

Establishment of the SCOA Integrated Consultative Forum

National Treasury: Budget Council Chambers

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – 1 August 2014



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SCOA Integrated Consultative Forum

Agenda Item 1: Structure of future engagements, logistics and secretariat function

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – 1 August 2014



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Frequency of meetings

- ✓ Proposed that the SCOA Integrated Consultative Forum meet every six weeks. Regularity of the meetings necessitated through, among others:
 - Need to ensure all vendors are within the project scope and ready to pilot 1 July 2015;
 - As a collective discuss and resolve on issues that might impede progress;
 - Provide regular updates on any changes to the SCOA classification framework (SQL and Excel);
 - Get a provincial perspective of the issues and challenges as it relates to non-piloting municipalities; and
 - Manage the Project Milestones and Risk Register.
- ✓ The following dates are proposed for follow-up meetings for the remainder of the calendar year (2 day engagements):
 - 16 and 17 September 2014 (Western Cape PT – Cape Town)
 - 28 and 29 October 2014
 - 2 and 3 December 2014

Venue for future engagements

- **Proposal 1**

- 40 Church Square, Budget Council Chambers
- Risk of availability – ***Minister gets preference at all times***
- Would require either:
 - Rescheduling meeting dates at short notice
 - Finding an alternative venue to host approximately 110 people
- Will not be able to meet every six weeks (Budget Council Chambers only available on 30 September and 1 October 2014; and 25 and 26 November 2014)

- **Proposal 2**

- Provincial treasuries to host, on a rotational basis the SCOA Integrated and Consultative Forum
- Metros and piloting municipalities could potentially assist with venue and logistics (municipal council chambers)
- Limited to logistics. NT will still undertake secretariat function
- Need to take into consideration access to airports etc.
- Propose the following:
 - 16 and 17 September 2014 (Western Cape PT – Cape Town)
 - 28 and 29 October 2014 (KZN PT – Durban)
 - 2 and 3 December 2014 (Gauteng – Pta/Jhb)

Recommendation?

Standing agenda items

Day 1 (10:00 to 17:00)

- Feedback and progress vendors. 15 minute presentation and 5 minute discussion with pilot municipalities
- Feedback from metropolitan municipalities in the form of a 15 minute presentation; 5 minute discussion

Day 2 (8:30 to 15:30)

- Feedback and progress 9 PT's. 15 minute presentation and 5 minute discussion
- Project plan and risk matrix (NT)
- Developments on the SCOA segment detail and project document .
Importantly, consultation needs to result in a tangible resolutions
- SQL Updates – New versions including Tables
- Local Government Database and interfacing
- Reporting – LG Accountability Cycle

SCOA Integrated Consultative Forum (SCOA ICF) – Secretariat, governance & admin

- National Treasury will chair all meetings and ensure appropriate recording keeping and communications
- All issues for consideration and discussion for the next SCOA ICF need to be forwarded ASAP but not later than two weeks prior to the meeting as follows:
 - Johanna Stein (SCOA Technical Expert) - johanna.steyn@vodamail.co.za
 - Trisja Weiss (SCOA Project Administrator) - Trisja.Weiss@treasury.gov.za
 - Depending on the matter raised: either addressed in the update; discussed at upcoming ICF; or addressed in future updates
- One week subsequent to SCOA ICF, minutes, resolutions, presentations and attendance registers to be circulated. The date of the next meeting to be confirmed
- All presentations (NT, PT's, Vendors, Metros, ay other) to reach SCOA Project Administrator one week prior to scheduled engagement of the SCOA ICF.
- Importantly, presentations will be standardised across all:
 - PT's
 - Vendors
 - Metros
- In this regard, the format will developed by the SCOA Project Team (NT) and distributed to all stakeholders to ensure consistency

Recommendations

It is recommended to the SCOA ICF that:

- Option ? be adopted as the structure of future engagements
- That the functioning, governance and administration of the SCOA ICF be undertaken in the following manner:
 - National Treasury will chair all meetings and ensure appropriate recording keeping and communications
 - All issues for consideration and discussion for the next SCOA ICF need to be forwarded two weeks prior to the meeting as follows:
 - Johanna Steyn (SCOA Technical Expert) - johanna.steyn@vodamail.co.za
 - Trisja Weiss (SCOA Project Administrator) - Trisja.Weiss@treasury.gov.za
 - One week subsequent to SCOA ICF, minutes, resolutions, presentations and attendance registers to be circulated. The date of the next meeting to be confirmed.
 - All presentations (NT, PT's, Vendors, Metros, ay other) to reach SCOA Project Administrator one week prior to scheduled engagement of the SCOA ICF.
 - Presentations will be standardised across all:
 - PT's
 - Vendors
 - Metros
 - Formats will be developed by the SCOA Project Team (NT) and distributed to all stakeholders to ensure consistency as it relates to the point above.

SCOA Integrated Consultative Forum

Agenda Item 2:

SCOA Project Phase 4: Change Management and Piloting – Progress to date

Presented by National Treasury: Chief Directorate Local Government Budget Analysis – 1 August 2014



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Refresher...



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Local government has specific Constitutional service delivery responsibilities...which include

Objectives of local government

- **Section 152 of the Constitution**

- to provide democratic and accountable government for local communities
- to ensure the provision of services to communities in a sustainable manner
- to promote social and economic development
- to promote a safe and healthy environment
- to encourage the involvement of communities and community organisations in the matters of local government

Developmental duties of municipalities

- **Section 153 of the Constitution**

- A municipality must -
 - Structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community, and
 - Participate in national and provincial development programmes

Priority functions of municipalities

Water (potable)
Electricity reticulation
Sanitation
Refuse removal

Cemeteries
Fire fighting
Municipal health services
Municipal planning
Municipal roads

Storm water
Traffic and parking
Building regulations
Municipal public transport

Legal Framework - Constitutional Requirements

- **Section 216(1) of the Constitution states 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 -

(a) Generally recognised accounting practice

(GRAP – OAG)

(b) Uniform expenditure classifications; and

(Standard Chart of Accounts / General Leger)

(c) Uniform treasury norms and standards

(MFMA, Regulations, Circulars and Guidelines)

Legal Framework - MFMA Requirements

- **Section 168 (1) of the MFMA states that:**

The Minister (of Finance), acting with the concurrence of the Cabinet member responsible for local government, may make regulations for, among other things –

(a) any matter that may be prescribed ...and...

(p) any other matter that may facilitate the enforcement and administration of the Act

Elements of financial management

- **Municipal financial management involves:**
 - having and implementing appropriate budget related and financial management polices
 - establish prescribed structures: BTO, SCM committees, internal audit
 - **keeping full and proper financial records**
 - **putting in place processes to ensure sound budgeting, cash-flow management, financial reporting and asset management**
 - **managing resources effectively, efficiently, and economically**
 - disciplinary or criminal proceedings in the case of financial misconduct

General Functions of the CD: LGBA

Champion the Local Government Budget Reform Agenda

- Initiate, facilitate and oversee all municipal budget reforms

Support the development of credible, funded and sustainable LG budgets

- Support and advise municipalities on budget issues
- Prepare annual budget circulars to guide budget preparation
- Assess budgets prior to implementation (17 non-delegated)

Monitor the implementation of LG budgets and conditional grants – publish information

- Monitor, oversee and report on municipal budget implementation
- Collect, analyse and consolidate municipal information
- Publish budget implementation information on a quarterly basis in terms of S71 of the MFMA

Ensure compliance and oversight with conditions of DoRA (annual)

- Monitor implementation of the intergovernmental grant system
- Ensure the recovery of unspent and uncommitted conditional grants

Support the Implementation of the MFMA and MBRR

- Monitor compliance with budget related prescriptions in the MFMA
- Assist in identifying municipalities in financial distress

In executing IGR's mandate we have developed and implemented...

