MUNICIPAL BUDGETING - PLANNING, BUDGETING AND REPORTING PROCESS IN THE ***MSCOA*** ENVIRONMENT

9 TO 10 MAY 2022 – EL ICC

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1. CONNECTING THE DOTS – INTRODUCTORY COMMENTS

1.1. Connecting the "DOTS" – The Legality

- **THE LEGAL RESPONSIBILITY OF NATIONAL TREASURY IN TERMS OF ACCURATE REPORTING, etc.**

216. Treasury control.—(1) National legislation must establish a national treasury and prescribe measures to ensure both transparency and expenditure control in each sphere of government, by introducing—

(*a*) generally recognised accounting practice;

(*b*) uniform expenditure classifications; and

(*c*) uniform treasury norms and standards.

(2) The national treasury must enforce compliance with the measures established in terms of subsection (1), and may stop the transfer of funds to an organ of state if that organ of state commits a serious or persistent material breach of those measures.

This is what Section 216 of the Constitution requires of National Treasury (NB: National Treasury has reporting responsibilities to structures such as Parliament, etc. re Financial Affairs of ALL spheres of Government, as such reliability of the information is critically important).

1.2. Connecting the "DOTS" – The MSCOA Regulations

- **THE LEGAL RESPONSIBILITY OF THE FINANCE MINISTER RELATING TO THE REGULATIONS**

STAATSKOERANT, 22 APRIL 2014 No. 37577 3

GOVERNMENT NOTICE

NATIONAL TREASURY

No. R. 312 22 April 2014

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: MUNICIPAL REGULATIONS ON STANDARD CHART OF ACCOUNTS

The Minister of Finance has, in terms of section 168 of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), and acting with the concurrence of the Minister of Cooperative Governance and Traditional Affairs, made the regulations as set out in the Annexure.

This is what Section 168 of the MFMA requires of National Minister of Finance to issue Regulations. These are the MSCOA Regulations which all municipalities were expected to implement on or 1 July 2017.

1.3. Object of the MSCOA Regulations

Object of these Regulations

2. The object of these Regulations is to provide for a national standard for the uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which—

(a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard charts of accounts for national and provincial government; and

(b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

In a nutshell the MSCOA Regulations are aimed at achieving the above points, bearing in mind that National Treasury has the reporting responsibility of the financial affairs of all spheres of Government, in an accurate and consistent manner.

1.4. What are MSCOA reforms about? (An understanding of the Reforms)

- → **A standardisation of a financial classification framework introduced by National Treasury through MSCOA Regulations.**
- → **NB: A structure of Municipal Accounts comprising of *seven (7) Segments (6 Segments are Regulated whilst One depends on the Municipality)*.**
- → **NB: The primary objective of MSCOA is to achieve an acceptable level of uniformity and quality from the collection of data by National Treasury.**
- → **The data (as above) is then used to compile both budgets and annual financial statements (AFS).**
- → **Budgets & financial transactions are captured in the system by using the seven (7) segments (to achieve the uniform reporting requirement) [NB: An MSCOA Compliant System is a "priority enabler" to achieve the implementation of MSCOA Reforms"].**
- → **NB: All seven (7) MSCOA Segments must be used to record a single transaction.**

NB: The MSCOA reforms must be understood as "institutional reforms" that must not only be seen as led by the CFO only, but rather by the Municipal Manager with dedicated Project Team & importantly an enabler i.t.o. the Compliant System/s.

1.5. Understanding the MSCOA seven (7) Segments

NB: Core / Non Core Functions i.t.o. Schedule 4(b) or 5(b) – Constitution RSA

Function
- What is the core function or sub function the transaction must be recorded? (e.g. Executive & Council, etc.)

Funding
- What is the Funding Source of the Expenditure to be incurred. Remember that a permanent expenditure in the budget "must" be funded by a permanent funding source failing which you will be faced with an unfunded budget which is not allowed i.t.o. the MFMA.

