

NATIONAL CIGFARO *m*SCOA WORKSHOP 2020

Balance sheet budgeting and movement accounting

Presented by National Treasury Ria von Ronge 11 November 2020



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Objectives of the session

- To provide the users with an understanding of how balance sheet budgeting and movement accounting should be applied in an *mSCOA* environment

The requirements for municipal budgeting is legislated

- The following legislation gives effect to municipal budgeting
 - The Constitution
 - The Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
 - The Municipal Budget and Reporting Regulations (MBRR), 2009 (Government Gazette No 32141)
 - The Annual Division of Revenue Act (DoRA)
 - The Municipal Structures Act, 1998 (Act No. 117 of 1998), as amended
 - The Municipal Systems Act, 2000 (Act No. 32 of 2000), as amended
 - The Municipal Property Rates Act, 2004 (Act No. 6 of 2004), as amended
 - The Municipal Fiscal Powers and Functions Act, 2007 (Act No. 12 of 2007)
 - The Municipal Regulations on Standard Chart of Accounts, 2014 (Government Gazette No 37577)
- The LG reform agenda placed emphasis on long term planning, strategic budgeting and performance measurement while *mSCOA* provides the “golden thread” linking the process of Planning, Budgeting, In-year Monitoring, Reporting and Annual Financial Statement

Balance sheet budgeting was introduced in the MBRR already but *mSCOA* highlighted that it is not applied in practice. The Municipal Budget is core throughout the accountability cycle.

Most people's understanding of balance sheet budgeting



What is Balance Sheet Budgeting?

- A budgeted balance sheet is a report that management uses to predict the levels of assets, liabilities and equity based on the planned revenue and expenditure the current accounting period.
- THE BUDGETED BALANCE SHEET SHOWS WHERE ALL OF THE ACCOUNTS WOULD BE AT THE END OF THE PERIOD IF ACTUAL PERFORMANCE MATCHED THE BUDGETED ESTIMATES
- At the end of each period, management usually starts planning a 'master' budget for the next period. The master budget is made up of a lot of smaller budgets for various departments.
- All these budgets are combined into a Medium Term Revenue and Expenditure Framework for the municipality over a 3 year period.
- The budgeted income statements and balance sheet summaries the impact the budget on the financial position of the municipality if the budgeted numbers are met.
- **All Revenue and Expenditure impacts on the Financial Position**

Simply stated...the following needs to happen to do balance sheet budgeting

- Estimating expected revenue billings per month
 - through applying assumptions based on historical data and doing some calculations.
- Establishing the billing figure based on the current historical collection trends, the expected monthly cash collection can be derived providing monthly cash flow information.
- Information used for the latest impairment of debtor's balance may remain appropriate to use as the best reflection on expected debtors' impairment for prediction purposes as well as actual debt write off.
- Depending on the date of preparing the budget estimate, the best possible prediction could be done on the roll forward movement accounts to establish an “opening balance”.
- The calculated usage also inform the estimate of “Bulk Electricity and Bulk Water Purchases”.
- Determination of the expected monthly usage thus informs the Creditors budget.
- Applying the accepted norm set by the municipality for paying creditors determines the cash out flow in respect of “bulk electricity and bulk water purchases”.

Simply stated, what is Balance Sheet Budgeting?

Inherent Requirement:

- Sound budget practices
- Strong financial management
- Proper oversight by municipal council on budget implementation



S18 of MFMA: MTREF budget to be funded from

- realistically anticipated revenue to be collected
- cash-backed accumulated funds
- borrowed funds for only capital projects

LG Budgeting 101

- **Zero based or incremental budgeting?** A combination of zero based (budget from scratch but per line item) and incremental budgeting (additional to the baseline / the so called policy discussions) is used to prepare a municipal budget. All budgeted expenditure must be linked to the IDP, a project, funding available and historical trends
- **Who compile the budget?** *mSCOA as a business reform requires* input from all departments and the whole Finance department. The CFO/budget manager will coordinate the process and consolidate the municipal budget for the next MTREF.
- **Use of excel spreadsheets?** Budgeting must be done directly in the planning and budgeting module of the financial system. NT only publish municipal data from *mSCOA* data strings submitted to the LG Portal. Currently the credibility of the data is questionable and one of the main reasons is that municipalities are using excel spreadsheets outside of the system and then capturing on the system afterwards. Human error and disregarding the controls built-into the system to flag unauthorised expenditure (over budget or not budgeted for, etc.) are major risks in this regard (not the mention non-compliant i.t.o. *mSCOA*)
- **Income is greater than expenditure?** S18 of the MFMA requires that budget is funded. **You can not plan to spend money you do not have.**

