

Government accounts

Introduction

South Africa's national government accounts are presented in Annexure B. The structure is based on the version of Government Finance Statistics¹ (GFS) that was published in 1986. The GFS methodology differs in several respects from that prescribed in System of National Accounts (SNA)² which is used in Chapter Two of the *Budget Review*.

The latest version of the GFS, published in December 2001, has been harmonised with the SNA. The South African Government intends to implement the new recommendations in the medium term, which will, by the same token, bring the South African Government accounting system in line with SNA standards.

The main purpose of the GFS is to serve as guideline for the compilation of fiscal data. This annex describes the GFS system, and explains deviations between GFS recommendations and the way national budget data have been compiled. The main characteristics of the SNA system are also summarised below.

Government finance statistics

The 1986 GFS recommends that items be recorded on a cash basis, implying that all government transactions that do not give rise to an actual cash flow are excluded from the government accounts. 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 less expenditure plus lending minus repayments. It is, by definition, equal to total financing, but with the opposite sign.

Revenue

Revenue collected by the government is divided into current revenue, capital revenue and grants. Current revenue is disaggregated into two main components: taxes and non-taxes. Taxes are classified according to the type of activity on which they are levied, including income, profits, 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 sales of non-capital products and fines. National Treasury is in the process of changing the reporting system of government non-tax revenue to be in line with the new 2001 GFS. The changes are discussed in more detail in the introduction to Annexure B and the summary section of the *2003 Estimates of National Expenditure*. Capital revenue includes proceeds from sale of capital assets, as well as capital transfers from non-governmental sources. Grants are divided into grants from abroad and from other levels of government. Under these two categories, an additional distinction between current and capital grants is made.

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.

Expenditure

The GFS recommends that all government transactions be classified according to function and economic characteristic. The functional classification serves to distinguish transactions by policy purpose or type of outlay. This is also referred to as expense by output. Its main purpose is to facilitate understanding of how funds available to government have been spent. Examples would be health, education, administration, judicial services, etc.

The broad categories in the functional classification are listed below:

- 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 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.

The economic classification is the transaction classification appearing in *System of National Accounts, 1993* (SNA). Its main function is to categorise transactions according to type of object, or input, for example, compensation of employees, interest payment, tax revenue, etc. This is crucial, as data must be classified this way for calculation of the surplus or deficit, as well as government contribution to the economy in the form of output, value added and final consumption.

In the economic classification, expenditure is divided into current and capital components. Current expenditure is divided into the following categories:

- The first category, *expenditure on goods and services*, refers to all government payments in exchange for goods and services, but excluding those used by government for construction of and improvements to capital assets. In the 1986 GFS, the item *goods and services* includes compensation of employees and purchases of goods and services. In the new version of the GFS of 2001, however, a clear distinction has been made between compensation of employees and purchases of goods and services. This is in line with internationally accepted standards laid out in the SNA.
- The item, *interest payments*, is defined as payment for the use of borrowed money and is distinguished from the repayment of borrowed money, which is classified under financing.
- The last category, *subsidies and other current transfers*, includes 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 expenditure component in the economic classification, *capital expenditure*, is divided into four categories in the 1986 GFS:

- *Acquisition of fixed capital assets* refers to payments for the production of new or existing goods, which can be used continuously or repeatedly in production for at least one year. Acquisition of valuables i.e. goods which represent a significant value, do not depreciate over time and are held as store of value – are also included in this category. Fixed capital assets may be acquired domestically or from non-residents. This expenditure component also includes the cost incurred for improvements to land and natural resources, as well as improvements to any fixed capital asset, but excludes the value of purchases of land and other non-produced assets (see below).
- *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.
- *Acquisition of land and intangible assets* includes payment for the purchase of land, forests, inland waters, subsoil deposits, patents and leases.
- *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 broad classification category, financing, encompasses all financial transactions other than those included under lending minus repayments. Its main purpose is to show the sources of funds obtained to cover a government deficit or the use of funds available from a government surplus. Financing includes government borrowing (net of repayments of the principal component of previous borrowing) and changes in government deposits or cash balances. At the highest level, a distinction is always made according to residency of debt holder, i.e. between financing originating from domestic and foreign sources. These two components are then disaggregated, first by debt holder, and, subsequently, by debt instrument. Alternatively, instead of breaking down financing by debt holder, data may be presented according to debt instrument.

National budget data versus GFS

Even though national budget data published in Annexure B of this *Review*, on the whole, are compiled in conformity with GFS guidelines, discrepancies between GFS recommendations and national budget data presentation do occur. This also explains why there are differences between the government account in this publication and that published in the *Quarterly Bulletin* of the South African Reserve Bank, which is compiled according to the GFS. These differences relate, on the one hand, to the time at which transactions are recorded and, on the other, to the way certain transactions have been classified.

