



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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

Project Summary Document

April 2014

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PROJECT SUMMARY

Project Overview

1. This section provides a summary of the research, development and consultation phase leading to the compilation of a chart of accounts based on the process outline below; this process has directly informed the drafting of the SCOA Regulation.
2. The draft SCOA Regulation had been published for public comments by the Minister of Finance, on 2 September 2014. Subsequent to this a formal consultation and awareness campaign were hosted by National Treasury. Comments received following this process informed the finalisation of Version 5 of the SCOA Tables, the project summary document and comments register.
3. The detailed project document will devote a section to each segment including a discussion on the preliminary observations from the initial research, design principles defined for the development of the segments and defined detail accounts for consultation with diverse stakeholders. This document will also be released in due course.
4. We conclude the summary by providing a project roadmap for the remainder of the project scope, including timeframes with key milestones.

Background to the Project Initiative

National and Provincial

5. In 1999, the National Treasury embarked on a budget reform programme for national and provincial government departments, with the objectives of improving accountability and modernising the accounts of government by aligning reporting with international leading practices. The ultimate aim of this reform process was to provide better quality information to legislatures to assist in the policy-making process as a vital input into expanding service delivery, and to reinforce parliament's oversight role.
6. An important component of the budget reform programme was initiated in 1998 when National Treasury started a process of reclassifying the existing expenditure items of national and provincial government in line with the requirements of the Government Finance Statistics (GFS) developed by the International Monetary Fund (IMF). This was to ensure compliance with the requirements of the Special Data Dissemination Standard (SDDS), a minimum reporting standard set by the IMF, to which South Africa is a signatory.
7. During this process many inconsistencies in the application of existing classification standards were identified. This was mainly due to the classification rules being inconsistently applied and limited control over their application. Furthermore, departments were allowed to create their own accounting codes on the systems, leading to a vast number of codes and hundreds of duplications.
8. While the project was initiated to develop a new budget format, it soon became clear that the new reporting format would only be effective with an appropriately amended Chart of Accounts (CoA). While the budget formats outline the broad categories of planned expenditure, the chart of accounts is used to capture the detailed spending items when the budget gets implemented. Thus any change to the budget format must be supported by a corresponding change to the chart. The scope of the project was therefore expanded to include the development and implementation of a new standard chart of accounts.

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9. Since 2004, the Economic Reporting Format (ERF) and SCOA are fully operational and used by all national and provincial departments. Overall, the implementation process has proceeded smoothly without any major hurdles or impediments. The successful implementation of SCOA contributed to growing positive public perception, locally and internationally, and strengthened public sector accountability and reporting.

Local Government

10. Although the National Treasury has made significant progress in so far as the collection of municipal financial data is concerned, there still exists enormous challenges before national government will be in position to claim that the quality of municipal information is reliable, credible and relevant.
11. These challenges can be summarised as follows:
- At a municipal level, National Treasury does not have access to the operating and financial systems on the same basis as National Treasury officials have access to the BAS system at a national and provincial level. As a result National Treasury is unable to technically verify municipal information as it relates to credibility, reliability and accuracy; consequently National Treasury has obliged the municipal accounting officer and chief financial officer to signoff prior to publication of any municipal financial information. The One Public Service debate could provide National Treasury with a unique opportunity to migrate smaller municipalities to BAS or a suitable uniform system;
 - The National Treasury currently does not have the equivalent of the SCOA for local government; consequently the classification of municipal information at a transaction level across 278 municipalities is not necessarily consistent. This challenge will be partly addressed as the accounting standards and reforms unfold and once the National Treasury is in a position to prescribe a SCOA for local government;
 - Multi-year budgeting at a municipal level is still a relatively new concept. The ability to plan and articulate communities' needs and policy intent into plans and budgets are particularly weak. Most municipal budgets still focus on the first year of the MTREF period instead of a multi-year horizon;
 - The inability to consistently use information for decision-making purposes is one of the prevalent challenges. Owing to the complexity, this objective will take time to perfectly implement and master by all 278 municipalities; and
 - Finally, the actual budget documents produced by municipalities should correspond with the electronic version posted on a municipality's website. The numbers contained in these documents should further correspond and balance with the information submitted as part of the standard budget return forms to the National Treasury. In some cases several different sets of numbers are received and this obviously has an impact on the ability of the National Treasury to streamline accurate and credible publications.
12. Substantial and continuous changes in the structure of municipalities compromise the comparison of performance over time.
13. The National Treasury ultimately has the responsibility for compiling national whole-of-government accounts, including consolidated local government information for national policy and other purposes. This information is obtained from all municipalities, each of which operates according to their own organisational lattice. It is necessary for National Treasury to specify a national standard for the collection of local government budget and financial information. Municipalities need to appreciate the benefit of whole of government data collection as it informs national reporting, benchmarking and fosters an improved understanding of the contribution of the local government sphere. This will be one of the key benefits of getting municipalities to budget and report according to the GFS

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

14. The “Municipal Budget and Reporting Regulations” were published by the Minister of Finance, with the concurrence of the Minister of Provincial and Local Government in Government Gazette 32141 dated 17 April 2009 and took effect on 1 July 2009. The main objective of the Municipal Budget and Reporting Regulations is to formalise norms and standards which are envisaged to improve the credibility, sustainability, transparency, accuracy and reliability of municipal budgets.
15. The budget formats prescribed in the Municipal Budget and Reporting Regulations go a long way in identifying the categories of municipal information required in developing their budgets. The next step is to ensure that the detailed information captured in the implementation of the budget is properly and credibly aligned. Although Local Government has its own peculiarities, the success achieved at the National and Provincial level from implementing the SCOA could be equally beneficial for Local Government in improving data quality, achieving a greater level of standardisation and uniform data sets. These are critical for ‘whole-of-government’ reporting.

Legislative Mandate

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

Overall Objective

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

Specific Objective(s)

19. To achieve this main objective will require a classification framework specific to Local Government incorporating all transaction types, appropriation of funds, spending on service delivery, capital and operating spending, policy outcomes and legislative reporting requirements to the maximum extent possible.
20. The development of this framework must give recognition to:
 - international standards, guidance and best practices;
 - labels and accounts defined to have readily available the information needed for local government budgeting (annual budgets, adjustment budgets and SDBIP) and reporting (monthly, mid-year performance assessment and annual financial statements);
 - general alignment of financial reporting formats and the annual financial statements to key budget format reforms;

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- alignment of budget and reporting formats with the Standards of GRAP and principles within the provisions of the transitional arrangements applicable to the different categories of municipality, especially recognising that local government uniquely operates in an accrual accounting and budgeting environment;
 - consistent use of terminology across all municipalities by defining all accounts and labels in simple terms to support appropriate classification of transactions throughout all municipalities;
 - standardisation across local government by clearly outlining the information requirements which will enable municipalities and their information system suppliers to develop software and report writing formats that are automated and compliant to reporting requirements governing Local Government;
 - reporting on the “whole-of-local government”, and thus contribute to “whole-of-government” monitoring and evaluation;
 - finding a solution for the separation of the general government sector, which “consists of entities that fulfil the functions of government as their primary activity” and business activities that sell services at market prices within a local government environment, especially where the management of these functions tend to be closely interrelated with general government activities;
 - minimising the cost of compliance and information gathering; and
 - the classification framework must be kept simple and avoid unnecessary complexities to the maximum extent possible; this while ensuring the reform intent is maintained.
21. The SCOA will be applicable to all Municipalities, Municipal Entities and “Utilities” clearly indicating their applicability and relevance to a specific environment to assist customisation.
22. The improved quality of data will enhance the budget, financial reporting and other decision-making processes impacting on local government. The classification framework will be formalised by issuing a SCOA Regulation in terms of the Municipal Financial Management Act.

Challenges and Risks

23. Excluded from the scope of this project is system development and implementation at a user level. The Project: Financial Systems and Business Processes specifically focuses on the implementation of SCOA through a system solution. Representatives from the various categories of municipalities will be engaged at specific points in the project life cycle. Prior to implementation, the framework will be piloted at one or more selected municipalities. Workshops will be held to share information with users to bring across a proper understanding of the framework.
24. Implementing the SCOA might require “system re-implementation” for some users for whom conversion might not be easy and could become costly. The best possible conversion solutions will be explored by National Treasury in consultation with the system vendors. Systems currently in use by some municipalities might not be able to accommodate for SCOA segments nor will it be cost effective to upgrade and reconfigure.
25. It is recognised that the implementation of a SCOA in municipalities may be subject to resource and other constraints such as systems, timing, capacity and skills. Obvious systems challenges requiring further consideration include:
- The length of characters of the recommended standard chart may be beyond the technical capabilities of existing municipal data systems, for example, the standard chart may require a 15 character alpha or numeric code, whereas an existing system might be limited to a lesser number of characters.

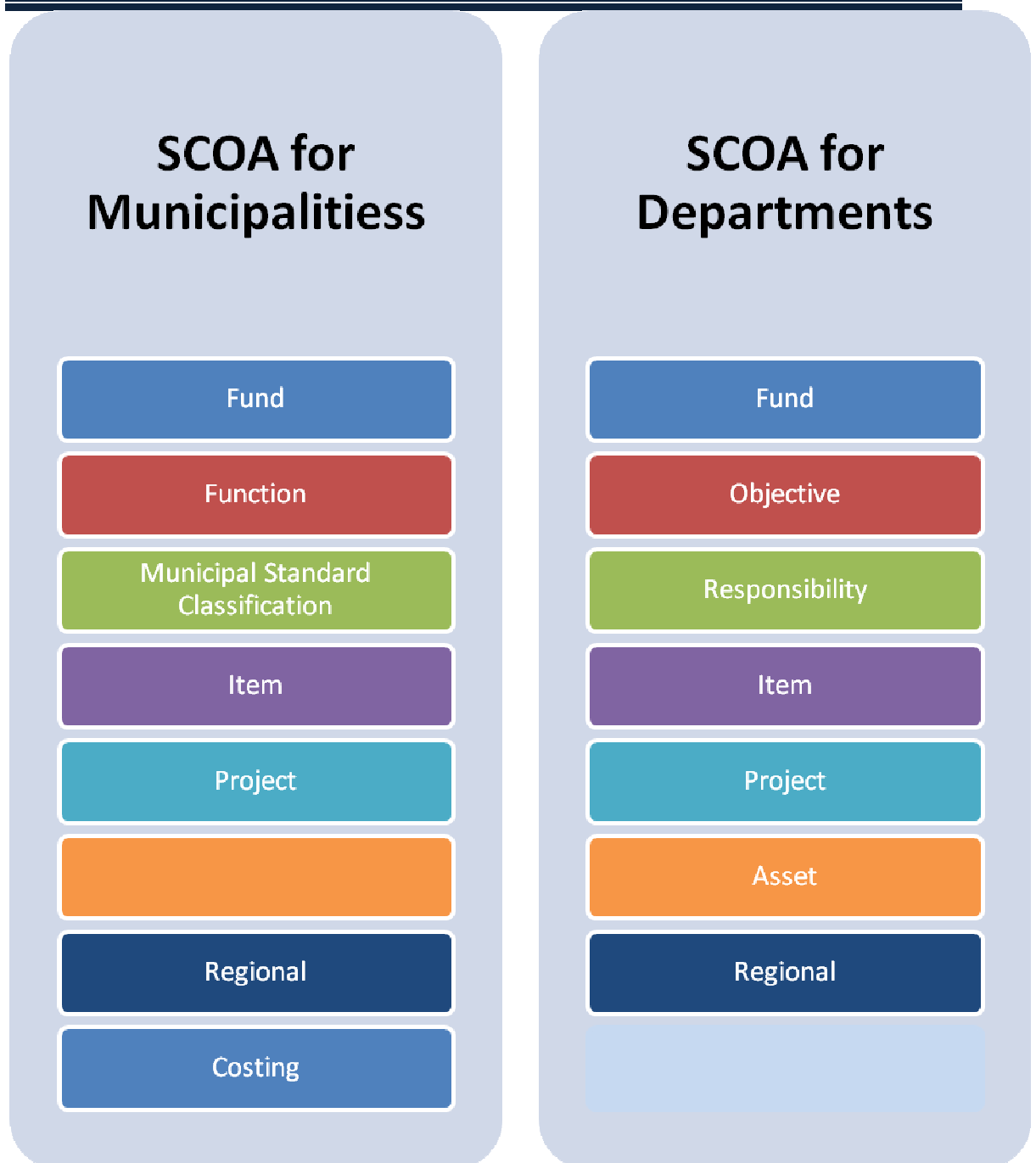
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- The multi-dimensional chart consisting of various segments might not be easy to accommodate by the systems presently utilised by the municipality.
 - The timing of SCOA implementation will be critical. Whilst a simultaneous change to all systems at the beginning of a financial year may be advocated by many, from a financial reporting and control perspective, the municipal budget cycle will commence many months before the start of the financial year and, depending on the municipality, may require systematic support to its development.
26. Therefore, because of these constraints, it is intended to provide a standard guidance framework to alleviate the wasteful burden of all municipalities having to discover these issues and challenges individually.
27. Critical to the feasibility of the project is aligning the classification, terminology and principles between the SCOA for Departments, Annual Financial Statement Template and Budget Reform Tables (Documents and Supporting Documents)
28. The “entity” classification used frequently in the SCOA for Departments might not be information currently retained in the financial systems of the Municipality.
29. Standardisation of the “Property, Plant and Equipment” detail specific to the Item Segment might be extremely costly and an extent of flexibility may need to be provided over a transitional period.
30. The development is based on the GRAP Reporting Framework as determined by Directive 5 (issued March 2009) read with the supplement to directive 5 determining the GRAP reporting framework for reporting periods ending 31 March or 30 June 2012.
31. The reporting framework comprises the Standards of GRAP, Interpretations of the Standards of GRAP, guidelines and directives issued by the Accounting Standards Board (ASB) and standards and pronouncements of other standard setters that should be applied when entities prepare and present their financial statements in accordance with Standards of GRAP, referred to as the GRAP Reporting Framework in Directive 5 issued by the ASB.
32. The extent to which transitional arrangements and non-compliance related requirements will need to be provided for will be determined during the workshops to be held with interested parties during the duration of the project development phase.
33. Excluded from the scope of the SCOA for Municipalities’ project is “non-financial information” such as that required for reporting on performance information? The SCOA therefore only deals with “financial information”.