What should you use to compile your budget in an mSCOA environment (1)

The Capital Programme (IDP) to do the Capital Budget

- Projects submitted, prioritised and **ready** for implementation in the IDP, to address the Long term plan of the Municipality must be used to compile the Capital Programme
- Determine which projects will be constructed in the MTREF and which will be acquisitions
- NB: Procurement plan should be submitted for approval with the budget (MFMA circular No. 98)

Operational Expenditure projections to create the Operational Budget

- Revenue projections based on the expected Revenue (from core system and a complete analysis of Municipal Customers and proposed tariffs)
- Maintenance Plans that informs the Project Operational : Maintenance
- Employee costs and Council Remuneration
- Inventories needed

Cash flow projections must provide the expected Cash available

- Ensure that the budget is cash backed by realistically anticipating Payments from Trade and Other Receivables
- MFMA Budget circulars from NT that provide specific guidance and requirements.
- Division of Revenue Act (DoRA) for Equitable Share and National grant funding promulgated.
- Provincial gazette or allocation letters for provincial grants allocations

Starting point - Unpacking the IDP (1)

Municipalities must base their budgets on the approved IDP.

The IDP projects must be loaded in the financial system and then used to determine the budget amounts to be included in the data strings.

Example: KPA – Infrastructure & Basic Service delivery

Performance Objective	Key Performance Indicators	Baseline	Responsibility	Annual Target
To facilitate an integrated transport system	The facilitation of an integrated transport system	Build Roads in Ward 6	Director Engineering and Planning Services	50%



Unpacking the IDP – Conversion To Segments

- **Conversion of an IDP Project to Segments**

Example: Per the IDP of Batho Pele Municipality, during the current year the municipality will be building a new road in Ward 6 the project number is 01011 on the IDP.

1. Project Segment- Capital: Infrastructure: New: Roads Infrastructure: Roads: **Ward 6 – Roads**
2. Function Segment - Function: Road Transport: Core Function: Roads
3. Regional Segment - Regional: Regional Identifier: Local Government by Province: Municipalities: Batho Pele Municipality: Ward: Ward 6

This conversion must happen for every project in the IDP

Unpacking the IDP (2)

- **Linking of IDP to Budget**

Project Segment- Capital: Infrastructure: New: Roads Infrastructure: Roads: **Ward 6 – Roads**

Project Guid- e2287c96-937b-4ee9-a092-0fa8b0979655_01011

Project	Function	Item	Funding	Region	Costing	Amount
e2287c96-937b-4ee9a0920fa8b0979655_01011	d0a8c200-23d4-4309-8ea5-97922584a36d	a10b5469-0333-43aa-8bfd-6efabddf7a42	39e21601-ecbb-4ce6-9f1c-b4256fc7de3f	6f9a8a2a-2328-47b1-bebe-2512fd837e59	47c7ba65-c270-4a7f-91ba-3842eb629ddf	15000000

Data String:

e2287c96-937b-4ee9a0920fa8b0979655_01011|d0a8c200-23d4-4309-8ea5-97922584a36d|a10b5469-0333-43aa-8bfd-6efabddf7a42|39e21601-ecbb-4ce6-9f1c-b4256fc7de3f|6f9a8a2a-2328-47b1-bebe-2512fd837e59|47c7ba65-c270-4a7f-91ba-3842eb629ddf|15000000

Take note: This is a single data string: To provide a balanced data string the credit leg of this data string must be compiled using the BUDGET Module of the ERP

Unpacking the IDP : Preparation of the electronic IDP / Project (PROR) file

Text file - This must be generated by the system

- Pipe separated
- Contents
 - **Demarcation Code**
 - Financial **Year** (END)
 - **Budget type** (PROR -> ORGB) (PRTA -> TABB) (PRAD -> ADJB)
 - **Project guid** including extension (all projects including non-broken down)
 - **MTSF Service Delivery Outcomes codes** (01 – 14)
 - **IUDF Integrated Development Framework codes**(01 – 04)
 - Own **Strategic Objective** (250)
 - Own Project **description** (250)
 - Location **GPS** coordinates Longitude and Latitude in decimals (delimit by pipe)
- **No duplicates for Project GUIDs – ie: One summarised amount per project**

