Guidelines for the completion of the budget format for Public Entities for the 2008 ENE

In the 2008 *Estimates of National Expenditure* (ENE)*,* the National Treasury will further advance the process to improve and refine the collection and presentation of general government financial data. This is a continuation of an ongoing reform process with the ultimate aim of producing consolidated budgets for departments, including their associated entities. For many departments, the activities of their entities are focused solely on service provision and hence, it would be misleading to ignore the impact of these entities on the efficiency and effectiveness of services provided to the community. Similarly, it is important to report on the projected use of resources in this scenario, as this would provide a more comprehensive perspective on the magnitude of resources committed towards fulfilling a particular government mandate.

The information presented in the ENE on such entities is dependant on the type of service rendered, the financial position and the impacts on fiscal policy. In general, more emphasis is placed on entities that are primarily funded by tax revenue. These entities would either be funded through direct transfers from the National Revenue Fund via a department (the Independent Electoral Commission is an example of such an entity) or where the entity has the legislative authority to impose taxes or services charges directly, such as the Road Accident Fund (RAF) and Unemployment Insurance Fund (UIF).

The 2008 ENE preparation process requires national departments to provide detailed financial information for all public entities associated with the governance framework of the Department. It is imperative that data on all public entities is collected, as the National Treasury intends to utilise these inputs to prepare consolidated financial information on the whole of the general government sector. The inclusion of financial information of entities that was presented in the 2007 ENE chapter is mandatory for publication in the 2008 ENE. As part of the 2008 Budget, the National Treasury would like to extend the coverage of the government account by reporting on all public entities, to offer a clearer perspective of the amount and proportion of resources allocated to the delivery of specific service areas.

Content of the submission

The submissions will consist of two parts, firstly a detailed data submission summarising the entity's financial outcomes for previous financial years and providing budget information over the MTEF period. Secondly a discussion on key policy initiatives and service delivery outcomes as well as a discussion of the financial information should be included. It is important here, to ensure that the direction of policy initiatives can be demonstrated from the financial data presented. For example, if an entity discusses the adoption of a new policy initiative in the text, it should be able to discern corresponding resource allocation in the tables presented. In the discussion of the public entity outcomes in the ENE chapter the following information should be provided:

- A section indicating the key mandate as stated in the legislation by which the entity was established, followed by a short discussion on the key priorities for the upcoming MTEF period

- A section highlighting the key outputs achieved during the previous reporting period and indicating some service delivery indicators and outcomes. Outcomes refer to the impact that the entity's activities have on society and should be aligned to the strategic plans and priorities for the corresponding period. This section should also include information on planned outputs (or products) and how they will be delivered over the MTEF period. Where there are deficiencies in planned vs. achieved outputs, entities should indicate how these will be addressed in future.

- A section on infrastructure delivery activities if the entity is involved in infrastructure projects. Entities are required to briefly discuss the nature and progress of these activities.

- A section that discusses the financial data that is being presented for the entity. This text should focus on the sources of funding for the entity, key spending areas and material changes in important spending numbers. An analysis of some of the more important items on the balance sheet of the entity, such as cash balances, provisions and reserves is also required.

All public entities will be required to complete and submit a detailed financial data template (provided by the National Treasury), that contains details of the Income and Cash Flow statements as well as the Balance Sheet. The first part of the schedule provides a summary of the Statement of Financial Performance (Income Statement) of the entity, followed by a cash flow summary. The last part of the schedule is related to information from the Statement of Financial Position (Balance Sheet). Medium Term Estimates of this information must also be provided.

The Statement of Financial Performance (Income Statement), cash flow and Statement of Financial Position (Balance Sheet) contained in the schedules are then further expanded to include additional detailed information. Entities are requested to use the definitions provided in the "definitions" sheet of the data file as well as the definitions provided in the annexure to this guide.

Entities will also be required to complete a detailed "transactions in capital assets" data sheet, the aggregates of which have been linked back to the "detail" sheet to avoid completing the same information twice. On the "official development assistance funds" data sheet, entities receiving such funding will be required to complete summary information on the receipt and utilisation of various donor funds.

The schedules must be completed for each public entity listed in Schedules 1, 2, 3A, 3B, 3C, 3D (Excluding Transnet, Eskom, and Telkom) of the Public Finance Management Act (1 of 1999, as amended). These schedules represent the detailed format which is required for comprehensive analysis and is supported by a summary format (publication table) that will be published in the ENE. The information in the schedule must be aligned with the reporting periods of a department, i.e. for the period 1 April to 31 March. This is important to prevent distortions when expressing the consolidated financial performance and positions of a department together with its associated entities.

Process and timelines

This process is facilitated by three key stakeholders; the governing departments, the entities and the National Treasury. The National Treasury will communicate the deadline for the submission of data to each department and associated entities. The National Treasury intends to facilitate workshops to assist public entities with completing the required schedules and departments are requested to co-ordinate participation by their respective entities. Entities are requested to start completing their schedules as soon as they receive these guidelines and contact the relevant officials in the National Treasury if they experience any difficulties.

Key Dates

Activity	Description	Due Date/Completion
1	Distribution of budget formats and guidelines	16 November 2007
2	Information session: Social Services, Justice & protection, Central govt., Finance and Admin clusters	28 November 2007
3	Information session: Economic Cluster	29 November 2007
4	Submission to the National Treasury of completed data files	10 December 2007
5	Submission to the National Treasury of final text to the data files:	
	Social services	15 January 2007
	Justice and protection	16 January 2008
	Central, Finance and Admin	17 January 2008
	Economic Services	18 January 2008

The process to be followed in completing the data submission is explained in detail in the process flow chart below. Departments and Public Entities should note that for budgetary matters, the appropriate National Treasury budget examiner should be contacted via the relevant national department. For technical assistance on the data file itself, entities should contact the relevant person as indicated in the data file.