Aligning the SCOA for Municipalities to the SCOA for Departments

34. At the outset the SCOA project team had committed that “as far as possible the SCOA for Municipalities will be aligned to the SCOA for Departments”. The first column depicts the segments proposed following the initial research and the second column the segments used in the SCOA for Departments.
35. The proposal for Municipalities includes all segments except the Asset Segment as used in the SCOA for Departments. The purpose of the Asset Segment is to identify asset classes and provide details of the economic classification. Conceptually the Asset Segment should not be necessary for Municipalities, as the capitalisation principles for recognising Property, Plant and Equipment should be well vested in the accounts set-up and supporting systems presently utilised by Municipalities.

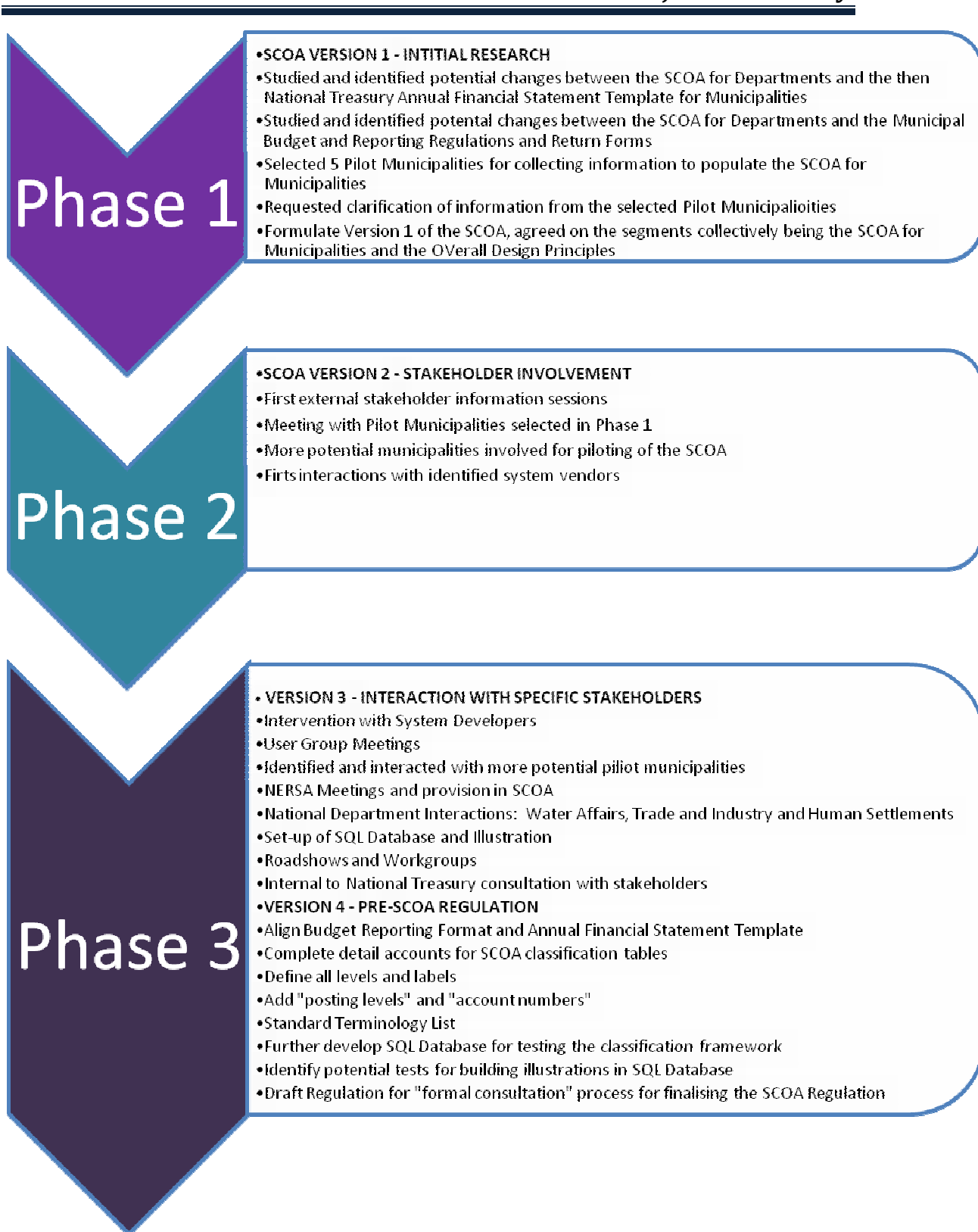


Process followed and Scope of Research Conducted to date

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

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37. Extensive stakeholder consultation was undertaken during the development process, as required in the MFMA. Furthermore, financial practitioners will be supported by the

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National Treasury's SCOA Technical Committee post implementation. Preliminary indications are that the stakeholder groups would include those tabulated below.

Phase I

38. During Phase 1 initial research were conducted by collecting information from municipalities, national treasury legislation, regulations, circulars and guidance to formulate the legislative framework and extract compliance criteria for guiding the SCOA development. Updating the legislative framework is an ongoing activity due to new guidance provided throughout the development period. As indicated in the overview hereunder this framework will be updated and checked for compliance prior to concluding on Phase 3.
39. The departure point for defining a classification framework for municipalities was the SCOA for Departments. The Economic Reporting Format defined for national and provincial Departments set the principles for moving towards the whole of government budget and annual financial statement reporting in the future. Critical to this consideration is that the SCOA for Departments are based on the cash basis of accounting whilst the municipalities need to be based on accrual accounting principles and in compliance with the GRAP Reporting Framework.
40. Specific attention has been given to the accounts required to bridge the differences between the cash basis of accounting and accruals basis of accounting in compliance with the GRAP Reporting Framework. To the maximum extent possible, the high level classification defined by the Economic Reporting Framework had been retained for consolidation purposes.
41. Given the impact of providing for the high level classification identified by the Economic Reporting Format, the impact of this approach had to be reflected in the annual financial statements, reporting tables and the budget reporting formats.
42. Five municipalities were engaged for their participation into this research. Financial practitioners from these municipalities then participated in consultations, workgroups and sharing of information. Selected municipalities included:
 - Steve Tshwete;
 - Knysna;
 - City of Cape Town;
 - Polokwane; and
 - eThekweni.
43. These municipalities provided their chart of accounts to assist in the development of Version 1 of SCOA.
44. Account descriptions and definitions were only available from one of the above Municipalities – the City of Cape Town.
45. The research conducted in this Phase predominantly resulted in concluding on the segments collectively being the SCOA for municipalities and the overall design principles to be adhered to throughout the detailed development of SCOA.

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Phase II

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

Stakeholder Group	Date	Description and Remarks
A. Provincial Treasuries <ul style="list-style-type: none"> • Eastern Cape • Free State • Gauteng • Kwazulu-Natal • Mpumalanga • North West • Northern Cape • Limpopo 	26 Jan' 2011 7 Mar' 2011	<p><i>The MFMA Coordinators and Head of Departments are responsible for the coordination and communication with the municipalities in the province.</i></p> <ul style="list-style-type: none"> • Information session held followed by a workshop on the detail accounts provided for in the chart of accounts. • Requested comments to be provided following the detail discussions. • Next interaction: to be scheduled post April 2012.
B. National Departments <ul style="list-style-type: none"> • Agriculture, Forestry and Fisheries • Cooperative Governance and Traditional Affairs • Energy • Home Affairs • Human Settlements • Mineral Resources • National Treasury • Public Works • Rural Development and Land Reform • Statistics South Africa • The Presidency • Tourism • Transport • Water Affairs 	14 Feb' 2011	<p><i>The national departments having an interest in the chart of accounts are invited to the Introduction/Information Session. Depending on their interest and information requirements we foresee that separate meeting with some or all of the departments might be needed due to the diverse nature of those invited.</i></p> <ul style="list-style-type: none"> • Not well attended and no feedback or response on call for forwarding information requirements from local government. • Communication received from STATS SA and discussion meeting held in March 2011.
C. Professional and Oversight Bodies <ul style="list-style-type: none"> • IMFO • AGSA 	15 Feb' 2011	<p><i>A meeting will be hold to inform these professional and oversight bodies on the project and project activities and seek their comments/input on the standard chart of accounts. Depending on the involvement of the 'stakeholder'</i></p>