Unpacking the IDP : Preparation of the electronic IDP / Project (PROR) file – Linking to Medium Term Strategic Framework

- The MTSF defines the strategic objectives and targets of government during the next five years.
- It is the frame of reference outlining the government's main priorities underpinning the strategic direction of government over the next five years.
- The MTSF therefore serves as the principal guide to the planning and the allocation of resource across all spheres of government.
- The MTSF priorities will inform the budget submissions that national departments make to the government's budgeting process, as encapsulated in the Medium-Term Expenditure Framework, which details a 3-year rolling expenditure and revenue plan for national and provincial departments.
- The MTSF is structured around 14 priority outcomes which cover the focus areas identified in the NDP. These are:

01 - Quality basic education

02 - A long and healthy life for all South Africans

03 - All people in South Africa are and feel safe

04 - Decent employment through inclusive growth

05 - A skilled and capable workforce to support an inclusive growth path

06 - An efficient, competitive and responsive economic infrastructure network

07 - Vibrant, equitable, sustainable rural communities contributing towards food security for all

08 - Sustainable human settlements and improved quality of household life

09 - Responsive, accountable, effective and efficient local government

10 - Protect and enhance our environmental assets and natural resources

11 - Create a better South Africa and contribute to a better Africa and a better world

12 - An efficient, effective and development-oriented public service

13 - A comprehensive, responsive and sustainable social protection system

14 - A diverse, socially cohesive society with a common national identity

Unpacking the IDP : Preparation of the electronic IDP / Project (PROR) file – Linking to IUDF

“The overall outcome of the IUDF is spatial transformation, by steering urban growth towards a sustainable growth model of compact, connected and coordinated cities and towns.

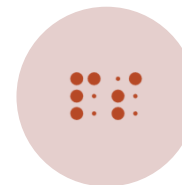
To achieve this transformative vision, four overall strategic goals are identified:

- **Spatial integration:** To forge new spatial forms in settlement, transport, social and economic areas.
- **Inclusion and access:** To ensure people have access to social and economic services, opportunities and choices.
- **Growth:** To harness urban dynamism for inclusive, sustainable economic growth and development.
- **Governance:** To enhance the capacity of the state and its citizens to work together to achieve spatial and social integration.”

Note: Mapping that links the MSTF and IUDF is available on the LG database



01 - SPATIAL
INTEGRATION



02 - INCLUSION
AND ACCESS



03 - GROWTH



04 -
GOVERNANCE

Accounting Principles for preparing the budgeting data string

16

- It is important that the budget must be compiled using the accounting principles of GRAP
- Payment levels determine the cashflow, working capital and feasibility of the Municipality
- Accrual of the last month's payments and receipts must be included in the data string where Municipalities will not be paying the full amount in the financial year ie. Third parties in Payroll , SARS(PAYE) and Trade and other payables and receivables.
- The following budget data strings will provide the debit and the credit transactions:
 1. Billing of Electricity;
 2. Receiving payment (as per realistic historical trends);

Payments of Bulk Electricity

3. Raise the trade and other receivable
4. Make the payment

Billing Budget for Electricity

1. The municipality budget to bill Electricity to Ward 2 based on the projections by the financial system and historical data for the ward: R6 000 000

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Assets:Current Assets: Trade and other Receivables from Exchange Transactions:Trading Service and Customer Service Debtors:Electricity: Monthly Billing	Revenue: Exchange Revenue:Service Charges:Electricity: Electricity Sales:Domestic High:Conventional
Funding	Fund:Non-Funding	Fund:Non-Funding
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R6 000 000	R6 000 000
Schedules	A6	A4



Payment rate of 85% for budgeting

2. Historically this ward has a 85% payment rate

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Deposits	Assets: Current Assets: Trade and other Receivables from Exchange Transactions: Trading Service and Customer Service Debtors: Electricity: Collections
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Ward 2	Ward 2
Costing	Default	Default
Amount	R5 100 000	R5 100 000
Schedules	A7	A6



Budgeting and Transacting

- This is one example of how the budget data strings should be compiled for every service.
- The historical trends of billing from the Core Financial System must be used to compile the budget data strings.
- Note this is an Extract for Debtors data strings for billing. It sets the principle.
- The same principle is followed for all the services using the data from the billing system per service, per ward.
- Note that the correct control vote per service must be correctly allocated in all the sub systems ie. Billing, Payroll, Creditors, Assets and Inventory

Accrue for payment of Bulk Electricity

3 . The Municipality received an account from Eskom of R5 million.

