

W2

Website annexure to the 2012 Budget Review

Structure of the government accounts

■ Introduction

South Africa's national government accounts are presented in Annexure B of the 2012 *Budget Review*. The structure of the reporting tables is based on recommendations in the most recent version of *Government Finance Statistics*¹ (GFS), published in 2001, and the *System of National Accounts*² (SNA), published in 1993. However, to take into account the specific nature of the South African environment, certain modifications to the structure of the accounts and the labelling of the receipt and payment items have been made.

The GFS presentation also differs in some respects from the presentation in Chapter 2 of the *Budget Review*, which is based on the SNA. This annexure describes the presentation format and structure of the government accounts, and explains deviations between GFS recommendations and the way government statistics in the national accounts are compiled and presented. It also describes the salient characteristics of the SNA's section on government statistics.

■ Recording basis

Both the SNA and GFS recommend that items should be recorded on an accrual basis, implying that all government transactions, even those that do not give rise to cash flows, should be included in the government accounts. Changes in inventories, depreciation and accrued interest are examples of transactions that do not give rise to cash flows. In accrual accounting, the time of recording should coincide with the underlying economic event. The entry does not necessarily coincide with the timing of the resultant cash flow, but rather with the change of ownership or when economic value is created, transformed or extinguished. For example, in accrual accounting, debt repayment should be recorded

¹ International Monetary Fund, 2001, *Government Finance Statistics*. Washington, D.C. IMF.

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

when the debt expires, whether or not this coincides with an actual repayment that gives rise to a cash flow.

The recommendation to use accrual accounting for government financial statements was first made in the 2001 GFS. Government has declared its intention to follow this recommendation over time, but in the immediate future, government data will be presented on a cash basis. This means that the transaction is recorded when the cash flow occurs and therefore does not match the timing of the underlying economic event. However, in some cases, modified cash principles are applied. This includes recording expenditure at the time of recording the transaction in the cash book (when the transaction is processed in the financial system and the payment is issued) and accruing interest on some types of government debt (zero-coupon bonds).

In strict cash accounting, the time of recording should coincide with the actual cash flow. However, in South Africa, entries for the national budget data are made in the time period in which transactions are captured on the financial systems. For auditing and budgeting control purposes, the national budget system allows for a complementary period for each transaction. After the financial year-end, books remain open so that all year-end procedures can be finalised. These procedures focus mainly on reconciling actual bank account balances with revenue and expenditure reported and correcting the classification of items. They do not influence revenue and expenditure levels. The procedures are summarised as follows:

- Late requests for funds by government departments to settle obligations relating to the specific financial year.
- Surrenders of unspent funds by government departments (funds requested but not used).
- Corrections to revenue, expenditure or financing transactions that were, for example, erroneously classified.
- Adjustments to expenditure data, for auditing and parliamentary purposes, to show only authorised expenditure for the particular financial year (excluding all unauthorised spending).

Economic reporting format

The economic reporting format (ERF) was introduced in the 2004 Budget. The ERF is based on the GFS, but adapted for South Africa's specific reporting requirements. The budget format is supported by a standard chart of accounts (SCOA), which is fully aligned with the ERF and provides for posting-level details of the budget within the financial systems.

In the ERF, as well as in the chart, each descriptive item label reflects the actual content of the item. Opaque labels such as "other" or "miscellaneous" have been avoided to improve transparency. This labelling practice has ensured that classifications are consistent across all national and provincial departments, improving the quality of information provided to legislatures and assisting in the policy-making process.

The evolution of accounting and reporting requirements, as well as the pending introduction of the Integrated Financial Management System (IFMS), led to a review of the SCOA in 2007. These changes have improved government's ability to report on infrastructure spending, provided for better control over programme budgets of departments, enabled the identification of more appropriate spending items in the chart, enhanced asset management through better recording of asset transactions, and enabled government to monitor regional spending.

To protect the integrity of the chart, the National Treasury helped departments conform to the format requirements by developing a detailed training programme and establishing a classification committee and call centre to support practitioners. Support initiatives aim to improve consistency in the application of the new classification rules and to recommend appropriate amendments to the SCOA and the financial system. The classification committee issues classification circulars that provide feedback to practitioners on changes made to the chart of accounts, which ensures that consistency in classification is maintained.