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Stakeholder Group	Date	Description and Remarks
<ul style="list-style-type: none"> • ASB • SAICA • SALGA 		<p><i>separate workshops may be required.</i></p> <ul style="list-style-type: none"> • Attended by SARB, AGSA, IMFO, ASB and CQS.
<p>D. Regulators</p> <ul style="list-style-type: none"> • NERSA • SARB 	23 Feb' 2011	<p><i>“NERSA” and the “SARB” have unique and specific requirements that might pose challenges to accommodate in the standard chart of accounts. We do foresee intensive interactions to address the requirements of these stakeholders.</i></p> <ul style="list-style-type: none"> • Attended by NERSA. Awaiting information to be considered for chart and follow-up meeting confirmation.
<p>E. Municipalities</p> <ul style="list-style-type: none"> • Pilots • Wider Group 	28 Feb' 2011 17 to 18 Mar' 2011	<p><i>At the initial research phase five municipalities were selected for participation in the development of the standard chart of accounts. Broadly the selections consist of metros, high/medium capacity municipality and a district municipality. Further to the selection we requested participation from some of the City of Johannesburg Agencies due to their expertise and experience in some specialised areas.</i></p> <p><i>Phase 3 consultations involved the “wider group” of municipalities. The Provincial Treasuries assisted in engaging the municipalities within the provinces.</i></p> <ul style="list-style-type: none"> • The meeting was attended by the selected municipalities and Ekurhuleni volunteered. The City of Johannesburg was also invited for purposes of gleaning views from agencies during the design process. • Collecting updated chart of accounts information for mapping to Version 1 of the Chart of Accounts and resolving accounts where further clarity is required from municipalities. The outcome of the mapping process will inform the update of the Chart of Accounts and revised Project Summary Document by end of May 2011. • Further engagements were

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Stakeholder Group	Date	Description and Remarks
		undertaken with the City of Cape specifically relating to their chart of accounts, structure of their integrated processing system and potential impact of SCOA on the Metro. Interactive workshops were also conducted to clarify certain mismatches in relation to SCOA.
F. System Vendors		<p><i>Introducing the chart of accounts to the system vendors will be integrated with the Special Project on the Local Government System Specification.</i></p> <ul style="list-style-type: none"> • Phase I and II dedicated meetings were held with the system vendors at the inception of the project.
G. Internal Stakeholders – National Treasury		Internal stakeholders to be briefed on the development to date and the way forward to seek their comments on their field of interest. A comprehensive list of representatives to be compiled.
H. Advisory and Consulting Firms		Consulting firms functional within the municipal environment to be involved information session to share the SCOA development.

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

Phase III

Interaction with Specific Stakeholders

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51. During this phase the following consultations were undertaken:

Stakeholder	Entity	Period	Purpose
System Vendors	Samras User group	September 2011 February 2012	To discuss the proposals for segments for SCOA and presented to their user groups on envisage changes
	Fujitsi User group	October 2011 November 2011	
	Sebata	February 2012	
	Vesta	November 2011	
	SAP SA and City of Cape Town	February 2012	
Municipalities	Overstrand	November 2011	To discuss SCOA proposal and map account detail.
	Saldanha	February 2012	To discuss SCOA proposal
	eThekweni	October 2011	To discuss SCOA proposal and do mapping of account detail. This municipality subsequently decided to withdraw as a pilot.
	Umahlutuze	October 2011	To discuss SCOA proposal and do mapping of account detail.
	City of Cape Town	February 2012	Follow-up meeting from April 2011 to get views from SAP as introduced at the City of Cape Town during March 2011.
National Departments	Water Affairs	December 2011	Quarterly meeting to update and discuss the progress made on the development of SCOA.
	Trade and Industry	February 2012	To introduce the principles of SCOA and discuss the requirements. Waiting for input on the requirements of the department.
	Human Settlement	February 2012	To introduce the principles of SCOA and discuss the requirements. Waiting input on the requirements of the department.
Professional Bodies	IMFO	September 2011	High level presentation given at the IMFO Conference on SCOA
Regulators	NERSA	September 2011 – February 2012	Held various meetings to address the NERSA Regulatory Reporting Requirements in SCOA. Resulted in a discussion document to resolve differences that will be the subject of a future meeting with NERSA to agree on the Principles for including their requirements.

52. Version 3 of the SCOA was completed to the end of July 2012. This version was then broadly consulted with external stakeholders; through a series of information sessions, workshops and stakeholder-specific workgroups.

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

Pre-SCOA Regulation

56. Phase III represents the final phase prior to implementation of the SCOA for local government; hence requiring intensive consultation with a wider audience. These engagements included system developers, potential 'pilot' sites, users of local government information, regulators, professional bodies, advisors and consultants and other stakeholders active in the local government sphere.
57. Information sessions with key-stakeholders and practitioners were hosted between August and October 2012.
58. Specific attention was given in providing SALGA and COGTA with the progress and outcomes of the SCOA development process.
59. All advisors and consultants providing services to local government were given the opportunity to directly engage with National Treasury; this session was well attended.
60. The main objective for hosting these sessions was to seek specific and general comments from practitioners and other stakeholders in finalising and concluding the SCOA tables to inform the drafting of the regulation.
61. The comments received were considered and resulted in SCOA Version 4 informing the drafting of the regulation, developing the SQL Database and testing the classification framework as it relates to the extraction of reporting information. Annexure A, attached, summarises the comments received, actions taken and revision made to SCOA where applicable.
62. The successful testing of the SQL Database by simulating a small and medium size municipality from a budget, accounting and financial modelling perspectives is the first step towards formulating the specifications for the system implementation of SCOA.
63. This "simulation" will assist in bringing more specific information to practitioners, stakeholders and advisors as part of the "formal consultation process" to finalise the regulation.
64. This phase of the project further resulted in finding "alignment" between the BRF and the AFS template resolving some concerns raised by practitioners through the comments process. This principle contributed to significant changes being made to SCOA Version 3 being the subject of the pre-engagement information sessions.
65. The Financial Modelling Project advanced to the stage where the outcomes resulted in an outline for classification and recording "secondary costing" in a uniform manner through introducing a further segment in SCOA, referred to as the "Financial Modelling Segment".

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66. During this period the following information sessions were undertaken:

Stakeholder Group	Date	Stakeholder	Information Session/ Direct Engagement
A. Provincial Treasuries and Municipalities	20 Aug' 2012	Free State Municipalities and Provincial Treasury	SCOA Version 3 Information Session
	4 Sep' 2012	North West Municipalities and Provincial Treasury	
	5 Sep' 2012	Gauteng Municipalities and Provincial Treasury	
	6 Sep' 2012	Northern Cape Municipalities and Provincial Treasury	
	11 Sep' 2012	Western Cape Municipalities and Provincial Treasury	
	27 Sep' 2012	Mpumalanga Municipalities and Provincial Treasury	
	1 Oct' 2012	Kwazulu-Natal Municipalities and Provincial Treasury	
	2 Oct' 2012	Limpopo Municipalities and Provincial Treasury	
	3 Oct' 2012	Eastern Cape Municipalities and Provincial Treasury	
B. National Departments	24 Sep' 2012	All national departments invited but limited attendance at the session	SCOA Version 3 Information Session
	13 Sep' 2012	Cooperative Governance and Traditional Affairs	SCOA Version 3 Information Session
C. Professional and Oversight Bodies	17 Sep' 2012	SALGA	SCOA Version 3 Information Session
	21 Sep' 2012	IMFO, ASB and SAICA	
	25 Oct' 2012	AGSA	
	8 Oct' 2012	IMFO Conference	Overview of Information Sessions
D. Regulators	20 Oct' 2012	NERSA and SARB	SCOA Version 3 Information Session
E. Municipalities	<i>See A above</i>	Wider Group	
	29 – 30 Oct'	City of Cape Town	SCOA Version 3 Workshop

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Stakeholder Group	Date	Stakeholder	Information Session/ Engagement	Direct
	2012		Invitation from the municipality	
F. System Vendors	26 Oct' 2012	Invited all "vendors" known to National Treasury and engaged through the "Business Process Project".	SCOA Version 3 Information Session	
G. Internal Stakeholders – National Treasury	After National Budget announcement		Meeting pending draft regulation, updated tables and project summary document.	
I. Advisory and Consulting Firms	25 Oct'2012	All known to National Treasury and from ASB Forum attendance list	Consulting firms functional within the municipal environment to be involved information session to share the SCOA development.	

Public Participation on the Municipal Regulations on a Standard Chart of Accounts (SCOA)

Structure of the consultation process subsequent to publication

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

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

68. The formal sessions hosted in the districts (local and district municipalities) between 8 October and 11 November 2013 were each held for an entire day and the agenda included a formal briefing session on the Regulation, Project Summary Document and classification framework.
69. The CD: LGBA also hosted all the IT system vendors currently operating in the space of local government from the 6 to 13 November 2013. In addition to discussing and presenting the SCOA classification framework, these engagements were structured to evaluate the technical readiness of the various technologies applied by the system vendors in piloting the SCOA classification framework; these engagements were well

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attended by both the vendors and identified pilot municipalities. There is no doubt that some of the IT system vendors are going to struggle to comply to the minimum requirements of the Regulations. Although the Regulations will place pressure on the IT system of vendors and their respective technical solutions, this can however not be used as an excuse not to implement this strategic reform.

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

District Municipality	Date of Workshop	Attendance	District Municipality	Date of Workshop	Attendance
Alfred Nzo	9 Oct 2013	14	NgakaModiriMalema	29 Oct 2013	36
Amajuba	Joint session	n/a	Nkangala	Joint session	n/a
Amathole	21 Oct 2013	25	OR Tambo	8 Oct 2013	32
Bojanala	4 Nov 2013	53	Overberg	Joint session	n/a
Cacadu	4 Nov 2013	25	PixleyKaSeme	17 Oct 2013	26
Cape Winelands	22 Oct 2013	57	Sedibeng	6 Nov 2013	44
Capricorn	17 Oct 2013	32	Sekhukhune	11 Oct 2013	21
Central Karoo	Joint session	n/a	Sisonke	Joint session	n/a
Chris Hani	22 Oct 2013	21	Siyanda	10 Oct 2013	31
Dr Kenneth Kaunda	14 Oct 2013	24	Thabo Mofutsanyane	21 Oct 2013	18
Dr Ruth Segomotsi Mompoti	30 Oct 2013	21	Ugu	Joint session	n/a
Eden	28 Oct 2013	50	Umgungundlovu	10 Oct 2013	74
Ehlanzeni	31 Oct 2013	37	Umkhanyakude	Joint session	n/a
Fezile Dabi	8 Oct 2013	8	Umzinyathi	22 Oct 2013	24
Frances Baard	16 Oct 2013	23	Uthukela	Joint session	n/a

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District Municipality	Date of Workshop	Attendance	District Municipality	Date of Workshop	Attendance
Gert Sibande	25 Oct 2013	17	uThungulu	29 Oct 2013	70
iLembe	16 Oct 2013	18	Vhembe	16 Oct 2013	23
Joe Gqabi	23 Oct 2013	22	Waterberg	18 Oct 2013	25
John TaoloGaetsewe	31 Oct 2013	18	West Coast	23 Oct 2013	43
Lejweleputswa	15 Oct 2013	19	West Rand	11 Nov 20013	29
Mopani	15 Oct 2013	19	Xhariep	25 Oct 2013	40
Namakwa	9 Oct 2013	32	Zululand	Joint session	n/a

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

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

Comments received and impact on the SCOA classification framework

72. In total 995 comments were received; if these comments are unpacked into individual comment items, submissions exceed 2,000. Stakeholders that commented, made recommendations and raised concerns included:

- 35 municipalities. Importantly, of the 8 metropolitan municipalities, 7 commented and the remaining municipalities included both local and district municipalities. This provides for coverage across all categories of municipalities;
- Professional bodies included the South African Local Government Association (SALGA), Accounting Standards Board, and Institute of Municipal Finance Officers (IMFO);
- Five system vendors that are active within the local government space; and
- Four consulting and advisory service providers.

73. The following table provides for the detail of stakeholders that provided comments, made recommendations and raised concerns.