Segment	Debit	Credit
Project	Municipal running Costs	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Expenditure: Bulk Electricity	Liabilities: Current Liabilities: Trade and other payables: Bulk Electricity: Deposits
Funding	Fund:Non-Funding	Fund:Non-Funding
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default
Amount	R5 000 000	R5 000 000
Schedules	A4	A6

Payment of Bulk Electricity

4. Payment of Bulk Electricity Trade and other payables

Segment	Debit	Credit
Project	Default	Default
Function	Function: Energy Sources: Core Function: Electricity	Function: Energy Sources: Core Function: Electricity
Item	Liabilities: Current Liabilities: Trade and other payables: Bulk Electricity: Withdrawals	Assets: Current Assets: Cash and Cash Equivalents: Cash at Bank: Bank Account: Primary Bank account: Withdrawals
Funding	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity	Fund: Operational: Revenue: General Revenue: Service Charges: Electricity
Region	Whole of Municipality	Whole of Municipality
Costing	Default	Default
Amount	R5 000 000	R5 000 000
Schedules	A6	A7

How do we use the *m*SCOA budget

- Budgets for Municipalities and Municipal Entities must be **realistic** and address all outstanding payments to Eskom and Water boards as per the Budget Circulars as well as other outstanding commitments.
- Expenditure must be reduced and revenue must be **optimised** without increasing tariffs to an unaffordable level. Ensure completeness of billing.
- Cost of Free basic services must be budgeted for according to the information populated in the billing system, reported on and evaluated for affordability.
- Tariffs must be **well defined**, planned and gazetted (advertised and **communicated to the community** through participation programs). Municipal by-laws must be amended and promulgated to include changes to tariffs.
- If the Municipality is in Crisis -**no new debt should be incurred** unless the Municipality will be receiving revenue to cover the additional cost of servicing the debt.

How do we create budget data strings in *m*SCOA

- The budget is a complete data string that includes
All combinations for revenue and expenditure per line item plus balance sheet data strings
= A balanced data string
- The data strings will be matched to the A Schedule that should be produced from the financial system
- The accruals for year end transactions on Trade and other Payables and Trade and other receivables must form part of the data strings since most transactions have a impact on closing balances.

Note

- The A1 Schedule is populated using data strings. The A1 is then tested by National and Provincial Treasury to determine if the submitted budget on the portal is funded.
- The actual transactions(C Schedule) is checked against the budget to ensure transacting is happening against the planned data string submissions.
- When all the data is correctly linked and configured in the financial systems the data string provides the full reporting picture per municipality.
- The B schedule is populated using the Adjustment budget data strings

Adjustment Budget – MFMA Requirements

- An adjustments budget and supporting documentation of a municipality must be in the format specified in Schedule B and include all the required tables, charts and explanatory information, considering all guidelines issued by the Minister in terms of section 168(1) of the MFMA.
- An adjustments budget referred to in section 28(2)(b), (d), I, and (f) of the MFMA may be tabled to the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.
- Only one main adjustments budget referred to in sub-regulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the MFMA are allocations to a municipality in a national or provincial adjustments budget, in which case sub-regulation (5) applies.

Types of Adjustment Budgets

Types of adjustments budget	Timeframes	Sections of MFMA and MBRR
Downwards adjustment due to under-collection of revenue	Any time	S. 28(2)(a)
Main adjustments budget	Once a year – between tabling of the mid-year assessment and 28 February	S. 28(2)(b, d & f) Reg. 23(1&2)
Additional funds from national / provincial government	60 days after the approval of the relevant national / provincial adjustments budget	S.28(2)(b) Reg. 23(3)
Unforeseen and unavoidable expenditure	Within 60 days of expenditure being incurred	S. 28(2)l, 29(3) & 32 Reg. 23(4), 71 & 72
Roll-over of municipal funds	Before 25 August	S. 28(1) Reg. 23(5)
Authorisation of unauthorized expenditure	(a) In main adjustments budget (b) After the tabling of the annual report for that year (7 months after the financial year end)	S. 28(g), 32, 127(2) Reg. 23(6)

THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

www.municipalmoney.gov.za
open **local government budget** data portal

Explore easy-to-understand, verified financial information for **every single municipality** in South Africa in one place.



For information on local government finances, please visit: <https://municipalmoney.gov.za>



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA