



ADDENDUM

Notice is hereby given in terms of Section 29 of the Local Government: Municipal Structures Act, Act 117 of 1998, that a **SPECIAL COUNCIL MEETING** of the 2016/2021 term of the Eden District Municipality will be held in the **CA Robertson Council Chambers, 54 York Street, George, on MONDAY, 26 FEBRUARY 2018 at 11:00** to consider the item as set out in the agenda.

*Kennis geskied hiermee dat ingevolge Artikel 29 van die Wet op Plaaslike Regering: Munisipale Strukturewet, Wet 117 van 1998, 'n **SPESIALE RAADSVERGADERING** van die 2016/2021 termyn van die Eden Distriksmunisipaliteit gehou sal word in die **CA Robertson Raadsaal, Yorkstraat 54, George op MAANDAG, 26 FEBRUARIE 2018 om 11:00** ten einde sake soos uiteengesit in die aangehegte agenda te oorweeg.*

Kukhutshwe isaziso ngokoMhlathi 29 woRhulumente Basekhaya: Umgaqo Wesimo soMasipala, uMgaqo 117 wango 1998, sokuba **INTLANGANISO EKHETHKILEYO YEBHUNGA** ka 2016/2021 yoMasipala Wesithili se Eden izakubanjwa **kwiGumbi leBhunga I CA Robertson, 54 York Street, e George NGOMVULO, 26 kuFebruwari 2018 ngo 11:00** ukuqwalasela imiba ekwi agenda.

CLLR MS WILLEMSE

The Speaker
Die Speaker
Usomlomo

MR C AFRICA

Municipal Manager
Munisipale Bestuurder
Ibambela Mphathi Masipala

Date: 21 February 2018

SECTION E

**ITEMS FROM THE CORPORATE SERVICES DEPARTMENT / ITEMS VANAF
DIE KORPORATIEWE DIENSTE DEPARTEMENT / IMIBA YESEBE LENKONZO
ZOLAWULO**

E.4	PROGRESS REPORT REGARDING THE IMPLEMENTATION OF THE MUNICIPAL STANDARD CHART OF ACCOUNTS (mSCOA) / VORDERINGSVERSLAG OOR DIE IMPLEMENTERING VAN DIE "MUNICIPAL PROGRESS REPORT REGARDING THE IMPLEMENTATION OF THE MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA) / VORDERINGSVERSLAG RAKENDE DIE IMPLEMENTERING VAN DIE "MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA) (MSCOA) / INGXELO NGOKUQHUBEKAYO MALUNGA NOKUMISELWA KOLUHLU LWENCWADI EZIFANELEKILEYO ZOMAISPALA (MSCOA)(631389) <i>Refer: Report (7/2/2/6) dated 20 February 2018 from the Acting Executive Manager Corporate Services (B Holtzhausen) / Mscoa Project Team Leader (R Alberts)</i>	1 – 46
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SPECIAL DISTRICT COUNCIL

26 FEBRUARY 2018

**PROGRESS REPORT REGARDING THE IMPLEMENTATION OF THE
MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA) /
VORDERINGSVERSLAG OOR DIE IMPLEMENTERING VAN DIE
"MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA) / INGXELO
NGOKUQHUBEKAYO MALUNGA NOKUMISELWA KOLUHLU
LWENCWADI EZIFANELEKILEYO ZOMAI PALA (MSCOA) (631389)**

(7/2/2/6)

20 February 2018

**REPORT FROM THE EXECUTIVE MANAGER: CORPORATECES (B
HOLTZHAUSEN) MSCOA PROJECT TEAM LEADER (R ALBERTS)**

PURPOSE OF THE REPORT

The purpose of this report is to inform Council regarding the progress on the implementation of the Municipal Standard Chart of Accounts (mSCOA)

BACKGROUND

The Regulations relating to the Standard Chart of Accounts, 2014 (mSCOA), requires a significant change in municipal business processes. Consequently, mSCOA implementation involves system conversion and/ or re-implementation with all the typical risks associated with any system conversion or implementation.

Implementing mSCOA therefore requires organisational change across the municipality since not only financial and budget orientated practitioners are involved. A common misconception among municipalities and other stakeholders relates to the fact that mSCOA Regulation is perceived to be a finance reform only, an extremely dangerous assumption.

Legislative Mandate:

Section 216 of the Constitution of the Republic of South Africa (Act 108 of 1996, substituted by section 1(1) of the Citation of Constitutional Laws Act, 2005 (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.

Section 168(1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) (hereinafter referred to as 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.

Status Quo as at Tuesday 20 February 2018:

A presentation was done at the “Sustainable Development through Integrated Planning” strategic session held at Wilderness on the 19th of February 2019. The presentation is attached as **ANNEXURE A**.

Implementation challenges were identified as:

- Insufficient Vesta resources
- Support staff turnover (Vesta)
- EdenDM resources and buy-in too late.
 - Non-functioning work streams
 - Personnel busy with own responsibilities.
- Chart changes by NT (locked down 6.1 for 2017/18), National Treasury has issued version 6.2 that has to be used for the compilation of the draft budget for 2018/2019.
- Non-existent communication channels (only one way....) – Vesta do not respond to EdenDM (no response one-mails, telephone calls remain unanswered, no return calls, etc)
- Promises made by service provider and not met
- 2017/18 – credible information must be available for the compilation of the financial statements and possible adverse audit opinion AG Audit challenges.

Remedial actions that were taken to alleviate the risks was:

- Several meetings held with the MD and CEO and other role-players from Vesta
- Invited Provincial Treasury to mSCOA Steercom and requested their micromanagement intervention. (However Provincial Treasury’s resources were reallocated to another municipality who also has serious challenges with Vesta)
- Held weekly meetings with the on-site support consultant and prepared weekly reports and forwarded to Vesta.
- Weekly mSCOA Steercom meetings held
- The CEO from Vesta, PT and NT was instructed to attend a mSCOA Steercom on the 2nd February 2018.
 - EdenDM and Vesta signed an addendum to the current SLA.
 - Issue log and project plan with all outstanding deliverables was included and due dates assigned to each issue.

- The CFO requested the legal advisor on 20 February 2018 to compile a formal letter to Vesta regarding the due dates that were not met as per agreed signed addendum.

Issues to resolve

- Trial Balance with opening balances that corresponds to the audited financial statement of 2016/2017 not yet available on the system.
 - TB on test system had to be provided by 9 February 2018 and verification due date was 14 February 2018.
- FAR not integrated with Phoenix Financial system.
 - Verification due date was 14 February 2018
 - Seamless integration due date is 31 March 2018.
 - Automated Reporting not available for submission to PT and NT.
- Collaborator processes not yet integrated with Phoenix Financial System
 - Verification due date was 16 February 2018
- Roads IMMS system not able to produce figure for claims by EdenDM
 - This is a major risk as Province is threatening to take away the agency function.
 - Reporting is subject to integration between Collaborator and Phoenix.
- Handholding Process not complete
 - EdenDM currently organizing a revisit by Vesta.
- Training Process not complete
 - EdenDM currently organizing a revisit by Vesta as training is being identified as a major stumble block in acceptance of the system.

Transactions cannot be fully trusted for correctness at the moment

- Internal Audit commenced Monday 12 February with an audit on all transactions from 1 July 2017 until current.
- Resources: CAE, Internal Auditor and 3 consultants
- Progress of internal audit: 40% completed

Scope:

The following scope was agreed with between Internal Audit and the CFO:

1. Review of **allocation** of transactions - to ensure expenditure was booked to the appropriate vote as per v6.1 of the mSCOA chart.
2. Only the item segment to be considered – other segments (funding, project, etc.) not part of scope. Reason: the “item” allocation will determine compliance with GRAP when compiling the 2017/18 AFS.
3. VAT on Municipal accounts: Correct split of payment between expenditure and VAT.
4. Salaries: correct allocation of salaries applicable to each section/department respectively.

Findings to date:

The following findings have been noted thus far, which will be reported to the mSCOA Steercom for corrective action:

1. Great amount of allocation errors, i.e. expenditure booked to incorrect votes on the mSCOA Chart. Can be corrected with journals and mSCOA awareness workshops to be undertaken with all departments to ensure correct line items are chosen when acquiring goods and services..
2. Need to train officials on errors reported in 1. to prevent allocation errors going forward.
3. Salary allocation errors, e.g. officials in Community Services' salary expenditure allocated to Corporate Services.
4. Salary control accounts not cleared – linked to backlog of performing of bank reconciliations since 1 July 2017.
5. Bank reconciliations cannot be performed and month ends cannot be closed off before the TB with the opening balances have been imported into the system. Training and handholding should have commenced 21 February 2018, however this had to be postponed until Vesta has imported the TB onto the financial system and the UAT has been signed by EdenDM that the amounts are correct.
6. Errors in vote structure of budget – virements to be processed to ensure appropriate votes (as per v6.1 of mSCOA chart) exist and has budget so that officials can allocate transactions to the correct vote (e.g. stationery purchases cannot be allocated to "Printing and Publications", but must be booked to "Inventory consumed" which does not exist in most sections' budgets currently)
7. Filing system of payments are in need of urgent attention. Lack of unique payment number on payment documentation makes it extremely difficult and time-consuming to find documents. If not addressed, this will have a negative impact on the AGSA audit with additional cost implications and possible "limitation of scope" due to inability to find documents. A meeting has been scheduled for 21 February 2018 with internal audit and finance to address this issue going forward.

Issue log:

An addendum to the current SLA was signed by both EdenDM and Vesta on the 2nd February 2018 that included a project plan with outstanding deliverables and due dates. The updated issue log is attached as **ANNEXURE B**:

External audit by the Auditor General for 2018/19 scope for mSCOA audit.
Municipal Budget Circular for the 2018/19 MTREF is attached as **ANNEXURE C**:

Extract from the circular regarding the audit process:

2018/19 mSCOA Audit process

When the *mSCOA* Regulation was promulgated in 2014, it provided for a three-year preparation and readiness window. All municipalities had to be compliant with the *mSCOA* classification framework by 1 July 2017. In order to ensure that municipalities meet the compliance deadline, National Treasury provided technical guidance on the processes required through MFMA Circulars No. 57, 80, 85 and *mSCOA* Circulars 1, 2, 3, 4, 5, and 6. Furthermore, a transversal tender (RT25-2016) was issued to reduce the time spent by municipalities on onerous tender processes and price negotiations when changing its current financial system to comply with *mSCOA*. These circulars read together with the *mSCOA* regulations should be the first point of departure when municipalities prepare their *mSCOA* audit files and the following key documents should typically be included in the audit files:

- **Governance:** Council resolutions pertaining to *mSCOA* implementation, including the resolutions to establishment a *mSCOA* steering committee and project implementation team; all documents of the Project Steering Committee and Project Implementation Committee such as agendas, attendance registers, signed minutes of all meetings, correspondence with National and Provincial Treasuries and the *mSCOA* project plan and reports/evidence of monitoring thereof;
- **Change management and training:** Records as evidence that change management were implemented and that all officials were trained on *mSCOA* and the use of the *mSCOA* enabling financial system;
- **Procurement of Systems:** Evidence that the processes set out in Annexure B of *mSCOA* Circular No. 6 was followed, including conducting an ITC due diligence process, obtaining a recommendation from the *mSCOA* project steering committee and the views of the National/Provincial Treasury and correspondence with the Office of the Procurement Officer (OCPO) of National Treasury where the transversal tender RT25-2016 was used; and
- **Data migration/conversion:** As part of the audit process, the Auditor-General will review the conversion/migration/cleansing processes used by the municipality to assess the completeness, accuracy and validity of data.

