Public Sector Finance Seminar

Improving Budget Planning and Execution: From Policy to Practice

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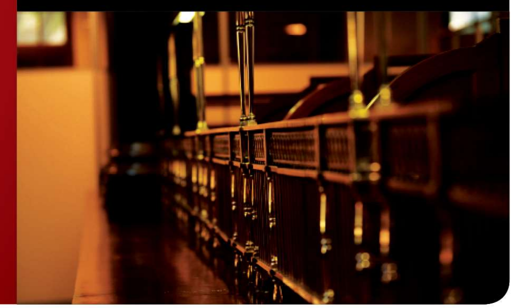

national treasury
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National Treasury
REPUBLIC OF SOUTH AFRICA

Contents

- Background to LG financial management reforms
- *m*SCOA business processes and system specifications
- *m*SCOA and LG Accountability Cycle
- Next phase in *m*SCOA Reform Agenda
- How will *m*SCOA improve budget planning and execution?
- From policy to practice
- Annexures

Background to LG financial management reforms (1)

- Section 216(1) of the **Constitution** states that National legislation **<u>must</u>** 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 as issued by the Accounts Standard Board;
  b) Uniform expenditure classifications - the Municipal Standard Chart of Accounts (*m*SCOA) Regulations prescribe these uniform expenditure classifications; and
  c) Uniform treasury norms and standards which includes *MFMA, Regulations, Circulars and Guidelines*

- The introduction of Municipal Finance Management Act (MFMA) in 2003 laid foundation for the LG financial management reform agenda

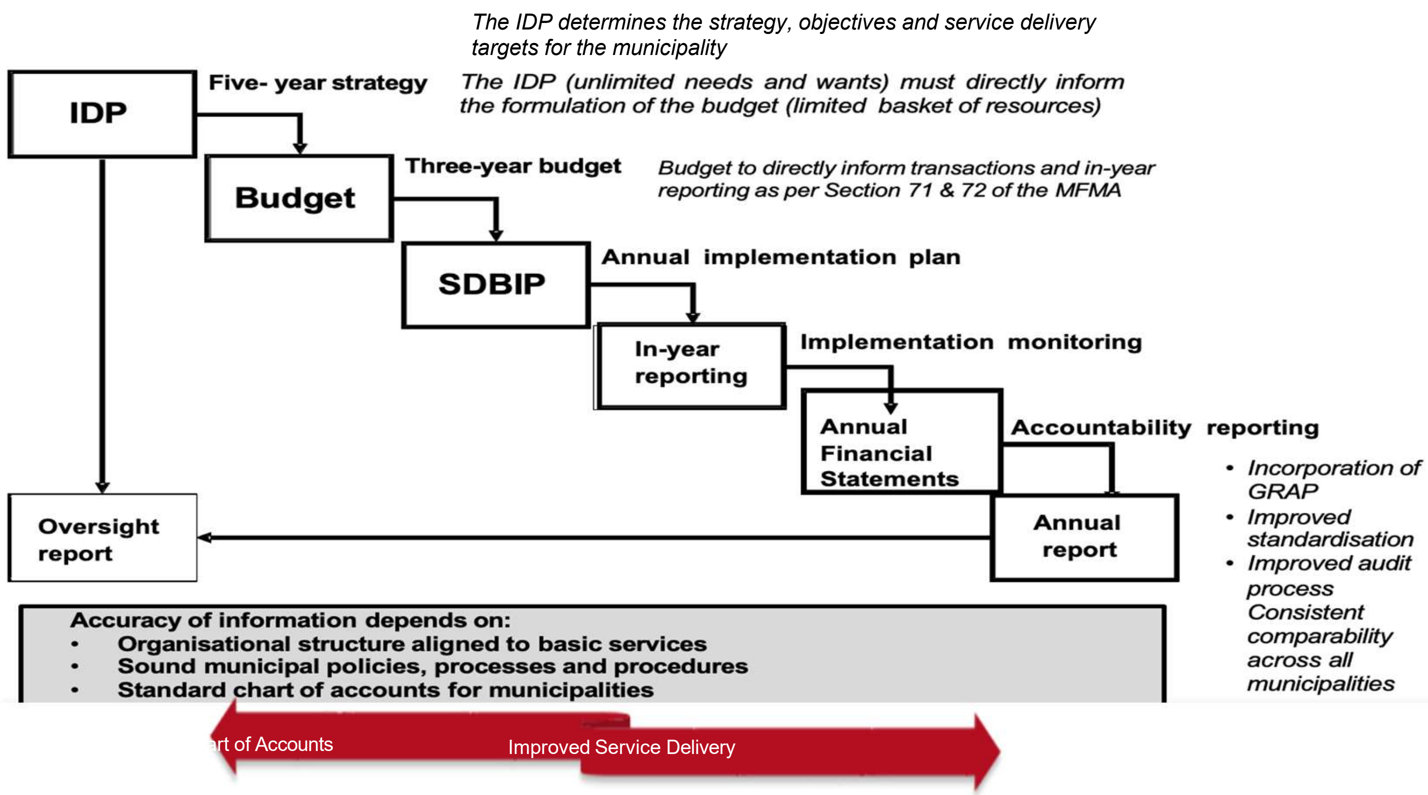
Background to LG financial management reforms (2)

