



CLASSIFICATION CIRCULAR – BUDGETING AND ACCOUNTING FOR AMOUNTS RECEIVED FROM / PAID TO THE SECTOR EDUCATION AND TRAINING AUTHORITIES (SETAs)

1 Purpose

The purpose of this circular is to assist Departments with the budgetary and accounting requirements arising from the Skills Development Act, 1999 (Act No. 97 of 1998) and the latest National Skills Development Strategy. The circular discusses the treatment of money received from SETAs or the National Skills Fund (NSF) for learnership programmes and/or special projects as well as the treatment of expenditure relating thereto.

This circular has been prepared in consultation with key stakeholders within the National Treasury.

2 Background

2.1 Funds paid to a SETA

The Skills Development Act, 1999 (SDA) established the SETAs across various sectors, to co-ordinate training and learnership programmes. The skills development levies are administered in terms of the Skills Development Levies Act, 1999 (SDLA).

Section 30 of the SDA as amended in the SDLA states that each public service employer in the national and provincial sphere of government –

- a) Must budget for at least:
 - i. 0,5 per cent of its payroll with effect from 1 April 2000;
 - ii. One per cent of its payroll with effect from 1 April 2001.
- b) May¹ contribute funds to a SETA.

Accordingly it is not mandatory for a public service employer in the national and provincial spheres of government to contribute the one (1) percent of payroll directly to a SETA.

However, as per circulars issued by both the DPSA and National Treasury², a department must budget at least one (1) percent of its payroll for training and education purposes and pay thirty (30) percent of this amount to a line function SETA. The PSETA is excluded from this requirement as it is funded directly from the fiscus. In this case, 'payroll' refers to the total wage bill of a department.

¹ Section 4(a) of the SDLA exempts public service employers in the national and provincial spheres of government from paying the skills development levy. Additionally, section 4(d) of the SDLA also exempts national and provincial public entities from paying the levy – if 80 per cent or more of the entity's expenditure is defrayed directly or indirectly from voted funds.

² Refer to DPSA Circular: HRD 1 of 2013 and National Treasury's circular dated 15 January 2015 relating to transfers to PSETA.

This is essentially the total package of the employee and not just the basic pensionable salary. Thus, this refers to the one (1) percent of the compensation of employees as defined in the budget, which includes contributions to the pension fund.

2.2 Learner allowances or grants from a SETA

A department may receive learner allowances or grants from a SETA. Funding arrangements that exist between a SETA and a department could comprise:

- a) Special projects to be carried out by the department on behalf of a SETA; and/or
- b) Reimbursement of expenditure incurred on programmes initiated and implemented by a department (typically referred to as self-funding).

It is expected that a department and a SETA would sign an MOA specifying the purpose of any funding and the specific skills development initiatives to be implemented along with the period or duration of the funding.

Furthermore the agreement should specify how and when a department should return any unspent funds at the end of a project.

3 Money received by a department to execute specific projects on behalf of a SETA (Agency Services)

Section 13(1)(f)(iii) of the Public Finance Management Act (PFMA), (Act 1 of 1999, as amended by Act 29 of 1999) states '*All money received by the national government must be paid into the National Revenue Fund, except money received by a national department from another department to render an agency service for that department*'.

Similarly, section 22(1)(d)(iii) of the PFMA states '*All money received by a provincial government, including the province's equitable share, and grants made to it, in terms of the annual Division of Revenue Act, must be paid into the province's Provincial Revenue Fund, except money received by the provincial department in the province from another department to render an agency service on behalf of that department*'.

Notwithstanding the reference to 'agency services on behalf of that department' in the PFMA, it has been agreed and accepted that a department may in terms of the agreement with a SETA, and only for that agreement, receive amounts in their bank accounts and spend the amounts for purposes set out in the agreement.

Accordingly, the department will account for the resulting transactions in accordance with the Modified Cash Standard (MCS) Chapter on *Accounting by Principals and Agents*.

3.1 Allocation of funds in the segments of the Standard Chart of Accounts (SCOA)

3.1.1 Fund Segment

The fund segment indicates the source of funding utilised by a department and distinguishes between voted funds; discretionary and earmarked and specific funds for each department. In addition it caters for the recording of funds received and spent by a department where it is acting as an agent.

Departments will create a revenue and expenditure account under the following non-posting level created specifically for such purposes in the fund segment:

AGENCY SERVICES (segment number 612)

3.1.2 Objective Segment


Here the department will identify the relevant programme or sub-programme linked to the delivery of the project for the SETA.

3.1.3 Responsibility Segment

The responsibility segment identifies the relevant cost centre, which in most instances reflects the organisational unit undertaking the project.

3.1.4 Item Segment

This segment is used to reflect the actual nature of the spending incurred by the department.

	<p>As mentioned above, a department (acting as an agent) allocates its spending against the relevant expenditure accounts in the item segment. These costs however, will not form part of its own departmental expenditure in the statement of financial performance as they are differentiated by way of the allocation in the fund segment.</p> <p>Keeping track of the nature of spending is important for the SETA (the principal) who is, in terms of the MCS Chapter on <i>Accounting by Principals and Agents</i>, required to recognise such costs in its own statement of financial performance.</p> <p>Any unspent amounts at year-end will be reflected as a liability in the statement of financial position of the department.</p>
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3.1.5 Asset Segment

The Non-asset related posting level item should be used for all expenditure that is not directly related to an asset. In this instance the item to utilise is NON-ASSETS RELATED (segment number 22).

3.1.6 Project Segment

Departments are advised to include details of the SETA funding received in the project segment by creating a project relating to the agreed activity to be executed. This can be done by creating a specific project under DEPARTMENTAL SPECIFIC PROJ LIST (segment number 1) in the project segment.

3.1.7 Regional Segment

The regional segment assigns government expenditure to the lowest relevant geographical region so as to identify the communities that benefit from government spending.

The lowest relevant geographical region' refers to the ward, municipality, district or province where the intended beneficiaries normally live or are located. Note that the lowest relevant geographical region' is not necessarily restricted to the municipality where the service or capital investment is located, since the intended beneficiaries may be from neighbouring municipalities, even neighbouring provinces, depending on the nature of the service or investment.

Departments should consider the above in selecting the appropriate allocation within this segment.


3.1.8 Infrastructure Segment

The utilisation of these funds will most likely be related to non-infrastructure current spending and will be allocated as such in the infrastructure segment.

4 Money reimbursed to a department from a SETA for training programmes in terms of the relevant National Skills Development Strategy (self-funding)

For a department to access this money as revenue, the expenditure is treated as self-funding expenditure. In practice this means that the funds received by a department will be deposited into the relevant revenue fund and subsequently re-appropriated as an additional budget allocation. In this process the relevant treasury may impose conditions in line with the agreement between the department and the SETA. These will be reflected in the allocation letter.

Departments are encouraged to finalise the MOAs with the SETAs within the budget process dates provided by the relevant Treasury. The MOA should be supported by an agreed funding schedule to enable a department to incorporate it in their departmental budgets and spending plans. The MOA is thus imperative as it will allow departments to do proper planning and budgeting for the projects at hand and follow up on funding that has not been paid to the department in terms of the agreed funding schedule.

	<p>Example: Allocation of self-funding expenditure.</p> <p>Assume a learner allowance of R15 million was paid by the ETDPSETA to the Gauteng Provincial Department of Education in May 20x5. The funds will be deposited in the Gauteng Provincial Revenue Fund. Technically the Provincial Department of Education has an additional R15 million income, which cannot be accessed. However, in the Adjustments Budget, the Provincial Department of Education will include the R15 million as self-funding expenditure. The Gauteng Treasury will confirm with the Accountant-General in the province whether the R15 million is in the Provincial Revenue Fund and upon confirmation, the R15 million will be added onto the Provincial Department of Education's budget in the Adjustments Estimate to be spent on the specific project.</p>
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4.1 Recommended procedures

The department must surrender the money to the relevant revenue fund as required by Section 22(1) (d) (iii) and Section 13(1) (f) (iii) of the PFMA.

The department must then obtain confirmation of deposit of such money from the relevant Treasury before it spends on training and skills development. The money will be appropriated to that department for the designated purpose. Departments need not postpone spending until after the Adjustments Estimate process.

