D

Government accounts

Introduction

South Africa's national government accounts are set out in Annexure B in a structure based on, but different from, the standard Government Finance Statistics (GFS)[1] classification. Both of these methodologies differ in several respects from the System of National Accounts (SNA)[2] used in Chapter 2 of the *Budget Review*.

These three methodologies are all used for the compilation of fiscal data, but each for a different purpose. This annex describes the GFS system and explains where and why the national budget data vary from it. The main characteristics of the SNA and GFS systems are also summarised below.

Government finance statistics system

The GFS system is cash based and excludes all government transactions that do not represent an actual cash flow. The system organises the multitude of government transactions into the following main categories: revenue, expenditure, lending minus repayments, and financing. The budget deficit or surplus is calculated as revenue plus expenditure and lending minus repayments. It is, by definition, equal to total financing (with an opposite sign).

Revenue

Revenue collected by the government is divided into current revenue, capital revenue and grants. Current revenue comprises tax and current non-tax revenue. Taxes are classified according to the type of activity on which they are levied, including income and profits, the consumption of domestic goods and services, and international trade. Current non-tax revenue is classified by the nature of the receipt, such as property income, proceeds from non-capital sales and fines. Capital revenue includes proceeds from the sale of various kinds of capital assets, as well as capital transfers from non-governmental sources.

Expenditure

Government expenditure is classified in two ways in the GFS system: according to its purpose or function or to its economic characteristics. The functional classification of government expenditure distinguishes between the different services provided by government, such as defence, health care, education or transport, while the economic classification distinguishes between various categories of current and capital expenditure. The classification of government functions is as follows:

- *General government services* refer to those indispensable activities performed by the state, the benefits of which cannot be allocated to specific groups, businesses or individuals. These

[1] International Monetary Fund, 1986, *Government Financial Statistics*. Washington, D.C.: IMF.

[2] United Nations, 1993, *System of National Accounts 1993*. Brussels/Luxembourg, New York, Paris, Washington, D.C.: Inter-Secretariat Working Group on National Accounts.

include fiscal management, general personnel management, the conduct of external affairs, defence activities and public order and safety.

- *Community and social services* are supplied directly to the community, households or individuals, and include education, health care, social security and welfare, housing, community development and recreational and cultural activities.
- *Economic services* cover government expenditure associated with the regulation and more efficient operation of the business sector. This category incorporates government objectives such as economic development, the redressing of regional imbalances and employment creation. Economic services provided to industries include trade promotion, geological surveys and the inspection and regulation of particular industries.
- *Other expenditure* includes interest payments, the underwriting costs of public debt and transfers of a general nature to other parts of government.

Expenditure in a particular budget vote may cover more than one function; for example, spending in the health vote may include spending on education (medical training), and on medical functions.

In the economic classification, current expenditure refers to payments for goods and services, excluding purchases of capital assets or goods and services for the production of capital assets. In addition, current expenditure excludes payments that permit recipients to acquire assets; provide compensation for damage or destruction of capital assets; or contribute towards an increase in the financial capital of the recipients. Current expenditure is divided into the following main categories:

- *Goods and services* refer to all government payments in exchange for goods and services. This category includes wages and salaries to employees, employer contributions to employee benefit schemes, and other purchases of goods and services.
- *Interest* is defined as payment for the use of borrowed money and is distinguished from the repayment of borrowed money, which is classified under financing.
- *Subsidies and other current transfers* include all unrequited, non-repayable payments by government for current purposes, i.e. payments for which no goods or services are received in return. This category includes subsidies and transfers to other levels of general government, households, non-profit institutions, and transfers abroad.

The second economic classification, capital expenditure, comprises payment for the acquisition of fixed capital assets, strategic or emergency stocks, land and intangible assets, or capital transfers:

- The *acquisition of fixed capital assets* refers to payments for the production of new or existing durable goods, which in turn are to be used for productive purposes. Capital assets may be purchased from the private sector or government, but only include goods of a significant value that have a normal lifespan of more than one year.
- *Purchases of stocks* cover payments for the purchase of strategic and emergency stocks, stocks purchased by market regulatory organisations within government, and purchases of stocks of grain and other commodities of special importance to the nation.
- *Purchases of land and intangible assets* include payment for the purchase of land, forests, inland waters and subsoil deposits. It excludes any improvements to natural resources, such as buildings.
- *Capital transfers* refer to unrequited government payments (or transfers), made to enable recipients to acquire capital assets, to compensate recipients for damage or destruction of capital assets or to increase their financial capital. Capital transfers can be divided between transfers to other spheres of government, non-financial public enterprises, financial institutions, private enterprises, non-profit institutions and households, and transfers abroad.

Lending minus repayments

Lending minus repayments (sometimes referred to as net lending) covers loans made and equities purchased by government units whose funds come entirely from government, minus government receipts from the repayment of these loans, equities sold (for example, privatisation) or equity capital refunded to government. Lending minus repayments only includes transactions for public policy purposes and not for managing government liquidity or earning a return, and excludes amounts classified as pure capital expenditure.

Financing

The classification of financing shows the sources of funds obtained to cover a government deficit or the use of funds available from a government surplus. Financing includes the government's borrowing transactions (net of repayments of previous borrowing) and changes in government deposits or cash balances. It can be classified by the type of debt holder or debt instrument. A distinction is also made between the residency of the debt holder, i.e. domestic and foreign financing.