Municipalities are advised to use their internal audit function to ensure that the correct process was followed. Internal audit must ensure that the municipality has complied with the requirements of *mSCOA* and the reports of internal

The *mSCOA* deadline for 31 March 2018 to be reached.

It is an area of great concern to the **mSCOA** steering committee and council if this deadline is not met by the service provider. There is less than 1.5 months left until this deadline and the basic trail balance cannot be provided on the system and there is a great concern that the seamless integration and various other system developments will be completed by this due date.

If the due date is not met by 31 March by the service provider, council will need to revisit whether to remain with the service provider or implement plan B which is a new financial system, which is the last option that management will consider, as this will be another 3 month process and migration, change management, etc and legal action will then need to be considered against the service provider if the deadline set by National Treasury of 31 March is not met.

D-DAY

31 MARCH 2018

3 rd Party (Sub-Systems) integrations complete	31-Mar-18
Adjustment Budget submitted successfully from the mSCOA enabled system and aligned to council approved adjustment budget	28-Feb-18
All data string submissions up to date and successfully validated	28-Feb-18
S71 Reports aligned to C-Schedules generated off the data strings	28-Feb-18

The updated issue log as at 20 June 2018 is attached as **ANNEXURE C:**

FINANCIAL IMPLICATIONS**Project Implementation Costs:**

SUMMARY SHEET - ONSITE VESTA	TOTAL IN ZAR (inclusive of VAT)
Hardware requirement	90,000
Once off License fee	592,895
Annual maintenance fee - Year 1	456,596
Annual maintenance fee - Year 2	596,617
Annual maintenance fee - Year 3	641,202
Annual service fee - Year 1	310,926
Annual service fee - Year 2	334,257
Annual service fee - Year 3	363,384
After implementation - Year 1	280,878
After implementation - Year 2	300,066
After implementation - Year 3	320,371
Status assessment cost	66,141
Change management cost	345,498
Requirement assessment	55,693
Customise and setup	413,720
Testing	74,268
Training	795,222
Hand-holding	647,348
CATEGORY C1 - ONSITE	6,685,082

SUMMARY SHEET - ONSITE VESTA Subsistence and Travel	TOTAL IN ZAR (inclusive of VAT)
2016/17 Financial Year	150,000
2017/18 Financial Year	150,000
CATEGORY C1 - ONSITE	300,000

SUMMARY SHEET - ONSITE PAYDAY Integration	TOTAL IN ZAR (inclusive of VAT)
Technology Upgrade	66,537
1st Consultation	33,972
2nd Consultation	33,972
3rd Consultation	33,972
CATEGORY C1 - ONSITE	168,453

Total Project Cost: R 7 153 535.00

Project Cash Flow Projections:

Total project cost including Payday and Collaborator			
Current Financial Year	Project Costs	Available Budget	Surplus/Deficit
	1,867,278	1,883,244	15,966
2017/2018 Financial Year	Project Costs	Available Budget	Surplus/Deficit
	2,342,106	2,390,422	48,316
2018/2019 Financial Year	Project Costs	Available Budget	Surplus/Deficit
	1,410,519	4,108,465	2,697,946
2019/2020 Financial Year	Project Costs	Available Budget	Surplus/Deficit
	1,533,630	1,532,911	(719)
Totals	7,153,533	9,915,042	2,761,509

Expenditure to date: R 3 455 809.97

RELEVANT LEGISLATION

- Local Government: Municipal Finance Management Act 56 of 2003 – section 168(1)
- Municipal Standard Chart of Account Regulations
- Section 216 of the Constitution of RSA, Act 108 of 1996

UITVOERENDE OPSOMMING

Eden Distriksmunisipaliteit het Vesta Technical Services (Pty) Ltd aangestel om die huidige finansiële stelsel op te gradeer om mSCOA regulasies na te kom. Eden Distriksmunisipaliteit is tans in gesprekvoering met Vesta Technical Services (Pty) Ltd vir die ondertekening van 'n Meester Dienslewering ooreenkoms.

"n Amptelike addendum tot die dienslewering ooreenkoms is geteken op 2 Februarie 2018 om die risiko's en nie nakoming van spertye aan te spreek. Ten spyte van die getekende addendum het die diensverskaffer nog steeds nie by die sperdatums gehou nie en die uitvoerende bestuurder van Finansies het die regsadviseur versoek om 'n amptelike skrywe uit te reik aan Vesta oor die nie-nakoming van die terme van die addendum.

MANAGER: LEGAL SERVICES

Noted.

RECOMMENDATION

That the content of the report be noted.

AANBEVELING

Dat kennis geneem word van die inhoud van die verslag.

ISINDULULO

Sesokuba umongo wengxelo uthathelwe ingqalelo.

ANNEXURE A

“Sustainable Development through Integrated Planning” strategic session presentation.

ANNEXURE B

Updated issue log.

ANNEXURE C

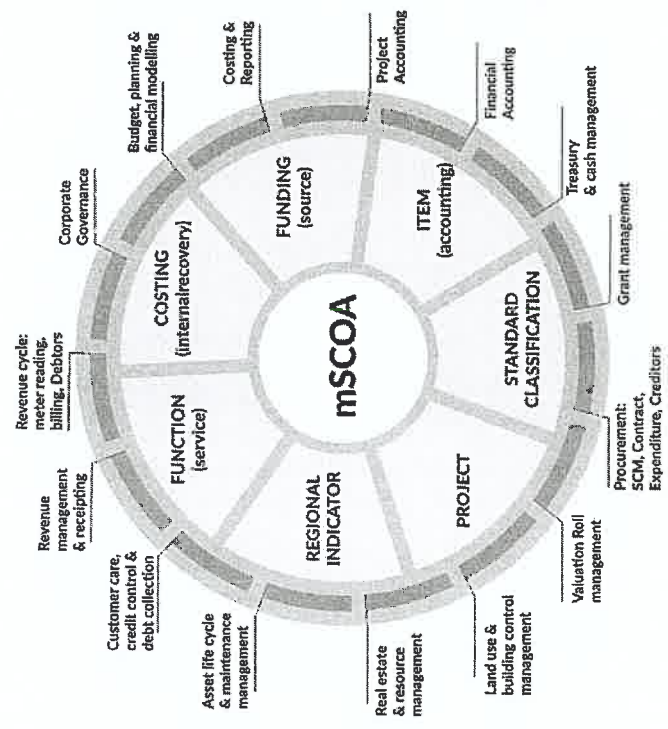
Municipal Budget Circular for the 2018/19 MTREF

Contents

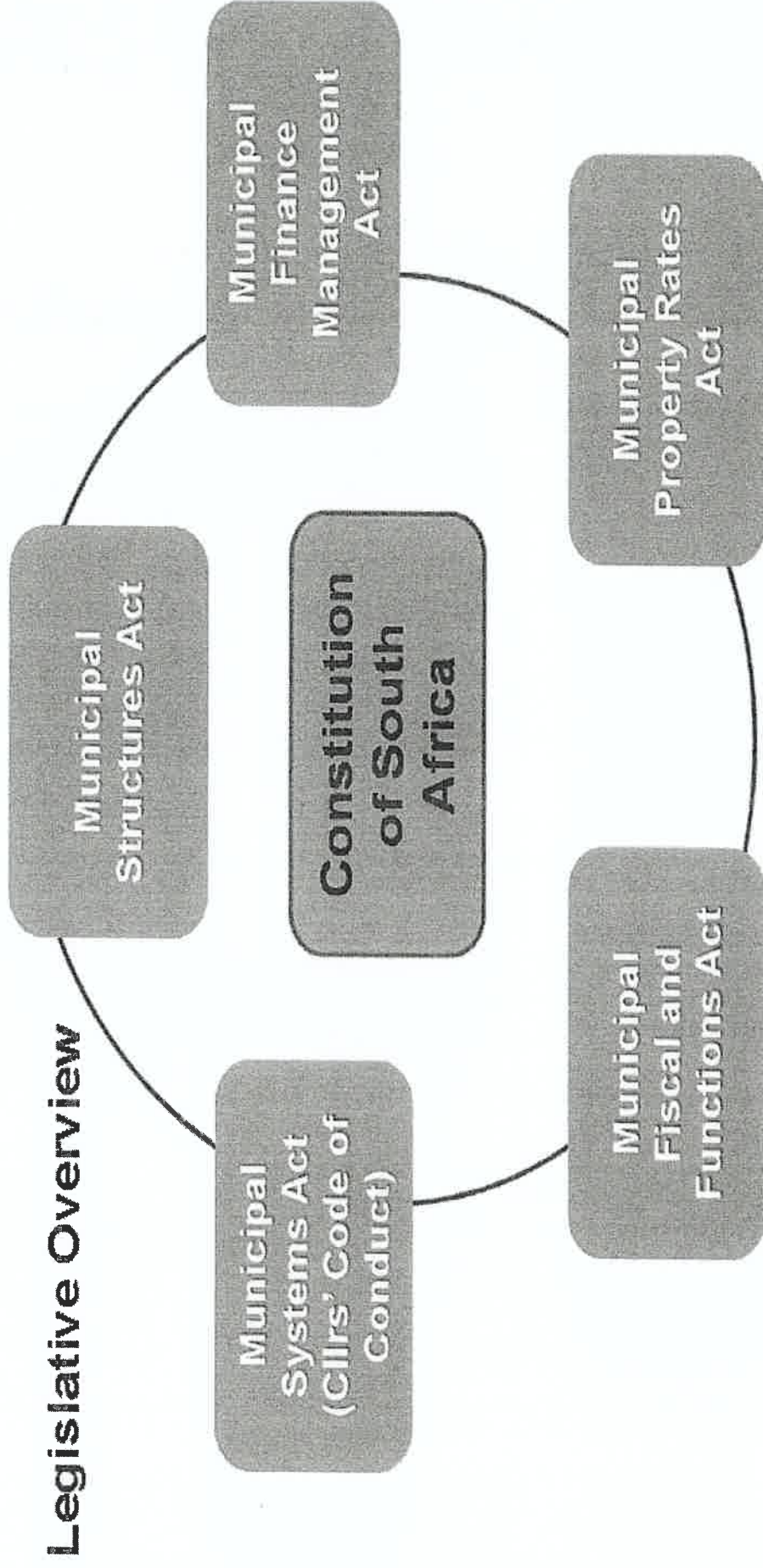
- What is mSCOA?
- Legislative requirements.
- Minimum requirements to become mSCOA compliant.
- Change of systems (Fujitsu to Vesta)
- Implementation Challenges.
- Remedial actions to address the risks.
- Status Qua of mSCOA implementation as at 12 February 2018.
- “Day Zero” Plan B

What is mSCOA

mSCOA is a financial-reporting regulatory reform that will come into full effect in South Africa on 1 July 2017. This reform represents a business-process-focused project that standardises all municipal accounting practices and reporting across the country.