Departments should ensure proper reconciliation of the amounts received, deposited and paid between the various financial years and ensure that the correct amounts are allocated and spent in the respective budgets and financial years.

Funds received and paid at various stages of the financial year.

- a) Amounts received from a SETA between **April and September** of the current financial year should be included and appropriated as 'self-funding expenditure' to the departmental vote over and above the additional appropriations made in the current financial year Adjusted Estimate. These appropriations will be included in the departments' allocation letter. As soon as the appropriation bill is passed and approved by Parliament, departments need to amend their drawings schedule, request the funds from the respective revenue fund and continue to spend.
- b) Amounts received from a SETA between **October and January**, and after the Adjusted Budget Estimates is passed, should be included in the main budget of the next financial year, in the Estimates of National Expenditure (ENE) and Provincial budgets of departments. In many instances it is required from departments to spend these allocations still within the financial year in which it is transferred by the SETA. In this event departments will be required to spend from a dedicated control account and journalise the spending to expenditure item codes as soon as the new budget has been tabled and approved by Parliament for the new financial year. Departments will be requested to monitor and report on these balances as part of their in year monitoring reports and appropriate disclosure in the financial statements at financial year end.
- c) Amounts received in **February and March**, and after the main budget is passed for the new financial year, should be included in the Adjusted Estimates of the new financial year. Departments may spend these funds still in the year it was received from the dedicated control account and journalise the spending to expenditure item codes as soon as the new Adjusted Estimates budget has been tabled and approved by Parliament.

4.2 Allocation of funds in the segments of the Standard Chart of Accounts (SCOA)

4.2.1 Fund Segment

When the funds are received, a department will allocate the transaction to the following item in the fund segment:

DEPARTMENTAL RECEIPTS (segment number 26)

As and when the expenditure is incurred, the department will allocate the transaction to specifically created accounts in the fund segment (located under the EARMARKED AND SPECIFIC FUNDS section). The accounts created should reflect the purpose for which the funds were received (as set out in the MOA and allocation letters).

4.2.2 Objective Segment

Here the department will identify the relevant programme or sub-programme linked to the spending of the funds.

4.2.3 Responsibility Segment

The responsibility segment identifies the relevant cost centre, which in most instances reflects the organisational unit incurring the expenditure.

4.2.4 Item Segment

This segment is used to reflect the actual nature of the spending incurred by the department.

4.2.5 Asset Segment

The Non-asset related posting level item should be used for all expenditure that is not directly related to an asset. In this instance the item to utilise is NON-ASSETS RELATED (segment number 22).

4.2.6 Project Segment

A department has a choice to create a project for the monitoring of the expenditure. Refer to the section above for guidance on which accounts to utilise.

4.2.7 Regional Segment

The regional segment assigns government expenditure to the lowest relevant geographical region so as to identify the communities that benefit from government spending.

The lowest relevant geographical region' refers to the ward, municipality, district or province where the intended beneficiaries normally live or are located. Note that the lowest relevant geographical region' is not necessarily restricted to the municipality where the service or capital investment is located, since the intended beneficiaries may be from neighbouring municipalities, even neighbouring provinces, depending on the nature of the service or investment.

Departments should consider the above in selecting the appropriate allocation within this segment.

4.2.8 Infrastructure Segment

The utilisation of these funds will most likely be related to non-infrastructure current spending and will be allocated as such in the infrastructure segment.

4.3 Accounting entries

Amounts transferred from the SETA will be deposited in the bank account of the relevant department and upon receipt the following entry will be passed:

Dr	Bank Account (Pos)
Cr	Bank Exception Account (Pos)
Dr	Bank Exception Account (Pos)
Cr	Bank Adjustments Account (Pos)
Dr	Bank Adjustments Account (Pos)
Cr	Transfers received: departmental agencies (Per) (non-posting), breakdown allowed, department to create posting level detail

Once the SETA revenue is recorded the department must pay the revenue over to the relevant revenue fund. This will be done at the end of the month or as instructed by the relevant revenue fund.

Dr	General Account of Revenue (Pos)
Cr	Bank Account (Pos)

The amounts are now deposited and paid to the relevant revenue fund and the department will now request that the amounts be included in its appropriation for spending purposes.