- A comprehensive ***budgeting system*** for local government through the promulgation of the Municipal Budget and Reporting Regulations
- A comprehensive ***in-year reporting*** framework for local government through the Section 71 in-year reporting framework and design of a LG Database hosted in the NT
- A comprehensive ***grant monitoring*** framework to ensure conditional grants are spent on achieving the overall policy objectives
- We consistently produce ***publications*** of financial performance for all 278 municipalities (budget information, quarterly performance, state of local government finances report etc.)
- Issued various ***regulations*** related to broader financial management
- Consistently issue ***guidelines*** to municipalities (MFMA Circulars)
- We also working on a:
 - Revenue management system for local government
 - Costing and tariff setting methodology and associated tools
 - Incorporating of non-financial reporting into the in-year reporting framework
 - SCOA for local government

Notwithstanding progress... *Problem Statement (1)*

- 278 different municipal 'charts of accounts' (COA)
 - Aggregation of budget and other information extremely difficult with inconsistent use of account labels and definitions across municipalities
- Quality of municipal information is compromised due to lack of uniform classifications for revenue and expenditure items (posting level)
- Lack of consistent information across the IDP, Budget, SDBIP, IYM, AFS and annual report
- Compromises monitoring and oversight by Councils, DCoG, treasuries, legislatures and regulators
- Compromises government's ability to formulate coherent policies affecting local government, and its ability to use the budget as a redistribution tool to address poverty and inequality
- Municipalities continuously change and amend their detail COA – No consistency year-on-year

Notwithstanding progress... *Problem Statement (2)*

- In the absence of meaningful and credible management information municipal councils make uninformed decisions; considerable risk
- Contributing factor to weak audit opinions
- In many instances ownership and management of the 'chart of account' resides with the vendors; no ownership by management of the municipality
- COA information not easily obtainable in a useful format
- Metadata not defined
- Multi-year budgeting is a relatively new concept; constant changes to the COA impedes the ability to plan over the medium-term
- Electronic budget returns and in-year reporting not aligned to the adopted budget and budget information published by municipalities
- ***In many cases, the financial applications don't support the complex and sophisticated business environment of LG when considering the legislative and regulatory framework***

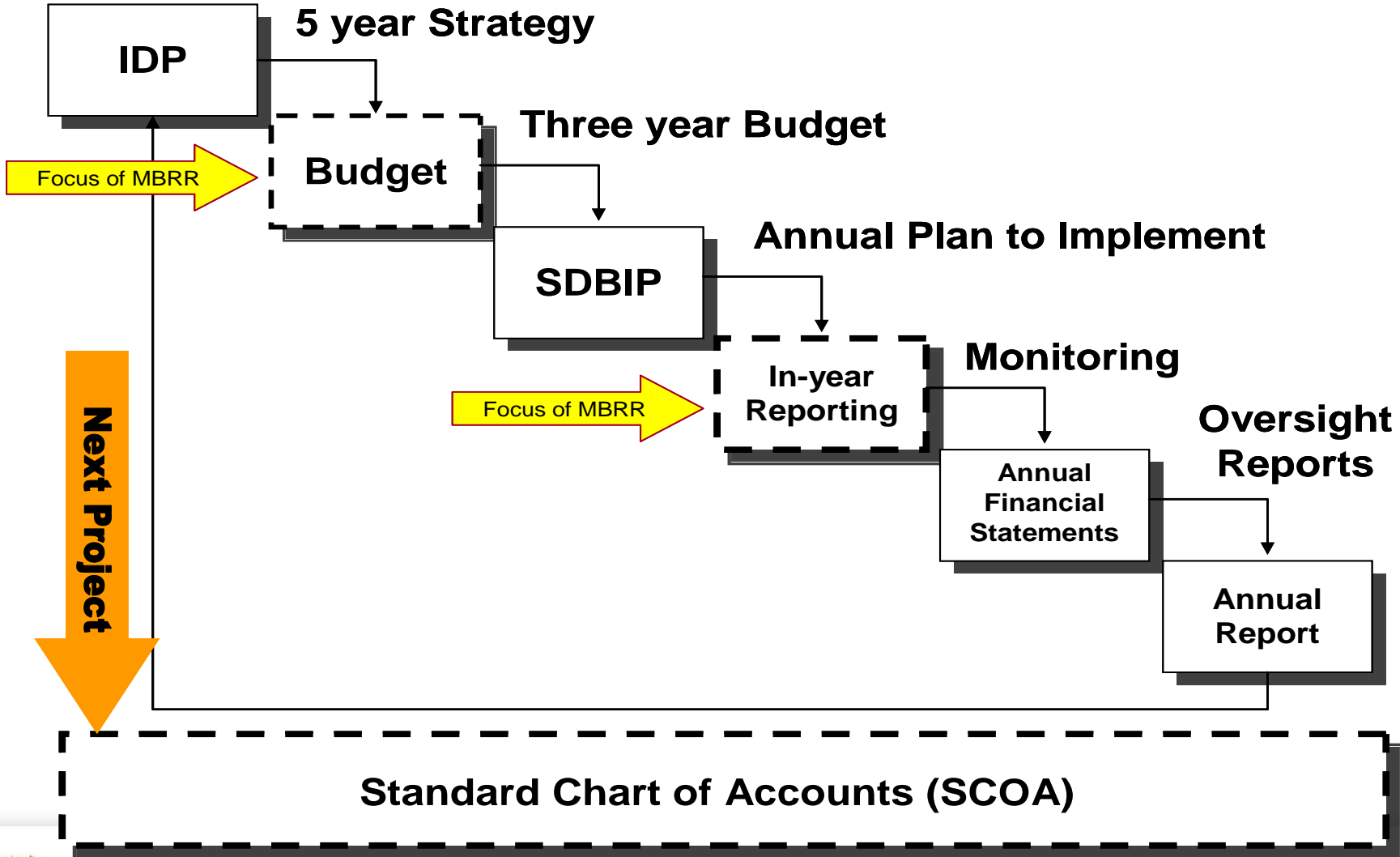
So hence the design of a
uniform classification
framework for local
government... *Standard Chart
of Accounts “SCOA”*