Legislative Requirements



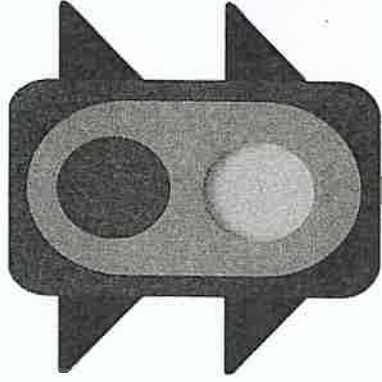
Legislative Requirements

Local Government: Municipal Finance Management Act (56/2003): Municipal Regulations on Standard Chart of Accounts (Gazette No. 37577)

Key Objectives in preamble

- improved data quality and credibility;
- the achievement of a greater level of standardisation;
- the development of uniform data sets critical for 'whole-of-government' reporting;
- the standardisation and alignment of the 'local government accountability cycle' by the regulation of not only the budget and in-year reporting formats but also the annual report and annual financial statement formats;
- the creation of the opportunity to standardise key business processes with the consequential introduction of further consistency in the management of municipal finances;
- improved transparency, accountability and governance through uniform recording of transactions at posting account level detail;
- enabling deeper data analysis and sector comparisons to improve financial performance; and
- the standardisation of the account classification to facilitate mobility in financial skills within local government and between local government and other spheres as well as the private sector and to enhance the ability of local government to attract and retain skilled personnel.

mSCOA Minimum Compliance



Non Compliant

1. Non Submission of the revised IDP (Project, Function & Region Segments only)
2. Non Submission of Budget by 31 March 2017 (Project, Function, Item, Fund, Region and Costing)
3. Not Go live on 1 July 2017 - full integration to Debtors, Payroll & Asset sub-systems

Compliant

Data string uploaded to the LG Database portal :
1. No Mapping.
2. Correct use of all segments.
3. Seamless integration core system with sub-systems. (Integration kick-off to prioritise the Debtors-, Payroll & Asset sub-systems integration)
4. Integrated budgeting linked directly to IDP and SDBIP.

Change of Systems (Fujitsu to Vesta)

- Notification by Fujitsu 19 April 2017
- Engagement with Vesta
 - Due diligence exercise
 - Letter of acceptance by Vesta that they are working at own risk.
- Application to National Treasury
 - Instruction to include timelines and penalties.
- Application to Ms Kwanele Mtembu, Director: Transversal Contracting
ICT & Security Services ,Office of the Chief Procurement Officer
- SLA signed between EdenDM and Vesta dated 22 June 2017
 - Edendm signed under duress.
- Order to continue implementation dated 27 June 2017

Implementation challenges

- Insufficient Vesta recourses
- Support staff turnover (Vesta)
- EdenDM resources and buy-in to late.
 - Non functioning work streams
 - Personnel busy with own responsibilities.
- Chart changes by NT (locked down 6.1 for 2017/18)
- Non existent communication channels (only one way.....)
- Promises made to easily and not kept.
- 2017/18 AG Audit challenges.

Remedial actions taken to address the RISK.

- Several meetings held with the MD and other role-players from Vesta
- Invited Provincial Treasury to mSCOA Steercom and requested their micro management intervention.
- Held weekly meetings with the on-site support consultant and prepared weekly reports and forwarded to Vesta.
- More frequent mSCOA Steercom meeting held
- The CEO from Vesta, PT and NT was instructed to attend a mSCOA Steercom on the 2nd February 2018. (NT declined)
 - EdenDM and Vesta signed an addendum to the current SLA.
 - Issue log and project plan with all outstanding deliverables was included and due dates assigned to each issue..

Status Qua of mSCOA implementation as at 12 February 2018.

- Trial Balance not yet available on the system.
 - Verification due date is 14 February 2018.
- FAR not integrated with Phoenix Financial system.
 - Verification due date is 14 February 2018
 - Seamless integration due date is 31 March 2018.
 - Reporting not available for submission to PT and NT.
- Collaborator processes not yet integrated with Phoenix Financial System
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- Roads IMMS system not able to produce figure for claims by EdenDM
 - This is a major risk as Province is threatening to take away the agency function.
 - Reporting is subject to integration between Collaborator and Phoenix.
- Handholding Process not complete
 - EdenDM currently organizing a revisit by Vesta.
- Training Process not complete
 - EdenDM currently organizing a revisit by Vesta as training is being identified as a major stumble block in acceptance of the system.
- Transactions cannot be fully trusted for correctness at the moment
 - EdenDM is busy with internal audit to correct this.

Status of Schedule of Submissions

Demarcation Description	Demarcation Code	Financial Year	Financial Submission Code	Due Date	Alert Date	Status of Schedule	Date of Submission	Version of Submission	SCOA Version	
Financial Data										
Location Level Selected: Municipality: DC4										
Province : WESTERN CAPE (WC)										
Eden	DC4	M	2018	M01	In-Year Monthly 01	Submitted/Successful	2017/08/14	2017/08/14	01	6.1
				M02	In-Year Monthly 02	Submitted/Successful	2017/09/14	2017/09/14	01	6.1
				M03	In-Year Monthly 03	Submitted/Successful	2017/10/14	2017/10/14	01	6.1
				M04	In-Year Monthly 04	Submitted/Successful	2017/11/14	2017/11/14	01	6.1
				M05	In-Year Monthly 05	Submitted/Successful	2017/12/14	2017/12/14	01	6.1
				M06	In-Year Monthly 06	Outstanding	2018/01/14	2018/01/14	04	6.1
				ORGB	Original Budget	Submitted/Successful	2017/07/14	2017/03/31	04	6.1
				TABB	Tabled Budget	Submitted/Successful	2017/04/14	2017/06/19	07	6.1

Non Financial Data

Location Level Selected: Municipality: DC4

Province : WESTERN CAPE (WC)

Eden	DC4	M	2018	BMQ1	Borrowing Monitoring-Q1	Submitted/with Errors	2017/10/30	2017/10/30	02	6.1
				BMQ2	Borrowing Monitoring-Q2	Outstanding	2018/01/30	2018/01/30	02	6.1
				CR01	Creditors Monthly-M01	Submitted/with Errors	2017/08/14	2017/08/14	02	6.1
				CR02	Creditors Monthly-M02	Submitted/with Errors	2017/09/14	2017/09/14	02	6.1
				CR03	Creditors Monthly-M03	Submitted/with Errors	2017/10/14	2017/10/14	02	6.1
				CR04	Creditors Monthly-M04	Submitted/with Errors	2017/11/14	2017/11/14	02	6.1
				CR05	Creditors Monthly-M05	Outstanding	2017/12/14	2017/12/14	02	6.1
				CR06	Creditors Monthly-M06	Outstanding	2018/01/14	2018/01/14	02	6.1
				DB01	Debtors Monthly-M01	Submitted/with Errors	2017/08/14	2017/08/14	02	6.1
				DB02	Debtors Monthly-M02	Submitted/with Errors	2017/09/14	2017/09/14	02	6.1
				DB03	Debtors Monthly-M03	Submitted/with Errors	2017/10/14	2017/10/14	02	6.1
				DB04	Debtors Monthly-M04	Submitted/with Errors	2017/11/14	2017/11/14	02	6.1
				DB05	Debtors Monthly-M05	Outstanding	2017/12/14	2017/12/14	02	6.1
				DB06	Debtors Monthly-M06	Outstanding	2018/01/14	2018/01/14	02	6.1
				IMQ1	Investment Monitoring-Q1	Submitted/Successful	2017/10/30	2017/10/30	02	6.1
				IMQ2	Investment Monitoring-Q2	Outstanding	2018/01/30	2018/01/30	02	6.1
				PROR	Project Details Original Budget	Submitted/Successful	2017/07/14	2017/03/31	03	6.1
				PRTA	Project Details Tabled Budget	Submitted/Successful	2017/04/14	2017/04/14	01	6.1

“Day Zero” Plan B

- ICT instructed to prepare plan B.
- Follow RT25-216 Transversal process
 - Is next possible candidate “mSCOA Compliant”?
 - Due diligence process
 - Application to National Treasury to change systems.
 - Application to the Office of the Chief Procurement Officer to use RT25-26
 - Negotiating and signing of SLA.
 - Implementation of new system and migration of current data.
- **POSSIBLE IN 3 MONTHS ??**