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Municipalities	
eThekweni Metropolitan Municipality	City of Johannesburg Metropolitan Municipality
Nelson Mandela Bay Metropolitan Municipality	City of Tshwane Metropolitan Municipality
Mangaung Metropolitan Municipality	City of Cape Town Metropolitan Municipality
Buffalo City Metropolitan Municipality	Emakhazeni Local Municipality
Cacadu District Municipality	Mafikeng Local Municipality
uMhlathuze Local Municipality	Thaba Chweu Municipality
Sol Plaatjie Local Municipality	Nkangala District Municipality
Mogale City Local Municipality	Witzenberg Local Municipality
Midvaal Local Municipality	Joe Gqabi District Municipality
Thembisile Hani Local Municipality	Gert Sibande District Municipality
Mossel Bay Local Municipality	Bitou Local Municipality
Msunduzi Local Municipality	Witzenberg Local Municipality
Stellenbosch Local Municipality	Saldanha Bay Local Municipality
Theewaterskloof Local Municipality	Breede Valley Local Municipality
Langeberg Local Municipality	Overstrand Local Municipality
Knysna Local Municipality	George Local Municipality
Beaufort West Local Municipality	Drakenstein Local Municipality
City of Cape Town International Convention Centre (CTICC)	
Professional Bodies	
South African Local Government Association	Accounting Standards Board
Institute of Municipal Finance Officers	
System Vendors (Financial Applications)	
Business Connexion	BIQ Quill
Payday	Fujitsu
SAMRAS	
Consultants and Advisory Services	

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Altimax – Accounting, Advisory and Training	Mubesko Africa
CQS Caseware	Ducharme Consulting

74. In summary, the 995 comments were sorted and categorised as follows:
- 10 comments were categorised as possible impacting on the formal Regulations;
 - 217 comments were categorised as possibly impacting on the classification framework (SCOA tables);
 - 277 comments were related to the Project Summary Document (PSD);
 - 404 comments categorised as frequently asked questions; and
 - 87 were general observations relating to the policy intent of the reform.

Key issues raised and changes made to the regulations

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

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

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Technical Consideration	Direct impact on SCOA classification framework (SCOA Tables)
<ul style="list-style-type: none"> • Reserves and funds 	Yes
<ul style="list-style-type: none"> • Transfers and subsidies 	Yes
<ul style="list-style-type: none"> • External stakeholders i.e. NERSA, DWA etc. 	Yes
<ul style="list-style-type: none"> • Month and year-end closure 	No
<ul style="list-style-type: none"> • Portal access 	No
<ul style="list-style-type: none"> • Transitional arrangements <ul style="list-style-type: none"> ✓ Comparative and historical Information ✓ Reporting requirements – phased approach 	No

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

Preliminary Observations

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

- As a result of not making use of a multi-dimensional chart, information such as funds utilised, vote (functions and sub-functions), cost collectors, and project, is not readily available.
- In order to compensate for some of these shortcomings labels are not always clear and have been developed based on "projects or activities" rather than "who or what gets paid".
- Labels are found duplicated in many instances.
- Different municipalities are classifying similar transactions under different headings.
- Numerous inter-departmental accounts were identified resulting from the absence of a defined organisational vote or sub-vote segment.
- Asset detail information are either condensed throughout the classification or summarised with limited detail, e.g. operating leases, asset specific accounts and repairs and maintenance.
- Reserves, funds and provisions together with the transfers to/from are not in compliance with GRAP.

Overall Design Principles

80. The SCOA for Municipalities will operate on the basis of a “standard list of all available accounts” in an Excel Spreadsheet from which the municipality can select the relevant accounts from the respective segments.
81. Indicators will be added to guide practitioners on the use of accounts, e.g. some accounts might be required for all municipalities whilst other more detailed accounts might be optional depending on the data available or to be determined by the financial recording system in use.
82. The final product will include definitions for the key group of accounts to assist practitioners in achieving consistency in recording transactions of a similar type or nature between municipalities to enhance the comparability of information.
83. The GRAP Reporting Framework as outlined in Directive 5 issued by the ASB read with Directive 3 – Amended transitional provisions for high capacity municipalities and Directive 4 – Amended transitional provisions for medium and low capacity municipalities serve as input for the accounting requirements in the design of the SCOA for Municipalities.
84. Inherent to the design of the classification to be applied within the segments of SCOA the following principles need to be applied:
 - consideration to be given to international standards, guidance and best practices;
 - labels and accounts defined to have readily available the information needed for local government budgeting (annual budgets, adjustment budgets and SDBIP) and reporting (monthly, mid-year performance assessment and annual financial statements);
 - general alignment of financial reporting formats and the annual financial statements to key budget format reforms;
 - alignment of budget and reporting formats with the Standards of GRAP;
 - consistent use of terminology across all municipalities by defining all accounts and labels in simple terms to support appropriate classification of transactions throughout all municipalities;
 - standardisation across local government clearly outlining the information requirements that will enable municipalities and their information system suppliers to develop software and report writing formats that are automated and compliant to reporting requirements governing local government;
 - reporting on the “whole-of-local government”, and thus contribute to “whole-of-government” monitoring and evaluation;
 - finding a solution for the separation of the general government sector, which “consists of entities that fulfil the functions of government as their primary activity” and business activities that sell services at market prices within a local government environment. Especially where the management of these functions tend to be closely interrelated with general government activities;
 - minimising the cost of compliance and information gathering; and
 - the classification framework must be kept simple and avoid unnecessary complexities to the maximum extent possible, while ensuring the policy intent and overall objectives are achieved.

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Upcoming Activities - Post-regulation

85. Version 5 of the chart of accounts is completed based on the outcome of the formal consultation process on the draft SCOA Regulation and comments received.
86. The SCOA Technical Committee to be established to continue with the responsibilities as envisaged in the SCOA Regulation.'
87. Any changes, revisions, clarification, concerns and additions SCOA Version 5 would need to be addressed to the SCOA Technical Committee through a process to be developed by National Treasury for this purpose.

Activity	Feb - Mar '13	Apr – Jun '13	Jul '13	Aug '13 – Jun '14	Jul '14 – Jun '15	Jun '15 – Jul '17	Ongoing
Finalise NERSA Reporting Link and workshop with NERSA for concept.							
Project Steering Committee Consent on for SCOA Version 4 and Draft Regulation: <ul style="list-style-type: none"> • SCOA Tables • Project Summary Document • Proposed changes to BRF • Alignment to AFS Specimen templates • Terminology List • SQL Development (Concept) 							
Update of SQL Database with sample data and report extraction.							
Illustration of SCOA by populating Database with transaction from selected municipality(ies). Conclude “memorandum of understanding” with identified municipality(ies).							
Develop material and presentation for formal consultation process.							
Finalisation of “draft” regulation for “formal consultations”.							
Business Process SCOA Link							
Ongoing consultations and stakeholder interactions.							

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Activity	Feb - Mar '13	Apr - Jun '13	Jul '13	Aug '13 - Jun '14	Jul '14 - Jun '15	Jun '15 - Jul '17	Ongoing
Revision of SCOA Tables, Documents and Reporting Formats							
Detail interactions with system vendors to prepare for running pilots							
Vendor and pilot commitment to project to be agreed by formal memorandum of understanding.							
Preparation for the transition.							
Piloting							
Implementation							
Monitoring, Evaluation and Oversight							

Project Milestones and Timelines

88. The summary presents the project milestones and phases in the development, research, consultation and stakeholder interaction from project inception to finalisation.

Activity	Aug - Oct '09	Nov '09 - Jul '12	Aug - Dec '12	Jan - Jul '13	Sep '13	Oct - Nov '13	Dec '13 - Mar '14	Apr '14	May '14 - July '17
Set-up									
Produce Draft SCOA									
Stakeholder Consultation									
Comments Review and Consideration									
Drafting of Regulation									
SCOA Version 4 (Tables and Documents)									
Draft Regulation									
Formal Consultation and Awareness									

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Activity	Aug – Oct '09	Nov '09 – Jul '12	Aug – Dec '12	Jan – Jul '13	Sep '13	Oct – Nov '13	Dec '13 – Mar '14	Apr '14	May '14 – July '17
Review of Comments and Update									
Final Regulation									
Implementation – Budget Cycle 2017/18									

Segment Detail

The SCOA Segments

89. The design is based on the use of seven segments, being:
- Funding;
 - Functions;
 - Municipal Standard Classification;
 - Project;
 - ¹Financial Modelling;
 - Regional Indicator; and
 - Item.
90. When recording a transaction, a selection must be made from each of these segments, meaning that all segments must be used for recording a single transaction.
91. In finding the appropriate classification code from a segment the following questions need to be answered to assist in the allocation:
- **Funding** – What source of funding will be used for the transaction and from which source is the revenue received?
 - **Function** – Against which functions or sub-functions should the transaction be recorded?
 - **Municipal Standard Classification** – Against which organisational vote or sub-vote should the transaction be recorded?
 - **Item** – What is the nature of the transactions to be recorded either being an asset, liability, net asset, gain or loss, revenue or expenditure?
 - **Project** – Does the transaction relate to a specific project and if so, what type of project?
 - **Regional Indicator** – Which geographical area is deriving the benefit from the transaction?
 - **Costing**– Impact of the transaction on secondary costing?

Understanding the SCOA Tables

92. The details supporting the SCOA Segments are presented in the SCOA tables developed in Microsoft Excel.

¹ Introduced in SCOA Version 4 – February 2013.

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93. Due to the size of the Item Segment the detail are presented in four separate tables featuring revenue, expenditure, gains and losses, assets, liabilities and net assets.
94. The SCOA tables contains valuable information to understand the segment detail and assist the municipality to set-up an account structure unique to their requirements while maintaining a standard classification framework informing various reports to be customised as required by National Treasury, External Stakeholders such as NERSA, the Department of Water Affairs, annual financial statements, etc.
95. In summary the tables contain the following information with a description thereof:
- Posting Level: Contains the account posting level based on a “string” providing a relative link to the reporting levels.
 - ²VAT (Value Added Tax) Status: Include an abbreviation giving guidance on the VAT implications generally associated with the type of transaction. The abbreviations used in this regard are:

Abbreviation	Definition
EOut	Exempted from Output Tax
N/a	Not applicable to VAT transactions
StdOut	Standard Output Tax
ZOut	Zero Rated Output Tax
EIn	Exempted from Input Tax
StdIn	Standard Rated Input Tax
ZerIn	Zero Rated Input Tax
CapIn	Capital Input Tax

- Account Number: The account number is based on the levels presented in the hierarchical structure of the classification within the segment. Provision is made for expansion and adding account numbers for posting level detail included by the municipality.
- Count: This is a count of the characters used in building the posting level description.
- Posting Level: This indicator informs if the account is a posting level or reporting level. If “Yes” this account is the posting level and “No” indicates a non-posting level.
- Breakdown Allowed: This indicator guides if “additional detail on a posting level” could be added or not. If detail is provided for this will become the default posting level.
- Principle: The “principle” gives guidance on the detail to be added and the context with in which expansion need to be considered. Depending on the Segment the additional information would be required to set the posting level.
- Applicability: This indicator provides detail on the relevance of the account to municipalities, district municipalities and municipal entities. Further, also indicating detail added to be able to extract reporting information required by NERSA and the Department of Water Affairs.

² The Project Document to contain a section on VAT and how the SCOA Classification will assist in complying with the requirements in submitting VAT 401 to SARS

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Code Structure

96. The code structure assigned to the various SCOA Segments contains an alphanumerical character to define the segments followed by a numerical structure representing the various levels within the reporting structure.

