



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

CLASSIFICATION CIRCULAR 2 OF 2009/10

STRUCTURING AND CLASSIFYING OF EARMARKED AND SPECIFIC FUNDS AND CONDITIONAL GRANTS IN THE FUND SEGMENT OF THE STANDARD CHART OF ACCOUNTS (SCOA)

PURPOSE

1. The purpose of this circular is to provide national and provincial departments with guidance on the creation of a structure in the fund segment for 'specifically and exclusively appropriated' and 'earmarked allocations', and clarifying the use of the conditional grant account in the fund segment of the standard chart of accounts.

DISCUSSION

'Specifically and exclusively appropriated' and 'earmarked allocations'

2. In the allocation process a condition may be imposed for an allocation to be listed as 'specifically and exclusively appropriated' or 'earmarked' in order to promote and enforce transparency and effective management of resources. An example is funds that have been devolved from the Department of Public Works to other departments for the payment of property related costs, i.e. municipal services, municipal rates and taxes as well as accommodation charges.
3. The fund segment has been reviewed as part of the SCOA toning project. The resulting changes in this segment now allows departments to record and treasuries to track spending on specific and earmarked allocations and conditional grants in the financial systems of departments.
4. In order to monitor expenditure that is appropriated as conditional grants or earmarked for a specific purpose, the fund segment has been expanded to identify these as separate sources of funding, as a subcategory of the 'Voted Funds' main category. These would include items identified in the departmental allocation letters as earmarked funds, as well as amounts appropriated as 'specifically and exclusively appropriated' in the Appropriation and Division of Revenue Acts.

National departments

5. In the case of national departments, this information has been centrally loaded into the fund segment in the financial system by the National Treasury based on the information contained in the appropriation act and the allocation letters issued to departments. This information will centrally be updated by the National Treasury on an annual basis. A additional code, namely 'departmental specific' do exist for National Departments to create departmental specific details they would like to monitor as part of the fund segment, these will be typically allocations not provided for in the specifically and exclusively or earmarked allocations categories of the structure.

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Current structure for national departments

1	2	3	4	5	6	7	8	9	10	11	12	SEGMENT DETAIL NO	P/NP LEVEL	LEVEL
EXPENDITURE:VOTED												1	N	1
DEPARTMENTAL APPROPRIATION												148	N	2
VOTED FUNDS DISCRETIONARY												152	N	3
VOTED FUNDS												559	Y	4
INTERNAL CHARGES FUND												560	Y	4
TRAD ACC DPW:CLIENT DEPTS VOTED												566	N	4
EARMARKED AND SPECIFIC FUNDS												153	N	3
E & S FUNDS:NATIONAL												167	N	4
AGRICULTURE ¹												193	N	5
EARMARKED												277	N	6
DEVOLUTION OF FUNDS FROM PUBLIC WORKS												556	Y	7
AGRICULTURAL RESEARCH AND														
INFRASTRUCTURE												557	Y	7
MAFISA												290	Y	7
SPEC & EXCL APPROPRIATE												567	N	6
AGRICULTURAL RESEARCH COUN												568	Y	7
L&ABSA:AGRI BEE												569	Y	7
L&ABSA:MICRO-AGRI FIN INST SA												570	Y	7
NAT AGRI MARKETING COUN												571	Y	7
NCERA FARMS (PTY) LTD												572	Y	7
DEPARTMENTAL SPECIFIC												278	N	6

1. Department of Agriculture only used as an example.

Provincial departments

- No information has been centrally loaded for provincial departments in the chart as this information must be loaded at the discretion of provincial treasuries.
- Care should be taken in creating funds to be monitored and measured on the financial system as not all earmarked funds specified in allocation letters and in the appropriation and division of revenue acts are measurable, i.e. funding approved for provincial roads infrastructure might be earmarked for that specific purpose and the MEC for roads and transport would like to measure how the funds were used since the inception of the project till finalisation. Transfer payments to entities for budgetary support would typically be allocations that are not always measurable and should be carefully considered before it is created by departments.
- Departments might find it extremely difficult, if not impossible, to monitor spending on these funds. It is suggested that departments collaborate with their respective provincial treasuries and agree on a set of codes in the fund segment to be listed on the financial system for 'Earmarked and Specific' funding. Provincial Treasuries are encouraged to play a leading role in this regard as treasuries might be called upon to provide detail on the creation of these funds for purposes of the Technical Committee on Finance (TCF), Budget Council and provincial benchmark exercises.