Thank you
Enkosi
Dankie

Issues Log- Eden District Municipality
Updated on 20 February 2018

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eden	Comments Service Providers
<p>1. As Vesta is aware of the challenges with regards to the Opening Balances being Zero on the TB, and the fact that manual work will have to be done, it is crucial that a knowledgeable Vesta delegate is present for the preparation, and successful submission of the Monthly/Quarterly Reporting etc., until such time as the data on Phoenix is correct, and the Monthly Reporting will be produced from Phoenix.</p> <p>AUDITED TRAIL BALANCE FOR AFS OF 30/06/2017</p>	<p>ACTION</p> <ul style="list-style-type: none"> Vesta to upload Eden & Roads TB on Training Server for UAT by Sunday for verification on Monday. Test TB and perform UAT on opening balances on Eden / Road, to be signed off by CFO. If successful, upload TB on live system before end of business on 23 Jan 2017 Verification of TB on live environment. 	<p>21/01/2018 08/02/2018 07h30 22/01/2018 09/02/2018</p>	<p>09/02/2018 12/02/2018</p>	<p>Vesta EdenDM (Mubesko) CFO / J Stander / R Coetzee / Internal audit Vesta</p>	<p>EdenDM to provide a balance TB. Balanced TB provided to Vesta on 6th Feb. 2018. Vesta informed EdenDM that they are experiencing difficulties but will have the TB ready for testing on the take0on server by 21 Feb. 2018.</p>	
<p>2. Market Demand Integration (FAR) into Phoenix Expenditure System.</p>	<ul style="list-style-type: none"> Seamless integration of FAR (Market Demand) into Phoenix Seamless integration of FAR(Market Demand) / Payday into Phoenix Further unbundling to reach 31 March 2018 deadline 1 x full day meeting to be arranged between Eden & Vesta. Vesta to invite Payday, Market Demand & Collaborator. Depreciation run not integrated into Phoenix Vesta to provide training on budget/maintenance and insurance modules Roadshow with Section head meetings to create awareness of mSCOA – Item/Function/Asset types unbundling for budget purposes (capital budget, maintenance, insurance). 	<p>30/03/2018 30/03/2018 09/02/2018 (3 possible dates for meeting) 05/02/2018 15/02/2018 ASAP 28/02/2017</p>	<p>30/03/2018 30/03/2018 Vesta to provide possible dates by 07/02/2018</p>	<p>Vesta Market Demand EdenDM Vesta Market Demand Payday Asset Section Internal Audit Vesta Margaret Annelie Rhyn to arrange with Andre (COO Vesta) John/Tebello</p>	<p>There are challenges where the capital budget is a global account. It must be per item/per cot sentrum.</p> <p>EdenDM to liaise with Payday and Collaborator to join 1 of the 3 proposed dates.</p> <p>BTO/John/Tebello/Willie Fourie/Mario Appels/Lusanda Menze to attend</p> <p>Try to slot in with section head meetings.</p> <p>Market Demand will be on-site from 26 February to 02 March for training and handholding for the asset verification process.</p>	<p>Annelie will be on-site 15/16/02/2018</p>

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eden	Comments Service Providers
<p>3. Collaborator Integration The details of the Collaborator integration (what is being done) automatically, and what will not Order to be populated into Phoenix by Collaborator a. The Supplier to be imported into Phoenix by Collaborator from the CSD when the Order is populated by Collaborator, if it does not already exist in Phoenix. <i>(Future development)</i> b. The Local Supplier to be imported into Phoenix by Collaborator from the Collaborator "Non-CSD" when the Order is populated by Collaborator, if it does not already exist in Phoenix. <i>(Future development)</i> c. Collaborator requisition to test the Phoenix Stores for Stock, and produce a "Stock Issue" in Phoenix if there is Stock on Hand, before blindly initiating a "Purchase Order". <i>(Future development)</i> d. Collaborator to integrate the Tender details into Phoenix for Phoenix to display on the Order Screen. <i>(Future development)</i> e. IMMS Reporting for costing purposes.</p>	<p>ACTION</p> <ul style="list-style-type: none"> Test integration of Collaborator and Phoenix Collaborator to prepare a joint report extract to create a monthly file for use by IMMS staff. 	<p>19/01/2018 05/02/2018</p>	<p>12/02/2018 16/02/2018</p>	<p>EdenDM Collaborator Vesta EdenDM Collaborator</p>	<p>Testing and training is currently being done.</p> <p><i>G6-Live is today the 20th February 2018.</i></p>	<p>Charmaine of Business Engineering wrote: 24.01.18</p> <p>"Just to keep you informed of the current integration situation. We are already giving our assists with the testing, but there are still problems with Vesta's side. Here are the emails between Marus (BE) and Vesta.</p> <p>It is also difficult to test, as we / Eden does not have access to their testing environment, so we do not know if it works or not. In my view, the Collab section has been developed voluntarily, unless there are new requirements that I am not aware of.</p> <p>I will keep you posted on a case by case basis. Regards Charmaine"</p>
<ul style="list-style-type: none"> Sign-off from Collaborator and Phoenix Sign-off (UAT) – Collaborator Integration Testing of Stores issues Testing to be completed by 24/01/2018 	<p>22/01/2018 08/02/2018 23/01/2018 08/02/2018 22/01/2018 24/01/2018</p>	<p>13/02/2018 13/02/2018</p>	<p>Vesta & BE ICT M Jacobsz(Stores) T Mpuru Internal Audit Philip Marais (Vesta)</p>	<p><i>G6-Live is today the 20th February 2018.</i> <i>G6-Live is today the 20th February 2018.</i></p>	<p>Reference numbers to be increased to 6 digits, as the requisition number on collaborator has 6.</p> <p>Version upgrade due on 3 March 2018.</p>	

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eden	Comments Service Providers
ACTION						
5. Currently it would appear that Phoenix assumes that the invoice number is available when capturing the GRN. This is incorrect, and will have to be changed on the system.	<ul style="list-style-type: none"> ▪ Same as No 4. ▪ 3 – 4 hour meeting to be arranged with BTO / Creditors / Debtors and SCM by 2 February 2018 	02/02/2018 06/02/2018	15-16/02/2018	Margaret to organize. Data/Stores-Marisa/all Creditors/Internal Audit/Deidre-SCM/Tebello/CFO/Johan Stander to be invited. Finance / Internal Audit / Vesta (M Powell to arrange meeting)	Write a SLOW MOVING report. Be able to do enquiries per store per item. Print of orders. EFT enquiries per payment. The other items that I've logged, was that the following reports be available in Excel: GENLEDG, STOCKRECORD, CDETRAN Annelie to be onsite 15-16/02/2018	Version upgrade due on 3 March 2018 Version upgrade due on 3 March 2018 Solved Annelie to contact Tebello and Marisa by tomorrow to explain report available by tomorrow. Dannie will liaise with her.
6. Stock Items/Inventory Transactions For Stock Take Adjustments/Write-offs, and "Inter-Store Transfers" Transactions, Phoenix must calculate the Value, as it knows what the unit price is. This must NOT be a user determined Value, but a quantity ONLY Transaction. A separate facility must be made available (on a supervisor level) to alter the Unit Price of an item.	<ul style="list-style-type: none"> ▪ Value of Stock must be fixed / no manual intervention where values can be changes. ▪ Refer to Council Parameter Settings as per point 4. ▪ Refer to items 5.7 on Agenda 	19/01/2018 06/02/2018	15-16/02/2018	CFO J Stander T Mpuru K Nieuwoudt JW de Jager C Ebersohn		Annelie to be onsite 15-16/02/2018
7. Handholding Eden has altered its Project Implementation Plan to include "On-Site" handholding for three Month End Procedures.				Rhynd/Margaret	The matter will be taken up with the COO of Vesta.	Annelie to be onsite 15-16/02/2018
8. Master Files All Master Files (Debtors, Suppliers etc.) to have facility for "Capture/Pending/Approval" when created/changed. This matter is re-worded as follows: Banking detail amendment can only be approved as supervisor and not rejected for amendments.	<ul style="list-style-type: none"> ▪ Refer to Council Parameter Settings as per point 4. 	19/01/2018 06/02/2018	Discuss with Annelie on meeting of 15-16/02/2018	Vesta CFO J Stander T Mpuru K Nieuwoudt JW de Jager		Annelie to be onsite 15-16/02/2018
9. Approval Process Specific Supervisors for specific Users, within certain processes, i.e. • Capture User 1, 2 & 3 reports to Supervisor 1, and this Supervisor must only be able to approve the documents that were captured by User 1, 2 & 3, and not any other User. • Capture User 4 & 5, reports to Supervisor 2, and this Supervisor must only be able to approve the documents that were captured by User 4 & 5, and not any other User.	<ul style="list-style-type: none"> ▪ Financial System Development approval per section ▪ Business process operation issue 		30/03/2018 New development and has a potential major impact. Vesta proposes to have a stable system 1 st .	Accepted.		New development and has a potential major impact. Vesta proposes to have a stable system 1 st .

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eden	Comments Service Providers
<ul style="list-style-type: none"> However, IF Supervisor 1, or 2 is not available, their next respective Supervisor must be able to Approve. (ie. The Supervisor to Supervisor 1 must then be able to approve the Transactions for Users 1, 2 & 3, etc.) 	<p>Refer to Scoping meeting as per point 2.</p>	09/02/2018	Discuss with Annelie on meeting of 15-16/02/2018	Vesta Finance Internal Audit		Need two weeks for development. Will be included with release of 03/03/2018. Issue of stock against intercompany account in Eden's company and automatic journal in roads company for stores issue to be developed
<p>10. Roads Project Selection in EdenDM Roads database for selection, when issuing Stock in the Eden Database. A monthly report to be produced with the details of these transactions per Roads Database Project, or per Issue (Requisition) Also see IMMS Integration.</p>	<p>Same as No 10.</p>	09/02/2018	Discuss with Annelie on meeting of 15-16/02/2018	Vesta Finance Internal Audit		Need two weeks for development. Will be included with release of 03/03/2018.
<p>11. Roads Project Selection in EdenDM Same as above, but also for Nonstock Orders to the Roads "013205000644" vote. Also see IMMS Integration.</p>	<ul style="list-style-type: none"> Refer to No 4. 		Discuss with Annelie on meeting of 15-16/02/2018			Annelie to be onsite 15-16/02/2018
<p>12. Financial Management System assistance – outstanding invoices For Creditors, the sequence of events is as follows; Order, GRN, Invoice, Payment. The ability must exist to enable Eden to Capture the Invoice, even if a GRN does not exist yet. These Invoices should be reported on, in order for the Staff to follow-up with the User Dept.'s for the GRN's etc. Once the GRN exists, the three steps can then be "linked", and only then be presented for payment.</p>	<ul style="list-style-type: none"> Refer to Point 10 	09/02/2018	12/02/2018	Collaborator Finance Internal Audit	Part of report developed by Collaborator.	
<p>13. IBS/IMMS Extract There is a file to be extracted from the Phoenix Expenditure system for use as extract into the IMMS system via Collaborator, upload into the Roads Costing System.</p>				<p>G6-Live is today the 20th February 2018. Meeting with Collaborator today to discuss the layout of the report. Report must be available before the next month-end.</p>		
<p>14. Semper Integration The integration of the Semper Booking System's Billing information into Phoenix.</p>	<ul style="list-style-type: none"> To be addressed after we are mSCOA Compliant – Phase II Discuss with D du Plessis 		06/04/2018	Vesta Finance		Out of scope of RT25 and needs to meet all role players to do an assessment before costs can be agreed upon.
<p>15. Integration of EHP Revenue The integration of the Environmental Health Practitioners' Billing information into Phoenix.</p>	<ul style="list-style-type: none"> To be addressed after we are mSCOA Compliant – Phase II Discuss with D du Plessis 		06/04/2018	Vesta Finance		Out of scope of RT25 and needs to meet all role players to do an assessment before costs can be agreed upon.

