenue implies that the legislative framework does not impose any restrictions on the application of funds generated from general revenue sources.

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.

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.

The group of accounts for General Revenue includes the posting level accounts as depicted in the diagram below.

² Compensation for Occupational Injuries and Diseases (COID).



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.

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.

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.

Municipal Services provides posting-level accounts for the four main trading services being electricity, water, waste and wastewater. Further to this is a posting level account providing for the less material tariff services.

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 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.

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.

The group of accounts for taxes provides for “property rates” with a separate account for special rating areas.

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.

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. This is referred to a City Improvement Districts

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.

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.

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.

Consumer deposits

Consumer deposits: A fund source for consumer deposits.

Commercial Services

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.

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.

Provided for in *m*SCOA 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

Municipalities requiring classifications in addition to those provided for in *m*SCOA need to follow the process (through the Frequently Asked Questions (FAQ) Database) for requesting changes.

Transfers and Subsidies.

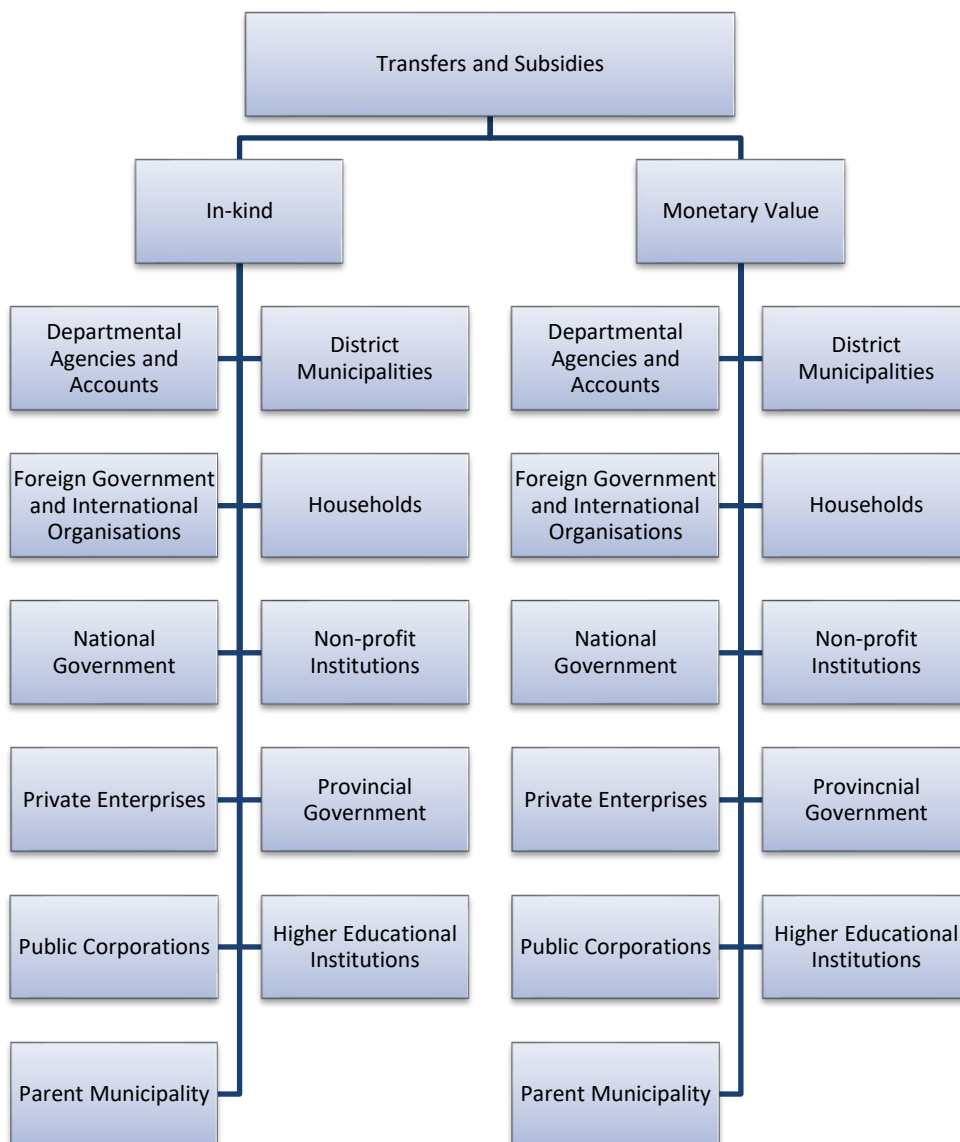
Definitions:

Transfers and Subsidies - 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".