Structure of accounts

The South African reporting format organises the multitude of government transactions into three broad categories: receipts, payments and financing. The budget balance (deficit or surplus) is calculated as receipts less payments, which is equal to total financing, but with the opposite sign.

Receipts

Government receipts are divided into *taxes, sales, transfers, fines, penalties and forfeits, interest, dividends and rent on land*, as well as *transactions in financial assets and liabilities*. *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. *Sales* are disaggregated into sales of capital assets and other sales. *Transfers* are unrequited receipts – the party making the transfer does not receive anything of similar value directly in return. These are classified according to unit, for example, *other government units, private enterprises and public corporations, households* and so on. *Fines, penalties and forfeits* consist of all compulsory receipts imposed by a court or quasi-judicial body. *Interest, dividends and rent on land* includes all receipts associated with ownership of financial assets and land.

Transactions in financial assets and liabilities covers three financial transactions. The first two transactions are the repayments of loans and advances previously extended to employees and public corporations for policy purposes, and the reduction of equity investments made by government in public corporations. These transactions are recorded as receipts because they are fundamentally different from other financial transactions, which are market oriented and appear as financing items. The third transaction is associated with stale cheques from previous accounting periods. The temporary increase in receipts before a new cheque is issued is recorded as a receipt, because the financial system does not allow for a payment for the current accounting period to be reduced due to the cancellation of a payment from a previous period. Remaining financial transactions, for example, borrowing and repayment of loans on market basis, are included under the financing category.

Payments

Payments are divided into four broad categories: *current payments, transfers and subsidies, payments for capital assets* and *payments for financial assets*.

Current payments

Current payments provides for funds directly spent by the department. Detail is provided on the following items:

- *Compensation of employees*: This category includes all current personnel-related payments – all payments to government employees, both salaries and wages and social contributions. Social contributions are service benefits paid by government for its employees, such as pension or medical contributions. For example, government's contribution to the Government Employees' Medical Scheme (GEMS). This category excludes *capitalised* compensation.
- *Goods and services*: All government payments in exchange for goods and services, but excluding capital assets and goods used by government for construction of and improvements to capital assets. Generally, this item is the second-largest spending item for departments. The specific details of purchases of each department are provided, giving an indication of the largest spending items by department. For example, in an education department school books could be listed, while in a health department medicines might appear. This allows the classification to be adapted for the particular data needs of each department, which facilitates oversight and policy analysis.
- *Interest and rent on land*: This item is defined as payment for the use of borrowed money (interest on loans and bonds) and land (rent). It is distinguished from the repayment of borrowed money, which is classified under financing.

Transfers and subsidies

The second part of the payments table provides for funds that are transferred to other institutions, businesses and individuals, which do not constitute final expenditure by the department. This item includes all unrequited, non-repayable payments by government – payments for which no goods or services are received in return.

The category *transfers and subsidies* is subdivided into the various targeted recipients or beneficiaries receiving funding from government, such as other levels of general government, households, non-profit institutions and public corporations. This allows for the separation of all transfers from payments controlled directly by departments.

Transfers and subsidies include current and capital transfers. In the past, capital payments included capital transfers. This led to ambiguity, because these numbers could be interpreted as exaggerating government's actual contribution to capital formation. By including capital transfers with other transfers, a much clearer picture is provided of government spending on capital.

Payments for capital assets

It is important to identify capital payments as a separate item, because this shows government's contribution to capital formation and its spending on new infrastructure, including upgrading, additions, rehabilitation and refurbishment of existing infrastructure. Capital assets are divided into seven categories:

- Buildings and other fixed structures
- Machinery and equipment
- Heritage assets
- Specialised military assets
- Biological assets
- Software and other intangible assets
- Land and sub-soil assets.