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eten	Comments Service Providers
<p>16. Bank Reconciliation Vesta can't perform bank recons. Bank recons outstanding since 1 July 2017.</p>	<p>ACTION</p> <ul style="list-style-type: none"> ▪ Identification of revenue on bank statements to correct vote numbers – mostly allocated to unallocated funds ▪ Trail Balance to be in place – Refer to No. 1 ▪ Training on Bank Reconciliation module and handholding onsite support ▪ Training of Resorts employees and reference No. to be used when making payments ▪ Executive Mayor to be invited to training with resort employees. ▪ Meeting to be arrange with Semper / Vesta / Resorts / EHP's and Finance regarding ref no. on payments ▪ Prepare bank recon up to end of January 2018 ▪ Clearing of unreconciled transactions up to end of Jan 2018 	<p>05/02/2018</p>	<p>Steven van Niekerk to provide training on 21/02/2018.</p> <p>Jaques to help with the bank recon from 22/02/2018 and for onsite handholding</p>	<p>Finance</p> <p>Vesta (Jacque Fortier)</p> <p>J Stander & T Mpuu to arrange meeting</p> <p>Finance / Vesta</p> <p>J Stander</p>	<p>EdenDM to liaise with COO of Vesta, Andre Bossart to setup the dates from 22/02/2018 onwards for Jaque to be available to assist with Bank reconciliation.</p> <p><i>We need to postpone this training and handholding session until the sign-off and UAT is done.</i></p> <p><i>Vesta to re-schedule.</i></p>	<p>Danie will ensure that Steven is available on 28/02/2018</p>
<p>17. Payday Seamless Interfacing</p>	<p>Refer No. 2</p>	<p>30/03/2018</p>	<p>30/03/2018</p>	<p>Vesta / Payday</p>		
<p>18. On-Site Support</p>	<p>Vesta to Compile an on-site support list - Vesta to confirm when onsite support will be available</p> <p>Vesta to confirm which resources will be deployed with due dates</p>	<p>02/02/2018</p>	<p>05/02/2018/Ongoing as and when needed</p>	<p>Vesta CFO J Stander T Mpuu</p>	<p>EdenDM role players to liaise with Andre Bossart (COO) as training resorts under his section</p>	
<p>19. "Search" function when approving invoices</p>	<p>Major release. Search on order nr. amount or supplier code.</p>	<p>06/02/2018</p>	<p>03/03/2018</p>	<p>Vesta - Wickus</p>		
<p>20. Column in I&E report showing commitments/outstanding orders</p>	<p>Major release.</p>	<p>06/02/2018</p>	<p>03/03/2018</p>	<p>Vesta</p>		
<p>21. GRV for non-stock items</p>	<p>Major release.</p>	<p>06/02/2018</p>	<p>03/03/2018</p>	<p>Vesta</p>		
<p>22. User-friendly manuals</p>	<p>Refer this request to Andre Bossart for assistance.</p>		<p>28/02/2018</p>	<p>EdenDM Vesta</p>		
<p>23. Fixed Asset Maintenance: training for 2018/19 budget submission</p>	<p>Refer to point 2.</p> <p>Training to be scheduled with Andre Bossart (COO) to provide training asap. To attend: Willie Fourie</p>	<p>08/02/2018</p>	<p>16/02/2018</p>	<p>Vesta EdenDM Andre Bossart</p>		

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eden	Comments Service Providers
	ACTION					
	Mario Appels Johan Stander Tebello Mporu Lusanda Menze					
24. Integration of Collab to SCM module (e.g. total payments per tender) include tender Number as on Collaborator against each invoice paid	Phoenix to use the tender nr. Received from Collaborator. Part of the Collab/Vesta integration.	06/02/2018	13/02/2018	Vesta Collaborator EdenDM		Annelie to be onsite 15-16/02/2018
25. Payroll department unable to do monthly reconciliations and corrections as was done in Abakus. a. Reconciliation/clearing of all Salary control accounts b. Monthly confirmation that all payments to third parties were done successfully	Discuss with Annelie on meeting of 15-16/02/2018		16/02/2018	Vesta EdenDM		
Issues Resolved						
Roads Project Selection in EdenDM Stock issues (Requisitions) to "013205000644, to cater for a "drop down" of the 33 Projects from the Roads database for selection, when issuing Stock in the Eden Database. A monthly report to be produced with the details of these transactions per Roads Database Project, or per Issue (Requisition) Also see IMMS Integration.	Abakus Audit Report to be provided to Vesta	22/01/2018	Completed	ICT	This issue is now resolved.	
CSD CSD information is "the same", and Phoenix sees a duplication (Bidvest Office) Bidvest Office (Office Machines) (MAAA0007692) & Bidvest Office (Waltons) (MAAA0001369) Barloworld - different branches with the same vat no. etc.	Eden DM to Test (22 - 24.01.2018)	22 - 24/01/2018	Resolved	T Mporu C Voight Internal Audit Philip Marais (Vesta)	Cynthia Voight wrote: However I did test Town Lodge George and City Lodge Rivonia. These two have the same vat nr and I could successfully download them from the CSD system into Vesta. This issue is now resolved.	
Too many Order Entries When there are too many lines on an Order the Output does not open a second page for the printing of the detail, but just blindly continues printing on the same page.	Refer to Council settings meeting with Danie du Plessis	19/01/2018	06/02/2018	CFO J Stander T Mporu K Nieuwoudt JW de Jager Vesta	This issue is now resolved.	
Manual Numbering Phoenix to be able to Capture a Manual Order/GRN, and be able to manually "overwrite" the system generated Order/GRN number.	Refer to Point 4 Eden DM to Test (22 - 24.01.2018) Discuss with Danie du Plessis	22 - 24/01/2018	06/02/2018	T Mporu C Voight Internal Audit Philip Marais (Vesta)	References to be made manually in order book and on Vesta capture screen This issue is now resolved.	
"Virtual Store" In terms of mSCOA requirements • All consumable items in terms of the classification framework is purchased via an inventory principal. This include direct purchases like pens, stationery, etc. (Virtual Stores) • In terms of the above, all systems should cater for a stores module be it virtual or actual that will allow management to control the consumable items in an effective and controlled manner.	Training on mSCOA Audit on transaction from 1 July 2017 for Roads & Eden	15/03/2018	15/03/2018	HOD's Internal Audit Finance Internal Audit	This issue is now resolved.	

Issue Raised	Plan of Action	Original Due Dates	Revised Due Date	Responsible Person	Comments By Eden	Comments Service Providers
<ul style="list-style-type: none"> The stores module must seamlessly integrate and balance with the core financial system. Where a full stores module is operational, high value items should annually be measured to establish whether any of these items should be capitalised as 'assets'. 	<ul style="list-style-type: none"> Refer to Point 4 	22/01/2018 24/01/2018	Resolved	Marisa (Stores) Tebello Internal Audit Philip Marais (Vesta)	This issue is now resolved.	
<p>Stock Receipts- Stock Ordered It would seem that Eden somehow managed to Receive more Stock than what was Ordered.</p> <p>An attempt was made to rectify this with a Jnl, as suggested, but Phoenix does not allow this.</p>	<ul style="list-style-type: none"> Refer to Point 4 	22/01/2018 24/01/2018	Resolved	M Jacobz (Stores) T Mpuuru Internal Audit Philip Marais (Vesta)	This issue is now resolved.	
<p>Stock Issues did NOT reduce Stock Levels At the beginning when Eden went "Live" on Expenditure, there was an Error with the program, where the Stock Requisitions ("Issues") did NOT reduce the Stock Levels. This was rectified, but the Eden Staff were NOT supposed to process any Requisitions until the rectification of the program was done. I am assuming that these Transactions happened during that time.</p>	<p>Discuss with D du Plessis</p>		06/02/2018	Vesta/Finance	Internal process. This issue is now resolved.	
<p>Eden DM – Booking of Accommodation Booking of Accommodation / Change of accommodation / Travel & Subsistence</p>	<p>Steven on-site 07/02/2018</p>	06/02/2018	07/02/2018	Vesta EdenDM	Feedback very positive. This issue is now resolved.	
<p>Opening balances per debtor</p>	<p>Steven on-site 07/02/2018</p>	06/02/2018	07/02/2018	Vesta EdenDM	Feedback very positive. This issue is now resolved.	
<p>Debtor payments: Referencing challenges to be addressed</p>	<p>Steven on-site 07/02/2018</p>	06/02/2018	07/02/2018	Vesta EdenDM	Feedback very positive. This issue is now resolved.	
<p>Interest on debtors: Must run on 15th, as per approved council policy</p>	<p>Steven on-site 07/02/2018</p>	06/02/2018	07/02/2018	Vesta EdenDM	Feedback very positive. This issue is now resolved.	
<p>Project Implementation Plan</p>	<p>Project Implementation Plan to be compiled and signed as Addendum to SLA</p>	26/01/2018	Completed 02/02/2018	CFO J Stander R Alberts Vesta JW de Jager	Added as amendment to SLA and signed off. By both parties. This issue is now resolved.	Signed by both parties



Municipal Budget Circular for the 2018/19 MTREF

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Introduction

The purpose of the annual budget circular is to guide municipalities with their compilation of the 2018/19 Medium Term Revenue and Expenditure Framework (MTREF). This circular is linked to the Municipal Budget and Reporting Regulations (MBRR); and strives to support municipalities' budget preparation processes so that the minimum requirements of the MBRR are achieved.

In 2010 National Treasury introduced the local government budget and financial reform agenda and since then several projects to further this agenda have been introduced. The recent implementation of the municipal Standard Chart of Accounts (*mSCOA*) and the accompanying "game changers" signals a smarter way forward to strengthening local government finances.

Among the objectives of this budget circular is to demonstrate how municipalities should undertake annual budget preparation in accordance with the budget and financial reform agenda and associated "game changers".

Municipalities are reminded to refer to the annual budget circulars of the previous years for guidance on budget preparation that is not covered in this circular.

1. The South African economy and inflation targets

In the 2017 Medium Term Budget Policy Statement the Minister of Finance stated that, improving the country's economic growth in the period ahead remains the biggest challenge. This undoubtedly echoes the sentiments expressed in the previous year's annual budget circular, that the South African economic outlook is bleak.

The National Treasury's macroeconomic projections show that per capita income will continue to stagnate unless appropriate financial decisions are taken. This implies that a new course of action is required to break the cycle of weak growth, escalating government debt, increasing unemployment and declining investment and business confidence.

It is important to note that the 2017 projected Gross Domestic Product (GDP) growth forecast of 1.3 per cent in the 2017/18 budget was revised down to 0.7 per cent. The rate of recovery will be slow and at this time, it is anticipated that growth of 1.9 per cent may be reached by 2020.

Notably, the anticipated economic improvements, employment opportunities and business recovery have not materialised hence the economy remains unstable. The impact of the decline in mining growth and the struggle in the agriculture sector because of the persistent drought influence the low economic growth.