An increase in the departments' budget allocation is recognised as follows:

Dr	Exchequer Grant Account (Pos)
Cr	General Account of the Fund/Vote (Pos)

When the department requests the funds from the relevant treasury, it recognises the following transaction:

Dr	Fund Requisition Account (Pos)
Cr	Exchequer Grant Account (Pos)

Allocation of expenditure relating to funds received between **April and September** of the given financial year is done as follows:

Dr	Relevant Expenditure accounts (Per)
Cr	Bank Account (Pos)

Allocation of expenditure relating to funds received between **October and January and for March and February** of the given financial year is done as follows:

Dr	Sector Education Training Authority Control Account (Pos)
Cr	Bank Account (Pos)

After the closure of the financial year, the balance in the control account will be carried forward into the new financial year. The account is cleared by debiting expenditure once the funds have been re-allocated in the main or adjusted budget of the department.

Dr	Relevant Expenditure accounts (Per)
Cr	Sector Education Training Authority Control Account (Pos)

5 Learnerships

A learnership is defined as a training course that combines theory with relevant practice on the job. On-the-job training is a fundamental component to the learnership. In order to qualify, the learners are assessed against occupational standards registered on the National Qualifications Framework that has been agreed to in advance by industry stakeholders. Learners can accumulate the credits awarded on the successful completion of these standards and simultaneously achieve a nationally recognised qualification that signals their 'qualified' status.

There are two types of learners, namely 18(1) and 18(2) learners:

	18(1) Learners	18(2) Learners
Description		
Employee or non-employee of the department	Learners are already appointed against the permanent post of the department and are already in the department's establishment. They are employees of the department. When the agreement is concluded, the learner's contract of employment is not affected by the agreement.	Learner is an individual who is unemployed but does not have a qualification and wants to study towards a post matric qualification or a person wants to study towards a different qualification. These learners are not part of the department's establishment and should be added to the temporary employees' expenditure category. When the agreement is concluded, the employer and the learner must enter into a contract of employment.
What happens after completion of learnership?	Upon completion of the learnership, the learner remains the employee of the employer.	Upon completion of the learnership, the learner is no longer an employee of the employer, nor is the employer bound to provide the learner with any employment.

Classification Circular 23 - Budgeting and accounting for SETA funds

Expenditure		
<p>The expenditure allocation is dependent on the type of agreement which exists between the department and SETA. Where the department is performing agency services for the SETA, all expenditure should be recognised in the books of SETA. Learnerships are usually run by SETAs only, which would use the department as an Agent.</p> <p>Departments must utilise the Project segment to facilitate reporting of total cost of learnership in respect of 18(1) and 18(2) learners.</p>		
	18(1) Learners	18(2) Learners
Remuneration	Monthly salary	Learnership allowance or stipend
SCOA Allocation	Payments Compensation of employees Salaries and wages S&W: Basic Salary (Res) (Please consult the latest SCOA code list on the website, https://scoa.treasury.gov.za for the posting level allocation codes).	Where learnership agreement is that of principal/agent relationship, the department is not required to account for any of the expenditure.
Other Expenditure	All other expenditure incurred on these learners is made against the relevant spending categories, including the learnership material costs. Learnership material cost refers to the cost of publishing or sourcing reading materials for the learners. The cost of learnership materials in SCOA will be allocated as follow: Payments Goods and services Training and development: Employees Materials and manuals (Please consult the latest SCOA code list on the website, https://scoa.treasury.gov.za for the posting level allocation codes). Expenditure regarding additional personnel for supervision, on-the-job coaching, mentoring and managerial oversight is to be included in the relevant spending categories.	Where learnership agreement is that of principal/agent relationship, the department is not required to account for any of the expenditure. The department should use the suspense account in accounting for this expenditure.

Contact information

Please contact the SCOA project team via the **SCOA call center at (012) 315 5311**, or by sending a concise mail to scoa@treasury.gov.za if further clarity or discussion is required regarding the changes highlighted above.

For updated versions of the SCOA COR database and classification circulars please visit <https://scoa.treasury.gov.za/>

Regards,
 SCOA Technical Committee
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