Item
- What is the nature of the tyransaction or the category the transaction belongs (e.g. Revenue / Expenditure / Gains & Losses / Liabilities / Assets, etc.

Project
- What type of project does the transaction belong to (e.g. Capital / Operational / Default projects)

Costing
- From which Department are we recovering the costs? Are there charges for "activity-based recoveries" charges made against a specific Department, internal billing or recoveries, etc???

Regional
- Which geographic area in the municipal boundary is receiving the benefit from the transaction? NB: In a municipal environment the Regional Segment would represent a Ward Allocation / Budget which must be promoted for "Transparency" as well as Monitoring of the implementation of approved projects by Communities.

Classification
- A non-prescriptive segment which records the relevant Department or cost centre asgainst which the transaction should be recorded, e.g. Office of the Executive Mayor / Office of the City Manager / Budget & Treasury / Electricity & Energy / Water Services, etc.

NB: For Primary or Secondary Costs (Secondary Costs = Non Cash Exchange, whilst Primary Costs = Real Cash Outflow…& other technicalities)

NB: The 7 MSCOA Segments are part of the foundation or are at the centre of the MSCOA Reforms as introduced by National Treasury through MSCOA Regulations. If we all catch it right from this foundation our reporting will be accurate & reliable (including the AFS).

1.6. A Municipal Budget (simplified)

- The municipal budget is similar to a **family or household's budget** that you might create to ensure that the ***money you earn adequately covers the money you spend***. However, unlike your family budget, the Municipality's budget is a legally adopted document (i.t.o. Section 160(2)(b) of the Constitution), which means that it can only be changed through an act of the Council. **(A municipal Budget cannot be approved / noted / adjusted without the Council of a Municipality. Further, a Budget is tabled in Council by a Mayor in terms of Section 21(1)(b) of the MFMA.**

NB: It must be led by the IDP (Planning led not feelings)

2. THE SUCCESS FACTORS IN IMPLEMENTING THE MSCOA REFORMS

Lesson 101 – "We must understand MSCOA as "Institutional Reforms" not just Financial Reforms that are led by a CFO". The Municipal / City Manager (as accounting officer) must be a leader in this process

2.1. Basic Success "Building Blocks / Factors" for MSCOA implementation

1. People

- Skilled Workforce
- Suitable Project Managers / Coordinators
- Accountants / System's Developers ++++
- Executive management for Decision - Making
- Leadership (Politically / Administratively)
- Operational Council Committees
- Operational Service Provider participants
- STEERCOM

2. Processes

- Clearly defined Policies / Procedures,
- Clearly defined processes on how to split e.g. FUNDING (as a critical segment of the MSCOA Regulations)
- Clearly defined Roles and Responsibilities of various Roleplayers (e.g. STEERCOM / Project Managers / Stream Leeds
- Clearly defined Reporting processes internally & externally (e.g. Council structures / NT or PT).
- Consider updating Job Descriptions to include MSCOA demands

3. Systems

- Compliant Accounting System/s whether "homegrown / internally developed" or System Acquired from the competent vendors who have been able to implement their system elsewhere or in other municipalities. [NB: Stay awake or be careful of incompetent service providers taking chances of your situation].

NB: Importantly – Embedded under ALL these Factors must be Change Management led by Change Agents

2.2. An operational STEERING Committee

GOVERNANCE STRUCTURE FOR THE M-SCOA IMPLEMENTATION PROJECT (Ideal Structure)

e.g. MSCOA Circular 2 & 3

Explanatory Notes and Suggestions:

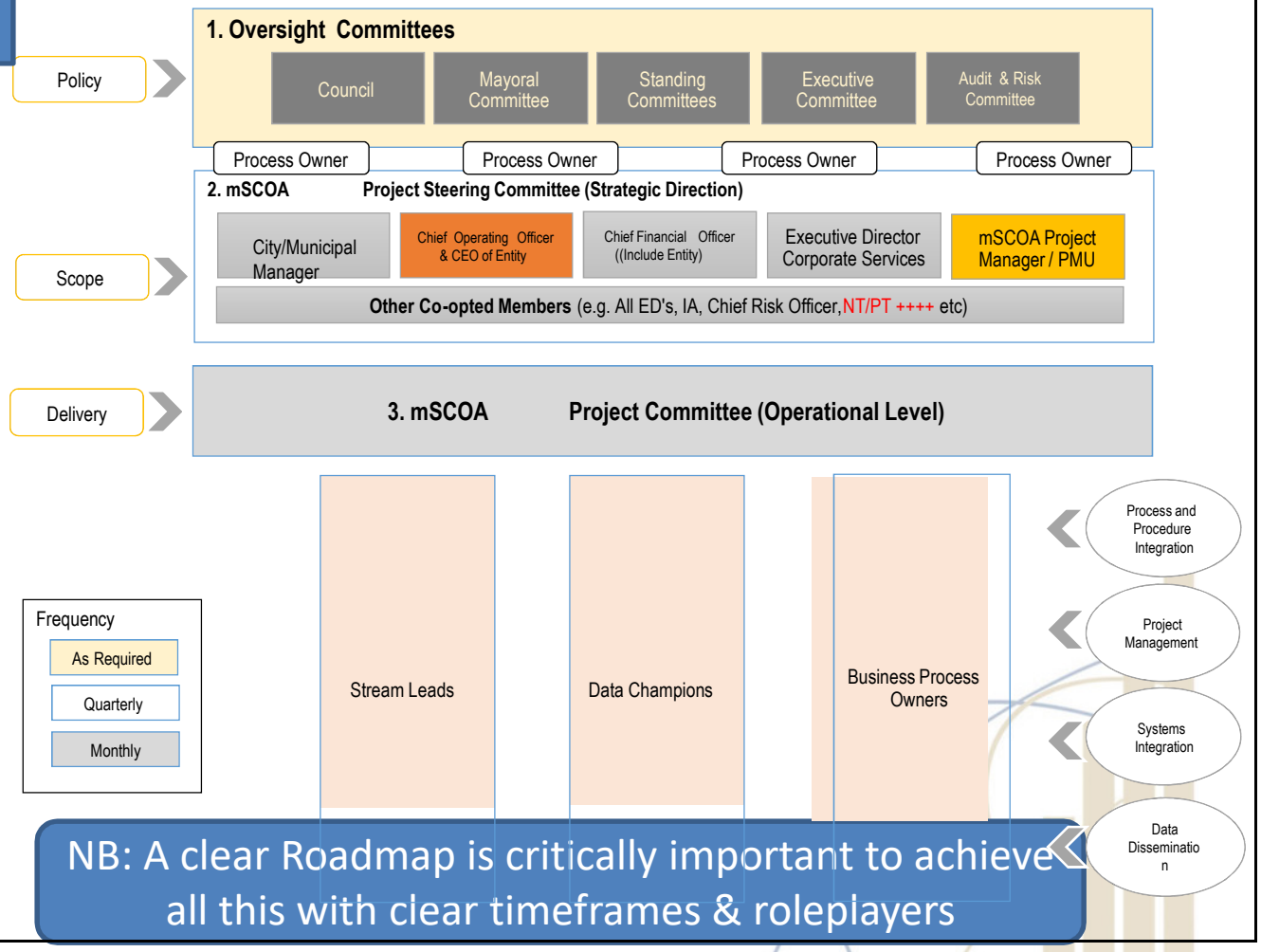
1. Interaction and Reports to Oversight Committees (i.e. Council, MayCo, etc.) will be prepared as and when required or requested. The Oversight Committees will not be directly involved in operational implementation.

2. The Steering Committee will also not be directly involved in operational implememtation.The mSCOA Project Manager must be a member of the Steering Committee, of which the Administrative Executives listed are a minimum requirement for membership. Co -opted members can be other Executives or Directors.