The *m*SCOA 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.

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.

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 operational 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”.

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.

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
- Wastewater Management
- Water

The detail for Foreign Government and International Organisations is 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 *m*SCOA release. The requests for accounts to be added need to be submitted to the *m*SCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

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 *m*SCOA release. The requests for accounts to be added need to be submitted to the *m*SCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

National Departmental transfers received are as determined on an annual basis in the DoRA³³. The classification provided might therefore change on an annual basis and should be revised accordingly.

The detail for Non-profit Institutions is 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 *m*SCOA release. The requests for accounts to be added need to be submitted to the *m*SCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

The detail for Private Enterprises is 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 *m*SCOA release. The requests for accounts to be added need to be submitted to the *m*SCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

Provincial Departmental allocations are categorised according to the main use of the allocation being with breakdown allowed:

- Infrastructure
- Capacity Building

This change was affected in version 6.3 of the chart due to the different structures used by the provincial treasuries.

³³ The annual Division of Revenue Act (DoRA).

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.

The detail for Public Corporations is 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 *m*SCOA release. The requests for accounts to be added need to be submitted to the *m*SCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

The detail for Higher Educational Institutions is 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 *m*SCOA release. The requests for accounts to be added need to be submitted to the *m*SCOA Technical Committee through the Frequently Asked Questions (FAQ) Database.

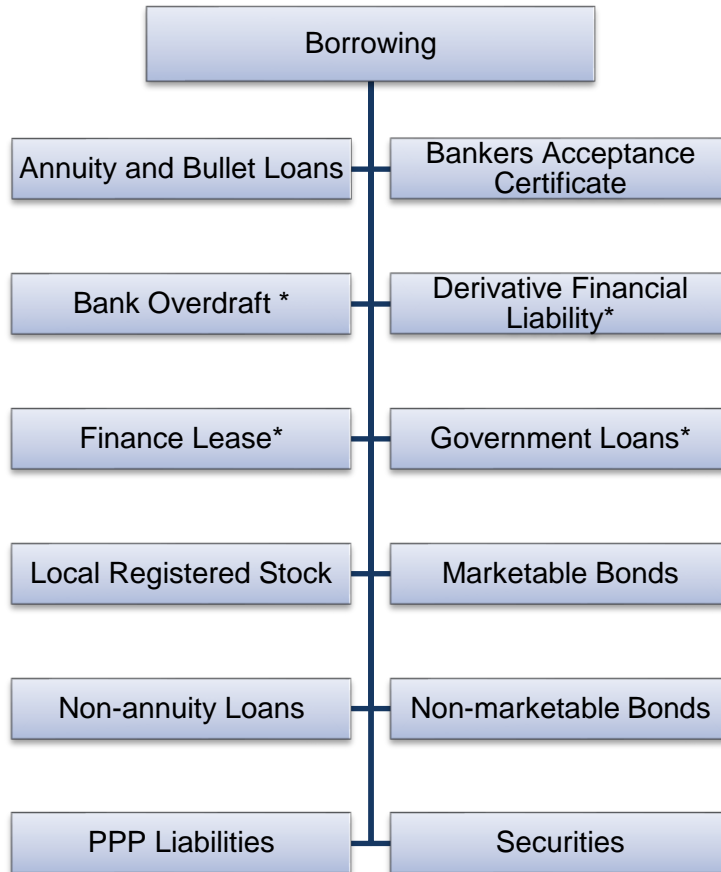
Contributed assets need to be recorded as “allocations-in-kind” according to the entity making the transfer.

