



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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STANDARD CHART OF ACCOUNTS (SCOA) CHANGES TO BE NOTED FOR THE PREPARATION OF BUDGET SUBMISSIONS

Purpose

The purpose of this communication is to provide departments with information on some changes that will be effective from 1 April 2010, introduced in the chart of accounts (SCOA) mainly as part of the preparation for phase III of the SCOA training material. Departments are requested to align their classifications accordingly for the MTEF and the history data where applicable. The SCOA committee will issue a formal classification circular to highlight these changes before the start of the new financial year.

Discussion

With the implementation of phase III SCOA training, the following items and classification issues were addressed:

Non-Life insurance premiums

From 1 April 2010 the chart of accounts will provide for the allocation of the item '*non-life insurance premiums*' on a posting level as part of the item '*operating payments*' under goods and services. The item was originally classified as transfer payment to private enterprises.

The classification of spending on non-life insurance premiums was changed after consideration of both international guidelines and South-African circumstances in this regard.

These payments should now be classified as goods and services. Payment for non-life insurance premiums are viewed as a required transaction as there is an exchange of a service and an asset component between the department and the insurance company, for the value of payment made by the department, i.e. the value of the payment also be seen in proportion to the value received in return for risk transfer provided by the insurance company.

Government Motor Transport (GMT)

GMT as it currently interpreted in the chart was exclusively for the use of the GMT trading entity and departments were not allowed to utilise this item with its posting level details. Though a number of departments manage their own fleet of vehicles and therefore require a posting level item for fleet services. Therefore, as from 1 April 2010, the Item *Government Motor Transport* will be renamed to *Fleet Services* and will be used by all departments owning and managing their own fleet of vehicles. Departments should at all times ensure that their internal policies and transport policies are aligned, in place and consulted before they make use of this account.

The table below illustrates the current and new proposed structure for this set of accounts.

Table 1A) Old structure

Table 1B) Proposed new structure (1 April 2010)

GOVERNMENT MOTOR TRNSP(TR ACC)		
GMT(TRADE ACC) TRACKING		
GMT(TRADE ACC) COMPUTER TIME-LIC		
GMT(TRADE ACC) DEVELOPMENT FEES		
GMT(TRADE ACC) TRACKING(PHYS CS)		
GMT(TRADE ACC) TOLL FEES		
GMT(TRADE ACC) FLEET SERVICES		
GMT(TRADE ACC) BATTERIES		
GMT(TRADE ACC) DEPREC EQUIPMENT		
GMT(TRADE ACC) DEPREC VEHICLES		
GMT(TRADE ACC) FUEL,OIL&GREASE		
GMT(TRADE ACC) LICENCE FEES		
GMT(TRADE ACC) SPARES&ACCESSORI		
GMT(TRADE ACC) TOWING COSTS		
GMT(TRADE ACC) TRANSACTION COSTS		
GMT(TRADE ACC) TYRES&TUBES		
GMT(TRADE ACC) VEHICLE REPAIRS		
GMT(TRADE ACC) LOSS SALE EQUIPM		
GMT(TRADE ACC) LOSS SALE VEHICLE		

FLEET SERVICES (F/Ser)		
FLEET SERVICES TRACKING		
F/Ser: COMPUTER TIME-LIC		
F/Ser: DEVELOPMENT FEES		
F/Ser: TRACKING(PHYS CS)		
F/Ser :TOLL FEES		
FLEET SERVICES		
F/Ser :BATTERIES		
F/Ser :DEPREC EQUIPMENT		
F/Ser :DEPREC VEHICLES		
F/Ser :FUEL,OIL&GREASE		
F/Ser :LICENCE FEES		
F/Ser: SPARES&ACCESSORIE		
F/Ser :TOWING COSTS		
F/Ser :TRANSACTION COSTS		
F/Ser: TYRES&TUBES		
F/Ser :VEHICLE REPAIRS		
F/Ser :LOSS SALE EQUIPM		
F/Ser: LOSS SALE VEHICLE		

Owned and leasehold property payments

As from 1 April 2010 the item *owned and leasehold property payments* will be re- named to *property payments*.

The item *property payments* provide for all payments related to contractual obligations contributing to functionality of, for example, buildings or land.

Under this item provision is made for the payment of municipal services, for example, water, electricity, and waste removal. The structure of the chart provides for detailed posting level items to be added at the discretion of the user department, for example, water, electricity, sanitation, waste removal or a general item.