The mining outlook remains subdued due to continued domestic policy uncertainty and rising production costs. Fixed-capital stock in manufacturing has declined every year since 2009, indicating a gradual erosion of capacity. Formal non-agricultural employment declined by 0.2 per cent in the first half of 2017 compared to the same period last year. Employment prospects in manufacturing remain constrained. Similarly, employment growth in the trade sector is likely to remain under pressure given low consumer confidence and weak credit growth.

In summary, the country's tax collection targets have not been met and this means that the fiscus has less funds available to allocate across the various spheres of government. Unfortunately, a similar decline cannot be measured in expenditure and this means that deficits are growing.

The following macro-economic forecasts must be considered when preparing the 2018/19 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2016 - 2020

Fiscal year	2016/17	2017/18	2018/19	2019/20	2020/21
	Actual	Estimate	Forecast		
CPI Inflation	6.3%	5.4%	5.2%	5.5%	5.5%

Source: Medium Term Budget Policy Statement 2017.

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

2. Key focus areas for the 2018/19 budget process

2.1 Local government conditional grants and additional allocations

The proposed division of revenue continues to prioritise funding services for poor communities. Allocations to local government subsidise the delivery of free basic services to low-income households, and the infrastructure needed to deliver those services.

The 2017 Medium Term Budget Policy Statement (MTBPS) indicates transfers to local government for the 2018 MTREF are R397 billion, of which 62.2 per cent comprise unconditional allocations while the remainder is conditional grant funding. The allocations for local government over the medium term represent 9.2 per cent of non-interest expenditure and an increase of 8.3 per cent.

The equitable share and the allocation of the general fuel levy to local government constitute unconditional funding. Municipalities are reminded that this funding allocation is formula driven and designed to fund the provision of free basic services to disadvantaged communities. Conditional grant funding must be utilised for the intended purpose within the timeframes, as specified in the annual Division of Revenue Bill. Monies not spent must be returned to the fiscus and requests for roll-overs will only be considered in extenuating circumstances.

The annual Division of Revenue Bill will be published in February 2018 after the Minister of Finance's budget speech. The grant allocations will be specified in this Bill and municipalities must reconcile their budgets to the numbers published herein.

Municipalities are advised to use the indicative numbers presented in the 2017 Division of Revenue Act to compile their 2018/19 MTREF. In terms of the outer year allocations (2020/21 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as proposed in the 2017 Division of Revenue Act for 2018/19. The DoRA is available at <http://www.treasury.gov.za/documents/national%20budget/2017/default.aspx>

Changes to local government allocations

- The Equitable Share formula takes into account the rising bulk costs of electricity and water, as well as household growth. This is confirmed by the additional R1.5 billion in 2019/20 that was part of the 2017 budget for the *local government equitable share*.
- In line with government's Integrated Urban Development Framework (IUDF), a new approach to funding intermediate cities will be piloted as part of the *municipal infrastructure grant* in 2018/19. It will emphasise a programme of capital investment that

combines grant and non-grant funding. This approach may take the form of a separate grant for qualifying cities over the medium term, with strong performance incentives.

- The allocation mechanism of the *public transport network grant*, which funds the improvement of urban public transport systems, will be amended. The changes will provide more stability in allocations for smaller cities. Performance incentives will be introduced and stricter conditions applied. Where cities fail to demonstrate that they have financially sustainable plans for public transport networks, allocations will be cut. Performance incentives will also be considered for other conditional grants, including for improved spending on infrastructure maintenance.
- The National Treasury and the Department of Human Settlements will review spending on urban informal settlement upgrading, with a view to changing the grant system to enable increased investment in in-situ upgrading. This work will be aligned to the review of the provincial *human settlements development grant*.

The Presidency announced in a press statement on 27 November 2017 that, "President Jacob Zuma has directed the Minister of Finance, Mr Malusi Gigaba, assisted by the Presidential Fiscal Committee, to identify concrete measures to urgently address the challenges identified in the Medium Term Budget Policy Statement." These measures should focus on four areas, one of which is, "To identify and finalise proposals for cuts in expenditure amounting to about R25 billion. Such proposed cuts should not be in areas that will negatively affect economic growth prospects and job creation." National Treasury is currently working to implement this directive from the President. If the proposed cuts in expenditure are adopted by Cabinet, they could result in substantial changes to the division of revenue that was tabled in the 2017 MTBPS. Municipalities should be aware in their planning that these changes could include substantial reductions to grants to local government. The details of any cuts to expenditure will be announced when the 2018 Budget is tabled on 21 February 2018.

Reforms to local government fiscal framework

Reforms over the medium term will enhance the ability of municipalities to raise revenue to invest in their own development.

Government will:

- Table amendments to the Municipal Fiscal Powers and Functions Act (2007) to better regulate the levying of municipal development charges; and
- Update the policy framework for municipal borrowing and financial emergencies. The purpose is to establish a system which does not only guarantee stability and certainty in local government finances, but also seeks to implicitly create incentives and attract more players in the municipal debt market space, i.e. insurers, pension funds, fund managers and DFIs.

Municipal revenue-raising capacities vary widely. The National Treasury will consider applications to waive co-funding requirements for infrastructure projects in municipalities with little or no ability to raise finance for such projects. Reprioritisations within the *regional bulk infrastructure grant*, *water services infrastructure grant* and *municipal infrastructure grant* will be made to fund the Bucket Eradication Programme.

2.2 Municipal Standard Chart of Accounts (*m*SCOA)¹

The implementation of *m*SCOA Regulations from 01 July 2017 revealed some of the challenges with version 6.1 of the chart that must be addressed. As a result of this, the chart was updated and version 6.2 is released with this circular (see Annexure A). Version 6.2 of the chart will be effective from 2018/19 and must be used to compile the 2018/19 MTREF. In addition, there were classification differences between the original budgets that were adopted by municipal council and the data strings that were submitted to National Treasury. Furthermore, the budget related policies were not updated to align to *m*SCOA (e.g. Virement policy).

Version 6.2 of the *m*SCOA chart to be used for the 2018/19 MTREF is available on the link below:
<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

Amendments of mSCOA implementation errors during the adjustments budget

During the budget verification process it was evident that municipalities had challenges aligning the *m*SCOA original budget data string to the original budget adopted by municipal council. The challenges differed per municipality and include differences on classification. Most municipalities were granted permission to correct the alignment during the 2017/18 adjustments budget process. The adjusted budget data strings should align to Schedule B adopted by municipal council. National and Provincial treasuries will undertake the verification process on the adjusted budgets in relation to the data strings. Therefore, municipalities are advised to submit the draft data strings and B-schedules in advance for testing purposes to ensure that aligned documents are adopted by municipal council by 28 February 2018.

The impact of mSCOA on the virement policy

MFMA Circular No. 51 highlighted the principles that must be incorporated into municipal virement policies. It also emphasised that the policy must indicate how the virement process must be managed within the municipality to enable the tracking and reporting of funding shifts.

The principles are still applicable and relevant. The only difference is that a transaction in *m*SCOA relates to six regulated segments, therefore all segments must be considered when making a virement. Municipalities are urged to review the policy and update reference to "Vote" to align to the function segment and indicate the funding applicable to the item being transferred in relation to the funding segment. Therefore, with the implementation of *m*SCOA, virements can only take place within a function or sub-function and the same source of funding. The creation of new projects or savings across functions can only take place through an adjustment budget. The policy must clearly articulate that virements should not be allowed from the repairs and maintenance project in the project segment.

Clarification of core and non-core functions

There are municipalities that experienced challenges with the implementation of the function segment due to the interpretation of what is core and non-core. Core functions provides for the matters in terms of section 156 (1) of the Constitution. These are functions performed by local government and constitutionally assigned to local government in terms of Part B of Schedule 4 and Part B of Schedule 5. Non-core function refers to the functions performed by

¹ The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014.

local government that are constitutionally assigned to provincial government in terms of section 156(4) of the Constitution. Local Government are compensated for delivering these functions on behalf of provincial government and typically receive a management fee from the provincial department.

For example, with the water function, if a municipality is an approved Water Service Authority (WSA), the provision of water will be a core function of that municipality. However, where a municipality is providing the service on an agency basis and is not an approved WSA, this will be a non-core function.

2018/19 mSCOA Audit process

When the *mSCOA* Regulation was promulgated in 2014, it provided for a three-year preparation and readiness window. All municipalities had to be compliant with the *mSCOA* classification framework by 1 July 2017. In order to ensure that municipalities meet the compliance deadline, National Treasury provided technical guidance on the processes required through MFMA Circulars No. 57, 80, 85 and *mSCOA* Circulars 1, 2, 3, 4, 5, and 6. Furthermore, a transversal tender (RT25-2016) was issued to reduce the time spent by municipalities on onerous tender processes and price negotiations when changing its current financial system to comply with *mSCOA*. These circulars read together with the *mSCOA* regulations should be the first point of departure when municipalities prepare their *mSCOA* audit files and the following key documents should typically be included in the audit files:

- Governance: Council resolutions pertaining to *mSCOA* implementation, including the resolutions to establishment a *mSCOA* steering committee and project implementation team; all documents of the Project Steering Committee and Project Implementation Committee such as agendas, attendance registers, signed minutes of all meetings, correspondence with National and Provincial Treasuries and the *mSCOA* project plan and reports/evidence of monitoring thereof;
- Change management and training: Records as evidence that change management were implemented and that all officials were trained on *mSCOA* and the use of the *mSCOA* enabling financial system;
- Procurement of Systems: Evidence that the processes set out in Annexure B of *mSCOA* Circular No. 6 was followed, including conducting an ITC due diligence process, obtaining a recommendation from the *mSCOA* project steering committee and the views of the National/Provincial Treasury and correspondence with the Office of the Procurement Officer (OCPO) of National Treasury where the transversal tender RT25-2016 was used; and
- Data migration/conversion: As part of the audit process, the Auditor-General will review the conversion/migration/cleansing processes used by the municipality to assess the completeness, accuracy and validity of data.

Municipalities are advised to use their internal audit function to ensure that the correct process was followed. Internal audit must ensure that the municipality has complied with the requirements of *mSCOA* and the reports of internal audit must be tabled at audit committee and at municipal council for their consideration.

2.3 Reporting indicators

The National Treasury has finalised the process of rationalising the built environment reporting for the eight metropolitan municipalities with an aim to reduce the reporting burden, which included the development of a set of indicators that will enable government to monitor progress on the integrated and functional outcomes.

There has been some confusion as to the level that indicators in the Service Delivery Budget Implementation Plan (SDBIP) occupy, particularly in relation to quarterly projections of service delivery targets and performance indicators for each vote (as per MFMA Circular No. 13).