Code	Segment
C	Costing
F	Fund
FC	Function
IA	Item Segment: Assets, Liabilities and Net Assts
IE	Item Segment: Expenditure
IGL	Item Segment: Gains and Losses
IR	Item Segment: Revenue
P	Project
R	Regional Indicator

97. The multi-dimensional SCOA classification framework does not necessitate a fixed account structure. However, it is recommend the following fixed structure can be for utilised throughout all municipalities and municipal entities in ensuring consistency should the system application be able to accommodate the coding.

Segment	Function	Fund	Item	Project	Costing	Regional Indicator
Code Count	9	17	27	14	6	13
Total: 86						

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

98. Inherent to the compilation of the SCOA Classification Framework is the aim to provide in as far as possible for the information required by various stakeholders for reporting purposes.

99. ³The SCOA Classification Framework Version 5 has identified in the SCOA tables the information required for reporting purposes by the Department of Water Affairs, NERSA and SARS. We do believe as the piloting and pending implementation of SCOA evolves, more stakeholders will be identified realising the value of the SCOA Classification Framework to enhance municipal compliance, quality of reported information and standardisation across the local government sector and their requirements incorporated in the SCOA tables in a similar way.

100. The tables include indicators to identify the reporting requirements of NERSA and the Department of Water Affairs. The SCOA Classification Framework makes provision for the information requirements of these stakeholders however, the SCOA Regulation does not enforce compliance to these requirements. Accordingly the chart of accounts are set-up to accommodate those municipalities opting to comply with the stakeholder

³ The detail of this reporting requirements to be taken-up in the SCOA Project Document for the sake of completeness

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requirements and those not in a position to comply. These indicators are contained in the information column included in the excel tables on “applicability”.

Funding Segment

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

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

102. The introduction of this dimension in the SCOA would facilitate the accumulation of information within the financial system to be able to report on information such as how a specific source of funding, for example “the Local Government Financial Management Grant” has been spent by extracting this specific source of funding from the Fund Segment and the detail on spending items, such as employee costs, consultants, etc. from the Item Segment.
103. The primary source of funding for a municipality is property rates, service charges, equitable share and other own revenue. Further to these sources of revenue a municipality also spends funds transferred from other spheres of government, namely transfers and subsidies such as appropriated by national and provincial government in terms of the Division of Revenue Act (DORA). In order to monitor expenditure (operational and capital) against the source of fund utilised - this segment contains the sources of funds available to the municipality.
104. The inclusion of the category for “secondary costing” provides for the extraction of secondary cost from the transaction database consisting of internal billings, departmental charges and activity based recoveries.
105. In addition to internally generated funds and transfers and subsidies municipalities may make use of external borrowings to finance capital projects.
106. A further source of funds available for utilisation is “cash backed reserves” as directed by the municipality’s financial policy on the introduction and utilisation of a specific reserve.
107. The source of funds available and utilised for operational and capital spending according to the approved budget, are summarised in the table with the definitions included for the high-level categories.

High-level Classifications	Definitions
Revenue	Funding for general use to execute the functions and powers allocated to a municipality for example major tariff services, fines, penalties and forfeits, taxes, interest and dividends, service charges and sales of goods and rendering of services, equitable share and special rating areas.
Commercial Services	Commercial services identify the services that need to meet breakeven point, or make a profit without cross-subsidising from “tariff services”, for example fresh produce markets, abattoirs, urban transport, botanical gardens, etc.

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High-level Classifications	Definitions
Transfers and Subsidies	This category consists of all unrequited, voluntary receipts from other parties external to the municipality, being National and Provincial Departments, District Municipalities, Departmental Agencies and Accounts, Universities and Technicons, Public Corporations and Private Enterprises, Foreign Government and International Organisations, Non-profit Institutions and Households
Borrowing	Long- and short term debt rose in accordance with Section 46 of the MFMA, Act 56 of 2003 is to be used for capital expenditure on property, plant and equipment.
Cash Backed Reserves	Use of funds set-aside in a dedicated bank account for the replacement of assets, maintenance of assets, replace asset from the self-insurance reserve or funding claims from the COID-reserve, etc. These “cash-backed funds” need to be included as the “posting-level items”.
Costing	<p>Secondary costing collectively refers to “Departmental Charges, Internal Billing and Activity Based Costing. Primary cost-elements are like material costs, personnel costs, energy costs, operational cost, etc where a corresponding account exists in the Item Segment Expenditure component.</p> <p>Secondary cost-elements are like production costs, material overheads, production overheads; they can be created and administered only in the Financial Modelling Segment. These are used in internal cost allocation, overhead calculation, and determining cost reflective tariffs.</p>
Non-funding Transactions	The recording of transactions not specifically classified in the above structure. The table included in “Transactions by Business Process to be allocated in the Segment” provides more detail.

Changes made to the SCOA Tables Version 4

108. The General Revenue transaction group included in Revenue revised to include the following detail at the posting level:
- Municipal Services: Electricity/Licenses and Permits/Other/Refuse/Waste Water and Water
 - Licenses and Permits
 - Fines and Penalties
 - Rental of Facilities and Equipment
 - Taxes
 - Return on Investments
 - Other Revenue Sources not Specified
109. Added code structure and revised posting level accounts and breakdown allowed.

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Function Segment

110. The “Function Segment” is the location within the SCOA for creating the “vote” structure standardised for all municipalities.

The key question to answer in classifying transactions within this segment is “against which function should the transaction be recorded.”

111. The National Treasury Circular 12 on the Definition of ‘Vote’ in the MFMA serves as the basis for this discussion and an updated GFS classification structure is available as part of the SCOA documents. The municipal ‘organisational structure’ determines the “vote” structure as defined by the municipality and ‘function/sub-function’ is the standardised equivalent of “votes” directly aligned to functions and sub-functions, these concepts to be further elaborated on in the subsequent paragraphs.

112. The classification structure for the Function Segment distinguishes between “Core Functions” (Section 145(1) functions as per the Constitution) and “Non-core Functions” (Section 145(4) functions as per the Constitution).

113. Essentially the functions provided are based on the MFMA Circular 12 functional classification.

114. Non-core functions are commonly known as “agency services”. The structure provides for a classification of “non-core services” per function provided for in the constitution. The arrangement depends on the agreement a municipality has with a national or provincial department to perform the administration of the function. Accordingly different arrangements may exist per province and municipality. The detail of these arrangements needs to be added by the municipality under the appropriate classifications.

115. The electricity-function has been expanded to provide a sub-function classification to assist in providing information in terms of the NERSA Electricity Regulatory Requirements.

116. The function/sub-function approach has been adopted by municipalities for several years. At present this segment is implemented mostly through the use of mapping tables designed by the system vendors, with a few municipalities adopting the function/sub-function as their organisational structure. Where municipalities ‘vote’ structure is aligned to these functions and sub-functions the municipal standard classification will become obsolete.

117. The functions are summarised in the table with definitions included for the high-level categories. The references included under the heading “Paragraphs” provides more detail on the group of accounts or account detail in the body of the document.

High-level Classification	Definitions
Budget Finance and Treasury Office	All activities relates to the finance function such as the cost of the Chief Financial Officer, financial statements, budgets, management reporting, revenue collection (credit control), financial asset and liability management (treasury and cash management), rates, RSC, procurement (orders, tenders, contract management etc.), levies, audit, creditors etc.
Community and Social Services	Community service is a service or activity that is performed by the municipality for the benefit of the public or its institutions. Social services seeks to improve the quality of life and wellbeing of an individual, group, or community by intervening through research,

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High-level Classification	Definitions
	policy, community organising, direct practices, and teaching on behalf of those afflicted with poverty or any real or perceived social injustices and violations of their human rights. Research is often focused on areas such as human development, social policy, public administration, psychotherapy, program evaluation, and international and community development.
Corporate Services	Corporate services are activities that combine or consolidate certain municipal-wide needed support services, provided based on specialised knowledge, best practices, and technology to serve internal customers and business partners.
Electricity	Electricity distribution is the final stage in the delivery of electricity to end-users. A distribution system's network carries electricity from the transmission system and delivers it to consumers. Typically, the network would include medium-voltage (less than 50 kV) power lines, substations and pole-mounted transformers, low-voltage (less than 1 kV) distribution wiring and sometimes meters.
Environmental Protection	<i>Environmental Services and Protection</i> refers to the various combinations of scientific, technical, and advisory activities (including modification processes, i.e., the influence of manmade and natural factors) required to acquire, produce, and supply information on the past, present, and future states of space, atmospheric, oceanographic, and terrestrial surroundings for use in decision-making processes, or to modify those surroundings to enhance operations.
Executive and Council	Executives are the person(s) or group of persons having administrative or supervisory authority in the municipality. The council is the legislative body that governs a municipality.
Health	This group of accounts includes all costs relating to Health. Municipal Health Services as provided for in Schedule 4 Part B of the Constitution.
Housing	Housing generally refers to the social problem of insuring that members of society have a home to live in, whether this is a house, or some other kind of dwelling, lodging, or shelter.
Internal Audit	Internal audit function.
Other	This category consists of Abattoirs, Air Transport, Forestry, Markets and Tourism.
Planning and Development	This group of accounts includes all costs relating to Planning and Development. Planning and development describe the processes that determine community goals and aspirations in terms of community development. The outcome of comprehensive planning is the Integrated Development Plan which dictates public policy in terms of transportation, utilities, land-use, recreation, and housing. Comprehensive plans typically encompass large geographical areas, a broad range of topics, and cover a long-term time horizon.

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High-level Classification	Definitions
Public Safety	Includes all activities relating to Public Safety.
Road Transport	Road transport is transport on roads of passengers or goods.
Sport and Recreation	<p>In a development context the definition of <i>sport</i> usually includes a broad and inclusive spectrum of activities in which people of all ages and abilities can participate, with an emphasis on the positive values of sport. In 2008, the UN Inter-Agency Task Force on Sport for Development and Peace defined sport, for the purposes of development, as 'all forms of physical activity that contribute to physical fitness, mental well-being and social interaction, such as play, recreation, organised or competitive sport, and indigenous sports and games'.</p> <p><i>Recreation</i> encompasses diverse experiences with the following characteristic: "in leisure time, not rule-bound, non-competitive, overlap with other areas e.g. arts and culture; education, purely for fun and enjoyment, examples: knitting; sewing; bird watching; listening to music; watching movies; playing computer games.</p>
Waste Management	The collection, transportation, and disposal of garbage, sewage, and other waste products. Waste management encompasses management of all processes and resources for proper handling of waste materials, from maintenance of waste transport trucks and dumping facilities to compliance with health codes and environmental regulations.
Waste Water Management	Wastewater management encompasses a broad range of tasks that promote effective and responsible water use, treatment, and disposal and encourage the protection and restoration watersheds.
Water Management	Water resource management is the activity of planning, developing, distributing and managing the optimum use of water resources. It is a sub-set of water cycle management. Water resource management planning has regard to all the competing demands for water and seeks to allocate water on an equitable basis to satisfy all uses and demands.

Changes made to the SCOA Tables Version 4

- 118. Municipal Governance and Administration: *This group of accounts divided into "Executive and Council, Budget and Treasury Office and Corporate Services". Function and Sub-functions aligned to LG DB with some changes to apply design principle consequently.*
- 119. Economic and Environmental Services: *This group of accounts divided into "Planning and Development, Environmental Protection and Road Transport". Function and Sub-functions aligned to LG DB with some changes to apply design principle consequently.*
- 120. Community and Public Safety: *This group of accounts divided into "Health, Community and Social Services, Public Safety and Sport and Recreation". Function and Sub-functions aligned to LG DB with some changes to apply design principle consequently.*
- 121. Trading Services: *This group of accounts divided into "Waste Management, Waste Water Management, Water and Electricity".*

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122. Corporate Services: *Included as separate function due to administrative and reporting independence requirements.*
123. Added code structure and revised posting level accounts and breakdown allowed.