Amendments to the 2007 reporting format and key features of the new format are outlined and explained in Annexure A. Annexure B contains the instructions on how to complete the data file and in Annexure C the item definitions are provided.

Entities can submit earlier than the due dates if their submissions are ready.

Any queries on completing the data file may be directed to Ms. Sheila Thipe

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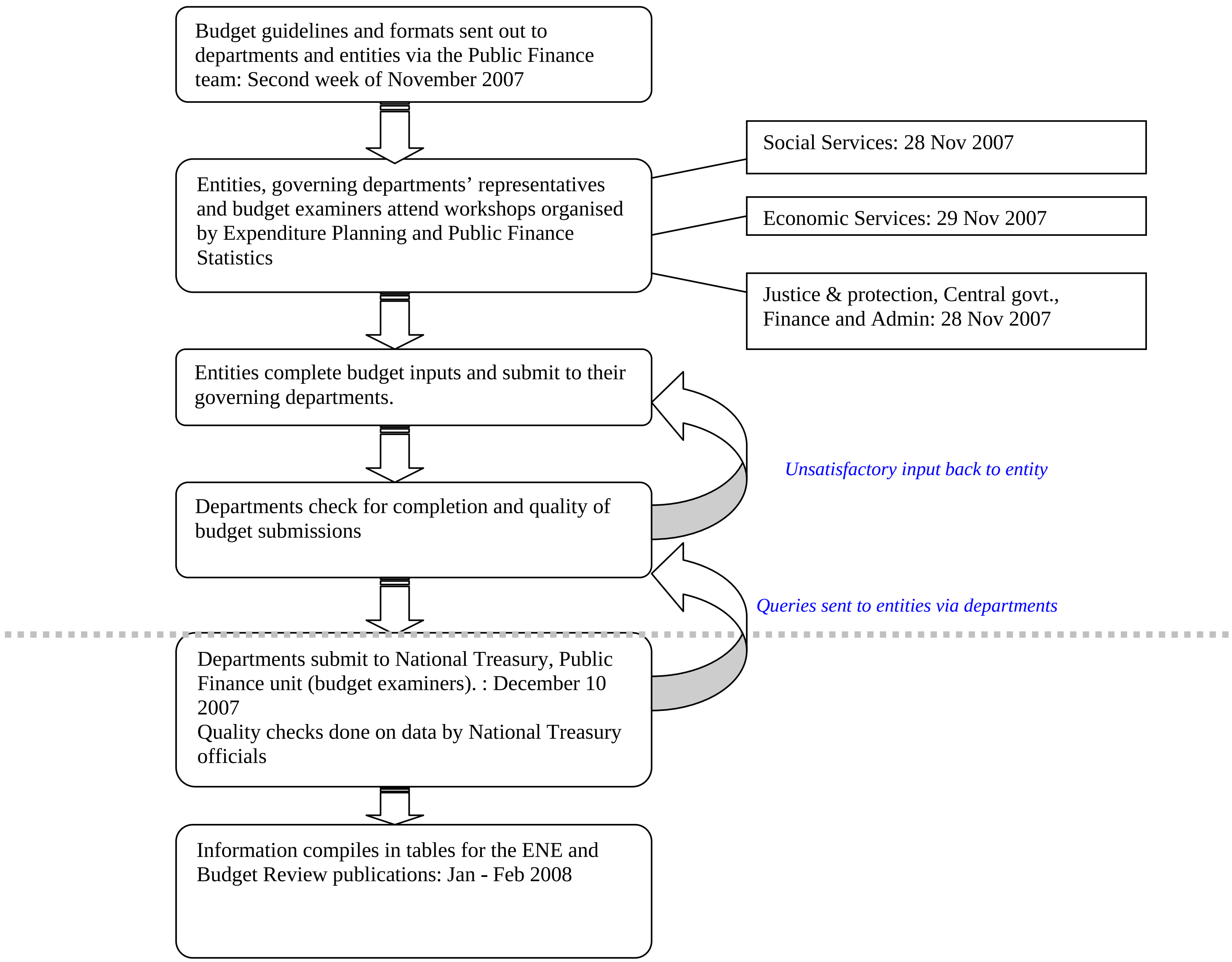
Fax : 012 – 325 1620

Email : Sheila.Thipe@treasury.gov.za

Process flow chart



Annexure A

Amendments to entities budget formats for the 2008 ENE

A format will be sent to each entity with entity details and treasury contacts on an additional cover page. Entities will be required to select their entity type on this page before the whole format opens for use.

As the format is generic, the format is technically designed to hide variables that are specific to certain type entities. We have identified four entity types:

- SETAs
- Social Security Funds
- Financial Entities
- All other entities

Two additional sheets are to be completed, the “transactions in capital assets” and the “official development assistance funds” sheets.

Reporting on expenditure on capital assets

Capital expenditure by the public sector, particularly infrastructure development has become a policy priority in South Africa. It is therefore imperative that we get accurate reporting and budgeting information on capital expenditure. An additional sheet for capital expenditure has been added to this file to make it explicit rather than implicit within the detail sheet. The aggregates of which have been linked back to the “detail” sheet so that the entity does not have to complete the information twice. Checks at the bottom of the added sheet ensure that there is coherence between all movements on capital assets.

