CIGFARO *m*SCOA ANNUAL WORKSHOP

ITEM 9.2

Budgeting and Transacting for Depreciation

PRESENTED BY:

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Budgeting and Transacting for Depreciation
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Date 17/11/2021

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

NDP 2030

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1

How to Budget and Transact for Depreciation

Problem Statement:

- Municipalities are not budgeting and transacting correctly for depreciation, and it is therefore a clear indication that their sub system " asset registers" are not aligned to the core financial system.

Examples of how Municipalities are Budgeting

						2022 ORGB
Account Name	Function Main Level De	Account Name	Item Main	Account Name	Account Name	
Operational\Municipal Running Cost Tr	Executive and Council	Function:Executive and Council:Core Function:	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Furniti	Fund:Non-funding Transactions	314,559
Operational\Municipal Running Cost Tr	Executive and Council	Function:Executive and Council:Core Function:	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Other	Fund:Non-funding Transactions	943,677
Operational\Municipal Running Cost Tr	Finance and Administratior	Function:Finance and Administration:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Compu	Fund:Operational:Revenue:General Revenue:Operational Revenue	186,313
Operational\Municipal Running Cost Tr	Finance and Administratior	Function:Finance and Administration:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Furniti	Fund:Operational:Revenue:General Revenue:Operational Revenue	186,313
Operational\Municipal Running Cost Tr	Waste Management	Function:Waste Management:Core Function:Sc	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Solid V	Fund:Operational:Revenue:General Revenue:Operational Revenue	465,785
Operational\Municipal Running Cost Tr	Waste Management	Function:Waste Management:Core Function:Sc	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Transp	Fund:Operational:Revenue:General Revenue:Operational Revenue	465,785
Operational\Municipal Running Cost Tr	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Compu	Fund:Operational:Revenue:General Revenue:Operational Revenue	351,926
Operational\Municipal Running Cost Tr	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Sanita	Fund:Operational:Revenue:General Revenue:Operational Revenue	351,926
Operational\Municipal Running Cost Tr	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Other	Fund:Operational:Revenue:General Revenue:Operational Revenue	351,926
Operational\Municipal Running Cost Tr	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Sanita	Fund:Non-funding Transactions	527,889
Operational\Municipal Running Cost Tr	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Compu	Fund:Operational:Revenue:General Revenue:Operational Revenue	207,016
Operational\Municipal Running Cost Tr	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Water	Fund:Operational:Revenue:General Revenue:Operational Revenue	207,016
Operational\Municipal Running Cost Tr	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Machi	Fund:Operational:Revenue:General Revenue:Operational Revenue	207,016
Operational\Municipal Running Cost Tr	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Machi	Fund:Non-funding Transactions	527,889

2

NATIONAL TREASURY 3

How to Budget and Transact for Depreciation

Account Name	Function Main Level De	Account Name	Item Main L	Account Name	Account Name	2022 ORGB
Operational:Municipal Running Cost Tc	Executive and Council	Function:Executive and Council:Core Function:	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Furnit	Fund:Non-funding Transactions	314,559
Operational:Municipal Running Cost Tc	Executive and Council	Function:Executive and Council:Core Function:	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Other	Fund:Non-funding Transactions	943,677
Operational:Municipal Running Cost Tc	Finance and Administration	Function:Finance and Administration:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Compu	Fund:Operational:Revenue:General Revenue:Operational Revenue	186,313
Operational:Municipal Running Cost Tc	Finance and Administration	Function:Finance and Administration:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Furnit	Fund:Operational:Revenue:General Revenue:Operational Revenue	186,313
Operational:Municipal Running Cost Tc	Waste Management	Function:Waste Management:Core Function:Sc	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Solid \	Fund:Operational:Revenue:General Revenue:Operational Revenue	465,785
Operational:Municipal Running Cost Tc	Waste Management	Function:Waste Management:Core Function:Sc	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Transp	Fund:Operational:Revenue:General Revenue:Operational Revenue	465,785
Operational:Municipal Running Cost Tc	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Compu	Fund:Operational:Revenue:General Revenue:Operational Revenue	351,926
Operational:Municipal Running Cost Tc	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Sanita	Fund:Operational:Revenue:General Revenue:Operational Revenue	351,926
Operational:Municipal Running Cost Tc	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Other	Fund:Operational:Revenue:General Revenue:Operational Revenue	351,926
Operational:Municipal Running Cost Tc	Waste Water Management	Function:Waste Water Management:Core Func	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Sanita	Fund:Non-funding Transactions	527,889
Operational:Municipal Running Cost Tc	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Compu	Fund:Operational:Revenue:General Revenue:Operational Revenue	207,016
Operational:Municipal Running Cost Tc	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Water	Fund:Operational:Revenue:General Revenue:Operational Revenue	207,016
Operational:Municipal Running Cost Tc	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Machi	Fund:Operational:Revenue:General Revenue:Operational Revenue	207,016
Operational:Municipal Running Cost Tc	Water Management	Function:Water Management:Core Function:Wa	Depreciation a	Expenditure:Depreciation and Amortisation:Depreciation:Machi	Fund:Non-funding Transactions	527,889