Municipalities are urged to refer to MFMA Circular No.88 on rationalisation of planning and reporting requirements for the 2018/19 MTREF issued on 30 November 2017. The circular contains municipal performance indicators for metropolitan municipalities. In providing guidance, conceptual clarity and alignment between the Integrated Development Plan (IDP), Built Environment Performance Plan (BEPP), SDBIP and the performance part of the Annual Report, the MFMA Circular has conceptual application of benefit to all municipalities.

The performance indicators will be applicable to metropolitan municipalities from the 2018/19 financial year, and incrementally introduced to other categories of municipalities from 2019/20 onwards, although earlier compliance is encouraged.

2.4 Borrowing for capital infrastructure

In terms of Section 46 of the MFMA, a municipality may incur long-term debt only for the purpose of current or future capital expenditure on property, plant or equipment, and in specified circumstances for refinancing existing long-term debt. A municipality cannot borrow to replenish capital, nor can borrowing be attributed to previous years' investment projects.

It has come to National Treasury's attention that some municipalities budget for long-term borrowing in a specific financial year to finance capital projects; however, the expenditure is financed from internally generated funds and not with the planned/ budgeted long-term borrowing as was approved by council. The municipalities will then obtain the long-term debt in future years to refinance the internally generated funds which were used to finance the capital projects in the previous financial years. This practice is not supported as it is not consistent with section 15 of the MFMA that provides that a municipality can only incur expenditure in terms of an approved budget and within the amounts appropriated for the different votes. The incurring of the expenditure against a different source of finance than what was approved will be regarded as unauthorised expenditure.

3. The revenue budget

Similar to the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past. Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors. There is a need for municipalities to focus on collecting revenues owed to them, and eliminate wasteful and non-core spending. Municipal budgets will be scrutinised to ensure that municipalities adequately provide to service their debt obligations. Municipalities must ensure that expenditure is limited to the maximum revenue collected and not spend on money that they do not have.

Municipalities are reminded that, the local government equitable share allocation is mainly to fund the costs of free basic services and to subsidise the administrative costs of the smaller and more rural municipalities. The increasing unemployment and growth in the number of persons per household means that the revenue foregone in respect of free basic services will likely increase and it will become even more difficult to collect revenue. The household budget will be under pressure and trade-offs will be applied as it may be unaffordable to pay all household expenses with regularity.

National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation is forecasted to be within the upper limit of the 3 to 6 per cent target band; therefore municipalities are required to **justify all increases in excess of the projected inflation target for 2018/19** in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups. In addition municipalities should include a detail of their revenue growth assumptions for the different service charges in the budget narrative.

3.1 Maximising the revenue generation of the municipal revenue base

The implementation of *m*SCOA requires systems integration of several sub-systems such as that which contains the municipal valuation roll. Among the internal controls, the system must have the capability to compare the valuation roll data to that of the billing system; the list of exceptions derived from this reconciliation provides an indication of where the municipality may be compromising its revenue generation in respect of property rates. Municipalities must reconcile valuation roll data, billing system and the deeds office. This may become a formal disclosure item in the near future.

Municipal own revenue sources are shrinking due to widespread drought and households opting for alternative sources of energy. This means that more effort is required to maximise revenue derived from property rates.

3.2 Eskom bulk tariff increases

2017/18 was the last year of the third Multi-Year Price Determination (MYPD) for Eskom's tariffs approved by the National Energy Regulator of South Africa (NERSA). Eskom has applied for a one year average tariff increase of 19.9 per cent for 2018/19. For municipalities, the different timing of the municipal financial year means that the increase Eskom has applied for would mean a 27.29 per cent average tariff increase in the 2018/19 municipal financial year. The National Energy Regulator of South Africa recently concluded a process of public hearings on this application, but has yet to publish a decision on the application. Municipalities can monitor www.nersa.org.za for news on the outcome of this process.

Municipalities should note that the average electricity tariff increase for municipalities in the 2017/18 municipal financial year was only 0.31 per cent. MFMA Circular No. 86 noted that by the time that tariff announcement was made, the local government equitable share allocations for 2017/18 had already been calculated with a higher electricity tariff increase. That circular said that "municipalities will have to budget to retain any surplus funds from the higher free basic services subsidy paid [through the local government equitable share] in 2017/18 in order to offset the cost of providing free basic electricity in 2018/19."

Municipalities are also urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving fully cost-reflective tariffs that will help them achieve financial sustainability. Municipalities in arrears with Eskom should ensure that their payment arrangements are effected in their 2018/19 MTREF budget.

3.3 Water tariff increases

The prevailing drought makes it difficult for some municipalities to improve revenue generation from this service. It is now more important to improve demand management, infrastructure maintenance, loss management, meter reading and tariff setting in respect of water services.

Municipalities must ensure that the tariffs charged are able to cover for the cost of bulk purchases, ongoing operations as well as provision for future infrastructure. There are

municipalities that are struggling to pay water boards due to a number of issues; one of which is poor financial sustainability and cost recovery. All municipalities in arrears with bulk suppliers must ensure that their payment arrangements are effected in their 2018/19 MTREF budget.

Accounting officers should take note that failure to undertake proper due diligence in terms of the affordability of payment arrangements and making the necessary provision in the municipality's budget will be considered as an act of financial misconduct and the necessary action in terms of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings will have to be taken.

Municipalities that may have benefited from having introduced penalty tariffs for non-compliant consumers will have to adjust their budgets accordingly.

3.4 Water Conservation and Water Demand Management (WCWDM)

Water Conservation and Water Demand Management has been identified as a key intervention to balance available municipal supply against projected future needs. In this regard municipalities must actively implement WCWDM. Ongoing accurate monitoring and reporting of municipal Non-Revenue Water (NRW) and water loss performance against set targets and baselines is critical. The reporting must take place via the International Water Association (IWA) water balance methodology. No new funding towards future water infrastructure projects will be considered unless municipalities can provide actual consumption figures and prove that their water losses are under control. Municipalities should increase their efforts to reduce NRW and the negative impact it has on their ability to generate their own income and run a viable water business.

4. Funding choices and management issues

The Circular clearly outlines that, as a result of the economic landscape and weak tariff setting, municipalities are under pressure to generate revenue. The ability of customers to pay for services is declining and this means that less revenue will be collected. Therefore, municipalities must consider the following when compiling their 2018/19 MTREF budgets:

- improving the effectiveness of revenue management processes and procedures;
- paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities as was highlighted in MFMA Circular No. 82;
- ensuring value for money through the procurement process;
- the affordability of providing free basic services to all households; and
- curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

Accounting officers are reminded of their responsibility in terms of section 62(1)(a) of the MFMA to use the resources of the municipality effectively, efficiently and economically. Failure to do this will result in the accounting officer committing an act of financial misconduct which will trigger the application of chapter 15 of the MFMA read with the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings.

4.1 Employee related costs

The *Salary and Wage Collective Agreement* for the period 01 July 2015 to 31 June 2018 has come to an end. The process is under consultation; therefore, in the absence of other information from the South African Local Government Bargaining Council communication will be provided at a later stage.

4.2 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually between December and January by the Department of Cooperative Governance. Any overpayment to councilors contrary to the upper limits as published by the Minister of Cooperative Governance and Traditional Affairs will be irregular expenditure in terms of section 167 of the MFMA and must be recovered from the councilor(s) concerned.

5. Conditional Grant Transfers to Municipalities

5.1 Non-compliance of in year monitoring

In terms of Section 74(1) of the Municipal Finance Management Act (No 56. of 2003) (MFMA), municipalities must submit to the National and Provincial treasuries documents and monthly grant return forms as may be prescribed or required. Furthermore, section 12(2) of the Division of Revenue Act (Act No. 3 of 2017) (DoRA) states that the municipality, as part of the report required in terms of section 71 of the MFMA, report on the matters referred to in subsection (4) and submit a copy of that report to the relevant provincial treasury, the National Treasury and the relevant Transferring Officer.

There are municipalities that have not been complying with the reporting requirements as stipulated above. Municipalities are reminded that non-submission of monthly reports translates to non-compliance with the MFMA and DoRA. The National Treasury and Transferring Officer will be implementing stringent measures to municipalities that do not comply with the prescripts. This includes, but is, not limited to the stopping and reallocation of conditional grants funding away from municipalities that are non-compliant. Municipalities are encouraged to comply with the reporting requirements in order to avoid withholding or stopping of an allocation.

6. The Municipal Budget and Reporting Regulations

6.1 Tabling of funded budgets

The importance of tabling funded budgets is highlighted in MFMA Circular No. 74. This is one of the game changers in local government to ensure financial sustainability. As an initiative to support municipalities in this regard, the National and Provincial treasuries are assessing tabled budgets and assisting municipalities in effecting the required changes to ensure that they adopt funded budgets. However, some municipalities have challenges in correcting the budgets to ensure that they are funded in one financial year due to financial challenges. As a result, such municipalities must, together with their 2018/19 MTREF budget, table a plan in a municipal council on how and by when the budget will improve from an unfunded to a funded position. The National and Provincial treasuries will assess the budget together with the plans and support the municipality accordingly.

6.2 Budgeting for collections from arrear debtors

Most municipalities do not split collections between current and arrear debtors when reporting on table A7, this results in the collection rate being overstated. Municipalities are required to only disclose receipts from current accounts under cash flow from operating activities and the receipts from arrear accounts should be disclosed under cash flow from investing activities (Decrease in non-current debtors).

6.3 VAT implications (Budgeting on capital (A5) vs reporting)

MFMA Circular No. 58 indicated that municipalities must disclose total capital conditional grant allocations reflected in the DoRA under 'transfers and grants – capital' on Tables A2, A3, A4 and A5. However, there are municipalities that are experiencing challenges when reporting capital expenditure performance against the budget. The expenditure at year end appears to be understated when compared to the budget.

In terms of paragraph 4.5 of the VAT 419 Value-Added Tax – Guide for Municipalities, section 8(5A) was introduced to create a deemed supply where a person receives a grant from a public authority, constitutional institution or municipality. In light of the above it is clear that transfers to municipalities are deemed to be a zero-rated supply which includes VAT at 0 per cent. Grants are therefore VAT inclusive as per MFMA Circular No. 58 but at 0 per cent. **Therefore, municipalities must budget for VAT at 0 per cent and not 14 per cent on tables A4 and A5.** The approach also applies to the adjustments budget process (tables B4 and B5).

The fact that grants are a zero-rated supply enables municipalities to claim the input VAT on expenditure incurred. In line with MFMA Circular No. 58 a municipality must report the VAT inclusive expenditure against all conditional grants for purposes of DoRA, failing which the reclaimed input VAT will reflect as 'unspent' and revert to the National Revenue Fund (NRF). In practice the amount of expenditure (VAT exclusive) in the grant register will be expensed/ capitalised and the VAT portion reflected in the grant register may be utilised by the municipality as own revenue in terms of MFMA Circular No. 58. This also removes any doubt about the misalignment of Tables SA18, SA19, SA20, A4 and A5 due to VAT.