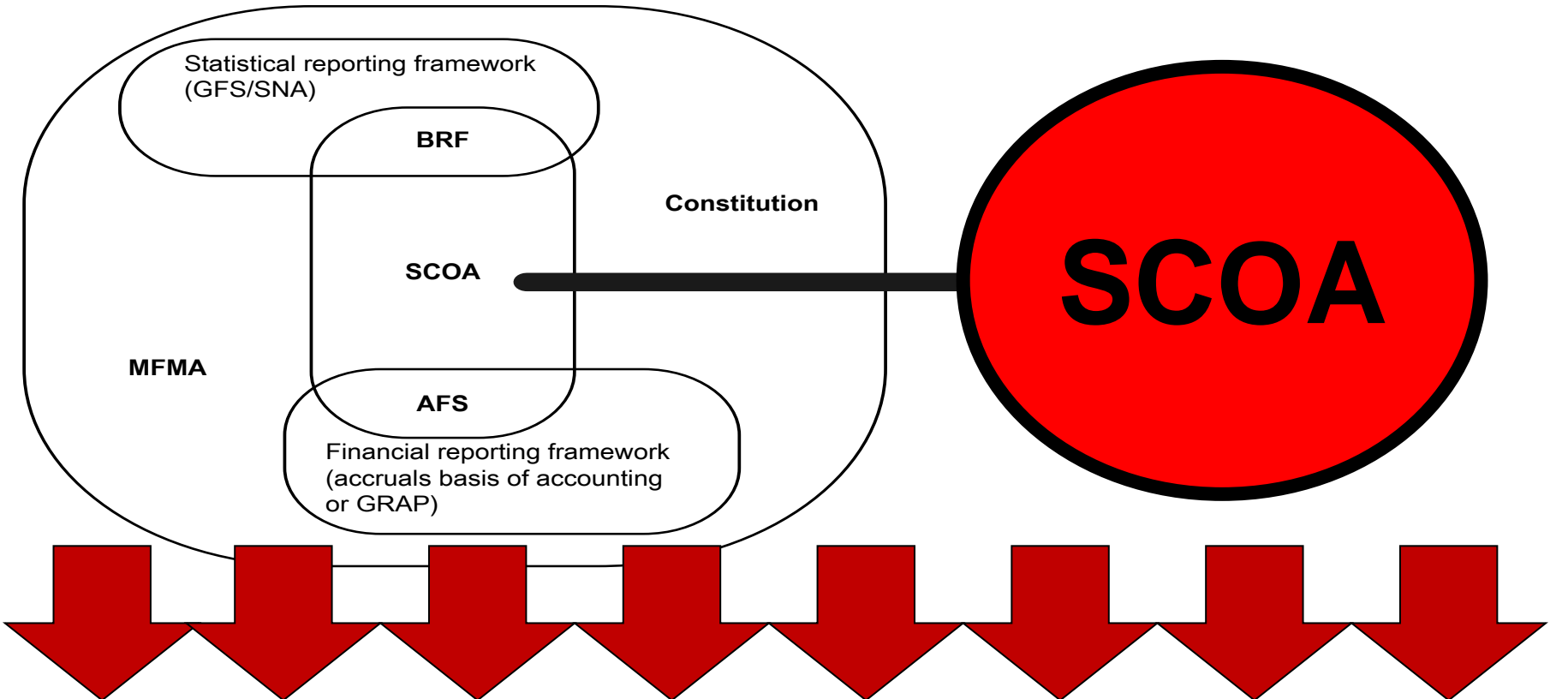
national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Linkage and role of SCOA within the overall *Municipal Accountability Cycle*...