Proposed structure for provincial departments

- Currently the financial system only provides for the first level of 'Earmarked and Specific' funds: Provincial in the fund segment. In order to ensure consistency across national and provincial departments in the creation of a structure for the monitoring and measuring of expenditure earmarked for a specific purpose, it is proposed that the following high level structure is created by a provincial department. Important to note when creating the structure for provincial departments is to include the prefix of the specific province to the name of the department, i.e. EC, WC etc. These prefixes should be the same as used in the objective segment.

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1	2	3	4	5	6	7	8	9	10	11	12	SEGMENT DETAIL NO	P/NP LEVEL	LEVEL
EXPENDITURE:VOTED												1	N	1
DEPARTMENTAL APPROPRIATION												148	N	2
EARMARKED AND SPECIFIC FUNDS												153	N	3
E & S FUNDS:PROVINCIAL												562	N	4
NAME OF PROVINCIAL DEPARTMENT, E.G. EC: PROVINCIAL LEGISLATURE (TO BE CREATED BY THE DEPARTMENT) ¹													N	5
EARMARKED													N	6
POSTING LEVEL DETAILS TO BE CREATED BY THE DEPARTMENT													N	7
SPEC & EXCL APPROPRIATE													Y	6
POSTING LEVEL DETAILS TO BE CREATED BY THE DEPARTMENT													N	7
DEPARTMENTAL SPECIFIC													Y	6
POSTING LEVEL DETAILS TO BE CREATED BY THE DEPARTMENT													N	7

1. Eastern Cape Provincial Legislature used as an example. Departments should include provincial prefix, i.e. EC.

Conditional grants

10. Conditional grants are conditional allocations to provinces and municipalities from national government's share of revenue raised nationally, which are conditional on certain services being delivered or on compliance with specified requirements. An example of a conditional grant is the transfer of funds for the integrated housing and human settlement development grant.
11. The implementation of the toned SCOA on 1 April 2008 provides for the allocation and monitoring of spending on conditional grants as appropriated in terms of the appropriation and division of revenue acts. The existing fund structure provides for a split between national and provincial conditional grants.
12. However, from data extracted from the system it is clear that departments have been using this structure in a consistent way as in some instances provincial payments are made from national conditional grants and in some these are captured as provincial conditional grants.
13. In order to address this in the chart going forward, the existing item 'Conditional grants: national' code 279, have been renamed to 'Conditional grants: all departments' code 279. This item will in future be used for capturing transactions against conditional grants at both the national and provincial level.
14. This can best be explained by using an example. When money for the Agriculture Disaster Management Grant is paid to provinces by the national department of Agriculture, the entry will be recorded against 'Conditional grants: all departments' code 279. When the provincial departments spend the funds related to this grant the same code will then be used at the provincial level in the fund segment. The item segment will however distinct what is paid, i.e. for the national department it will be transfers and subsidies to provincial revenue funds and in the provincial department it will be the item and purpose for the actual payment.
15. This adjustment to the code description for 'Conditional grants: all departments' will only be effective from 1 April 2009. The table below provides an example of the revised coding structure, using the National Department of Agriculture as an example.

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1	2	3	4	5	6	7	8	9	10	11	12	SEGMENT DETAIL NO	P/NP LEVEL	LEVEL
EXPENDITURE:VOTED												1	N	1
DEPARTMENTAL APPROPRIATION												148	N	2
CONDITIONAL GRANT EXPENDITURE												154	N	3
CONDITIONAL GRANTS: ALL DEPARTMENTS												279	N	4
AGRICULTURE ¹												156	N	5
AGRICULTURE DISASTER MANAGEMENT GRANT												358	Y	6
COMPREHENSIVE AGRICULTURAL SUPPORT														
PROGRAM GRANT												359	Y	6
LAND CARE PROGRAM GRANT:POVERTY RELIES														
AND INFRASTRUCTURE												360	Y	6

1. Department of Agriculture only used as an example.

16. The fund segment include an item Conditional grant: Provincial BAS code 563. From 1 April 2009 the description and the code will be removed from the financial system for further use by provincial departments. The only conditional grants active in the system should be the ones that are appropriated in terms of the appropriation and division of revenue acts. If there is any other specific allocations that a provincial department would like to monitor other than conditional grants the details of those allocations should be provided for in the specifically, exclusively and earmarked categories of the fund segment.
17. The **effective date** of this classification circular is **1 April 2009**.
18. Please contact the SCOA project team via the **SCOA call center at (012) 315 5311** if further clarity or discussion is required regarding the above. Alternatively, practitioners can communicate via email, by sending a concise mail to scoa@treasury.gov.za

Regards

SCOA Technical Committee

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