

# W2

## Website annexure to the 2015 Budget Review

# Structure of the government accounts

## ■ Introduction

South Africa's national government accounts are presented in the statistical tables that appear at the back of the 2015 *Budget Review*. The structure of the reporting tables is based on recommendations in the *Government Finance Statistics*<sup>1</sup> (GFS), published in 2001, and the *System of National Accounts*<sup>2</sup> (SNA), published in 1993. Certain modifications to the structure of the accounts and the labelling of the receipt and payment items have been made to take into account specific features of the South African environment.

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 the 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.

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<sup>1</sup> International Monetary Fund, 2001, *Government Finance Statistics*. Washington, D.C. IMF.

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

## ■ Recording basis

Both the SNA and the GFS recommend that items should be recorded on an accrual basis, which means that all government transactions are included in the accounts. This includes transactions that do not give rise to cash flows, such as changes in inventories, depreciation and accrued interest.

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, debt repayment should be recorded 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 intends to adopt this recommendation over time, but budget data continues to be presented on a cash basis at the moment. This means that the transaction is recorded when the cash flow occurs, therefore it does not match the timing of the underlying economic event. 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. In South Africa, entries for the national budget data are made during the time period in which transactions are captured by financial systems. After the financial year-end, books remain open so that all year-end procedures can be finalised, such as reconciling actual bank account balances with revenue and expenditure reported, and correcting item classification. The year-end procedures do not influence revenue and expenditure levels, and consist primarily of:

- Late funding requests 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, as adapted for South Africa's 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 system.

Each descriptive label in the ERF and the chart reflects the actual content of the item. Opaque labels such as "other" or "miscellaneous" are avoided to improve transparency. This practice ensures that classifications are consistent across all national and provincial departments, improving the quality of information provided to legislatures, assisting in the policy-making process and enhancing accountability.

The evolution of accounting and reporting requirements, as well as the pending introduction of an integrated financial management system (IFMS), led to a review of the SCOA in 2008. These changes have improved government's ability to report on infrastructure spending, provided for better control over departmental programme budgets, 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 chart's integrity, the National Treasury helped departments meet the 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 committee issues circulars that provide feedback to practitioners on changes made to the chart of accounts, ensuring a consistent approach to classification.

## ■ Structure of accounts

The reporting format organises all 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* consists 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, such as borrowing and loan repayment in the capital markets, 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 a department. Detail is provided on:

- *Compensation of employees*: This category includes all current personnel-related 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 scheme contributions. This category excludes capitalised compensation.
- *Goods and services*: All government payments in exchange for goods and services, excluding capital assets and goods used by government to construct and improve capital assets. Generally, this item is the second largest spending item for departments after transfers and subsidies. The details of each department's purchases are provided, giving an indication of the largest spending items. For example, in an education department school books could be listed, while in a health department medicines might appear. This level of detail supports improved oversight and 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 a department's final expenditure. This item includes all of government's unrequited, non-repayable payments – 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* includes current and capital transfers. In the past, capital payments included capital transfers, which led to ambiguity because these numbers could overstate government's actual contribution to capital formation. Including capital transfers with other transfers provides a clearer picture of government's capital spending.

### *Payments for capital assets*

Capital payments are identified as a separate item, capturing government's contribution to capital formation and spending on new infrastructure, as well as upgrades, 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* also includes own-account construction – when government units engage in capital projects on their own account, such as provincial works and roads departments constructing buildings and roads. 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 government unit executes a capital project to construct a new asset, or upgrade, add to, rehabilitate or 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

As a 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*, such as compensation of employees or interest payments. Data must be classified this way to calculate 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 in health, education, general public services, public order and safety, and so on.

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 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 research and development (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 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 learners and students, as well as those 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, including 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 consolidated government account presents the accounts of national and provincial government, and social security funds. In the 2015 *Budget Review*, the coverage of the government accounts is extended to include a total of 163 national and provincial departments and 197 central government entities, currently classified as extra-budgetary agencies. Some government business enterprises are also included in this number. Such enterprises 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. State-owned entities that provide goods at market prices, such as Transnet or Eskom, form part of the public-sector accounts and are excluded from the consolidation.