Reporting on official development assistance funds

South Africa became a recipient of official development assistance (ODA) in 1994. ODA in the context of this data request refers to “Official resource flows from the international donor community to South Africa in the form of grants, technical co-operation and financial co-operation, *where the South African Government is held at least partially responsible or accountable for the management of such resources*”. Since the closure of the RDP office, the management of ODA funds has shifted to National Treasury. For the purpose of proper accounting for these funds entities involved in partnerships with official donor countries/agencies, are requested to complete the “Official development assistance funds” data sheet.

The detail sheet

Apart from the formats providing for appropriate detail to be included for all types of entities (financial, non-financial, SETA s etc), the detail sheet has been shortened by excluding:

- “goods and services” detail on the expenditure side and
- The financial position (balance sheet) detail such that only the balances are required.

Basis of budgeting

While entities generally comply with GAAP/ Accrual basis of reporting, it is possible that a significant number of entities might be budgeting on a cash basis. Accrual and cash basis of budgeting differ in both coverage and timing aspects. A cash budget is indicative of the expected cash flows in the MTEF years. This has a serious implication on the cash conversion process for the budget figures and entities are therefore required to indicate which basis of budgeting they are using.

Definitions

The definitions have been revised to align them better to the standards adhered to by the South African government. They have also been enhanced by indicating items that may seem to fit the description but should be excluded from the classification for purposes of our economic reporting format.

Other Key features to the entities budget formats

History and budget data on the format

The “detail” sheet consists of three sections; the audited financial statistics, the estimated outcome for the current year and the projected budget figures for the medium term. The audited figures are reflective of the financial activities of the entity in the past three years and should balance to their annual reports. The estimated outcome for the current year is an estimate given by the entity based on their financial activities as per date of completion of this format. The medium term estimates are a projection of their three year budget based on their strategic and operational plans for the same period.

Reporting data and budget data are both included in this format to access continuity or any changes occurring within the entity’s objectives. It allows for a better analysis of both the immediate past and immediate future.

History data for entities that have submitted their financial reports to Treasury

Public entities that submitted their financial reports to the Office of the Accountant General, will receive their data files with the history data already completed and balance to their financial statements.

Sales by market establishments

Entities should give the details of their “sales by market establishments”. These arise when a public entity sells goods or services at market related prices (economically significant enough to influence demand and supply) e.g. rent of buildings, water sales etc. The entities are required to indicate the actual sales category for publication purposes.

Unclassified Revenue

It is imperative that entities give the breakdown on this item. Unclassified is revenue that entities deem cannot be classified elsewhere. Entities are to type in the relevant spaces the detail of what these items are. This will assist National Treasury to either classify these appropriately or in future incorporate those that have higher frequency use as part of the format items. After the publication of the budget, a report will be sent out to the entities on items classified under this category that could have been classified elsewhere.

Cash flow statement detail requirements

As with the ENE 2007 process, entities are required to supply us with detail on the changes in working capital as well as the "other" on the accrual adjustments. This will enable the National Treasury to make the necessary non-cash adjustments to the accruals data, so as to facilitate the cash conversion and the preparation of the consolidated account.

Reporting on expenditure on science and technology

Science and technology activities have become an important variable in estimating economic activities. Departments and public entities are required to supply information on science and technology activities, for the compilation of comprehensive statistics that will be utilised by the Department of Science and Technology in the policy formulation process.

Science and technology activities are cross-cutting in nature, i.e. they include all economic classes of expenditure. For purposes of simplicity, the detail sheet has been appended with three additional data lines requesting this information, which is already embedded in the income and cash flow statements. Entities engaged in such activities and entities where such activities are auxiliary to core activities will be expected to complete this part of the format.

Data consistency checks at the bottom of the detail sheet

National Treasury has added a set of data quality checks at the bottom of the detail sheet, below the balance sheet. These checks are a means of assisting entities to ascertain the consistency of the data submitted. Whenever the data is consistent, a zero value is retained. Where inconsistencies are detected, the value difference will be retained. Where such inconsistencies occur, the entity will be required to rectify the data before submission.

The explanations to these data quality checks are found on the "definitions" sheet of the data file.

[1]The cash conversion sheet and the budget sheet

Treasury has embarked on a drive to produce a consolidated budget for the whole of general government, which is only possible if all entities use the same basis of accounting. Presently, not all government levels prepare accounts on the same basis, national and provincial departments use the adjusted cash basis of accounting, while local government and public entities are mainly using accruals. The conversion sheet is

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[1] These sheets would not be available to viewing by the entities

meant to convert the public entities data from accrual to cash so that it can be consolidated with the financial data of national government

It should be noted that the adjustments made will mainly be for coverage differences. While it is ideal to adjust for all timing differences of transactions, there is insufficient information available to do so.

The budget sheet presents the data economically and functionally. The accrual data will be published in the ENE for the individual entities while the cash converted data will be consolidated into the department.

[2]Definitions sheet

The data file includes a "definitions" sheet, which contains definitions to guide entities on the completion of the data file and notes explaining the checks on the detail sheet. This is to assist entities in completing the data submission and correcting the data where inconsistencies exist. The first portion has income statement item definitions followed by the checks definitions and formulae. Where the checks indicate inconsistencies in the data, it would be helpful for the entities to verify the components of the formula so ensuring that there are no inconsistencies in the data.