Payments for capital assets covers purchases of new assets, as well as upgrades, additions, rehabilitation and refurbishment of existing assets. This includes own-account construction – when government units engage in capital projects on their own account, for example, the Department of Public Works constructing a new building. In this case, certain payment categories are capitalised (compensation of employees and goods and services).

These two payment categories are not capitalised unless payments are directly associated with a *capital project*. A capital project is executed by the government unit to construct a new asset or upgrade/add to/rehabilitate/refurbish an existing capital asset. However, payments on *current projects*, namely maintenance and repair of existing capital assets, are not capitalised.

Payments for financial assets

This item consists mainly of lending to public corporations or making equity investments in them for policy purposes. The reason for expensing this payment rather than treating it as financing is that, unlike other financial transactions, the purpose of the transaction is not market oriented.

Financing

The broad classification category, financing, encompasses all financial transactions other than *transactions in financial assets and liabilities* and *payments for financial assets*, which are included as part of receipts and payments. Items recorded under financing reflect funding to cover a government deficit or the use of funds available from a government surplus. Government's gross borrowing requirement, which represents the shortfall between revenue and expenditure plus the repayment of maturing loans, is included in the financing category. The gross borrowing requirement is financed in the

domestic and international market through Treasury bills, fixed-income, inflation-linked and retail bonds, foreign loans and the use of government's cash deposits.

■ Functional classification

The GFS recommends that each government payment should be classified according to its functional and economic characteristics. The budget reporting format complies with this recommendation. The items in the economic classification have been described above, under payments. The main function of the economic classification is to categorise transactions according to type of object or *input*, for example, compensation of employees, interest payment and so on. This is crucial, as data must be classified this way for calculation of the surplus or deficit, as well as government's contribution to the economy in the form of output, value added and final consumption.

The functional classification complements the economic classification. It 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 (for example, health, education, general public services, and public order and safety).

The broad categories in the functional classification are listed below:

- *General public services* refers to the administration, operation or support of executive and legislative organs, financial and fiscal affairs, and external affairs. It includes foreign economic aid to developing countries and economic aid through international organisations. The category also covers general services, such as personnel services, overall planning and statistical services, and basic research and research and development (R&D) in the general public service. State debt cost is included in this category.
- *Defence* includes administration, operation and support of military and civil defence, and the operation of military aid missions accredited to foreign governments or attached to international military organisations. Applied R&D related to defence is also included.
- *Public order and safety* covers police services, fire protection services, justice and law courts, prisons and related R&D.
- *Economic affairs* covers government spending associated with the regulation and more efficient operation of the business sector. This category incorporates general economic affairs, commercial and labour affairs, agriculture, forestry, fishing and hunting, fuel and energy, mining manufacturing and construction, transport, communication and related R&D.
- *Environmental protection* relates to the conservation of biodiversity and landscape – the protection of habitats, including the management of natural parks and reserves, waste management, wastewater management, pollution abatement and related R&D.
- *Housing and community amenities* includes the administration of housing and community development affairs and services, water supply, street lighting and related R&D.
- *Health* includes spending on services provided to individuals and services provided on a collective basis, including medical products, appliances and equipment, outpatient services, hospital services, public health services and related R&D.
- *Recreation and culture* includes recreational and sporting services, cultural services, broadcasting and publishing services, and other community services. The function also covers related R&D.
- *Education* includes spending on services provided to individual pupils and students and services provided on a collective basis. It includes pre-primary, primary, secondary and tertiary education, as well as subsidiary education services and related R&D.

- *Social protection* covers services supplied directly to communities, households or individuals, and includes transfers for sickness and disability, old age, survivors, family and children, unemployment, support to households to meet the cost of housing and related R&D.

Expenditure in a particular budget vote may cover more than one function. For example, health expenditure may include spending on education for medical training.

■ The consolidated government account

The presentation format of the consolidated government account includes the accounts of national and provincial government, and the social security funds. In the 2012 *Budget Review*, the coverage of the government accounts is extended to include a total of 175 national and provincial departments and 192 entities of central government, currently classified as extra-budgetary agencies. Some government business enterprises are also included in this number, based on the principle that they either sell most of their goods and services to government institutions or departments at regulated prices, and are therefore not businesses in the true sense of the word, or they are directly involved in infrastructure financing and development.