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 between general government units and 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 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, followed by all business enterprises. 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. State-owned entities and local authority trading entities providing goods and services at market-related prices, which form part of the broader public sector, are excluded, as are privately owned entities.
- *Elimination of inter-entity transactions*: All inter-entity transactions are 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 cash flow numbers of the public entities have been used.

During consolidation, transfers and other identifiable goods and services were taken 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	Public entity
3	Communications	Brand South Africa Film and Publication Board Media Development and Diversity Agency The Independent Communications Authority of South Africa
4	Cooperative Governance and Traditional Affairs	Municipal Infrastructure Support Agency South African Local Government Association Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities Municipal Demarcation Board
5	Home Affairs	Government Printing Works Independent Electoral Commission
6	International Relations and Cooperation	African Renaissance and International Cooperation Fund
7	National Treasury	Accounting Standards Board Financial Intelligence Centre Financial Services Board Government Pension Administration Agency Government Technical Advisory Centre Independent Regulatory Board for Auditors Office of the Ombud for Financial Services Providers Office of the Pension Funds Adjudicator Public Investment Corporation Limited South African Revenue Service Cooperative Banks Development Agency Financial and Fiscal Commission
8	Planning, Monitoring and Evaluation	National Youth Development Agency
10	Public Service and Administration	Centre of Public Service Innovation National School of Government
11	Public Works	Construction Industry Development Board Council for the Built Environment Independent Development Trust Property Management Trading Entity
13	Women	Commission on Gender Equality
14	Basic Education	Education Labour Relations Council South African Council for Educators uMalusi Council for Quality Assurance in General and Further Education and Training
15	Higher Education and Training	Council on Higher Education National Skills Fund National Student Financial Aid Scheme Quality Council for Trades and Occupations South African Qualifications Authority Consolidated sector training and education authorities

Source: National Treasury

**Table W2.1 List of public entities included in consolidation**

<b>Vote</b>	<b>Department</b>	<b>Public entity</b>
16	Health	Council for Medical Schemes Medical Research Council of South Africa National Health Laboratory Service Office of Health Standards Compliance
17	Social Development	National Development Agency South African Social Security Agency
19	Defence and Military Veterans	Armaments Corporation of South Africa Limited Castle Control Board
21	Justice and Constitutional Development	Legal Aid South Africa Special Investigating Unit Public Protector of South Africa South African Human Rights Commission
23	Police	Private Security Industry Regulatory Authority
24	Agriculture, Forestry and Fisheries	Agricultural Research Council Marine Living Resources Fund National Agricultural Marketing Council Ncera Farms (Pty) Ltd Onderstepoort Biological Products Limited Perishable Products Export Control Board
25	Economic Development	Competition Commission Competition Tribunal International Trade Administration Commission
26	Energy	National Energy Regulator of South Africa National Nuclear Regulator South African National Energy Development Institute South African Nuclear Energy Corporation Limited
27	Environmental Affairs	iSimangaliso Wetland Park South African National Biodiversity Institute South African National Parks South African Weather Service
28	Labour	Commission for Conciliation, Mediation and Arbitration National Economic Development and Labour Council Productivity SA
29	Mineral Resources	Council for Geoscience Council for Mineral Technology Mine Health and Safety Council South African Diamond and Precious Metals Regulator State Diamond Trader