Additional Information

- **Please note that on the text there is an additional Performance indicators table --see 07-08 Budget Process Guidelines.pdf file on : www.treasury.gov.za/Publications/ guidelines. For further assistance on completion of performance indicators, contact us via your department or email the people indicated on our presentations and guidelines.**
- **If the entity has restated their history numbers, the new figures should be the ones updated on the format for comparability of the seven year period. Entities in this instance are requested to inform us on these changes and where applicable make available to us the restated financial reports**

[2] Definitions also attached here as annexure B

Annexure B

Completing the format and other information

The Format

<u>To open:</u>

1. Make sure your macros security level is set at medium.
    a. Open excel
    b. On the main menu click “Tools”
    c. Select “Macros”
    d. On the sub-menu select “Security”
    e. Click the “Security Level” tab
    f. Select “Medium” then OK
    g. Close excel

2. Open the file
3. Enable macros
4. The file will open with the “information” being the active sheet
5. Go to the “transaction in capital assets” sheet[3]
6. There should be a **save/close button[4]** on the top right hand side of the sheet
7. To temporarily stop completing click the “Save/Close” button on top right corner
    a. At the prompt, “Do you want to also close the template” select “Yes”
    b. The template will save your changes and close.
    c. To reopen, follow the same procedure as with the initial opening (steps 2-3).

<u>The “transaction in capital assets” sheet:</u>

8. Your name should be on cell B2
9. Only the white cells are available for completion
10. The sheet requires the entity to complete all economic flows on their capital assets, including MTEF projections
11. At the bottom they are checks verifying the correctness of the data. The formulae are visible on clicking the checks cells
12. Totals of acquisitions, depreciation and amortisation, adjustments to fair value and carrying value of assets are linked to the detail sheet, such that the entity need not complete these when working on the detail sheet.
13. The history numbers for entities that submitted their audited statements will already be completed.

[3] Other sheets available will be the “Publication”, “detail”, “Official development assistance funds” and the “Definitions” sheet. The earlier shows the summary form to be published in the ENE2008 book, while the latter contains definitions to the variables being completed.

[4] The “save/close” button is on all three sheets available for completion-the “detail”, the “transactions in capital assets”, and the “official development assistance funds” sheets.

<u>To complete:</u>

14. Complete all cells shaded white with data from your audited financials (where applicable) and from your budget projections.
15. The checks at the bottom should retain a zero value; otherwise the difference will be shown.
16. Entities are expected to correct their projections to balance this data set.
17. If the figures balance, the entity can then move on to the “detail” sheet.

<u>The detail Sheet:</u>

18. Make sure that your name is reflected on cell D3
19. The detail sheet is shaded green where the cells are formulae
20. Only the cells shaded white should be completed
21. Column B contains the variable names to be completed. It flows from the statement of financial performance to cash flow to the statement of financial position data classified economically.
22. Column C contains the hyperlinks to the definitions of the variables. These will assist in the completion of the format as the definitions contain examples.
23. Columns D, E and F are for the history financial data taken from the audited annual reports (04/05, 05/06, 06/07 financial years).
24. Column G is for completion of the estimated financial performance, cash flow and financial position for the current year (07/08 financial year)
25. Columns H, I, J are for the projected budgets over the MTEF period (08/09, 09/10, 10/11 financial years)
26. Rows 174-177 are for budgets for science and technology activities by the entity. These amounts are additional information and are not added to any of the balances of the main format.
27. Rows 179-189 contain data consistency checks.
    a. Firstly, we check the transfer allocation reflected on the financial performance data against that reflected on the cash flow.
    b. Secondly we check that the flows emanating from the financial performance data (as reflected in the cash flow data) are consistent with the flows emanating from the financial position data.
    c. Lastly we check that the balance on fixed assets takes into account all movements in assets as shown by data from financial performance and cash flow data.

<u>To complete:</u>

28. Start by selecting the basis (cash or accrual) of budgeting for the MTEF on cell J4 using the drop down list.
29. The first three columns are already completed for entities that submitted their financial reports to the OAG, National treasury (therefore D, E and F will be protected). For the few that did not submit their reports prior to the compilation of the data files, the history data should be completed and balanced to the audited financials. Entities should then proceed to complete the last four columns.
30. Start at the top completing the unshaded parts with your estimated and projected figures. Use the definitions to assist with the correct classification of the data
31. The shaded rows will show the subtotals of each item category. Clicking on these will reveal the formula showing which cells make up the total.

32. The surplus and deficit balance at the end of the financial performance data is linked with the cash flow part. Adjustments on the cash flow are therefore done directly from the surplus/deficit line.
33. Accrual items adjustments on the cash flow (depreciation, profit and loss on sale of assets, impairments and adjustments to fair value) are linked directly from the financial performance part of the format.
34. When you have completed the format, check that the checks on rows 179-189 retain zero values (-). If not:
    a. Check the cell formula and the notes to the check on the “definitions” sheet to see what items are included in the check
    b. Verify that the values you input are correct and rectify where there are errors. Use the Definitions to ensure that your data inputs are consistent with the principles used to derive the checks.
    c. Correct your data as per findings.
35. Complete the science and technology expenditure data if applicable. This info does not form part of the main format and should not affect your balances.
36. If the checks are balancing, and the entity is not in any donor assistance partnerships close the file using **the “Save/close” button** on the top right corner of the page. The data file is ready for submission.
37. For entities involves in donor assistance partnerships, proceed to the “official development assistance funds” sheet.

<u>The Official Development Assistance Funds sheet</u>:

38. Make sure that your name is reflected on cell F2
39. This sheet contains a table requesting summary information on receipts and expenditure on official donor funds.
40. Only the cells shaded white are to be completed.
41. Both the history and the budget data should be completed
42. Non-financial information (donor identity and project name) should also be furnished.
43. Donors are categorised as either “local” or “foreign”.