This category amongst other also provides for the payment of contractor services towards outsourced maintenance and repair, upgrade and addition and refurbishment and rehabilitation of buildings and other fixed structures. This name change was proposed after consultation with departments where it was found that the word *owned and leasehold* creates uncertainty in the use of the accounts, specifically where amounts were appropriated in the budget of the relevant national or provincial department to carry out and pay for e.g. the maintenance and repair of other institutions infrastructure, i.e. municipalities.

The table below illustrates the current and proposed new structure for this set of accounts.

Table 2A) Old structure

Table 2B) Proposed new structure (1 April 2010)

OWNED&LEASEHOLD PROPERTY PAY
O&L//P/P:GARDENING SERVICES
O&L/P/P:CLEANING SERVICES
O&L/P/P:COMMISION MUNICIPAL SERV
O&L/P/P:DEEDS
O&L/P/P:ELECTRCTY CMLPIANCE CERT
O&L/P/P:FIRE PROTECTION
O&L/P/P:FIRST AID
O&L/P/P:FUMIGATION SERV
O&L/P/P:GAS
O&L/P/P:LAUNDRY SERVICES
O&L/P/P:MANAGEMENT FEE
O&L/P/P:PEST CONTROL
O&L/P/P:SAFEGUARD&SECURITY
O&L/P/P:MUNICIPAL SERV EXCL R&T
O&L/P/P:CONTRACTD MAINTNNCE PROP
O&L/P/P:UPGRADE&ADDITIONS PROP
O&L/P/P:CON REFURBISH/REHAB PROP

PROPERTY PAYMENTS
PP:GARDENING SERVICES
PP:CLEANING SERVICES
PP:COMMISION MUNICIPAL SERV
PP:DEEDS
PP:ELECTRCTY CMLPIANCE CERT
PP:FIRE PROTECTION
PP:FIRST AID
PP:FUMIGATION SERV
PP:GAS
PP:LAUNDRY SERVICES
PP:MANAGEMENT FEE
PP:PEST CONTROL
PP:SAFEGUARD&SECURITY
PP:MUNICIPAL SERV EXCL R&T
PP:CONTRACTD MAINTNNCE PROP
PP:UPGRADE&ADDITIONS PROP
PP:CON REFURBISH/REHAB PROP

Classification of leases

The SCOA Committee are overwhelmed with requests on the classification of leases, as part of this note the committee would also like to clarify the classification of lease payments and the way departments need to include these in their budget submissions.

Finance leases

A finance lease is a lease that transfers substantially the risks and rewards of ownership of an asset. Title may or may not eventually be transferred. In substance, the lessee purchases an asset by way of a financing arrangement between itself and the lessor. This payment should be classified as a *payment for capital assets* in the budget format. The interest portion is classified as *current interest, dividends and rent on land, interest paid finance leases* in the budget format.

Operating leases

An operating lease is a lease other than a finance lease and is regarded a current payment. These payments should be classified in the budget format as *current goods and services, leases*.

Project costs for capital/infrastructure projects

The revised chart of accounts and the departmental budget database (only national at this stage) provides for the classification and allocation of costs associated with a project as input cost for the project. Line items like *compensation of employees* and *goods and services* in the Item segment, used as inputs in capital/infrastructure projects should be captured under *payments for capital assets* and the relevant asset class in the budget format.

This is best explained by an example; the Department of Public Works is constructing a new office block on own account and uses some of their employees to manage and oversee the project, they buy building and construction inventory material as part of the new construction, in the Item segment the employee costs are reflected as compensation of employees and the material as goods and services. The allocation of these items used as input to the infrastructure project will be classified as *payments for capital assets, buildings and other fixed structures* in the budget format.

When a department allocates their budget in the financial systems they need to be cautious because budget allocation for the items listed above will be affected against the relevant items, i.e. compensation of employees and goods and services, inventory. What is important is that these items should be linked to 'infrastructure projects capital new' in the Project segment making these items inputs to a project of a capital nature. A difference will therefore be noted between the budget statement and the financial system where we get to deal with these types of items used as input to capital/infrastructure projects. The budget format only records the ultimate use of the transaction and that is the economic classification being payments for capital assets.

In cases where a department has not correctly allocated budget through the budget process the, the rules as stipulated in section 43 of the PFMA should be followed to correct these budgets through the approval process and then effect those changes in the financial system.

Please contact the SCOA Technical Committee 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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