Unlike the GFS system, which recommends that a transaction be recorded in the period in which the corresponding cash flow occurs, entries for the national budget data are made in the time period in which transactions have been authorised or budgeted. For auditing and budgeting control purposes, the national budget system allows for a complementary period for each transaction. This is a period after the financial year-end during which books remain open so that all transactions relating to that specific year can be finalised. These transactions may be summarised as follows:

- Tax payments made during the financial year but not recorded by the South African Revenue Services until after the end of the financial year
- 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
- Corrections to 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 GFS methodology, certain transactions are treated differently:

- In the GFS system, payments for government equity and proceeds from the same are shown as repayments under the heading *lending minus repayments*. In the national budget data, these transactions are treated as financing items. 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 expenditure in the national budget data.
- 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.
- In the national budget data, the principal and interest payments on zero-coupon bonds are treated on accrual basis. Stated differently, the interest payments and amortisation of the principal are accrued over the maturity of the bond. According to the 1986 GFS, 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. However, according to the 2001 GFS, accounts should be compiled on accrual basis, implying that this discrepancy will disappear in future.

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 led to improved quality of data, inclusion of previously uncovered areas of economic activity, and a set of rebased estimates at constant prices from 1990 to 1995. The revisions were based on methodological improvements recommended in the new and latest version of the *SNA*, published in 1993. The nature and effects 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 findings obtained from household surveys, as well as industrial and agricultural censuses between 1993 and 1999. In addition, specific research projects have been used to obtain information on sectors for which no data had previously been available, mainly the taxi industry, the private security sector, microlenders and cellular phone networks.

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 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.

As mentioned above, the SNA recommends that all transactions be measured on accrual basis, whereas the 1986 GFS, which still serves as guideline for fiscal data compilation in South Africa, recommends cash flow accounting. The new version of the GFS, which was published in 2001, is harmonised with the SNA, and has adopted the principle that all macroeconomic data, including fiscal statistics, be compiled on accrual basis. It is the intention of the National Treasury to convert to the new accrual method of reporting as soon as the financial systems of government can accommodate these changes.

The South African national budget data are mainly compiled on cash basis and are broadly compatible with 1986 GFS standards, whereas the national accounts data used in Chapter 2 are prepared according to the SNA system. The table below shows the main differences between the 1993 SNA and 1986 GFS methodologies in the measurement of the government's activities. The 2001 GFS is identical to the 1993 SNA unless specific mention is made.

Table D1 Differences between 1993 SNA and 1986 GFS methods of recording government transactions

	GFS	SNA
Basis of reporting	Cash flow.	Accrual, i.e. including all non-cash transactions, for example remuneration-in-kind, consumption of fixed capital and accrued interest.
Institutional classification of government sector	Coverage of the government sector is based on functional rather than unit basis principles. This implies that all agencies carrying out a function of government are included in the government sector. In practice, coverage is almost identical to that in the SNA.	Coverage of the government sector is based on unit basis principles, i.e. all agencies which are part of central, provincial and local government as well as government-owned social security funds are included in the government sector. The government sector also includes all non-profit institutions that are controlled and mainly financed by government. However, all financial and non-financial corporations and quasi-corporations charging economically significant prices and maintaining a complete set of separate accounts from those of government are not included in the government sector.
Compensation of employees	Recorded when amount is actually disbursed to employees. In addition, compensation of employees is a sub-category, appearing under purchases of goods and services.	Recorded when amount is earned, irrespectively of when it is disbursed. In addition, compensation of employees is a separate category under expense.
Purchases of goods and services	Recorded when payments are made. In addition, this item includes compensation of employees.	Recorded when transfer of ownership takes place, irrespectively of when payment is made. In addition, this item does not include compensation of employees.
Taxes and subsidies	Recorded when payments are received. In addition, tax revenue includes all taxes, whether of a capital or current nature. This holds for both the 1986 and 2001 GFS.	Recorded when transaction giving rise to the tax or subsidy payment took place, i.e. for example, when goods upon which sales taxes were levied were sold. In addition, taxes of a capital nature, for example estate, inheritance and donations taxes, are recorded as capital transfers. Goods were sold or profit/income earned.
Consumption of fixed capital (depreciation), arrears, barter and in-kind remuneration to employees	No estimates are made for these variables, because they do not give rise to cash flows.	Consumption of fixed capital is estimated for all capital assets, for example, buildings, transport equipment, machinery and other equipment. Arrears, barter and in-kind remuneration are also recorded.