<u>To complete</u>:

44. Complete the donor name on column C
45. Specify total amount as indicated on the MOU/MOA in column D
46. Identify the project for which these funds have been received in column E
47. In columns F-K complete the history information for the relevant years as indicated in the entity’s audited financials.
48. Complete an estimate of the current year’s flows in columns L-M
49. In column N, indicate the balance of the funds to date
50. In column O, indicate the status of the project by means of a percentage of completion.
51. Columns P-R are for the projected expenditure on these funds over the MTEF.
52. Explanatory notes are at the bottom of table (Cells A35-A40)
53. Close the file using **the “Save/close” button** on the top right corner of the page, the data file is ready for submission.

Annexure C

Definitions to the detail sheet

Revenue

1. Tax revenue

A tax receipt is defined as compulsory, unrequited revenue collected by public entities[5]. Taxes are compulsory because the other party is required by statutory provision to pay taxes in certain circumstances and under certain conditions. Taxes are unrequited in the sense that government does not provide anything directly in return to the party making the tax payment. Not all compulsory, unrequited receipts are recorded as taxes.

Excluded are;

Fines, penalties and forfeits also compulsory, unrequited receipts, but are recorded separately from taxes. Fines, penalties and forfeits are distinguished from taxes by that they are as a result of a violation of a law or administrative rules, while taxes are an implementation of a law.

Transfers received are also unrequited receipts by government but not considered taxes. Taxes are distinguished from transfers received because taxes are compulsory and transfers received are voluntary. [Guidelines for implementing the New Economic Reporting Format]

Social (security) contributions payments earmarked for unfunded social security schemes, e.g. UIF, that provides benefits other than retirement benefits. These are recorded separately from taxes.

Entity revenue

2. Sale of goods and services

This category consists of all sales by public entities provided that the government has produced the good or service.

Included in this category is *revenue from ownership of buildings and fixed structures* - rentals. This is because revenue from ownership of buildings implies the provision of a service in the form of maintenance and repair.

Excluded are:

Revenue from ownership of land which is more passive and is therefore not considered a sale.

Sales of capital assets should not be included under this category. Thus, sales of capital assets are excluded from this category even if they have been produced by a public entity. In this format the profit on sale of such assets are recorded as negative

[5] Guidelines for implementing the New Economic Reporting Format

expenditure under the category “gains/losses”. The proceeds are recorded under cash from investing activities of the cash flow.

To note: *Revenue from ownership of buildings must be distinguished from revenue from ownership of land and sub-soil assets; the latter is classified as rent of land, which is a separate revenue category.*

There are three main components of sales of goods and services produced by government: (1) sales by market establishments, (2) administrative fees and (3) other sales.

3. Admin fees

This item consists of revenue collected for sales of regulatory or administrative services, and is sometimes referred to as license fees. In this category, government <u>must exercise a regulatory or administrative function</u>. For example, it may verify the competence of a licence holder.

Classification provided for under this category includes licence or permits, registration fees and inspection fees (e.g. brands, and travel documents).

Note: Regarding license fees, the government should be providing a service to the remitter of this fee, e.g. the use of government-owned land by hunters; otherwise the fee is classified as a tax on goods and services

4. Market establishments

When a public entity sells goods or services at market related prices the transactions should be recorded under sales by market establishments. Examples are rent from buildings and equipment charged at the prevailing market prices

Market prices are prices economically significant enough to influence supply and demand of a good or service. The easiest benchmark is the prevailing price in the private market.

5. Other Sales

This item includes money received from the sale of all other goods and services produced or partially produced by the entity. To be part of this category, the fees charged must be below prices prevailing in the private market.

Included are:
User charges at below market prices are included for example hospital fees, university fees as well as park and museum fees.
Rentals of buildings and machinery at price lower than market prices.

Sales of seeds and livestock produced by public entities are considered other sales.
*Sales of items purchased from another economic unit and then res*old e.g. a postcard sold by a museum.
Sale of scrap, waste, arms and other used goods (excluding capital assets with cost price above R5000/capitalisation threshold). This includes sales of all items that are not considered capital assets and not produced by public entities, for example, used arms sold by the Department of Defence. Other examples are waste paper, silver resale (X-ray), condemned linen, ash and kitchen refuse and selling of arms and arms supporting systems.

6. Fines and penalties and forfeits

As with taxes, this item consists of unrequited, compulsory transactions. Thus, the recipient public entity does not provide anything in return for these receipts.

Included are:
All compulsory receipts imposed by a court or quasi-judicial body.
Out-of-court settlements

7. Interest

This item consists of income associated with ownership of interest-bearing financial instruments, such as bank deposits, loans extended to others, and bills and bonds issued by others.

8. Dividends

These are profit distributions receivable by public entities on equity participation in private and public sector entities. Dividends come in the form of revenue from shares and distribution of profits to the owner.

Excluded are
Gains/losses associated with valuation changes, these are recorded under Gains and Losses on the expenditure side.

9. Rent on land

This item consists of revenue due to ownership of land. This item also includes all revenue due to ownership of sub-soil assets and other commercially exploitable naturally occurring assets such as virgin forests, game and fisheries.
Included are *royalties* collected for mining rights as well as *exploration rights* on government owned land.

If it is not possible to distinguish receipts due to ownership of land from receipts due to fixed structures on it, the whole amount should be recorded under sales of goods and services produced by government (excluding capital assets)-see item 2 above..

10. Unclassified revenue

This item includes all revenue items that could not be classified above. Please make sure that the items are clearly specified, i.e. avoid using "other" as a specification. This is so that we can then classify the revenue in one of the classes given.