Borrowings

Definition:

Borrowings - Short term debt rose in accordance with Section 46 of the MFMA, Act 56 of 2003 and to be used for capital expenditure on property, plant and equipment.

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”:



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 Organizations

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

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 COID⁴-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.

Capital

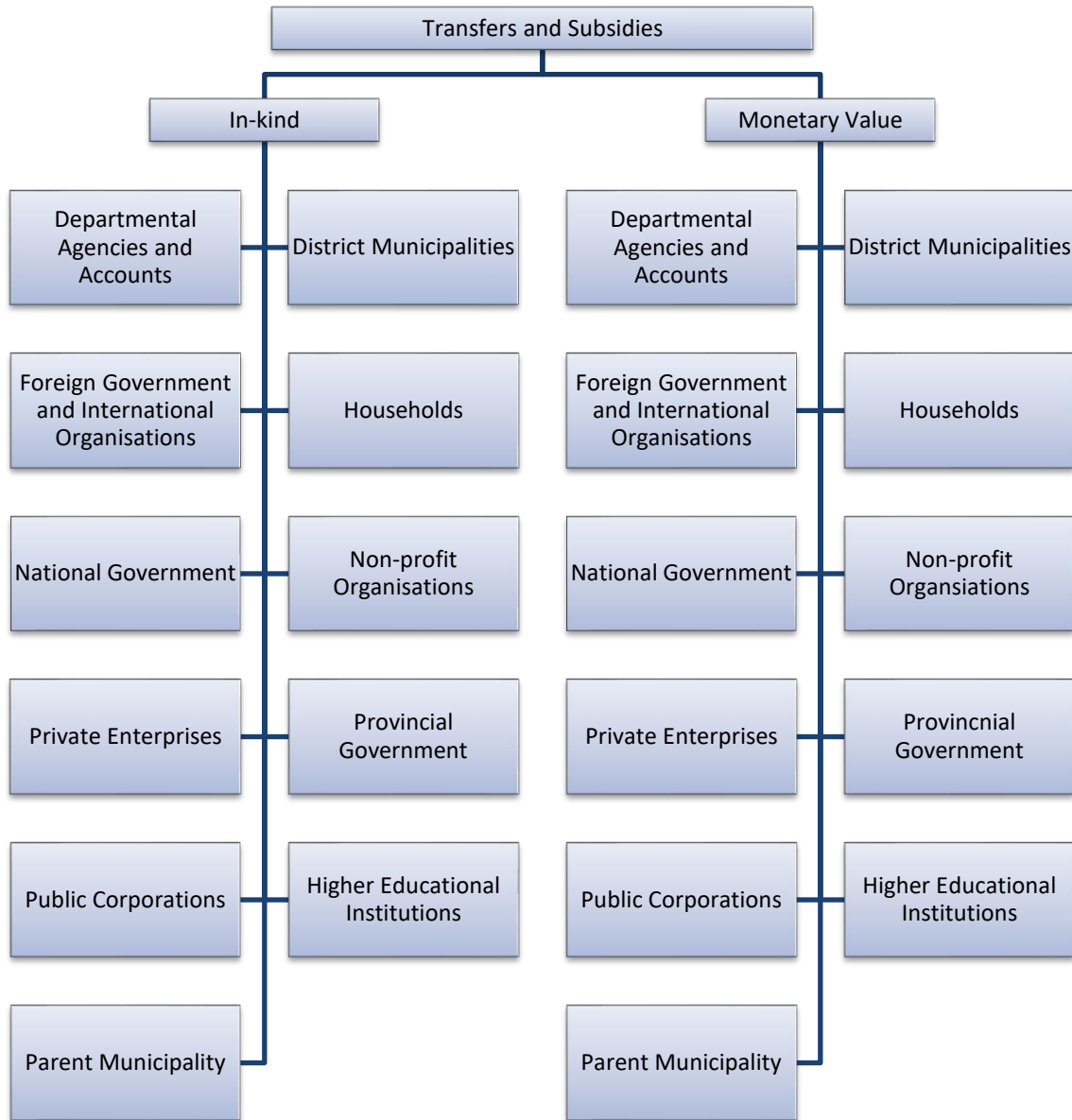
Transfers from Operational Revenue

This account provides for operational funds transferred from Revenue for funding Capital projects This account is at a posting level. Funds are moved from the respective sources within “operational sources” to this account under “capital sources”.