This presentation is broadly in line with the GFS requirement that the accounts of general government be presented on a consolidated basis. In the consolidation process, all relevant spheres of government are included and all intergovernmental transactions are eliminated. This ensures that only the interaction of the general government units with non-governmental units is recorded. As a result, the accounts reflect more accurately government's financial position and the impact of its activity on the economy.

To present a true set of consolidated general government accounts, the accounts of both national and provincial departments must be consolidated with their associated public entities. The accounts of the social security funds and local authorities are then added to give the consolidated general government accounts.

As a final step, all government business enterprises should be included and consolidated with the general government units to create the consolidated public-sector account.

The following dimensions are considered during the consolidation process:

- *Coverage*: This refers to the choice of entities to be included in the consolidation. Entities belonging to the general government sector should be consolidated. All business enterprises should then be added to this consolidation, but privately owned entities should always be excluded. The consolidation of the general government sector includes all entities that are mainly controlled and financed by government, and which provide goods and services at non-market prices. The public sector includes all state-owned entities and local authority trading entities providing goods and services at market-related prices.
- *Elimination of inter-entity transactions*: All inter-entity transactions must be eliminated in the consolidation process. For this to be accurate, these transactions must be easily identifiable. However, in the accounting systems of government and many of its agencies, not all inter-entity transactions are identified. Elimination is impossible in many cases where goods and services are procured from other government units, because such transactions cannot be separated from other transactions in this category. However, all transactions involving transfers from one government unit to another can be identified and have been eliminated from the consolidation.
- *Basis of accounting*: Entity accounts can only be consolidated if they are compiled using the same basis of accounting. National and provincial governments are on a modified cash basis of accounting, while local authorities and public entities use accrual accounting. To provide data for consolidation, the accounts of the public entities have been adjusted to cash accounts.

During consolidation, transfers and other identifiable goods and services were netted out, with the rest of the transactions being aggregated. In future budgets, the National Treasury will endeavour to include

more entities to provide the full picture of public-sector spending. The consolidation in this budget includes all the entities listed in Table W2.1.

Table W2.1 List of public entities included in consolidation

Vote	Department	PFMA schedule	Public entity
1	The Presidency	3a	National Youth Development Agency
		3a	Brand South Africa
3	Cooperative Governance and Traditional Affairs	3a	South African Local Government Association
		1	The Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities
		1	The Municipal Demarcation Board
4	Home Affairs	3a	Film and Publication Board
		GC	Government Printing Works
		1	The Independent Electoral Commission
5	International Relations and Cooperation	3a	African Renaissance and International Cooperation Fund
7	Public Works	3a	Construction Industry Development Board
		3a	Council for the Built Environment
		1	Independent Development Trust
		T	Property Management Trading Entity
8	Woman, Children and People with Disabilities	1	The Commission on Gender Equality
9	Government Communication and Information System	3a	Media Development Diversity Agency
10	National Treasury	3a	Accounting Standards Board
		3a	Independent Regulatory Board for Auditors
		3a	Government Pension Administration Agency
		3a	Financial Intelligence Centre
		3a	Financial Services Board
		3a	Public Investment Corporation Limited
		3b	South African Revenue Service
		3a	The Co-operatives Banks Development Agency
		3a	The Financial and Fiscal Commission
		3a	Office of the Ombud for Financial Service Providers
		3a	Office of the Pension Funds Adjudicator
12	Public Service and Administration	3a	State Information Technology Agency
		TA	Palama Training Trading Account

Table W2.1 List of public entities included in consolidation (continued)