3. The Steering Committee will provide direction and approval for project scope but will not directly be responsible for execution of delivery. The Project Manager will be solely responsible for implementation but will be governed and responsible to the Steering Committee. The CFO has special responsibilities to the success of this project as such, the CFO & ED: CS are required to be available during the STEERCOM meetings, and nust have clear delegations from acting City Manager to them.

4. The Project Committee will meet on a monthly basis as a minimum requirement but only to monitor progress and other operational activities from a management perspective.

5. The various business sectors will be further broken down into task teams which will meet as and when required but only to discuss implementation and delivery activities on a detailed operational level.



NB: A clear Roadmap is critically important to achieve all this with clear timeframes & roleplayers

2.3. A Budget that must be PLANNING led (not feelings) – Budget Circulars issued timeously (COMMUNICATION)

NB: Bear in mind that the Budget is not only for BTO but for Directorates and BTO must guide Directorates / Departments in time.

NB: Funding is availed at this stage / upfront to all

nelson mandela bay
MUNICIPALITY

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CIRCULAR NO. 5 OF 2021

- ACTING CITY MANAGER
- ACTING CHIEF OPERATING OFFICER
- ACTING EXECUTIVE DIRECTORS / EXECUTIVE DIRECTORS
- CEO AND CFO OF MBDA
- STADIUM MANAGER - NELSON MANDELA BAY STADIUM

PREPARATION OF THE 2022/23 TO 2024/25 DRAFT OPERATING & CAPITAL MSCOA BUDGETS

1. LEGISLATIVE FRAMEWORK

5. THE CRITICAL DUE DATES IN ORDER TO COMPLETE THE BUDGET TIMEOUSLY

To ensure that the 2022/23 to 2024/25 budget is concluded on time, the following table enlists critical due dates that must be complied with:

TARGET DATE	ACTIVITY / ACTION REQUIRED	RELEVANT OFFICE / DIRECTORATE
29 November 2021	Avail Funding (Budget Limits) to all Directorates **including the MBDA (Entity) and the NMBM Stadium**	Budget & Treasury
29 November 2021	Avail Template for Capital Budget Projects	Budget and Treasury
15 December 2021	Operating Budget capturing by Directorates and the NMBM Stadium within the availed funding limits and any internal processes to conduct due diligence	Various Directorates and MBDA
15 December 2021	Submission of Capital Budget Projects from Directorates as per the availed Template to Budget and Treasury	Various Directorates and MBDA
14 to 21 January 2022	Submission of Miscellaneous Fees and Charges and any proposed amendments to Policies (e.g. Tariffs Policies, etc.) to Budget and Treasury	Various Directorates
31 January 2022	Submission of the MBDA Budget Report and Budget Tables (reconciling back to the allocated funding)	MBDA (CEO & CFO)
01 to 11 February 2022	Budget engagements with Directorates (for both Capital and Operating Budgets) to confirm accuracy etc.	Budget and Treasury and all Directorates & MBDA (planned dates will be issued)
28 February 2022 to 01 March 2022	Consultative Session with the Budget Steering Committee and various Executive Directors & MBDA (on the status of the Budget)	Budget and Treasury and all Directorates & MBDA (planned dates will be issued)
02 March 2022 to 07 March 2022	Reconciling and Preparation of required Tables to form part of the Budget Report for Council purposes	Budget and Treasury – Budget and Financial Accounting (Capital and Operating Sections)
07 to 15 March 2022	Consolidating Tables, preparing the Budget Report for submission to Corporate Services (Secretariat)	Budget and Treasury – Budget and Financial Accounting (Strategic Financial Reporting Section)
16 to 17 March 2022	**Draft Budget Report shared with the Senior Director and CFO for scrutiny prior submission to Corporate Services (Secretariat Services)**	**Budget and Treasury – Budget and Financial Accounting (Strategic Financial Reporting Section)**