6.4 Budgeting for projections on tables SA25 to SA30

Over the years municipalities in general have not adequately completed the supporting tables SA25 to SA30, where projections were equally divided over twelve months. In addition, the quarterly projections reported on the C schedules differ with the projections that were set in the adopted budgets. This has defeated the purpose of monthly projections which seeks to improve cash flow and performance management. The implementation of *m*SCOA requires municipalities to undertake monthly projections, which must align to the supporting tables of the A schedule. Municipalities must reflect realistic projections when they adopt the budget and not to change the projections during in-year reporting.

6.5 Service level standards

A broad guideline was provided on the minimum service standards to be incorporated in the budget documentation. In addition, MFMA Circular No.74 included a framework that was developed as an outline to assist municipalities in finalising their service level standards.

Municipalities are advised to update the service level standards to align to the new IDPs that were compiled after the 2016 Local Government Elections. As indicated in MFMA Circular No.74 it is not possible to have the same service level standards across all municipalities. Therefore, the outline must be used as a guideline and be amended accordingly to align to the municipality's specific circumstances.

6.6 Schedule A - version to be used for the 2018/19 MTREF

National Treasury has released Version 6.2 of Schedule A1 (the Excel Formats) which is aligned to version 6.2 of the *m*SCOA classification framework which must be used when compiling the 2018/19 MTREF budget. **ALL municipalities MUST** use this version for the preparation of their 2018/19 MTREF budget.

It is imperative that all municipalities prepare their 2018/19 MTREF budgets in their financial systems and that the A1 schedule be produced directly from their financial system. All financial systems must have this functionality to assist and prepare budgets.

Special attention must be given to the supporting schedules in the prescribed A1 schedule. Where detailed data is lying in a sub-system e.g. human resource data for SA22 to SA24, this data must be pulled from the sub-system into the applicable supporting sheet.

Download Version 6.2 of Schedule A1 by clicking [HERE](#)

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:
<http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx>

6.7 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury officials:

Province	Responsible NT officials	Tel. No.	Email
Eastern Cape	Bernard Mokgabodi	012-315 5936	Bernard.Mokgabodi@treasury.gov.za
	Matjatji Mashoeshoe	012-315 5553	Matjatji.Mashoeshoe@treasury.gov.za
Free State	Jordan Maja	012-315 5663	Jordan.Maja@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
Gauteng	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
	Nomxolisi Mawulana	012-315 5460	Nomxolisi.Mawulana@treasury.gov.za
KwaZulu-Natal	Bernard Mokgabodi	012-315 5936	Bernard.Mokgabodi@treasury.gov.za
	Johan Botha	012-315 5171	Johan.Botha@treasury.gov.za
Limpopo	Una Rautenbach	012-315 5700	Una.Rautenbach@treasury.gov.za
	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Willem Voigt	012-315 5830	Willem.Voigt@treasury.gov.za
	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
Northern Cape	Jordan Maja	012-315 5663	Jordan.Maja@treasury.gov.za
	Anthony Moseki	012-315 5174	Anthony.Moseki@treasury.gov.za
North West	Sadesh Ramjathan	012-315 5101	Sadesh.Ramjathan@treasury.gov.za
	Makgabo Mabotja	012-315 5156	Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge	012-315 5661	Vuyo.Mbunge@treasury.gov.za
	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
	Sibusiso Mahlangu	012-395 6737	Sibusiso.Mahlangu@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a quality certificate and council resolution in accordance with the format specified in item 31 of Schedule A of the Municipal Budget and Reporting Regulations.

The National Treasury would like to emphasise that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***they will be required to go back to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations. In addition, where municipalities have adopted an unfunded budget, they will be required to correct the budget to ensure it adopt and implement a funded budget. However, where there are challenges the process indicated in paragraph 6.1 above will be applied.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year monitoring reports for both the parent municipality and its entity or entities. The following must be compiled:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats;
- An annual budget, adjustments budget and monthly financial reports for the entity in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The A Schedule that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and the budget of the parent municipality. D schedules must be submitted for each entity.

7. Budget process and submissions for the 2018/19 MTREF

7.1 Submitting budget documentation and schedules for 2018/19 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that, ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 29 March 2018, the final date of submission of the electronic budget documents and corresponding electronic returns is **Tuesday, 03 April 2018**. The deadline for submission of hard copies including council resolution is **Friday, 06 April 2018**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. If the council only approves the annual budget on 30 June 2018, the final date for such a submission is **Friday, 13 July 2018**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 6.2) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA38) in both printed and electronic formats;
- the draft service delivery and budget implementation plan in both printed and electronic format;
- the draft integrated development plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations; and

- schedules D specific for the entities.

Municipalities are required to send electronic versions of documents and the A1 schedule to lgdocuments@treasury.gov.za. Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za. Budget related documents and schedules may also be uploaded using the LG Upload Portal at <https://portals.treasury.gov.za/sites/LGUploadPortal/SitePages/Home.aspx>

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents

Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents

Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

In addition to the above-mentioned budget documentation, metropolitan municipalities must submit the draft Built Environment Performance Plan (BEPP) tabled in council by 31 March 2018 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001.

7.2 Budget reform returns to the Local Government Database for publication

Municipalities are required to continue to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database for publication purposes. All returns are to be sent to lgdatabase@treasury.gov.za. Municipalities must submit returns for both the draft budget and the final adopted budget as this will assist the National and provincial treasuries with the annual benchmark process. The current electronic returns may be downloaded from National Treasury's website at the following link: http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx.

The tabled and adopted budget data strings submitted to the Local Government Database and Reporting system should also be consolidated figures.

7.3 In-year reporting

The impact of mSCOA on in-year reporting

Municipalities must submit the mSCOA compliant data strings to the LG Upload Portal. National Treasury will continue with parallel reporting using the old format (return forms) and the mSCOA data strings until it is satisfied that all municipalities are mSCOA compliant and reporting adequately to support all publications. Therefore, the data submitted using both reporting methods must reconcile. National and Provincial treasuries together with the municipalities will conduct monthly verification of the data strings, Schedules C and the return forms to ensure that corrections are effected. All corrections must be done by **28 February 2018** in line with the amendments to the adjustments.

Supporting documents to be submitted with Section 71 monthly reports

Municipalities were advised in MFMA Circular No. 67 that they must provide the following additional information and supporting documentation to the National Treasury as part of the submission of the Section 71 input forms:

- An extract of the trial balances from the general ledger;
- Copies of the actual monthly bank statements (reflecting the opening and closing bank balances) for the primary bank account;
- Bank reconciliation for the reporting period in the primary bank account; and
- Copies of the quarterly tabled section 71 documents in the prescribed Schedule C format including the applicable council resolution.

Most municipalities have not followed the guideline; therefore, municipalities are reminded that this request is still applicable and that the information must be submitted with the monthly Section 71 reports. The information is meant to assist in improving the quality of the quarterly published local government performance information.

Monthly reporting of debtors and creditors

National Treasury has observed through in-year monitoring that most municipalities are overstating debtors as they report on gross debtors instead of net. The format of the monthly debtors return form (Age Analysis of Debtors) provides for a column to disclose provision for impairment as per council policy. Therefore municipalities are urged to always reflect the provision for impairment in the column as indicated above for National Treasury to be able to reconcile the net debtors.

It was also observed that most municipalities are understating outstanding creditors. There is a major difference in the amounts reported through in-year reporting and those disclosed in the annual financial statements. It is assumed that amounts are not disclosed for all sundry payments and contractual commitments. Municipalities are urged to reconcile creditors on a monthly basis to increase the quality of reporting and for effective cash flow management.

7.4 Budget verification process

Annually during the budget verification process it is noted that municipalities have challenges to align the audited years, which results in amendments to the Schedule A. Municipalities must ensure that the audited figures and adjusted budget figures captured on the Schedule A aligns to the annual financial statements and Schedule B respectively.

7.5 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, <http://mfma.treasury.gov.za/Pages/Default.aspx>. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

Contact



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JH Hattingh

Chief Director: Local Government Budget Analysis

08 December 2017

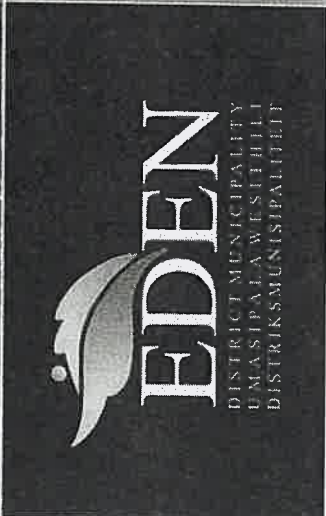
Annexure A – Changes to mSCOA version 6.2

No.	Segment	Amendment
1	Region	Include ward / township breakdown as requested by municipalities
2	Region	Retired decommissioned municipalities due to demarcation
3	Region	Updated name changes due to demarcation and gazette notifications received
4	Item Revenue: Licences or permits	Added item for revenue from Atmospheric Emission Licence Fees
5	Item Expenditure: Depreciation	Added breakdown of asset classification to align to the CIDMS classification and SA34d
6	Item Expenditure: Remuneration of councillors	Added remuneration of Section 79 chairperson as this needs to be reported separately
7	Item Expenditure: Contracted services	Added line item for outsourced printing services
8	Item Expenditure: Operational cost: Licences	Added line item for liquor licence (entities)
9	Item Expenditure	Added "Transfer to Accumulated Surplus" account
10	Item Expenditure	Added "Capitalisation" accounts to capitalise materials, plant and vehicle costs
11	Item Assets: Investments	Report at institution level and breakdown detail for own purposes.
12	Item Assets: Current Accounts: Control, Clearing and Interface Accounts	Added line item for mistakes made by bank (over/ under banking, unidentified deductions from bank account)
13	Item: Assets, Liabilities and Net Assets	Removed all "Closing Balance" accounts
14	Item Assets and Liabilities	Added "Opening Balance" accounts, detail to be carried in the sub-system
15	Function	Expanded definition descriptions to guide municipalities on the difference between core and non-core functions
16	Fund	Added breakdown of grants, transfers and subsidies as requested by municipalities
17	Fund	Aligned Fund, Item Liabilities, Item Expenditure and Item Revenue segments
18	Project	Changed breakdown allowed to "Yes" for 8 items that indicated "breakdown required but principle N/A".

mSCOA Status Quo at EdenDM

18-20 February 2018
Wilderness Beach Hotel

Rhyn Alberts: mSCOA Coordinator



“Eden, the leading, enabling and inclusive district, characterised by equitable and sustainable development, high quality of life and equal opportunities for all.”