SCOA in the broader FM landscape



The Municipal Regulations on a Standard of Accounts need to be supported by appropriate technology – *Hence SCOA Project Phase 4: Change Management and Piloting*

SCOA Segments



Process and developments subsequent to formal consultation



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

The publication of the SCSOA Regulation for comment... *(2 September 2013)*

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT, 2003: PUBLICATION OF DRAFT MUNICIPAL REGULATIONS ON STANDARD CHART OF ACCOUNTS FOR PUBLIC COMMENT

Published for comment by the Minister of MFMA 2003 (Act No. 56 of 2003)

Comment to be submitted by:-

email: jan.hattingh@treasury.gov.za

fax: (012) 395-6553

post: The Director-General

National Treasury

Private Bag X115

Pretoria, 0001

hand: Room HB-03.05

40 Church Square

Pretoria

The draft regulations are also available at www.treasury.gov.za under <http://mfma.treasury.gov.za/RegulationsandGazettes> or Mr Jan Hattingh can be contacted for a copy.

Structure of the consultation process

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

Comments emanating from consultation process (1)

- 1,071 officials attended the consultation and awareness sessions
- In total 995 comments were received; if these comments are unpacked into individual comment items, submissions exceed 2,000
- Comments received included
 - 35 municipalities commented (Importantly, of the 8 metropolitan municipalities 7 commented and the remaining municipalities included both local and district municipalities).
 - Professional bodies included the South African Local Government Association (SALGA), Accounting Standards Board, and Institute of Municipal Finance Officers (IMFO).
 - Five system vendors that are active within the local government space.
 - Four consulting and advisory service providers.

Comments emanating from consultation process (2)

While participation and interaction varied between engagements, the general attitude of local government finance practitioners was that the SCOA is a welcomed reform. However, concerns were consistently raised around, among others:

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

Comments emanating from consultation process (3)

In summary, the 995 comments were sorted and categorised as follows:

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

Many of the comments were extremely valuable in refining the SCOA classification framework (SCOA tables) – However, not all!

Several matters of a technical nature emanated from the comments received. These will require position papers going forward.

Technical Consideration	Direct impact on SCOA classification framework (SCOA Tables)
Overall compliance to accounting framework pending finalisation of reporting tables	Yes
Consultation with SARS in relation to VAT	Yes
Technical discussion and resultant position papers:	
• Accrued Leave	Yes
• Agency Services	Yes
• Bad debt written-off	Yes
• Capitalisation Threshold	Yes
• Catering versus Entertainment	Yes
• Correction of prior period errors	Yes
• Detail to be included in the general ledger	Yes
• Discount received	Yes
• Self-Insurance reserve and related transactions	Yes
• Reserves and funds	Yes
• Transfers and subsidies	Yes
• External stakeholders i.e. NERSA, DWA etc.	Yes
• Month and year-end closure	No
• Portal access	No
• Transitional arrangements	No
✓ Comparative and historical Information	
✓ Reporting requirements – phased approach	

And then...



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SCOA became law...