Vote	Department	PFMA schedule	Public entity
14	Arts and Culture	3a	Freedom Park Trust
		3a	National Arts Council of South Africa
		3a	National Film and Video Foundation of South Africa
		3a	National Heritage Council of South Africa
		1	The Pan South African Language Board
		3a	South African Heritage Resources Agency
		3a	Arts Institutions (Includes 6 entities)
		3a	Heritage Institutions Consolidation (12 entities)
		3a	Libraries Consolidation (2 entities)
15	Basic Education	3a	Education Labour Relations Council
		3a	South African Council for Educators
		3a	uMalusi Council for Quality Assurance in General and Training Further Education and Training
16	Health	3a	Council for Medical Schemes
		3a	Medical Research Council of South Africa
17	Higher Education and Training	3a	National Health Laboratory Service
		3a	Council on Higher Education
		3a	National Student Financial Aid Scheme
		3a	South African Qualifications Authority
		3a	Quality Council for Trades and Occupation
		3a	National Skills Fund
18	Labour	3a	SETAs (Includes 21 entities)
		3a	Commission for Conciliation, Mediation and Arbitration
		3a	National Economic, Development and Labour Council
19	Social Development	3a	Productivity SA
		3a	National Development Agency
20	Sport and Recreation South Africa	3a	South African Social Security Agency
		3a	Boxing South Africa
22	Defence and Military Veterans	3a	The South African Institute for Drug-free Sport
		2	Armaments Corporation of South Africa Limited
24	Justice and Constitutional Development	3a	Castle Control Board
		3a	Legal Aid South Africa
		3a	Special Investigating Unit
		1	The Public Protector of South Africa
		1	The South African Human Rights Commission

Table W2.1 List of public entities included in consolidation (continued)

Vote	Department	PFMA schedule	Public entity
25	Police	3a	Private Security Industry Regulatory Authority
26	Agriculture, Forestry and Fisheries	3a	Agricultural Research Council
			Marine Living Resources Fund
			National Agricultural Marketing Council
		3b	Ncera Farms (Pty) Ltd
			Onderstepoort Biological Products Limited
		3a	Perishable Products Export Control Board
27	Communications		National Electronic Media Institute of South Africa
		3b	Sentech Limited
		1	The Independent Communications Authority of South Africa
		3a	Universal Service and Access Agency of South Africa
		3a	Universal Service and Access Fund
28	Economic Development	3a	Competition Commission
		3a	Competition Tribunal
		3a	International Trade Administration Commission
29	Energy	3a	National Energy Regulator of South Africa
		3a	National Nuclear Regulator
		3a	South African National Energy Development Institute
		2	South African Nuclear Energy Corporation Limited
		3a	The National Radioactive Waste Disposal Institute
30	Environmental Affairs	3a	iSimangaliso Wetland Park
		3a	South African National Biodiversity Institute
		3a	South African Weather Service
		3a	South African National Parks
31	Human Settlements	3a	Housing Development Agency
		3a	National Home Builders Registration Council
		3a	National Housing Finance Corporation Limited
		3a	National Urban Reconstruction and Housing Agency
		3a	Rural Housing Loan Fund
		3a	The Social Housing Regulatory Authority
32	Mineral Resources	3a	Council for Geoscience
		3a	Council for Mineral Technology
		3a	State Diamond Trader
		3a	South African Diamond and Precious Metals Regulator
		3a	Mine Health and Safety Council

Table W2.1 List of public entities included in consolidation (continued)

Vote	Department	PFMA schedule	Public entity
32	Rural Development and Land Reform	3a	Ingonyama Trust Board
		TA	Registration of Deeds Trading Entity
		NL	Agricultural Land Holding Account
33	Science and Technology	NL	Academy of Science of South Africa
		3a	Africa Institute of South Africa
		3b	Council for Scientific and Industrial Research
		3a	Human Sciences Research Council
		3a	National Research Foundation
		3a	South African National Space Agency
		3a	Technology Innovation Agency
34	Tourism	3a	South African Tourism
35	Trade and Industry	TA	Companies and Intellectual Property Commission
		3a	Estate Agency Affairs Board
		3a	National Consumer Commission
		3a	National Consumer Tribunal
		3a	National Credit Regulator
		3a	National Empowerment Fund
		3a	National Gambling Board of South Africa
		3a	National Lotteries Board
		NL	National Lotteries Board Distribution Trust Fund
		3a	National Metrology Institute of South Africa
		3a	National Regulator for Compulsory Specifications
		3b	South African Bureau of Standards
		3a	Small Enterprise Development Agency
		3a	South African National Accreditation System
36	Transport	TA	Credit Card Driving Licences
		3a	Cross-Border Road Transport Agency
		3b	Passenger Rail Agency of South Africa
		3a	Railway Safety Regulator
		3a	Road Traffic Infringement Agency
		3a	Road Traffic Management Corporation
		3a	South African Civil Aviation Authority
		3a	South African Maritime Safety Authority
		3a	The South African National Roads Agency Limited
		3a	Ports Regulator of South Africa
38	Water Affairs	3a	Breede River Catchment Management Agency
		3a	Inkomati Catchment Management Agency
		TA	The Water Services Trading Entity
		2	Trans-Caledon Tunnel Authority
		3a	Water Research Commission
		3b	Water Boards Consolidation (12 entities)