2.4. A Council approved Policy with clearly defined "funding" sources upfront

NB: Enabling the ZERO BASED BUDGETING

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PORT ELIZABETH | UITENHAGE | DESPATCH

NB: In line with MSCOA Circular 8 (Virements) & 11 (Funding)

POLICY GOVERNING THE LONG TERM FINANCIAL MANAGEMENT PLAN

b) Capital Replacement Reserve Fund (CRR)

The Capital Replacement Reserve (CRR) Fund must at all times be utilised to finance Capital projects (not Operating projects) and must be maintained on a financial year basis. The purpose of the Capital Replacement Reserve is to set aside funds for financing property, plant and equipment. This reserve is therefore an "asset financing source" that represents an alternative to other funding sources available to the municipality namely external loans (interest bearing borrowings); and, transfers and subsidies. The CRR must be maintained on the following methods or strategies, amongst others: -

i. In terms of Section 4.5 of MFMA Circular 58, ALL conditional grant allocations availed in terms of the Division of Revenue Act (DORA) are VAT inclusive. The VAT portion of the grant is then recognized / treated as own revenue. It is therefore recommended that percentage allocation of the VAT, as indicated under paragraph 6.3 of this Policy, from all conditional Capital Grants be transferred to the CRR. These percentages could be adjusted upward annually in line with the needs of the municipality accompanied by relevant Council's policy.

ii. Electricity and Energy Directorate to continue to make an annual minimum contribution of R100 million to the CRR, which will be adjusted and reviewed annually. 80% of these funds should immediately be redistributed back into the refurbishment and rehabilitation of Electricity infrastructure. The remaining 20% be ring-fenced for future development.

iii. The full Transportation Development Levy (TDL) from private developers should be transferred to the CRR when payment is received.

iv. All the proceeds from the disposal of Capital Assets must be transferred to the CRR.

v. All the proceeds from insurance claims for damaged and / or destroyed Capital Assets must be transferred to the CRR upon receipt of the funds in order to provide a cash-backed budget to replace the damaged assets.

vi. At financial year end, all under spending on projects funded from internal revenue sources on the Capital Budget should be realised as true savings and should not automatically be expected to be carried over to the following financial year. The Financial Management Policies must make provision for the conditions of carry-overs.

vii. 80% of the potential future proceeds from the Waste Diversion and Beneficiation Projects (and or any such strategic projects) to be transferred to the CRR and the remaining 20% to be used for funding of any associated operations.

viii. Sale of Capital assets, including profit on sale of Capital Assets.

ix. Contributions from Net Surpluses per financial year.

x. Any financial recoveries of capital nature beneficial to the municipality.

Lastly, the available portion of the CRR must be accounted for within the Investment Portfolio of the institution and not as a separate Investment or Bank Account as that will be impractical to maintain.

NB: The success to the above can only be based when using the "Zero-Based Budgeting" approach.

3. PRACTICAL EXAMPLE

NB: ONLY FOCUSING ON THE IDP (A PLANNING LED BUDGET)….