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

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

22 APRIL 2014 No. 37577

Activities leading up to SCOA Project Phase 4: Change Management and Piloting



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Activities leading up to SCOA Project Phase 4

- SCOA Project Phase 4 initiation
- Engagements with all stakeholders including NERSA, municipalities, system vendors etc.
- NT internal strategy formulation (IGR and OAG)
- Finalising “pilot” municipalities
- Determination of high level project milestones
- Formulation of project risk register
- Development of SCOA SQL upload file
- Refinement of Project Document
- Finalisation of detail SCOA classification (detail SCOA tables) framework based on further inputs and deliberations – SCOA Version 5.1 (1 August 2014)

Outcome of vendor engagements – Assessment of SCOA readiness (Subsequent to 22 April 2014)

- Not one vendor fully SCOA compliant
 - Various levels of compliance
 - Some vendors still have a lot to do (Have given assurance)
- Challenges
 - Migration plans do not provide for sufficient support
 - Weak project plans for migrating all non-piloting municipalities
 - Piloting project plans do not fully support SCOA time frames
 - Gap analysis between current GL & SCOA still needs to be addressed
- ***Importantly, no vendor has been accredited as SCOA compliant. Only through piloting will the level of SCOA compliance be determined. Do not make misuse of this process!***

Current municipal financial system (vendor) landscape and SCOA pilot municipalities

System Vendor	System	Municipality	Provincial Treasury
Sage Evolution	Pastel ERP	uMgungundlovu District Municipality	KwaZulu-Natal
CISC	Munsoft	Nkangala District Municipality & Elias Motsoaledi Local Municipality	Mpumalanga
Sebata	Sebata	Victor Khanye & Senqu Local Municipalities	Mpumalanga & Eastern Cape
Fujitsu	Abacus & Promis	uMhlathuze, Richmond & Bergrivier Local Municipalities	KwaZulu-Natal & Western Cape
Bytes Technologies	Samras	Overstrand Local Municipality	Western Cape
Rdata	ProMun	Knysna Local Municipality	Western Cape
BIQ	Quill	Merafong Local Municipality	Gauteng
Business Connexion	Venus, eVenus & Solar	Drakenstein Local Municipality, Hessequa Local Municipality and Ekurhuleni Metro	Western Cape & Gauteng
Vesta	Phoenix	Tlokwe Local Municipality	North West
City of Cape Town	SAP	City of Cape Town Metro	Western Cape

- **All metros need to pilot! Hence your inclusion in the SCOA ICF. Importantly, the 'pilot' process is intended to test the SCOA classification framework within local government and the specific system functionality**