- The Minister of Finance has, i.t.o. Sections 160(1) of the Constitution and 168 of the MFMA promulgated the Municipal Standard Chart of Accounts (*m*SCOA) Regulations on 22 April 2014 (Government Gazette No. 37577)
- The effective date for implementation was 01 July 2017
- The *m*SCOA Regulations provide for:
  - A national standard for the uniform recording and classification of municipal budget and financial information at a transaction level – *across all municipalities and financial systems*
  - Modernisation of LG business processes (issuing of minimum business processes requirements)
  - Application of basic processes and procedures for the daily operation of the municipality (issuing of minimum technical system specifications requirements)
  - Improvement of the municipal ITC and control environment

*m*SCOA business processes and system specifications

- The minimum business processes and system specification requirements for *m*SCOA were articulated in MFMA Circular No. 80 (2016)
- These requirements bridge the gap between policy and implementation by embedding standardised processes, integrated financial systems and automated controls into every stage of the municipal budget cycle
- They ensure that policy priorities are translated into funded programmes, that budgets are executed within approved limits, and that decision-makers have access to accurate, real-time information
- Municipal system vendors operating in the space of LG were required to reinvest and redesign their systems solutions to conform to the *m*SCOA Regulations and MFMA Circular No. 80

*m*SCOA and the LG Accountability Cycle



- *mSCOA, creates the environment to enable the execution of the accountability cycle, from IDP to Annual Report*
- *mSCOA , if well implemented and managed, after future phases have been completed, will provide direct evidence in dashboard format, of the achievement of IDP strategy, objectives and service delivery targets in the municipality*

ONE VERSION OF THE TRUTH

Next phase in *m*SCOA Reform Agenda (1)

- The *m*SCOA Regulations (2014) states that the Minister of Finance may, by notice in the Gazette, determine the minimum business process and system requirements for municipalities and municipal entities to enable implementation of the regulations
- National Treasury has embarked on a project in Jan 2024 to:
  - Review the minimum business processes and technical system specifications in MFMA Circular No. 80 (2016); and
  - Update these minimum requirements to include legislation and other requirements that became/will become applicable after MFMA Circular No. 80 was issued

Next phase in *m*SCOA Reform Agenda (2)

- To date, the following consultation has taken place with various stakeholders, including municipalities, various NT units, PTs, system vendors, AGSA, SARS, STATSSA, DCoG, DWS, etc.:
  - Technical working groups (88 engagements)
  - Integrated Consultative Forums (14 engagements)
  - Stakeholders Engagements (18 engagements)
  - Special Task Team meetings (10 engagements)
  - Training sessions (7 sessions)

Minimum *m*SCOA business processes (1)

1

Corporate Governance
- External Audit Management and Reporting
- Internal Audit Management and Reporting
- IT System Requirements and Management
- Legal Framework Management and Reporting
- Municipal Website Management
- Oversight Committees Management and Reporting
- Performance Management and Reporting
- Records Management
- Reporting Mechanisms
- Risk Management and Reporting