Source: National Treasury

**Table W2.1 List of public entities included in consolidation**

<b>Vote</b>	<b>Department</b>	<b>Public entity</b>
30	Science and Technology	Academy of Science of South Africa Council for Scientific and Industrial Research Human Sciences Research Council National Research Foundation South African National Space Agency Technology Innovation Agency
31	Small Business Development	Small Enterprise Development Agency
32	Telecommunications and Postal Services	National Electronic Media Institute of South Africa Sentech Limited State Information Technology Agency Universal Service and Access Agency of South Africa Universal Service and Access Fund
33	Tourism	South African Tourism
34	Trade and Industry	Companies and Intellectual Property Commission Companies Tribunal National Consumer Commission National Consumer Tribunal National Credit Regulator National Empowerment Fund National Gambling Board of South Africa National Lotteries Board National Lotteries Board Distribution Trust Fund National Metrology Institute of South Africa National Regulator for Compulsory Specifications South African Bureau of Standards South African National Accreditation System
35	Transport	Cross-Border Road Transport Agency Driving License Card Account Passenger Rail Agency of South Africa Ports Regulator of South Africa Railway Safety Regulator Road Traffic Infringement Agency Road Traffic Management Corporation South African Civil Aviation Authority South African Maritime Safety Authority South African National Roads Agency Limited
36	Water and Sanitation	Breede-Gouritz Catchment Management Agency Inkomati-Usuthu Catchment Management Agency Water Services Trading Entity Trans-Caledon Tunnel Authority Water Research Commission Water Boards Consolidation

Source: National Treasury

**Table W2.1 List of public entities included in consolidation**

Vote	Department	Public entity
37	Arts and Culture	National Arts Council of South Africa National Film and Video Foundation of South Africa National Heritage Council of South Africa South African Heritage Resources Agency The Pan South African Language Board Consolidated Arts Institutions Consolidated Heritage Institutions Consolidated Libraries
38	Human Settlements	Community Schemes Ombud Service Estate Agency Affairs Board Estate Agents Fidelity Fund Housing Development Agency National Home Builders Registration Council National Housing Finance Corporation Limited National Urban Reconstruction and Housing Agency Rural Housing Loan Fund Social Housing Regulatory Authority
39	Rural Development and Land Reform	Agricultural Land Holding Account Ingonyama Trust Board Registration of Deeds Trading Entity
40	Sport and Recreation South Africa	Boxing South Africa South African Institute for Drug-free Sport

Source: National Treasury

## ■ Main adjustments to the consolidated government account

The National Treasury regularly reviews the data presented in the consolidated government account to improve its scope and classification. To this end, a more detailed database of departmental financial information has been compiled for the 2015 Budget. This is part of a broader, long-term initiative to improve the quality of government's financial and budget data.

Classification is now done at a more detailed level within the accounts of 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 and public-entity revenue revealed further inter-entity transactions that can 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 of government.

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

The functional classification published in the statistical tables is now more closely aligned with 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. This provides a classification that is similar to the functional classification presented as part of the statistical tables published at the back of the *Budget Review*.

## ■ Format of the consolidated government account

Since 2014, the consolidated government account has been presented in the new format shown in Table W2.2. This more transparent and user-friendly presentation clearly distinguishes between government's operating activities and its plans to invest in capital infrastructure.

The balance on the operating account shows the outcome of government's operating activities, which is a measure of the cost of continuing operations. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government needs to 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. The account will mainly be in deficit due to continuous investment in infrastructure and substantial capital outlays.

This format separates all transactions in financial assets and liabilities – largely made up of loans extended to public corporations.