3

NATIONAL TREASURY 4

How to Budget and Transact for Depreciation

Function Main Level	Function SCOA Account	Fund SCOA Account	Item Main Level	Item SCOA Account	Project SCOA Account	
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Community Assets:Comm	Operational:Municipal Runr	120,000
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Computer Equipment	Operational:Municipal Runr	341,874
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Electrical Infrastructure:H	Operational:Municipal Runr	3 562,135
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Furniture and Office Equi	Operational:Municipal Runr	3 000,000
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Machinery and Equipmen	Operational:Municipal Runr	418,972
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Other Assets:Operationa	Operational:Municipal Runr	3 014,816
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Roads Infrastructure:Roa	Operational:Municipal Runr	24 040,368
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Sanitation Infrastructure:	Operational:Municipal Runr	4 191,782
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Solid Waste Infrastructur	Operational:Municipal Runr	786,831
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Transport Assets	Operational:Municipal Runr	4 599,110
Finance and Administrator	Function:Finance and Administration:Core Func	Fund:Non-funding Transactions	Depreciation and Am	Expenditure:Depreciation and Amortisation:Depreciation:Water Supply Infrastruct	Operational:Municipal Runr	16 298,833

4

NATIONAL TREASURY 5

How to Budget and Transact for Depreciation

- **Examples of how Municipalities are Budgeting**

Account Name	UDF	Function Main Level De	FUND	Account Name	Item Main Level	Account Name	Account Name	ORGB
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Computer Equipment	Fund:Non-funding Transactions	341,874
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Furniture and Office Equipment	Fund:Non-funding Transactions	3 000,000
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Electrical Infrastructure:HV Substations	Fund:Non-funding Transactions	3 562,135
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Solid Waste Infrastructure:Waste Processing Facilit	Fund:Non-funding Transactions	786,831
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Water Supply Infrastructure:Distribution	Fund:Non-funding Transactions	16 298,833
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Sanitation Infrastructure:Reticulation	Fund:Non-funding Transactions	4 191,782
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Machinery and Equipment	Fund:Non-funding Transactions	418,972
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Transport Assets	Fund:Non-funding Transactions	4 599,110
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Roads Infrastructure:Roads	Fund:Non-funding Transactions	24 040,368
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Community Assets:Community Facilities:Capital Spar	Fund:Non-funding Transactions	120,000
Operational:Municipal Running Cost	104	Finance and Administration	FX00500	Function:Finance and Administration:	Depreciation and /	Expenditure:Depreciation and Amortisation:Depreciation:Other Assets:Operational Buildings:Municipal Office	Fund:Non-funding Transactions	3 014,816

5

NATIONAL TREASURY 6

How to Budget and Transact for Depreciation

What should municipalities do when preparing a budget for depreciation?

- They should review their Accounting Policy on assets
- Prepare a breakdown of assets classes per function in terms of GRAP17
- Ensure that the breakdown of asset classes is aligned to reporting in the AFS
- Ensure that the Asset register is aligned to core financial system and ensure depreciation is pro-rated over 12 months

How to align the segments for budget purposes

- **Project segment:** Operational: Municipal Running Cost
- **Sub –Project:** Individual Project : Name the asset class
- **Function segment:** Under which department is the control and use of the asset
- **Funding segment:** Source aligned to function e.g. Trading services and Non-trading services: property rates

6

How to Budget and Transact for Depreciation

- **Item segment:** Depreciation and amortization
  Level Description Class /category of Asset Type
- **Costing segment**: Default
- **Regional segment:** Ward where the asset is located plus GPS location(IDP-Project Detail)
- **MSG segment:** Municipal specific

How do Provincial Treasury validate the credibility of the data strings and the budget?

- The Treasury must ensure that there is no global amount provided for in the budget
- Ensure that the depreciation amounts are at least broken down per asset class under the known trading services
- Ensure the segments are reflective as above
- Review AFS and ensure the amounts reasonable reflective of the previous years annual financial statements

7

THANK YOU

vulekamali SA Online Budget Data

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

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Department:
National Treasury

8