2

Strategic and IDP Planning
- Strategic Planning
- Integrated Development Planning

3

Budgeting and Financial Planning
- Budget Process Planning
- Revenue and Tariff Modelling
- Human Resources (HR) /Payroll
- Operational Expenditure
- Capital Expenditure, Maintenance & Operating Costs
- Inventory Expenditure
- Balance Sheet and Cash Flow Budgeting
- Secondary Costing
- Funding, Reserves and Long-Term Financial Planning
- Budget Reporting
- Public Participation
- Budget Approval and Integration
- In Year Monitoring and Reporting

4

Project Management and Reporting
- Project Planning
- Project Management and Reporting

5

Costing and Management Reporting
- Costing
- Management Reporting

6

Contract Management
- Contract Planning
- Contract Execution
- Contract Monitoring and Reporting
- Contract Close

7

Supply Chain Management and Procurement
- SCM Legal Framework
- Demand Management and Reporting
- Procurement and Reporting
- Supplier Management (Database)

Minimum *m*SCOA business processes (2)

8

Asset Management and Maintenance

- Asset Management Planning
- Assets Acquisition
- Asset Maintenance
- Assets Verification and Condition Assessment
- Asset Disposal
- Asset Management Reporting

9

VRM, Real Estate, Land Use and Building Control

- Valuation Roll Management
- Real Estate
- Land Use Applications, Development Charges & Building Plans
- Wayleave
- Property Rates

10

- **Human Resource and Payroll Management**
- Human Resource Planning
- Employment Practices
- Staff Performance and Development
- Skills Development
- Staff Member Relations
- Leave and Time Management
- Payroll Management and Reporting

11

- **Revenue and Debt Management**
- Revenue Management and Billing
- Debt Collection and Credit Control
- Customer Management
- Indigent Management
- Provision for Bad Debt and Reporting

12

Financial Accounting

- General Ledger Maintenance
- Accounts Receivable
- Accounts Payable
- Annual Financial Statements Reporting
- Consolidation reporting
- Financial Reporting

13

Treasury and Cash Management

- Cash Management and Reporting
- Grant Management and Reporting
- Investment Management and Reporting
- Borrowings and Finance Leases Management
- Reserves Management and Reporting
- Provisions Management and Reporting
- Contingent Liabilities Management and Reporting
- Insurance Management and Reporting
- UIFW Management and Reporting

14

Inventory Management

- Consumables and Materials Management and Reporting
- Water Inventory Management and Reporting
- Land Inventory Management and Reporting

How will *m*SCOA improve budget planning and execution?

1. Linking policy to budget

- One of the historic weaknesses in local government has been the disconnect between policy objectives and budget allocations
- The *m*SCOA framework addresses this by requiring budgets to be classified consistently across the seven *m*SCOA segments, ensuring every budget allocation can be linked to:
  - Strategic priorities in the Integrated Development Plan (IDP)
  - Service delivery objectives
  - Projects
  - Funding sources
  - Municipal functions
  - Cost centres
  - Standardised expenditure and revenue items
- This creates full traceability from policy intent to financial allocation.
- The outcome is that budgets become strategic implementation tools rather than merely financial documents

2. Standardised budget planning processes

- The minimum *m*SCOA requirements prescribe a structured and controlled budgeting process that includes:
  - Strategic planning
  - Budget preparation
  - Departmental budget submissions
  - Budget consolidation
  - Executive review
  - Council approval
  - Budget publication
  - Budget loading into operational systems
- These standardised workflows ensure consistency across municipalities and reduce dependence on manual spreadsheets
- This improves governance, transparency, and accountability during budget preparation

3. Integrated planning and budgeting

- The minimum system specifications require integrated financial management systems where the following are maintained within a single system:
  - IDP projects
  - Capital programmes
  - Operating budgets
  - Performance targets
  - Funding sources
- Rather than capturing the same information multiple times, data is entered once and shared across modules
- This result in reduced duplication, improved data quality, and stronger alignment between planning and budgeting