Transfers and Subsidies.

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

⁴ 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.

Parent Municipality Capital funds received "in-kind" from Parent Municipality

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.

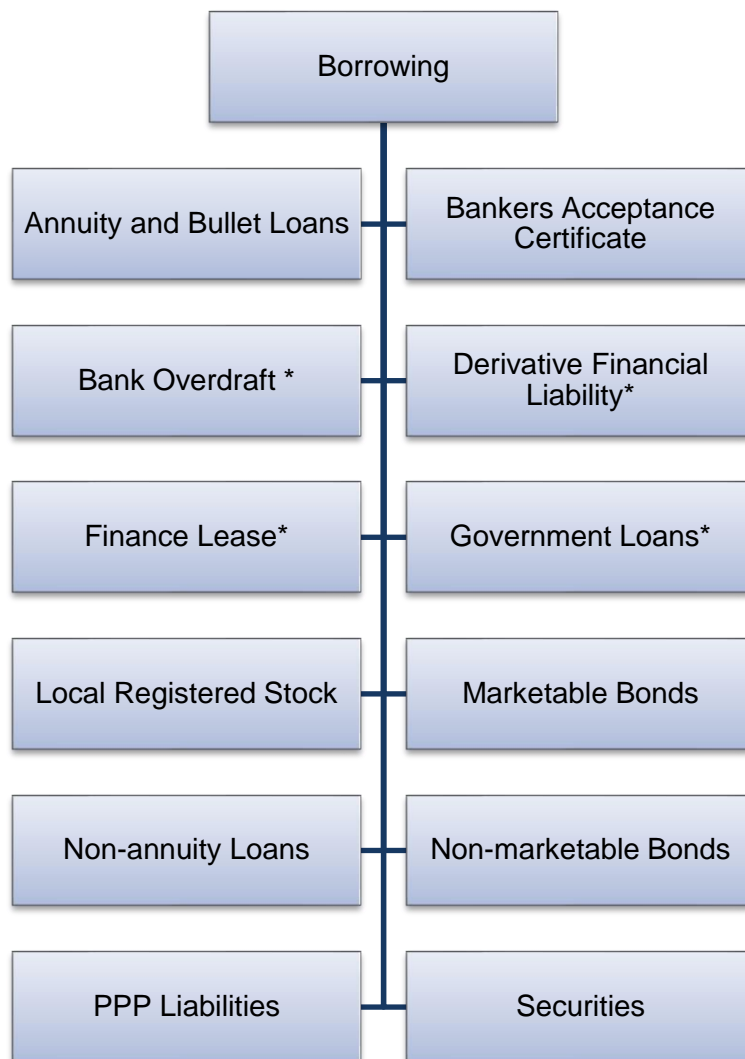
Parent Municipality Capital funds received (monetary value) from Parent Municipalities

Borrowings

Definition:

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

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.



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 Organizations

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

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. an example where non-funding must be used is against opening balances. Guidance as provided in *mSCOA Circular 11* that indicate the difference between non-cash transactions and non-funding transactions and the impact of this on reporting opportunities must be noted.

mSCOA Implementation

Municipalities by now, have progressively implemented the *mSCOA*.

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 14* as implementation challenges have been identified.

Annual Maintenance and Matters Pending

Annual Maintenance

The changes made to the funding segment on the version 6.7 of the chart includes the addition of posting levels for allocation in kind for operational and capital transfers and subsidies in terms of more than 1% of turn-over audit cost that National Treasury may pay on behalf of Municipalities and specified capital transfers from Department of Mineral Resources and Energy, Department of Water and Sanitation Department of Cooperative Governance and National Treasury.

Matters Pending

There were no 'matters pending' identified for the Funding Segment at the time of finalising the Project Summary Document (PSD) for Version 6.7.