Municipal Standard Classification Segment

124. This segment contains the “votes” set-up by the municipality based on the organisational structure in place for the municipality. The “vote” structure needs to be aligned to the municipality’s organisational structure.
125. Municipal revenue, operating and capital expenditure are then classified in terms of each of these votes. This means it is possible to present the operating surplus or deficit for each vote, along with information on the proposed capital budget. If a municipality delivers services within a particular vote structure these tables enable, useful performance information based on the vote structure.

The key question to be asked in allocating transactions in this segment is “against which organisational vote or sub-vote should the transaction be recorded”?

126. The classification and sub-classification to be populated within this segment is informed by the municipality’s unique organisational structure. Accordingly this would be a non-standardise segment.

Project Segment

127. The Project Segment provides for the setting-up of operational and capital projects by linking the IDP to the budget, proving in-time management information on project performance and spending against budget, and reporting on project funding. All activities of the municipality would therefore need to be aligned to “Projects” including institutional costs associated with the functioning of the municipality such as administrative and staff; this enables planning and budgeting at a project level.
128. The review of information received from selected municipalities highlighted the need for a segment containing “project” information. The detailed accounts included various accounts for “project” related expenditure combined in a single line-item; the only way in the existing account structure to accumulate financial information on important or strategically relevant “projects”.

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”?

129. The table presented here-under provides a high-level overview of the segment with a discussion on the classification given in the paragraphs as referenced.

High-level Classification	Definitions
Capital	The Project Segment distinguishes projects according to the nature of the expense whether it is capital or an operational expense.
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

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High-level Classification	Definitions
	accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics: 1) they are part of a system or network; 2) they are specific in nature and do not have alternative uses; 3) they are immovable and 4) they may be subject to constraints at disposal".
Non-infrastructure (PPE excluding Infrastructure)	Transactions of a capital nature relating to key projects as identified by management, e.g. 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".
Default Transactions	Default account for transaction not relating to either capital or operational expenditure and of no specific interest in the context of this Segment.
Operational	Operational expenditure 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.
Maintenance and Repair	Maintenance and Repair (including overhaul) involves fixing any sort of mechanical or electrical device should it become defective or broken (known as repair, unscheduled or casualty maintenance). It also includes performing routine actions which keep the device in working order (known as scheduled maintenance) or prevents trouble from arising (preventive maintenance).
Municipal Running Cost	Maintenance and Repair (including overhaul) involves fixing any sort of mechanical or electrical device should it become defective or broken (known as repair, unscheduled or casualty maintenance). It also includes performing routine actions which keep the device in working order (known as scheduled maintenance) or prevents trouble from arising (preventive maintenance).
Operating Cost	Maintenance and Repair (including overhaul) involves fixing any sort of mechanical or electrical device should it become defective or broken (known as repair, unscheduled or casualty maintenance). It also includes performing routine actions which keep the device in working order (known as scheduled maintenance) or prevents trouble from arising (preventive maintenance).
Typical Work Streams	Projects are created under this group for "operational projects" for example agricultural projects, capacity building, training and development, spatial planning, etc. Typically these "projects" consist of various expense-items contributing to the outcome or objective of an initiative. Default projects are included for guidance but the Municipality could expand these as considered necessary.

Changes made to the SCOA Tables Version 4

- 130. Colum added for identifying specific stakeholder requirements, for example, NERSA and the Department of Water Affairs.
- 131. Cemeteries removed from "infrastructure".

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132. Municipal properties added as a “typical work stream” and removed as an account group of the Item Segment: Expenditure.
133. Operational project added as a “collector” for the cost of daily operation and running of the municipalities.
134. Investment properties: *Accounts group added for operating cost and maintenance and repair.*
135. Posting levels: *Capital Projects any extent of detail to be added at the discretion of the municipality within the high-level classifications. Any changes at this level need to be considered by the SCOA Technical Committee. Operational Projects - The high-level classifications are fixed. Within the outline projects to be added at the discretion of the municipality. Any changes to the "typical work streams" at the high-level to be considered by the SCOA Technical Committee.*
136. Water and Waste Water Management: *Detail added to address the reporting requirements set by the Department of Water Affairs.*
137. Land: Added as a high-level category omitted from Version 4.
138. Added code structure and revised posting level accounts and breakdown allowed.

Regional Indicator Segment

139. The National Treasury introduced the regional indicator on 1 April 2008 with the re-implementation of the SCOA for Departments. As part of the budget reform process and for purposes of evaluating resource allocations in government, National Treasury started to monitor the allocation of resources and actual spending at a regional level. The aim was to capture details of national and provincial government resource allocation and spending at the regional level.
140. The local government budget reform process will further expand on the regional indicator to monitor resource allocation and spending at the local sphere of government along the same principles designed for national and provincial government. This perspective is not fully provided for by the analysis of the Function and Item segments in SCOA.
141. The purpose of the regional indicator is to assign municipal expenditure and some revenue in a manner that describes the location of both the source of revenues and expenditure in terms of geographic location. This implies that expenditure must be recorded so that the final impact of such spending can be measured by region in order to acquire a regional view of the economic impact of government spending.
142. It is envisaged that this information will enable and support enhanced analysis of:
- Whether services are being provided impartially, fairly, equitably and without bias, as required by the Constitution.
 - Whether progress is being made in addressing regional backlogs in social infrastructure and access to services.
 - Whether government spending by different departments and municipalities are being properly sequenced and co-ordinate.
 - Whether actual spending by government is aligned to the relevant plans of the three spheres of government.
 - Assist councilors and mayors to account to the communities for resources allocated and actual spending of the municipality to communities and wards.
 - Provide specific ward information to councilors' to assist in decision-making.

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143. The core-principle and intention of the regional indicator is the assignment of government expenditure to a geographic area: “to identify the lowest relevant geographical region of the intended beneficiaries of the service or capital investment that is being financed by the particular expenditure”.

The key question to be answered in selecting a classification from the segment is: “which geographical area is deriving the benefit from the transaction, or from where is the revenue generated”?

144. Discussion of the high-level categories is presented in the body of the section in accordance with the references given hereunder.

High-level Classification		Definitions
No Regional Indicator		This classification is used for the recording of transactions not relevant to this Segment.
Regional Indicator		This classification provides regional indicators distinguishing at the highest-level between national, provincial or local government.
	National Functions: Whole Country Domestic	Whole country domestic is the posting-level for all transactions made within the borders of the Republic of South Africa.
	Provincial Functions: Whole of the Province	Whole of the Province is the posting-level for all transactions made within the Provincial Borders and not contributing to a specific community.
	Local Government by Province	The regional indicators relevant to beneficiaries at a local government-level are set-up by province.
	Province	The classification structure makes provision for the nine provinces with their metro’s and municipalities.
	Metro’s	Provides for the metros within the boundaries of the province.
	Municipalities	Provides for the municipalities within the boundaries of the province.

Item Segment

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

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148. The financial position of the municipality is affected by the resources it controls, its financial structure, its liquidity and sustainability, and its capacity to adapt to changes in the environment in which it operates.
149. Information about the resources controlled by the municipality and its capacity in the past to modify these resources is useful in predicting the ability of the municipality to sustain its service-delivery in the future. Information about financial structure is useful in predicting future financing and borrowing needs; it is useful in assessing the municipality's ability to raise further finance. Sustainability refers to the ability to continue to provide the services in the longer term.
150. The liquidity and sustainability of a national or provincial department is very much dependent on their budget allocation. Their financial position is therefore primarily affected by the budget whereas a municipality relies largely on their own revenue in the form of rates and taxes and other service charges.
151. Information concerning changes in the cash flows of the municipality is useful in order to assess its investing, financing and operating activities during the reporting period.
152. This information is useful in providing the user with a basis to assess the ability of the municipality to generate cash and cash equivalents and the needs of the entity to utilise those cash flows.
153. Information about financial position is primarily provided in a statement of financial position. Information about financial performance is primarily provided in a statement of financial performance. Information about cash flows is provided in the financial statements by means of a statement of cash flows. Changes in the residual (after deducting liabilities from assets) are provided in the statement of net assets.
154. The component parts of the financial statements interrelate because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from the others, none is likely to serve only a single purpose or provide all the information necessary for particular needs of users. For example, a statement of financial performance provides an incomplete picture of financial performance unless it is used in conjunction with the statement of changes in net assets and the statement of cash flows.
155. The Item Segment of SCOA consists of three parts being:
- Revenue and Expenditure
 - Assets, Liabilities and Net Assets
 - Gains and Losses
156. At the highest-level, the Item Segment supports the reporting done in terms of the budget reporting format and annual financial statements. The detail levels in this segment provide the more detailed information presented in supporting schedules and notes to the budget reporting format and annual financial statements.
157. This project resulted in alignment between the budget reporting format and annual financial statements that will greatly assist the reporting on budgeted versus actual information.
158. Important to note is that the accounting policies, methodologies and principles applied in determining budgetary information need to be consistent to those applied in preparing annual financial statements.
159. The components to the Item Segment are discussed in separate sections in the body of the sections.

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160. The use of the information collected through the standard classification process is not confined to budget and annual financial statements but need to address the needs of a wide group of users of local government information.
161. Consultation with various users took place throughout the research and development phase resulting in populating the charts to assist in extracting required information.
162. The expansion of detail within the SCOA will continue as more “users” appreciate the value from this process. Standardisation of classifications adds immense value to the quality of information and consistency in reporting.
163. Because municipal functions and activities vary and consequently transactions and other events differ in terms of the impact on its ability to meet its service-delivery obligations, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results.
164. Additional line items are included on the face of the statement of financial performance, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of performance.
165. Factors considered include materiality and the nature and function of the components of revenue and expenses.

Revenue

166. The Revenue Section of the Item Segment contains the classifications structure for revenue estimated and presented in the budget reporting format and actual presented in the annual financial statements.
167. Although the Fund Segment could be interpreted as a duplication of the content of the Revenue Components from the Item Segment, it needs to be noted these segments are remotely different.
168. The Fund Segment records the “source of funding available and is represented by money in the bank” whilst the revenue component is driven by accrual accounting principles. The account “Non-funding Transactions” accumulates the transactions not of specific relevance in this segment.

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

169. The definition of revenue encompasses both revenue and gains. Revenue arises in the course of the operating activities of the municipality, and includes the items presented in the table hereunder.
170. The table presented hereunder provides a high-level overview of the group of accounts provided for with a reference to the paragraphs containing a discussion of the content.