11. Transfers received

This item consists of all unrequited receipts voluntarily given by other parties. Thus, an entry should be made under this item when a public entity does not give a service or good directly in return for the transfer from the other party and the transfer is voluntary.

Included are;
Grants(not identified as grants in our format) which are voluntary transfers received by a government unit from either another government unit, foreign governments or an international organisation,
Social contributions_ payments earmarked for social security agencies and
Other transfers(not identified as other transfers in our format)_ gifts and donations from sources other than government units and international organisations

Excluded are;
All payments made by government departments or other government units for services provided by the entity. These are sales of goods and services. E.g. if DTI commissions CSIR for some research project and pay for this, this should be correctly classified as Sales.

In this format this item includes both current and capital transfers received. The transfers received are further categorised as;
Social contributions_ payments earmarked for social security agencies;
Transfers from other government units: part of grants described above*;*
Skills development levies: payments earmarked for the skills development of the labour force in the South African economy;
Universities and technikons: other transfers
*Local private donors_* other transfers above;
Foreign governments and international organisations_ part of grants described above.

12. Social contributions received (social security funds only)

These are receipts from either employers on behalf of their employees or from employees or self-employed persons on their own behalf that secures entitlement to social benefits for contributors, their dependents, or survivors, e.g. the contributions received by the UIF.

13. Skills development levy (SETAs only)

These are receipts from employers for the purpose of the development of skills in their particular industries. These levies are paid to various SETAs who then disburse them as required.

EXPENSE

COMPENSATION OF EMPLOYEES

14. Salaries and wages

This item includes most payments to employees, except *social contributions* and *payments to employees working on capital projects*. Social contributions are recorded separately while payments to employees on capital projects are capitalised. The item, salaries and wages, includes:

Salaries or wages payable at regular weekly, monthly or other intervals. Remuneration to staff members employed on a *contractual basis* is included, provided that these staff members are paid at regular intervals and that they are listed on the payroll. This also includes payments by results and *piecework payments*; *enhanced payments* or *special allowances for working overtime*, at night, on weekends or other unusual hours; *allowances for working away* from home or in *disagreeable or hazardous circumstances*; and *expatriation allowances* for working abroad;

Supplementary allowances payable regularly, such as *housing allowances* or allowances *to cover the costs of travel to and from work*.

Salaries or wages payable to employees away from work for short periods, for example, on holiday;

Ad hoc bonuses or other *exceptional payments* made, for example, under incentive schemes.

*Salaries and wages include the values of any social contributions, income taxes, etc., **payable by the employee***. This applies even if they are compulsory or withheld by the employer for administrative convenience or other reasons and paid directly to social insurance funds, tax authorities, etc., on behalf of the employee. For example, ***employees' contributions*** to pension funds and medical aid are included in salaries and wages.

The item, salaries and wages, *does not include*:

Reimbursements of costs incurred by employees on tools, equipment, uniforms and other items that are needed to enable them to carry out their work. For example, uniforms provided to police officers are not compensation of employees, but use of goods and services. Uniform allowances are classified as use of goods and services if the employee is required to use the funds to purchase a uniform that will mainly be used at work;

Relocation costs reimbursement _costs incurred by employees when they take up new jobs or are required by their employers to move their homes, for example, travel and moving expense;

Payments for travel and subsistence while on government duty away from duty station. Per Diem and out-of-town allowances fall under this category;

Purchases of services provided by people who are not government employees, for example, consultants, architects and occasional workers;

The above four items should be classified under use of goods and services

Social benefits to employees. These can be in the form of allowances made for accidental injury, severance and incapacity pay. Allowances to employees' dependants are also considered social benefits. In most cases, payments falling under this category are made from a social insurance fund.

Payments to employees or former employees that are not remuneration for work

The above two items should be classified under transfers to households, social benefits

15. Social contributions

This item includes the entity's contribution (***but not the employees' contribution***) to social insurance schemes paid on behalf of employees.

Examples of social insurance schemes are social security funds, unemployment insurance funds, pension and provident funds, as well as medical aid schemes. Social contributions are made on behalf of employees currently employed by a public entity.

Excluded in this item are post retirement benefits (e.g. medical aid contributions made on behalf of retired employees). ***These should be included in Transfers to households: Social benefits***

16. Use of Goods and services

This item includes payments for all goods and services to be used by a public entity/government unit.

Included are goods of a non-capital nature purchased for resale as well as goods of a capital nature with a cost less than R5000/capitalisation threshold.

Listed below are items that are typically included under this category:

Advertising and marketing

Costs for the formulation and publication of notices to attract prospective service providers, promote government activities and projects, or for filling of vacant positions. This includes printing of leaflets, advertising on Radio/TV as well as in local or national newspapers.

Excluded from advertising and marketing are publication cost, information documents, source documents and reports not specifically used for promoting the activities of the State, department or project. These are classified under *Printing and publications.*

Audit fees

The Constitution of South Africa Section 188 determines that the Auditor-General must audit and report on the accounts, financial statements and financial management of all a government unit and administrations, all municipalities and any other institution or accounting entity required by national or provincial legislation to be audited by the Office of the Auditor-General.

This item would therefore only include payments made to the Office of the Auditor-General or a registered company appointed by him to do the work on their behalf. Any other services procured directly by the public entity from Registered Accountants and Auditors will be allocated to "Consultants, contractors and advisory services".

Bank charges

All fees, levies and costs charged to the entity on accounts held at commercial banks or credit/debit cards should be allocated to this item.

Included in this account are bank recall fees.

Excluded from transaction is interest charged. Interest charged should be allocated to *Interest, dividends and rent on land*

Board costs

All payments related to the functions of the board. T*his includes remuneration for non-executive members of the board*, and all other administrative expenditure incurred on the functions of the board.