3.1. Capturing an Integrated Development Plan (IDP) in the System – "The NMBM way" (No. 1)

mSCOA Project	MTSF Code	MTSF Description	IUDF Code	IUDF Description	KPA Code	IDP Priorities (National KPA)	PILLAR Description
3936e862-0085-4bc8-85ab-acd5136ba14e_08718	6	An efficient, competitive and responsive economic infrastructure network	2	Inclusion and Access	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE WELL RUN CITY
7316207f-0b09-49ae-9dce-098c2562dd5e_09814	6	An efficient, competitive and responsive economic infrastructure network	2	Inclusion and Access	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE INCLUSIVE CITY
afc24431-8d9d-4811-8f5e-1f422b115c25_12573	6	An efficient, competitive and responsive economic infrastructure network	2	Inclusion and Access	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE WELL RUN CITY
09f0d77d-d2e8-40f2-91e6-e89b7dad5a76_12726	12	An efficient, effective and development-oriented public service	4	Governance	2	MUNICIPAL INSTITUTIONAL DEVELOPMENT AND TRANSFORMATION	THE WELL RUN CITY
e2287c96-937b-4ee9-a092-0fa8b0979655_12807	6	An efficient, competitive and responsive economic infrastructure network	3	Growth	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE CARING CITY
e2287c96-937b-4ee9-a092-0fa8b0979655_12807	6	An efficient, competitive and responsive economic infrastructure network	3	Growth	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE CARING CITY
e2287c96-937b-4ee9-a092-0fa8b0979655_12820	6	An efficient, competitive and responsive economic infrastructure network	3	Growth	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE CARING CITY
16c66a46-90c3-4bc2-8783-48c575b8fd66_12849	1	Quality basic education	2	Inclusion and Access	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE FORWARD THINKING CITY
1cdab7f9-b937-42da-98b6-e1d5fc28c38d_12904	6	An efficient, competitive and responsive economic infrastructure network	2	Inclusion and Access	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE INCLUSIVE CITY
7316207f-0b09-49ae-9dce-098c2562dd5e_12909	6	An efficient, competitive and responsive economic infrastructure network	2	Inclusion and Access	1	SERVICE DELIVERY AND INFRASTRUCTURE	THE OPPORTUNITY CITY

NB: MTSF and IUDF Description and Code are as provided by National Treasury – NMBM using the "homegrown" system…

MSCOA	Municipal Standard Chart of Accounts
MTSF	Medium Term Strategic Framework
IUDF	Integrated Urban Development Framework
IDP	Integrated Development Plan
KPA	Key Performance Area

4. MSCOA REPORTING TO NATIONAL TREASURY

Lesson 101 – "NB: The successful MSCOA reporting to NT / PT entirely depends on the existence of the MSCOA compliant Accounting System which is integrated and aligned properly with the 7 Segments and failure to report timeously results to the risk of non-transfer of DORA gazetted grants to the municipality….".

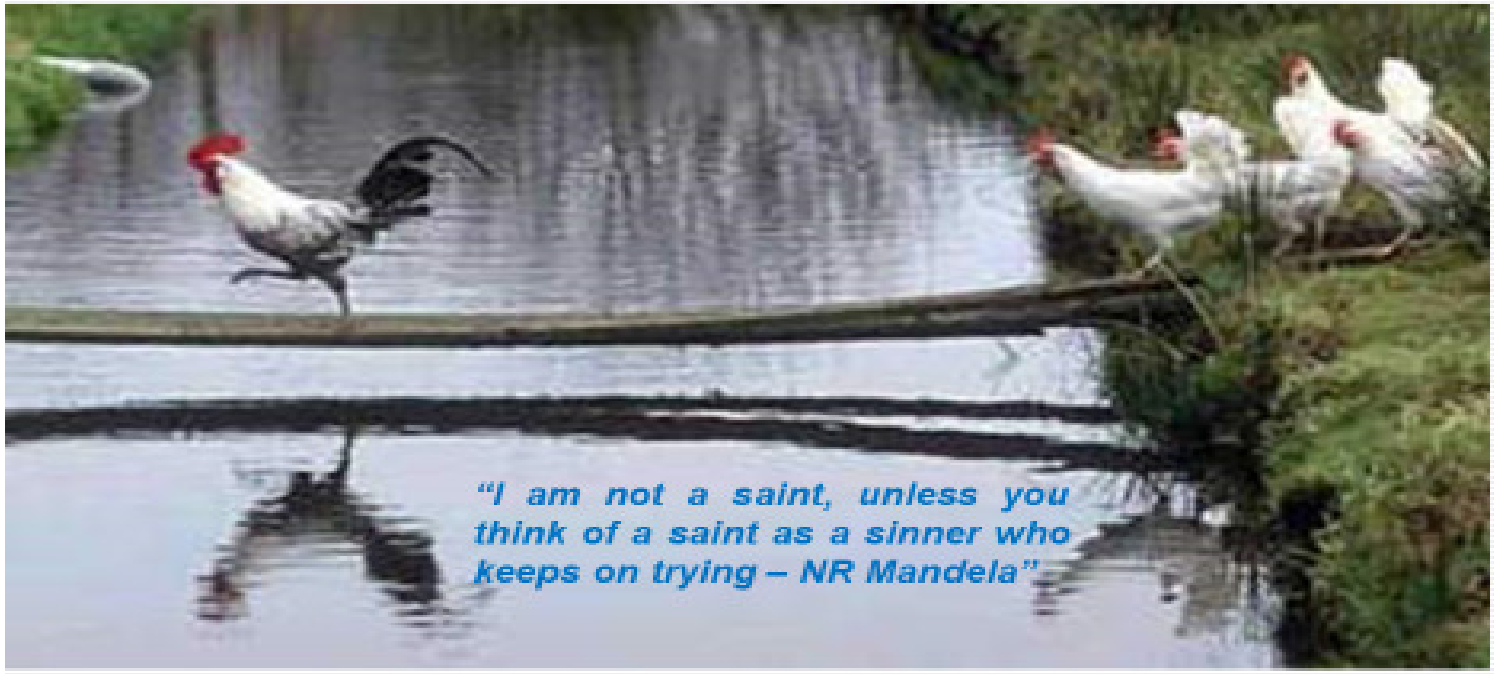
4.1. MSCOA Reports (Strings)