■ Main adjustments to the consolidated government account

The National Treasury regularly reviews the data presented in the consolidated government account to improve the scope and classification of data. To this end, a more detailed database of departmental financial information has been compiled for the 2012 Budget, which provides additional information for classification. This is part of a broader, long-term initiative to improve the quality of the financial and budget data.

Classification is now done at a more detailed level within the accounts of the national and provincial departments and public entities. In reclassifying the data, activity-level information was collected and used to inform the functional classification. As a result, some functional breakdowns have been disaggregated into more detail, with some of this detail reclassified into other functions. In addition, detailed analyses of provincial spending data and public entity revenue data revealed further inter-entity transactions that can now be eliminated in the consolidation process. This is a result of the improvement in information collected and clarity on the flow of transactions between the different spheres.

The historical data presented in the statistical tables in Annexure B has been updated with these classification adjustments, but care should be taken when comparing these numbers with previous budget publications as the data is not strictly comparable.

The functional classification published in Annexure B is now more closely aligned to the classification prescribed in the GFS. However, the stricter application of this classification requires a level of disaggregation of the departmental spending data, which complicates the use of the GFS functional data for budget preparation. As a result, the *Budget Review* spending data is presented by key spending categories, which group departments and programmes engaged in similar activities together. This provides a classification that is not completely dissimilar to the functional classification presented in Annexure B.

■ A new format for the consolidated government account

From 2013, the consolidated government account will be presented in the format provided below. The new format is a more transparent and user-friendly presentation that clearly distinguishes between government's operating activities and its plans to invest in capital and infrastructure.

The balance on the operating account shows the outcome of the government's operating activities, which is a measure of the cost of ongoing operations. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government must borrow to run its operations. The current balance demonstrates the sustainability of government operations – a long-term operating deficit is unsustainable, while a positive operating balance allows for investment in future productive capacity.

Capital investment activities are presented in the capital account. Government's capital financing requirement is the outcome of this account, which is calculated as the difference between capital revenue and capital expenditure. This account will mainly be in deficit, owing to continuous investment in infrastructure and substantial capital outlays.

The new format separates out all transactions in financial assets and liabilities – mainly including loans extended to public corporations.

If cash generated from operations is insufficient to finance investment requirements, government must borrow. The borrowing requirement is calculated by adding the operating balance, capital financing requirement, financial transactions and any unallocated expenditure, such as the contingency reserve. This results in the budget balance, or net financing requirement, which is the main outcome of the budget.

The main difference between the new balance and the previous version is the inclusion of extraordinary receipts and payments in the main budget presentation. The introduction of the operating account and capital account makes extraordinary items obsolete; these are now included in the main transaction categories. The classification principles and categories used in this new format will be the same as those used for classifying government transactions.