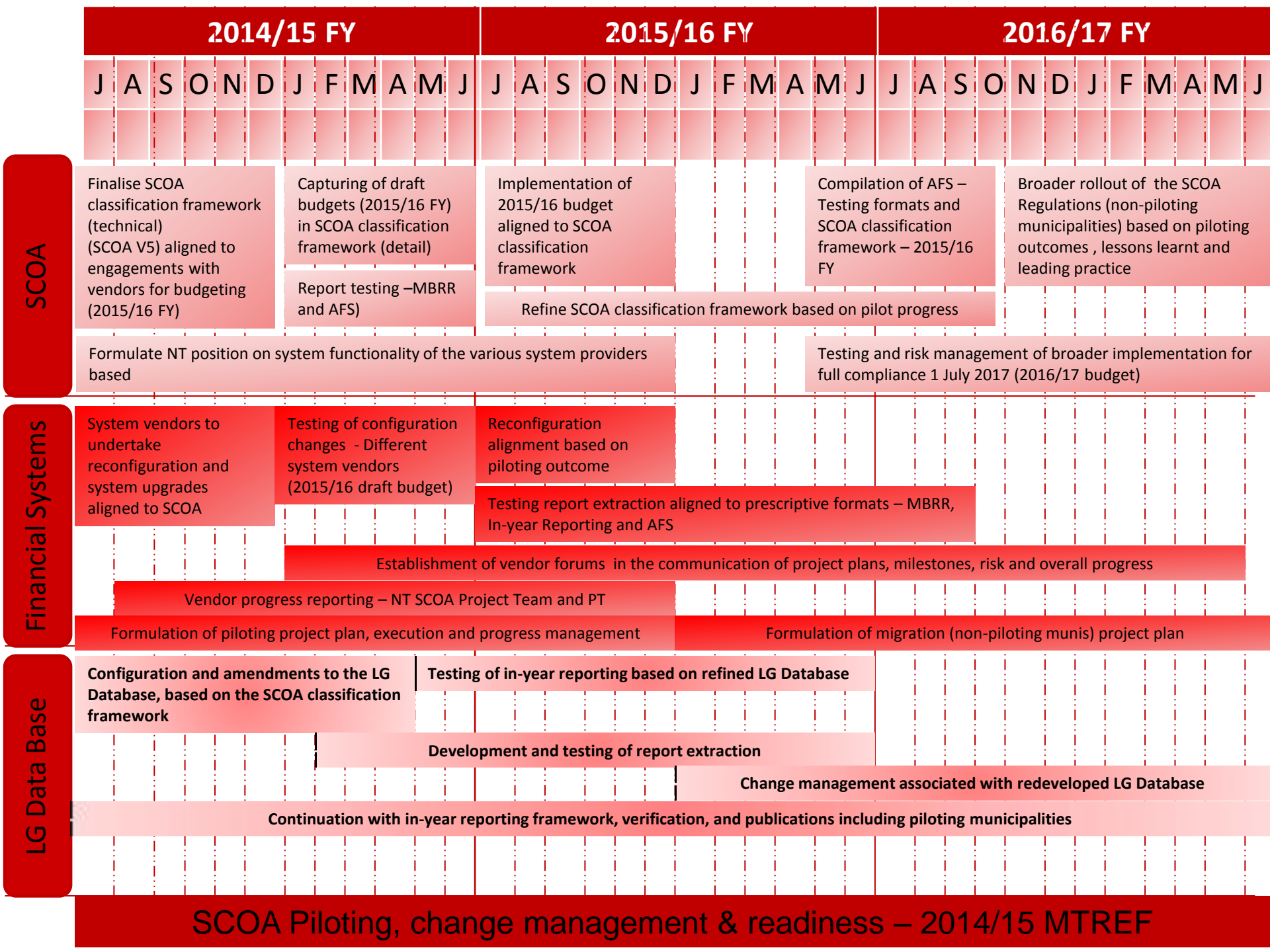
SCOA Project Phase 4: Change Management and Piloting



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

SCOA PROJECT PHASE 4 – PLAN		Start - Dec 2014	Jan - June 2015	July 15 – June 16	July 16 – June 17	1 July 2017.....	
		0 – 6 months	6 – 12 months	12 – 24 months	24 – 36 months	36 months and beyond...	
INTERNAL ENGAGEMENT	WORK STREAM 1: TECHNICAL	Mobilise Project	Testing of BRF, IYM & AFS formats	Testing: SCOA, in-year reporting framework and functionality of LG Database – Piots		GO LIVE	
		SCOA V5 Scoping					
		Position papers	Building capacity (NT & PT's)	AFS – SCOA			
		BRF & AFS		Migration: All munis			
Configuration and amendments to the LG Database – SCOA aspects							
EXTERNAL ENGAGEMENT	WORK STREAM 2: PILOT	Identify pilots	IMPLEMENTATION MONITORING & EVALUATION			GO LIVE	
		Est. position on pilots					Piloting and progress management
		Define report formats for system output					Municipal risk register
							Engage with broader municipal environment
	WORK STREAM 3: TRAINING	Est. programme strategy	Train the trainer			GO LIVE	
		Develop non-accredited training materials for pilot munis	Rollout of training to pilot munis				Roll out of accredited training materials to all munis
	WORK STREAM 4: TRANSITION	Communications and Change Mgt. Strategy development	Communications and Change Management Strategy roll-out			GO LIVE	
		Engage on database adjustments	Establish capability gaps throughout process				
		Support business processes	Standardise practice for issuance of circulars				
			SCOA Technical Committee Integration				
		Scale-up interface with municipalities					
		Develop and roll-out capacitation plan based on gaps identified					



Key elements of municipal service delivery and the role of technology...Take Note!