High-level Classification	Definition
Revenue	The gross inflow of economic benefits or service potential during the reporting period when- those inflows result in an increase in net assets, other than increases relating to contributions from owners.
Exchange Revenue	Exchange transactions are transactions in which one entity receive assets or service, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods,

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High-level Classification		Definition
		services, or use of assets) to another entity in exchange.
	Agency Services	Compensation received by the Municipality to compensate the department for cost to provide the agency service should be recognised as receipts and not set-off against the expenditure.
	Interest, Dividend and Rent on Land	Consist of the income associated with ownership of interest-bearing financial instruments, such as bank deposits, loans extended to others, and bills and bonds issued by others.
	Operational Revenue	Operational revenue refers to all other income not elsewhere classified such as administrative fees, bad debts recovered, breakages, commission, discounts and early settlements, etc.
	Rental from Fixed Assets	<p>This account provides for rental income earned from the ownership of building, fixed structures, plant and equipment.</p> <p>The receipts from ownership of buildings must be distinguished from ownership of land and sub-soil assets; the latter is classified as rent of land which is a separate category.</p> <p>If it is impossible to split receipts earned from ownership of land from that earned from the fixed structure on it, the transaction should be recorded under this category.</p>
	Sale of Goods and Rendering of Services	This category consist of sales and services rendered provided that the municipality produced or partially produced the good or service.
	Service Charges	This group of accounts provides for the fees charged to cover services related to the primary product or service being purchased, being electricity, waste management, water and waste water.
	Non-exchange Revenue	In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
	Fines, Penalties and Forfeits	This item consists of all compulsory receipts imposed by a court or quasi-judicial body.
	Licences or Permits	Granting of licences or permits associated with a regulatory function by government.
	Property Rates	Property Rates means a municipal rate on property envisaged in section 229 (1)(a) of the Constitution. Rateable property means property on which a municipality may in terms of section 2 levy a rate, excluding property fully excluded from the levying of rates in terms of section 17. [Local Government Municipal Property Rates Act and Regulation 6 of 2004]
	Property Rates: Revenue Foregone	<p>This is a “contra” account to provide a classification within SCOA for recording “revenue foregone” and the purpose is not to present “service charges or property rates at the “gross amount”.</p> <p>Revenue foregone is thus included in the revenue and expenditure</p>

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High-level Classification			Definition
			sections of the Item Segment.
		Transfers and Subsidies	<p>Transfers and Subsidies include all unrequited receipts by the municipality. A receipt is unrequited provided that the municipality does not receive anything of similar value directly in return for the transfer receipt.</p> <p>This category distinguishes between Capital and Operational Receipts and within these broad categories "transfer categories" further divided between "monetary and In-kind allocations".</p>

Changes made to the SCOA Tables Version 4

- 171. Gains and Losses: *This group of accounts extracted from the Revenue Component and a table created for "gains and losses".*
- 172. Discontinued Operations: *Provided for discontinued operations in revenue to assist in presenting "a single amount on the face of the statement of financial performance comprising the total of the post-tax surplus or deficit of discontinued operations and the post-tax gain/loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.*
- 173. Rental of Property, Plant and Equipment: *The account label revised to Fixed Assets to include Investment Property, Biological Assets and Heritage Assets.*
- 174. Commission Auctions: *Account deleted not applicable to municipalities.*
- 175. Definitions: *Various definitions changed and expanded.*
- 176. Transfers and Subsidies: *Posting level detail revised.*
- 177. Colum added for identifying stakeholder requirements for example NERSA and the Department of Water Affairs.
- 178. Service Charges Water: Reporting detail added as required by the Department of Water Affairs.
- 179. Added code structure and revised posting level accounts and breakdown allowed.

Expenditure

- 180. Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.
- 181. The definition of expenses encompasses losses as well as those expenses that arise in the course of the operating activities of the entity. Expenses that arise in the course of the operating activities of the entity include, for example, cost of sales or cost of services rendered, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, and property, plant and equipment.
- 182. The table presented hereunder provides a high-level overview of the group of accounts provided for with a reference to the paragraphs containing a discussion of the content.

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High-level Classifications	Definition
Bad Debts Written-off	The irrecoverable debts that are written off during the financial year as approved by council allocated according to the type of service provided to the customer.
Bulk Purchases	Bulk purchases of water (from Water Boards) and electricity from Eskom.
Contracted Services	This group of accounts distinguish between "agency and support/outsourced services, contractors and professional and special services".
Cost of Free Basic Services	This account provides for the recording of the actual cost incurred for providing free basic services as classified under "Revenue Foregone".
Depreciation and Amortisation	<p>Depreciation is the systematic allocation of the cost of an asset from the Statement of financial position to depreciation expense on the statement of financial performance over the useful life of the asset.</p> <p>Amortisation is the systematic allocation of the discount, premium or issue cost of a financial instrument over the life of the instrument, or an intangible asset over a certain period.</p>
Discontinued Operations	An entry shall disclose a single amount on the face of the statement of financial performance on the effects of discontinued operations and disposals of non-current assets (or disposal groups) including revenue. [GRAP 100.35(b)]
Employee Related Cost	<p>This item includes all payments to employees except social contributions, defined below. Employee related cost distinguish between senior managers and other staff as Section 124(1)(c) of the MFMA required disclosures of the details of remuneration for all senior managers and the Standard of GRAP on Related Party Disclosure requires disclosure of key management personnel (GRAP 20 Related Party Disclosure - no effective date determined by the Minister thus IPSAS 20 Related Parties need to be applied.</p> <p>Key management personnel in the context of municipalities referring to the senior management group, including the chief executive (municipal manager).</p>
Income Tax	Not applicable to municipalities only to municipal entities. This account is for normal companies' tax levied on tax paying entities.
Interest, Dividends and Rent on Land	This item includes the total value of interest payments, dividends and payment for the use of land owned by another party.
Inventory Consumed	The amount of inventories recognised as an expense during the period. GRAP 12.45(d) The amount of inventories recognised as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold, exchanged or distributed, and unallocated production overheads and abnormal amounts of production cost of inventories. GRAP 12.47This

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High-level Classifications	Definition
	group of accounts include classification for inventory items consumed during the reporting period being the difference between the opening balance, purchases and usage or sales less stock write offs.
Operating Leases	An operating lease is a lease other than a finance lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Land use portion of a building finance lease must be recorded under Rental of Land.
Operational Cost	An operating expense is a day-to-day expense such as sales and administration, or research and development, accounting expenses, license fees, advertising, office expenses, utilities such as telephone, insurance, property management, travel and vehicle expenses.
Remuneration of Councillors	Remuneration as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No 20 of 1998). Salary of full-time councillors consisting of executive mayor or mayor, speakers, deputy executive mayor or deputy mayor, members of the executive committee or mayoral committee, whip and chairperson of a sub-council.
Revenue Cost of Free Basic Services	Revenue foregone is reflected as "income" on the revenue side and "expenditure" on the expenditure side. Revenue foregone consists of section 15 of the Municipal Property Rates Act, Exemptions, Reductions and Rebates and excludes section 17 "Other Impermissible Rates" and section 21 "Compulsory Phasing-in of Certain Rates,
Statutory Payments other than Taxes	This account should record the amounts of all other taxes assessed, except income taxes. Such taxes may include "payments in-lieu of taxes", municipal and schools taxes, property taxes, property transfers taxes, commodity taxes and franchise fees.
Transfers and Subsidies	Transfers include all unrequited payments made by the municipality to another institutions, businesses and individuals; it does not constitute final expenditure by the municipality. A payment is unrequited provided that the municipality does not receive anything directly in return for the transfer to the other party. Subsidies are unrequited payments that municipality's makes to public corporations and private enterprises, these payments usually have a direct policy outcome, either by subsidising the price of goods and services or by influencing the level of production.

Changes made to the SCOA Tables Version 4

183. Bulk Purchases: *Water Bulk Purchases moved to Current Assets Inventory.*

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184. Contracted Services: *The label for the group of accounts “agency and outsourced services” changed to “outsourced services”. Accounts expanded for “outsourced services”.*
185. Depreciation and Amortisation: *Group of accounts revised to align with the Standards of GRAP’s disclosure requirements.*
186. Employee Related Cost: *The duplication included for “designations” removed and changed the “breakdown allowed” to add this detail based on the dispensation of the municipality.*
187. Inventory: *High-level classification changed.*
188. Remuneration of Councillors: *The duplication included for “designations” removed and changed the “breakdown allowed” to add this detail based on the dispensation of the municipality.*
189. Operating Leases: *Account structure and detail changed.*
190. Transfers and Subsidies: *Detail revised.*
191. Income Tax: *Account group added and provided for tax on continued and discontinued operations.*
192. Discontinued Operations: *Provided for discontinued operations in revenue to assist in presenting “a single amount on the face of the statement of financial performance comprising the total of the post-tax surplus or deficit of discontinued operations and the post-tax gain/loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.*
193. Definitions: *Various definitions changed and expanded.*
194. Colum added for identifying stakeholder requirements for example NERSA and the Department of Water Affairs.
195. Added code structure and revised posting level accounts and breakdown allowed.

Assets, Liabilities and Net Assets

196. The financial position of the municipality is affected by the resources it controls, its financial structure, its liquidity and sustainability, and its capacity to adapt to changes in the environment in which it operates.
197. The Standards of GRAP 1 on the Presentation of Financial Statements requires that the municipality present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement of financial position except when a presentation based on liquidity provides information that is reliable and more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of their liquidity.
198. Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled within (a) no more than twelve months after the reporting date; and (b) more than twelve months after the reporting date, the municipality shall disclose the amount expected to be recovered or settled after more than twelve months.
199. When the municipality supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the

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- municipality's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
200. The municipality is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The need for a mixed basis of presentation might arise when the municipality has diverse operations.
201. All other assets shall be classified as non-current and includes tangible, intangible, and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
202. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) that are either realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months of the reporting date.
203. Current assets also include assets primarily held for the purpose of being traded (guidance on the classification of financial assets within this category could be found in the Standard of GRAP 104 on Financial Instruments) and the current portion of non-current financial assets.
204. A liability shall be classified as current when it satisfies any of the following criteria:
- it is expected to be settled in the municipality's normal operating cycle;
 - it is held primarily for the purpose of being traded;
 - it is due to be settled within twelve months after the reporting date; or
 - the municipality does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
205. All other liabilities shall be classified as non-current.
206. Some current liabilities, such as municipal transfers payable and accruals for employee and other operating costs, are part of the working capital used in the normal operating cycle of the municipality.
207. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of the municipality's assets and liabilities.
208. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading (guidance on the classification of financial liabilities could be found in the Standard of GRAP on Financial Instruments: Presentation and Disclosure), bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables.
209. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle), and are not due for settlement within twelve months after the reporting date, are non-current liabilities.
210. The municipality classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:
- the original term was for a period of longer than twelve months; and

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- an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

211. In respect of loans classified as current liabilities, if the following events occur between the reporting date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with the Standard of GRAP 14 on Events after the Reporting Date:

- refinancing on a long-term basis;
- rectification of a breach of a long-term loan agreement; and
- the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the reporting date.

212. The table presented hereunder provides a high-level overview of the group of accounts provided for with a reference to the paragraphs containing a discussion of the content.