Table W2.2 Consolidated revenue, expenditure and financing

R million	2012/13	2013/14	2014/15
	Medium-term estimates		
Operating account			
Current receipts	904 745	1 006 060	1 118 332
Tax receipts (net of SACU transfers)	827 228	922 936	1 028 511
Non-tax receipts (including departmental receipts)	65 593	70 281	75 913
Transfers received	11 925	12 843	13 908
Current payments	951 637	1 029 817	1 097 977
Compensation of employees	371 170	394 413	417 962
Goods and services	171 339	184 933	197 220
Interest and rent on land	96 070	108 889	117 483
Transfers and subsidies	313 058	341 581	365 312
Current balance	-46 892	-23 757	20 356
% of GDP	-1.4%	-0.7%	0.5%
Capital account			
Capital receipts	188	203	228
Transfers and subsidies	28 029	31 222	34 301
Payments for capital assets	71 198	75 666	82 683
Capital financing requirement	-99 038	-106 685	-116 756
% of GDP	3.0%	2.9%	2.9%
Transactions in financial assets and liabilities	575	-572	-385
Contingency reserve	5 780	11 854	24 000
Budget balance	-152 315	-141 755	-120 016
% of GDP	-4.6%	-3.9%	-3.0%
Primary balance	-62 927	-40 949	-10 976
% of GDP	-1.9%	-1.1%	0.3%
Financing			
Change in loan liabilities			
Domestic short- and long-term loans (net)	151 137	157 488	141 330
Foreign loans (net)	-7 673	-5 030	-2 739
Change in cash and other balances (- increase)	8 851	-10 704	-18 575
Borrowing requirement (net)	152 315	141 755	120 016
<i>Gross domestic product (GDP)</i>	<i>3 301 374</i>	<i>3 622 155</i>	<i>3 997 026</i>

Budget data by key spending categories

Budget discussions in Chapter 8 of the *Budget Review* are based on the allocation of financial resources of departmental programmes and entities to key spending areas. This improves engagement on budget allocations, as it groups programmes and entities that have a similar purpose together into a single budget decision-making process. To support this approach, data at programme and entity level is aggregated into spending categories, which provides for a higher level of aggregation than in the functional classification. This provides a specific perspective of the data for budget preparation.

For example, all science and technology activities were grouped together in a separate category, which, in terms of the stricter functional classification presented in Annexure B, is included in various functions.

The classification framework for the presentation of fiscal data cannot exclusively direct the budget process. Fiscal statistics must always be an outcome of the budget allocations process and is therefore used as a guide to categorise expenditure for budgeting purposes.

Listed below are a few of the more important differences between the key spending categories presented in Chapter 8 and the more detailed functional classification presented in the statistical tables in Annexure B:

- *Science and technology* – A new category is introduced that groups together various science-related activities. For example, the expenditure estimates of the Medical Research Council, included in the health function in Annexure B, are presented as part of this spending category.
- *Recreation and culture* – This category includes the expenditure estimates of the National Lotteries Distribution Trust, because a portion of its expenditure is allocated to recreational and cultural activities. However, in the statistical tables in Annexure B, a more detailed functional breakdown of the expenditure of the National Lotteries Distribution Trust is completed and allocated to various functions.
- *Economic services and environmental protection* – This excludes economic infrastructure, which is identified as a separate spending category, and includes environmental protection. Estimates relating to communication, transport, and fuel and energy have been included in the economic infrastructure spending category.
- *Health* – Payments made to nursing colleges are included in the health spending category, but classified as an education function in Annexure B. The Medical Research Council is also excluded from the health function because it falls under science and technology for budget preparation.
- *Defence* – Military Health Services is included in the defence spending category for purposes of budget preparation, but classified under the health function in Annexure B.
- *Local government, housing and community amenities* – Includes contributions to the South African Local Government Association and the Municipal Demarcation Board, classified as general public services in the statistical tables.

■ Consolidated budget data versus GFS recommendations

GFS principles are used for the detailed classification of all transactions. However, there are important differences in the final presentation of the consolidated budget data and the GFS. This explains why the presentation of the government accounts in this publication differs from that published in the Reserve Bank's *Quarterly Bulletin*, which strictly adheres to GFS recommendations.

The differences between the formats used by the National Treasury and the Reserve Bank are mainly in the structure of the accounts presented compared to that of the GFS, as well as the use of different labelling for some items. However, due to the fact that the same classification basis is used at a detailed level, it is possible to accurately convert the South African government tables into a GFS table for international comparison.