National budget data versus GFS data

For several reasons, the national budget data published in Annexure B of this *Review* differ from the fiscal data compiled in accordance with the GFS methodology and published in the *Quarterly Bulletin* of the South African Reserve Bank. These differences relate to the time at which transactions are recorded and the classification of certain transactions.

Unlike the GFS system, which records transactions in the period in which the cash flows, the national budget data are compiled according to the period for which transactions were authorised or budgeted. Mainly for auditing and budgeting control purposes, the budgetary system allows for a complementary period, i.e. a period after the financial year-end in which the books are kept open to finalise all transactions relating that specific year. These complementary period transactions are reflected in the national budget data for a specific financial year and include the following:

- Tax payments made in the financial year but only recorded by the South African Revenue Services after the financial year-end
- Late requests for funds by government departments to settle obligations relating to the specific financial year
- Surrenders of unspent funds by government departments, i.e. funds requested by the departments but not used
- Correcting revenue, expenditure or financing transactions that were, for example, erroneously classified
- Adjustments to the expenditure data, for auditing and Parliamentary purposes, to show only authorised expenditure for the particular financial year (i.e. excluding all unauthorised spending).

Although most of the national budget data are classified according to the GFS methodology, certain transactions are treated differently:

- In the GFS system, proceeds from the sale of government equity are shown as repayments under the heading "lending minus repayments". In the national budget data, these receipts are classified as sources of financing. As a result, the government deficit or surplus is not affected by these receipts.
- Repayments of loans previously extended by the government for policy purposes are recorded as repayments under the "lending minus repayments" category of the GFS system, but are recorded as revenue in the national budget data.

- Sales of strategic oil supplies by the Strategic Fuel Fund are shown as repayments of loans in the GFS system. In the national budget data, these receipts are shown as sources of financing. As a result, the government deficit or surplus is not affected by these receipts.
- Lending by the government for policy purposes is recorded under the category "lending minus repayments" in the GFS system, but is included as capital expenditure in the national budget data.
- In the national budget data, the amortisation of zero coupon bonds is treated on an accrual basis. In other words, the interest payments and amortisation of the principal are accrued over the maturity of the bond. According to the GFS system, which is cash-based, the discount is shown as an interest payment when the bond is redeemed and the remainder of the face value redemption payment is shown as a loan redemption.

System of national accounts

The SNA is a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format designed for economic analysis, decision-taking and policy-making. The accounts are compiled for a succession of periods, thus providing a continuous flow of information for the monitoring, analysis and evaluation of economic performance.

The SNA relates to the economy as a whole, of which the general government is but one sector. Moreover, it measures all transactions relating to production, income, consumption, saving and capital accumulation on an *accrual* basis, while the GFS records *cash* payments to and from government during a specific period.

The South African national budget data are mainly compiled on a cash basis and are broadly compatible with GFS standards, while the national accounts data used in Chapter 2 are prepared according to the SNA system. The table below shows the main differences between the SNA and GFS methodology in the measurement of the government's activities.

1999 revision of South Africa's national accounts

In June 1999, Statistics SA and the Reserve Bank published revised estimates of South Africa's national accounts for the period 1946 to 1999. These revisions incorporated improved data, accounted for new areas of economic activity, and rebased estimates at constant prices from 1990 to 1995. In addition, the revisions included methodological changes recommended in the new international 1993 SNA. The nature and effect of these revisions are summarised below, but more comprehensive information is contained in the *Supplement to the South African Reserve Bank Quarterly Bulletin June 1999*.

The revisions to South Africa's national accounts draw on data from several major household, industrial and agricultural censuses between 1993 and 1999. In addition, specific research projects were used to obtain information on those sectors where no data had previously been available.

This new information led to the incorporation of important service industries into the national accounts data, including the taxi industry, the private security sector, microlenders and cellular phone networks.

Table D1 Differences between SNA and GFS methods of recording government transactions

	GFS	SNA
Basis of reporting	Cash flow	Accrual
Compensation of employees	Recorded when amount is actually paid over to the employee	Recorded when amount was earned, irrespective of when amount is actually paid
Goods and services	Transactions recorded when payments are made	Transactions recorded on transfer of ownership or delivery of service
Indirect taxes and subsidies	Indirect taxes and subsidies recorded when payments are made	Indirect taxes and subsidies recorded when initial transaction took place, i.e. when goods were sold
Institutional classification	Non-financial public enterprises form part of the public sector. Financial public enterprises are classified with private business enterprises.	All financial and non-financial public enterprises (including public corporations) form part of the public sector.
Transactions	Only cash transactions	Cash and in-kind transactions
Taxes	Tax revenue includes all taxes, whether of a capital or current nature.	Taxes of a capital nature, for example estate, inheritance and donations taxes, are recorded as capital transfers.
Fees and charges	Fees and charges form part of non-tax income and include fees paid by households, business enterprises and sales.	User charges are regarded as sales and are subtracted from government consumption expenditure. Other fees and charges are regarded as current transfers to government.
Compensation of employees	Includes only cash payments	Includes cash and in-kind payments
Taxes paid by foreigners	Taxes paid by foreigners on dividends received in South Africa are regarded as part of taxes.	Tax payments by foreigners are classified as transactions with the rest of the world, such as transfers from abroad.
Depreciation	No imputations are made for depreciation allowances since no cash flows are involved.	Depreciation allowances are included on residential buildings, non-residential buildings, transport equipment and machinery and other equipment.