Remuneration for executive members of the board is excluded from this item. They should be classified under *compensation of employees.*

*Bursaries (employees***)**

Bursaries include payments made to provide direct support to employees for studying at universities or other tertiary institutions, where all the conditions and terms have been complied with in terms of the contract with the bursary holder. Direct support could include fees, textbooks and other aids and accommodation at the university residence.

For a transaction to be classified as a bursary in accordance with the above definition, it has to comply with all the conditions and objectives of the entity's policy on bursaries.

An employee bursary is classified as goods and services because the entity will eventually benefit from the increased knowledge gained by the employee.

Bursaries for non-employees are classified under "other transfers to households"

Communication

Communication means the exchange of information between individuals and include verbal, written or using a common system of signs or behaviour. Communication refers to costs incurred for communication through a variety of communication mediums, including the transfer of data through electronic media.

It refers to all verbal and non-verbal communication costs incurred to communicate (for example telephonic or postal services), including electronic communication expenses but excluding those that are classified as computer costs, advertising and press releases.

<u>Included</u> are *Telephone, fax, telegraph and telex usage, installation of telephone, rental of post boxes and private bags, radio transmissions, postage, post and franking machines, licences (radio and television) and cellular contracts.*

Computer services

Payments made for computer services provided by SITA or an external service provider.

<u>Included</u> are *renting of data lines, information services, internet services, software licences, specialised computer services and system advisers*

Consultants, contractors and special services

<u>*Consulting Services refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis.*</u> It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. Therefore a consultant is a professional person appointed by the department to provide technical and specialist advice or to assist with the design and implementation of projects/programs. The legal status of this person can be an individual, a partnership or a corporation. The fact that a consultant is defined as a professional person implies that the consultant is professionally qualified. The provision of advice or service is in line with a contractual arrangement (usually commissioned on a project basis).

Remuneration is usually based on an hourly fee or a fixed fee for a product/deliverable.

<u>*Contractors are required to provide services that have a current and non-specialised nature, that are not core business of the department.*</u> It is normally not cost effective to maintain these skills within the department, i.e. cleaning services.

Clear distinction need to be made between other line items classified as goods and services and consultants, contractors and special services. The question to be asked is, “what is the purchase for”? As an example the payments made on a contract allocated to a construction company for erecting a building to house a department would not be consultants, contractors and special services, but capital expenditure, non-residential buildings. Similarly, if security services are outsourced to a private company, this cost will be allocated to owned and leasehold property expenditure (current) - Security services.

It is possible to appoint a consultant/contractor on a capital project (as determined by the capital/current decision tree). The item under goods and service is used with a capital objective to distinguish between purchases on current projects/services and capital projects.

Entertainment

This item includes entertainment expenditure incurred by senior managers in performance of their duties. Such expenditure includes, but is not limited to:

(a) Luncheon meetings held with colleagues, foreign delegations and/or other individuals in and outside the public sector; and
(b) Purchase of dinner during authorised overtime.

This item does not include, but not limited to, spending on:
(a) Gifts (including flowers) to individuals;
(b) Private entertainment;
(c) Cost of meals claimed by individuals when away from home on official duty;

Catering

Expenditure incurred on individuals employed or contracted to the public entity or individuals outside the employ of the public entity, in connection with the activities of an entity, or division within the entity, that directly relates to the achievement of its objectives. Such expenditure includes, but is not limited to:
(a) Catering for lekgotla's, conferences, bosberade, workshops, indabas, courses, forums, hearings and meetings held with the intention to discuss the public entity initiatives;
(b) Catering for a function for the launching/roll-out of an product of the entity;
(c) Catering for interviews or training sessions;
(d) Diner and drinks supplied at year-end functions;
(e) Eatery provided for members of standing boards, and official commissions or committees of enquiry; and

This item does not include, but is not limited to, spending on:
(a) Gifts (including flowers) to individuals; and
(b) Venues in connection with the function/event or any other expenditure incurred in addition to the catering of the function/event.

Equipment less than R5000/capitalisation threshold

Equipment less than R5 000/capitalisation threshold (equipment of a capital nature but costing less than R5000/capitalisation threshold per unit) is treated as current payments and not capitalised as assets, as determined in the economic reporting format.

Cost of sales (goods)

This entails the cost of goods in the form of materials/supplies to be consumed in the production process in the form of materials or supplies to be consumed or distributed in the rendering of services held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution.

Legal fees

Costs incurred for services rendered by attorneys and advocates.

Maintenance and repairs

Costs incurred for maintaining, repairing and day-to-day running of capital equipment. Transactions allocated to this item is applicable only if the maintenance and repair does not extend the useful life of the asset and result in future cash inflows into the organisation this is determined through use of the capital/current decision tree.

Examples would be fixing broken windows, replacing filters or gas in an air conditioner, ordinary service of a motor vehicle.

Running cost included all cost associated with the day-to-day use of capital assets.

Operating Leases

Operating leasing is a productive activity that involves renting capital assets for terms less than the expected service lives of the assets. It is a form of production in which the leaser normally lets the use of a capital equipment / asset in exchange for the lease payments. Operating leasing can be identified by the following characteristics: (a) the leaser normally maintains a stock of equipment in good working order which can be hired on demand or at short notice, (b) the equipment may be rented out for varying periods of time, and (c) the leaser is frequently responsible for the maintenance and repair of the equipment as part of the service provided to the lessee.

Printing and publication

Cost incurred for printing being the reproduction by applying ink to paper as for and publications being documents printed or otherwise produced for wide distribution inside or outside an agency e.g. annual reports, brochures, pamphlets, posters, books.