EXAMPLE OF MONTHLY & PERIODIC REPORTING STRINGS TO NATIONAL TREASURY				
FINANCIAL YEAR	**STRING REFERENCE**	**STRING DETAIL**	**DUE DATE**	**VERSION REFERENCE**
PERIODIC REPORTING (EXAMPLES)				
2022	ADJB	Adjusted Budget	**(After end February 2022)**	6.5
2022	ORGB	Original Budget	14-07-2021	6.5
2022	TABB	Tabled Budget	14-04-2021	6.5
2022	PRAD	Project Details Adjusted Budget	**(After end February 2022)**	6.5
2022	PROR	Project Details Original Budget	14-07-2021	6.5
2022	PRTA	Project Details Tabled Budget	14-04-2021	6.5
2022	PAUD	Pre Audited AFS	After completion of AFS around end August or early September (Prior Audit)	6.5
2022	AUDA & RAUD	Audited AFS & Restated AFS	After completion of audit of the AFS around end December or January	6.5
MONTHLY REPORTING (EXAMPLES)				
2022	M01	In-Year Monthly 01	14-08-2021	6.5
2022	M02	In-Year Monthly 02	14-09-2021	6.5
2022	M03	In-Year Monthly 03	14-10-2021	6.5
2022	M04	In-Year Monthly 04	14-11-2021	6.5
2022	M05	In-Year Monthly 05	14-12-2021	6.5
2022	M06	In-Year Monthly 06	14-01-2022	6.5
2022	M07	In-Year Monthly 07	14-02-2022	6.5
2022	M08	In-Year Monthly 08	15-03-2022	6.5
2022	M09	In-Year Monthly 09	14-04-2022	6.5
2022	M10	In-Year Monthly 10	14-05-2022	6.5
2022	M11	In-Year Monthly 11	14-06-2022	6.5
2022	M12	In-Year Monthly 12	14-07-2022	6.5

NB: These are just some examples of the reports that must be submitted in strings to the National Treasury on a monthly / periodic basis. The list is not exhaustive. Remember non-submission = Non transfer of DORA allocated Grants (A Risk)…

CONCLUSION…

CONCLUSION: *"Let's continue to walk in the line and ensure that it is the* ***"right" path"*** *– "that is* ***Leadership****"….*



Thank You!

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