4. Real-time budget execution

- Budget implementation is strengthened through embedded system controls that ensure:
  - Budget availability is checked before commitments are made
  - Purchase orders cannot exceed approved budgets
  - Budget transfers follow approved workflows
  - Commitments are recorded before expenditure occurs
  - Actual expenditure is continuously compared with budget
- This shifts municipalities from detecting overspending after it has occurred to preventing it before transactions are processed which improve expenditure discipline and reduce unauthorised expenditure

5. Improved cash flow and funding management

- The business processes integrate:
  - Budget management
  - Revenue collection
  - Cash management
  - Grant management
  - Expenditure planning
  - This enables municipalities to:
  - Forecast cash flows more accurately.
  - Align expenditure with available funding.
  - Monitor grant utilisation.
  - Improve liquidity management
- The outcome will be better financial sustainability and reduced cash-flow risks

6. Continuous budget monitoring

- Budget execution becomes an ongoing management process through real-time dashboards and automated reporting.
- Managers can monitor:
  - Revenue performance
  - Operating expenditure
  - Capital expenditure
  - Grant spending
  - Departmental performance
  - Cost drivers
  - Budget variances
- Instead of relying solely on month-end reports, municipalities have access to current information for timely intervention based on faster, evidence-based decision-making

7. Stronger governance through embedded controls

- The Minimum System Specifications require systems to incorporate automated controls such as:
  - Budget validation
  - Delegation of authority
  - Workflow approvals
  - Audit trails
  - Segregation of duties
  - Exception reporting
- These controls reduce opportunities for fraud, irregular expenditure, and manual error and result in stronger governance and improved audit outcomes

8. Improved reporting and accountability

- With standardised and integrated financial data, municipalities can produce consistent reports for:
  - Council
  - Executive management
  - National Treasury
  - Provincial Treasuries
  - Auditors
  - Communities
- Reports are generated from a single source of truth, improving accuracy and reducing reconciliation efforts, resulting in greater transparency and public accountability

9. Driving innovation in budget management

- The digital capabilities enabled by the minimum business processes and system specifications provide a platform for innovation, including:
  - Predictive revenue forecasting
  - Cash-flow modelling
  - Scenario-based budget planning
  - Artificial intelligence to detect spending anomalies
  - Automated variance analysis
  - Executive dashboards with key performance indicators
  - These innovations support proactive rather than reactive financial management
- Thus, municipalities move from compliance-focused budgeting to strategic, data-driven financial management

In summary, from policy to practice

Policy Objective	*m*SCOA Business Process/System Capability	Practical Outcome
Strategic planning	Integration of IDP, Budget and SDBIP	Resources aligned to strategic priorities
Financial sustainability	Budget controls and cash management	Improved financial discipline
Good governance	Automated workflows and embedded controls	Greater accountability and compliance
Service delivery	Project and performance integration	Better delivery monitoring
Transparency	Standardised reporting	Reliable information for oversight
Digital transformation	Integrated ERP systems and automation	Faster, data-driven decision-making

THANK YOU

For additional information on municipal matters, visit the MFMA Webpage at http://mfma.gov.za or

https://lg.treasury.gov.za/ibi_apps/welcome

https://municipalmoney.gov.za

For additional information on national and provincial budgets, visit: https://vulekamali.gov.za

ANNEXURES

Documentation on minimum business process and technical system specifications requirements (1)

Link to one drive: G1_Draft Regulations - Training

Name	Modified
1_Regulations	November 22, 2...
10_Recordings_Dec 2025 ICF	February 1
11_Task Team Meetings	February 10
2_Position Papers	November 22, 2...
3_System Comments Registers - Dec 2025	December 12, 2...
4_Process Documents	November 18, 2...

Documentation on minimum business process and technical system specifications requirements (2)

Link to one drive: G1_Draft Regulations - Training

5_System Requirement Documents	November 18, 2...
6_Process Comments Registers - Dec 2025	December 11, 2...
7_System Comments Registers - Feb 2026	January 27
8_Process Comments Registers - Feb 2026	January 27
9_Regulations_Position Papers Comments Registers - Feb 2026	January 30