High-level Classifications		Definition
Assets		Assets are resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.
	Current Assets	Current assets refers to assets which would recover in no more than 12 months after the reporting date or if the normal operating cycle is more than 12 months the longer period.
	Cash and Cash Equivalents	Cash comprises cash on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.
	Construction Contracts and Receivables	Amounts due from clients resulting from construction contracts undertaken by the municipality.
	Current Portion of Non-current Receivables	This account is used for the recording of the current portion of long term receivables being the amounts due within the next 12 months.
	Receivables from Non-exchange Transactions	This account is used for recording amounts receivable due from non-exchange transactions, such as insurance claims, rates and other taxes, subsidies, road reinstatements, repayments resulting from unauthorised expenditure.
	Other Current Financial Assets	This account provides for any current financial assets (or current portion of a non-current financial assets) not provided for separately.
	Income Tax Receivable	SA Normal Company Tax Refund due from SARS.
	Inventory	Inventories are assets: (a) in the form of materials or supplies to be consumed in the production process; (b) in the form of materials or supplies to be consumed or

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High-level Classifications		Definition
		<p>distributed in the rendering of services;</p> <p>(c) held for sale or distribution in the ordinary course of operations; or</p> <p>(d) in the process of production for sale or distribution.</p>
	Investments	<p>This group of accounts is used for the current portion of non-current investments ring-fenced or used for the cash backing of reserves to be utilised within the next 12 months.</p> <p>Also included are call investments used for the purpose of ring-fencing for utilisation of cash back reserve within 12 months from the reporting date.</p>
	Non-current Assets held for Sale	<p>Non-current assets are reclassified as current assets when they are held for sale.</p> <p>A non-current asset is regarded as 'held for sale' if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.</p>
	Trade and Other Receivables from Exchange Transactions	<p>A current asset resulting from selling goods or services on credit (on account). Invoice terms such as (a) net 30 days or (b) 2/10, n/30 signify that a sale was made on account and was not a cash sale.</p> <p>Exchange transactions are transactions in which one entity receive assets or service, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.</p>
	VAT Receivable	VAT receivable from SARS.
	Non-current Assets	Non-current assets refer to assets which would recover after 12 months or after the normal operating cycle of the municipality.
	Biological Assets	A Biological asset is a living animal or plant. Biological assets differ from other types of assets as they are used for agricultural purposes for example the intended use is to actively manage the biological assets' biological transformation.
	Defined Benefit Asset	In a funded plan, contributions from the employer, and sometimes also from plan members, are invested in a fund towards meeting the benefits.
	Deferred Tax Assets	An asset that may be used to reduce any subsequent period's income tax expense.
	Heritage Assets	Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
	Intangible Assets	An intangible asset is an asset that you cannot touch, for example copyrights, patents, mailing lists, trademarks, brand names,

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High-level Classifications		Definition
		domain names, and so on.
	Investments in Associate	An associate is an entity in which another entity owns a significant portion of voting shares, usually 20–50%.
	Investments in Joint Venture	A joint venture is a contractual business undertaking between two or more parties. It is similar to a business partnership, with one key difference: “a partnership generally involves an ongoing, long-term business relationship, whereas a joint venture is based on a single business transaction”.
	Investment Property	Investment property is land or building (or part of a building) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or service of for administrative purposes or sale in the ordinary course of operations.
	Investment in Subsidiary	A subsidiary is one in which another, generally larger, entity, known as the parent, owns all or at least a majority of the shares. As the owner of the subsidiary, the parent may control the activities of the subsidiary.
	Investments	Assets held primarily for the creation of wealth through receipt of distributions (such as interest, royalties, dividends and rentals), for capital appreciation.
	Non-current Receivables from Non-exchange Transactions	This account is used for the recording of the non-current portion of long term receivables being the amounts due 12 months from the reporting date.
	Other Non-current Financial Assets	This account provides for any current financial assets (or current portion of a non-current financial assets) not provided for separately.
	Property, Plant and Equipment	A major classification on the statement of financial position. Included are land, buildings, leasehold improvements, equipment, furniture, fixtures, delivery trucks, automobiles, etc. A distinction is made between "owned assets" and assets subjected to financial leases labelled as "leased assets".
Liabilities		Liabilities are future sacrifices of economic benefits that the municipality is presently obliged to make to other entities as a result of past transactions or other past events.
	Current Liabilities	Current liabilities comprise of all money owed by an entity which is due within one year after the reporting date.
	Bank Overdraft	An overdraft occurs when money is withdrawn from a bank account and the available balance goes below zero. In this situation the account is said to be "overdrawn".
	Consumer Deposits	Deposits paid by consumers for water, electricity, rental deposits and deposits required for other services provided by the

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High-level Classifications		Definition
		municipality.
	Current portion of Non-current Borrowings	This group of accounts provide for the portion of non-current liabilities to be redeemed within 12 months from the reporting date.
	Current portion of Finance Lease Liabilities	This account should record the portion, due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in the account for property, plant and equipment leased.
	Other Current Financial Liabilities	This account is to be used for recording any other "financial liability" not separately recorded somewhere else.
	Income Tax Payable	This account should be credited with the amount of taxes accrued during the accounting period, corresponding debits being made to the appropriate accounts for tax charges.
	Payments Received in Advance	This account is for payments received in advance from consumers.
	Provisions	Provision is a liability of uncertain timing or amount.
	Short-term Borrowings	This account is for recording current borrowing. Borrowing is money received with the implied or expressed intention of returning the same or an equivalent to the borrower with same interest.
	Trade and Other Payable Non-exchange Transactions	Accounts owed to suppliers resulting from non-exchange transactions.
	Trade and Other Payable Exchange Transactions	Accounts that are owed to suppliers (trade creditors) as distinguished from accrued interest, rent, salaries, taxes, and other such accounts. In exchange transactions the municipality receive equal value for the payment made to the creditor.
	VAT Payable	This account should record input and output tax transactions during the accounting period, corresponding with the debits credits being made to the appropriate accounts for input, output VAT and VAT refunds/offsets.
	Non-current Liabilities	Non-current liabilities comprise of all money owed by an entity which is due more than one year after the reporting date.
	Borrowing	This account is for recording non-current borrowing. Borrowing is money received with the implied or expressed intention of returning the same or an equivalent to the borrower with same interest.
	Deferred Income	Money received for goods and services which have not as yet been delivered. According to revenue recognition principle, it is recorded as a liability until delivery is made, at which time it is

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High-level Classifications		Definition
		converted into revenue.
	Deferred Tax Liabilities	A liability recorded on the statement of financial position that may be used to reduce and subsequent period's income tax expense.
	Defined Benefit Obligations	This account should record the unamortised portion of past service costs related to future benefits and pensions which will be expensed in future periods.
	Finance Lease Liability	Non-current finance lease liability.
	Operating Lease Liability	Unamortised balance for straight lining of operational lease payments.
	Other Non-current Financial Liabilities	This account is to be used for recording any other "financial liability" not separately recorded somewhere else.
	Provisions	Provision is a liability of uncertain timing or amount.
Net Assets		Retained earnings or accumulated deficit being the cumulative effect of differences between assets and liabilities as per statement of financial position.
	Amounts recognised directly in Net Assets relating to Non-current Assets held for Sale	An entity shall recognise shall present separately any cumulative revenue or expense recognised directly in net assets relating to a non-current asset (or disposal group) classified as held for sale. [GRAP 100.40]
	Accumulated Surplus/(Deficit)	Retained earnings or accumulated deficit being the cumulative effect of differences between revenue and expenditure as per statement of financial performance.
	Equity	Equity provides for "ownership interest" in the entity.
	Minority Interest	Minority interest is the portion of the company's shares not owned by the parent.
	Reserves and Funds	An account set-aside to meet planned and unexpected costs that may arise in the future.

Changes made to the SCOA Tables Version 4

213. Biological Assets: *Change the structure to distinguish between biological assets held at "fair value" and "cost less accumulated depreciation". Added classification to distinguish between "bearer and consumable" and then further between "mature and immature". The detail posting level accounts within the classes of biological assets have also been changed to give recognition to the distinction between "fair value" and "cost less accumulated depreciation".*

214. Intangible Assets:

- *Distinction made between "carried at cost and the revaluation model".*
- *Provided for accumulated amortisation as part of the group of accounts.*

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- *Distinction added within additions for internally generated and acquired intangible assets.*
 - *Included as a class of intangible assets - "Intangible Assets under Development".*
 - *Definition for transfers made changed to included transfers to assets held for sale*
215. Revaluation Reserve: *Provided for breakdown-allowed to added detail specific to the asset classes.*
216. Property, Plant and Equipment:
- *Infrastructure Cemeteries deleted.*
 - *Provided for a distinction for complying and non-compliance to the NERSA requirements.*
 - *Classification detail revised for reconciliation detail.*
217. Construction Work-in-progress: *Detail accounts changed to distinguish between "outsourced and own-account construction".*
218. Impairment: *Moved from current assets to be a set-off against "trade and other receivable exchange and non-exchange receivables.*
219. Investment Property and Heritage Assets: *Reconciliation detail revised.*
220. Transfers and Subsidies: *Detail revised and account structure added for unspent transfers and subsidies, receivables outstanding on transfers and subsidies and payables relating to transfers and subsidies.*
221. Added code structure and revised posting level accounts and breakdown allowed.

Gains and Losses

222. Gains and losses are included in the discussion of the revenue component of the Item Segment although technically "losses" that need to be included in expenditure. Gains and losses are presented in the statement of financial performance together and thus we have not separated "gains and losses" in the SCOA.

High-level Classifications	Definition
Gains and Losses	Gains and losses are treated as a separate group of accounts due to the nature of these transactions. Gains arise from the proceeds of the transaction exceeding the recognised value and losses from the recognised value exceeding the proceeds realised from the transaction.
Actuarial Gains/Losses	Actuarial gains comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions.
Discontinued Operations and Disposals of Non-current Assets	The gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operations. [GRAP 100.35(b)(iv) and .22 to .27]
Disposal of Intangible Assets	The gain or loss arising from derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be

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High-level Classifications	Definition
	recognised in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback. GRAP 102.116
Disposal of Fixed Assets	Gains result from the sale of an asset. A gain is measured by the proceeds from the sale minus the amount shown on the books. Since the gain is outside of the main activity of a business, it is reported as non-operating or other revenue on the statement of financial performance. Losses result from the sale of an asset for less than the amount shown on the books.
Fair Value Adjustments	The loss arising from the change in the fair value of a financial asset or liabilities measured at fair value recognised in surplus or deficit. Included in this account would be loss on financial instruments and discounting of debtors.
Foreign Exchange Gains/Losses	This item is for the recognition o
Impairment Loss	Impairment is a decrease in the value of a non-current asset to an amount that is less than the amount under the cost basis.
Reversal of Impairment Loss	Reversal of impairment losses recognised in surplus/deficit in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Asset. [GRAP103.83(c)]
Inventories Reversal or Write-down/Write-down to Net-realizable Value or Current Replacement Cost	This account provides for the recording of the reversal of a previous write-down to net realisable value or current replacement cost.

Costing Segment

223. The Costing Segment provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity based recoveries, for example labour, vehicle, plant and equipment, internal service charges (internal billings), and departmental charges for example office rental, audit fees and procurement.
224. The purpose for including this segment in SCOA is to provide for the recording of “full cost reflection” for at least the four core municipal functions being electricity, water, waste water and waste management services - as a minimum requirement. Focusing on these functions is essential for setting cost reflective tariffs as these four services are the most significant revenue generating functions within municipalities.
225. Extracting information from multiple segments within SCOA would thus provide “full cost” information for the defined core municipal functions. Typical the Function Segment would identify the core service as being electric, water, waste water management and waste management. The Item Segment will provide the direct (primary) cost whilst the Costing Segment adds the indirect (secondary cost) dimension.
226. “Indirect costs” (secondary cost) is initially recorded as “primary cost” within the Item Segment and funded according to the indicator selected in the Fund Segment. The

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“costing indicator” within the Funding Segment provides for the re-distribution of these primary costs between functions (no change in the funding source), together with indicators provided in the Cost Segment. The Project Segment provides the classification link for these indicators and specific projects.

227. The high-level classification provided for in this segment and the definitions thereof are:

- Activity Based Recoveries - This refers to the actual allocation of resources utilised by various departments, for example allocation of labour are based on time sheets, and the allocation of vehicles and plant equipment are based on log sheets.
- Internal Billing – This refers to departmental use of internal services such as electricity, water, waste water management and waste management. In illustrating, the cost allocation for the electricity department’s water consumption or alternatively the electricity consumed during water purification.
- Department Charges (Support Services) - This refers to the allocation of overheads to cost centres for example information technology used by multiple functions. Distribution of costs on a pro rate allocation based on number of service points or users within the electricity department. Some financial applications refer to assessment charges.