If cash generated from operations is insufficient to finance investment requirements, government has to borrow. The borrowing requirement is calculated by adding the operating balance, the 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 the 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 billion	2015/16	2016/17	2017/18
	Medium-term estimates		
<b>Operating account</b>			
<b>Current receipts</b>	<b>1 184.5</b>	<b>1 323.7</b>	<b>1 434.5</b>
Tax receipts	1 085.9	1 218.1	1 322.2
Non-tax receipts (including departmental receipts)	91.6	98.6	105.4
Transfers received	7.0	6.9	6.9
<b>Current payments</b>	<b>1 181.4</b>	<b>1 261.9</b>	<b>1 334.1</b>
Compensation of employees	479.5	509.6	539.6
Goods and services	187.7	200.3	209.4
Interest and rent on land	132.4	146.8	158.3
Transfers and subsidies	381.8	405.2	426.9
<b>Current balance</b>	<b>3.0</b>	<b>61.8</b>	<b>100.4</b>
<i>Percentage of GDP</i>	<i>0.1%</i>	<i>1.4%</i>	<i>2.0%</i>
<b>Capital account</b>			
Capital receipts	0.5	0.5	0.5
Transfers and subsidies	63.6	67.9	70.9
Payments for capital assets	97.5	103.7	111.4
<b>Capital financing requirement</b>	<b>-160.6</b>	<b>-171.1</b>	<b>-181.8</b>
<i>Percentage of GDP</i>	<i>-3.8%</i>	<i>-3.8%</i>	<i>-3.7%</i>
<b>Transactions in financial assets and liabilities</b>	<b>0.4</b>	<b>7.0</b>	<b>4.2</b>
<b>Unallocated reserves</b>	<b>5.0</b>	<b>15.0</b>	<b>45.0</b>
<b>Budget balance</b>	<b>-162.2</b>	<b>-117.3</b>	<b>-122.2</b>
<i>Percentage of GDP</i>	<i>-3.9%</i>	<i>-2.6%</i>	<i>-2.5%</i>
<b>Primary balance</b>	<b>-29.7</b>	<b>29.5</b>	<b>36.0</b>
<i>Percentage of GDP</i>	<i>-0.7%</i>	<i>0.6%</i>	<i>0.7%</i>
<b>Financing</b>			
<b>Change in loan liabilities</b>			
Domestic short- and long-term loans (net)	158.9	134.9	133.6
Foreign loans (net)	10.4	-0.4	12.2
<b>Change in cash and other balances (- increase)</b>	<b>-7.1</b>	<b>-17.3</b>	<b>-23.6</b>
<b>Borrowing requirement (net)</b>	<b>162.2</b>	<b>117.3</b>	<b>122.2</b>
<i>GDP</i>	<i>4 191.8</i>	<i>4 538.8</i>	<i>4 926.1</i>

Source: National Treasury

## **Budget data by key spending categories**

The spending framework outlined in Chapter 5 of the *Budget Review* is based on the allocation of financial resources of departmental programmes and entities to key spending areas. This improves the targeting of budget allocations, because 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.

These spending categories are different from the functional classification published in the statistical tables, which is more closely aligned to that prescribed in the GFS. The level of disaggregation of the departmental spending data required by the GFS functional data complicates budget preparation. As a result, the *Budget Review* spending data is presented by key spending categories that group departments and programmes engaged in similar activities. For example, in the functional classification in the statistical tables, local development and social infrastructure activities are presented as distinct individual functions, while in Chapter 5 these are grouped together as a separate category. The fiscal statistics are an outcome of

the budget process and can only be used as a guide to categorise expenditure for budgeting purposes. They are not used as a framework for presenting budget allocations.

Some of the most important differences between the key spending categories presented in Chapter 5 and the more detailed functional classification presented in the statistical tables are as follows:

- *Basic education and post-school education and training*: These two categories are grouped together as part of the education function in the statistical tables. This includes expenditure related to maintaining and supporting the South African school system, and assisting the higher and vocational education sector.
- *Defence, public order and safety*: This includes expenditure related to military health, which is classified as part of the health function in the statistical tables.
- *Economic affairs*: This function group includes spending on environmental protection, which is a separate category in the statistical tables.
- *General public services*: In the key spending categories, transfers made to international organisations are classified within the category of the paying department. In the statistical tables, they are classified under general public services.

## ■ 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 adheres strictly 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, as well as the use of different labelling for some items. It is possible, however, to accurately convert the South African government tables into a GFS table for international comparison, given that the same classification basis is used at a detailed level.

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 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 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”.

## ■ Differences in presentation of national budget and 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 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, 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 also 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 GFS government accounts differ in many ways from the national accounts, which form the basis for the statistics presented in Chapter 2 of the *Budget Review*. The most important differences are highlighted in Table W2.3.

**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. 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 basis
	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, but included as part of the capitalised project cost.	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, but included as part of the capitalised project cost.	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.

Source: National Treasury