The most important structural difference is that the receipts and payments tables include both current and capital transactions in the South African reporting format. In the GFS presentation of government accounts, current and capital transactions are presented in separate sub-accounts.

Differences in item labelling include the following:

- The South African presentation does not include any unclear terms, such as “other” and “miscellaneous”.
- The term “grant” is not used in the South African budget presentation format. In the GFS, grants include all (transfer) funds flowing from one level of government to another. However, in the local context, the majority of funds flowing to other levels of government are not appropriated as grants.

They are identified as direct charges against the National Revenue Fund and are therefore included under transfers.

- More detail is provided on various transfer categories in the South African presentation to enhance transparency and facilitate the monitoring process, especially on the payment side.
- In the South African presentation, certain items are labelled more clearly than in the GFS version. For example, instead of using the term “sales of goods and services” for sales of goods and services produced by government, the label used is “sales of goods and services produced by a department”. This enhances transparency and facilitates understanding of the transaction categories.

■ National budget data versus the national accounts presentation

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 that enables economic data to be compiled and presented in a format designed for economic analysis, making decisions and formulating policy. The national accounts are compiled for a succession of periods, providing a continuous flow of information for monitoring, analysis and evaluation of economic performance.

The SNA provides a framework for calculating GDP, gross national income (GNI), savings, capital formation and other key economic variables. National accounts data covers all resident units in a given economy, which is divided into five sectors (including government).

In the national accounts, entries reflect all resident economic units, whereas government accounts reflect government only. This inevitably leads to some differences between the two accounting frameworks. For example, own-account construction is recorded as payments for capital assets in government accounts, with a counter-entry to reflect the use of financial assets or incurrence of a financial liability to finance the transaction. In the national accounts, the recording of the transaction is not complete until entries have also been made to reflect the production of a capital asset and the input in the asset production process. The productive activity is shown as output in the national accounts and compensation of employees and goods and services is the input. The values for output and compensation of employees/goods and services can be derived from the government accounts for national accounts purposes, but these are not directly shown in government’s financial statements. This implies that there is a difference between the values of compensation of employees and goods and services in the government accounts and services payable by government in the national accounts.

The many differences between government accounts and the national accounts provide the foundation for the statistics presented in Chapter 2 of the *Budget Review*. As discussed above, South Africa’s government accounts differ from the GFS government accounts. The most important differences are highlighted in Table W2.3 below.

Table W2.3 Differences between South African reporting format and government statistics in the 1993 SNA and 2001 GFS

Difference	Budget data	GFS	SNA
Basis of reporting	Mainly cash basis; i.e. mainly cash transactions are included in the account. Thus, estimates for consumption of fixed capital and remuneration-in-kind are not included in the account. In addition, the time of recording reflects the cash flow.	Accrual basis; i.e. including all non-cash transactions, for example remuneration-in-kind and consumption of fixed capital. In addition, the time of recording reflects the underlying economic event, not the cash flow.	Accrual.
	For example, goods and services are recorded when they are purchased.	For example, goods and services are recorded when they are used in the production process, not when they are purchased.	
Compensation of employees	Does not include compensation of employees paid out to government employees who are engaged in government own-account construction in association with a capital project.	Does not include compensation of employees payable to government employees who are engaged in government own-account construction in association with a capital project.	Includes compensation of employees payable to government employees, who are engaged in government own-account construction in association with a capital project.
Goods and services	Does not include purchases of goods and services used in connection with a capital project within the context of government own-account construction.	Does not include the value of goods and services used in connection with a capital project within the context of government own-account construction.	Includes the value of goods and services used in connection with a capital project within the context of government own-account construction.
Sales by government	This item is explicitly shown in the government accounts.	This item is explicitly shown in the government accounts.	This item is not shown anywhere in the national accounts. Instead it is used to estimate final consumption by government.
Output, final consumption, savings, disposable income	These variables are not explicitly shown in the government accounts, but the account can be used as a framework to derive values for them.	These variables are not explicitly shown in the government accounts, but the accounts can be used as a framework to derive values for them.	These variables are explicitly shown in the accounts. Estimates for these variables have been made from data in the government accounts.