Also included are printing of annual reports for tabling in parliament, newsletters and communications to employees and or clients. This item excludes the maintenance of equipment used, paper and ink and for advertising purposes.

Travel and subsistence

Travel and subsistence are the reimbursement of travel expenses within or outside South Africa for business purposes and subsistence for food and drink where the employee is required to stay at a location other than his permanent residence for one night or more within or outside of South Africa. The amount could also be paid by the entity directly to the travel agency responsible for making the travel arrangements or the service provider.

Training and staff development

This pertains to the cost of training to staff to develop them and make them more efficient on the job. This cost includes materials and manuals as well as cost of external trainers.

Municipal Services

Included are cost of water and electricity (*and other municipal services excluded from rates and taxes).*

17. Depreciation and amortisation

Depreciation represents the reduction in the balance sheet value of a company asset to reflect its loss of value through age and wear and tear.
It involves the systematic reduction of the cost value of assets such as property plant and equipment and intangible assets.

18. Gains/ (profits) on

All losses made outside of the normal operations of the unit. Included here are losses due to fraud, sale of assets and foreign exchange losses. Profits may also be realised in some of the transactions such as sale of assets and foreign exchange dealings. These profits should be recorded as negative expenditure not revenue.

19. Impairments and Adjustments to fair value

Impairments are adjustments to the value of a non-monetary asset (i.e. a motor vehicle has deteriorated quicker than the depreciation charge and we pass through another entry to 'impair' or further depreciate the vehicle). Adjustments to fair value relate to monetary assets. We are required to disclose most of our monetary assets at fair value, where the value has increased or decreased at year-end we need to recognise this movement in the income statement.

20. Interest

This item includes the total value of interest payments.

These are payments associated with debt, for example interest on borrowing and overdraft facilities. Interest payments on bills and bonds issued by other government units are also included here. Where possible, interest paid on overdue accounts should also be included under this item.

21. Dividends

A dividend is a distribution of money or property paid by a corporation out of the corporation's profits to shareholders.

Government units are not payers of dividends as a rule. Exceptions may be public corporations.

22. Rent on land

Rent relates payments in respect of certain leases of land, subsoil assets, and other naturally occurring assets. These include rent; royalties, exploration and right of use costs.

23. Transfers and subsidies

This item consists of all <u>unrequited</u>, <u>voluntary</u> payments to other parties. Thus, an entry should be made under this item when government does not receive anything directly in return for the transfer to the other party and the transfer is voluntary.

Both current and capital transfers are included in this item. An example of a capital transfer is a cash payment, which the unit is required to use toward the acquisition of a capital asset. All other transfers are current, for example, donations and grants, which the recipient is not obliged to use to acquire capital assets.
The transfers paid are further categorised as;
- Provincial government;
- Municipalities;
- Departmental agencies and accounts;
- Universities and technikons;
- Foreign governments and International organisations;
- Public and private corporations;
- Households

Subsidies

Subsidies comprise all current, unrequited <u>payments to businesses –</u> both government and privately owned – on the basis of their level of production or quantity, or values of products produced, sold, imported or exported. Subsidies influence the level of production and / or pricing policies of the recipient. To be classified as a *subsidy on production*, the transfer must be current. Subsidies can be payable on specific <u>products</u> or on <u>production</u> in general.

A subsidy on a product is a subsidy payable per unit of a good or service. The subsidy may be a specific amount of money per unit of quantity of a good or service, or it may be calculated *ad valorem* as a specified percentage of the price per unit. A subsidy may also be calculated as the difference between a specified target price and the market price actually paid by a buyer. A subsidy on a product usually becomes payable when the good or service is produced, sold, exported, or imported. But it may also be payable in other circumstances, such as when a good is transferred, leased, delivered, or used for own consumption or own capital formation.

Subsidies on production consist of subsidies that enterprises receive for engaging in production but that are not related to specific products. Included are subsidies on payroll or workforce, which are payable on the total wage or salary bill, the size of the total workforce, or the employment of particular types of person; subsidies to reduce pollution; and payments of interest on behalf of corporations.

Subsidies also include transfers to public corporations to compensate for losses they incur on their productive activities as a result of charging prices that are lower than their average costs of production because of deliberate government economic and social policy. If such losses have been accumulated over two or more years, however, the transfer is considered of a capital nature and classified as *other transfers to public corporations and private enterprises*.

24. Transfers to households: Social benefits

These are transfers to protect the entire population or specific segments of the population against certain social risks: events that may adversely affect the welfare of the households concerned such as, loss of employment, poverty etc.

Social benefits are current transfers to households, but not all transfers to households are included under this category. Included are the transfers made to households to protect them against events that may adversely affect their social welfare.

Examples include the *child support grant; payments for medical, convalescent and dental care and home care.* Social benefits also encompass the cost to provide free housing and housing below market prices.

Other government units can also pay social benefits, like the Unemployment Insurance Fund.

25. Other transfers to households

This item includes all other unrequited payments made to individuals and households that are not for social benefits.

To note is the inclusion of bursaries awarded to persons who are not employed by the public entity for the purpose of assisting them with tuition and other education and training related costs. T*hey are transfers* since the recipient has no obligation towards the benefactor

26. Technical reserves (social security funds only)

Technical reserves are as a result of an actuarial evaluation. They consist of net equity of households in insurance reserves, prepaid premiums and reserves against outstanding claims.

27. Science and technology services (STS):

STS is defined as activities concerned with supporting research and experimental development, contributing to the generation, dissemination and application of scientific and technical knowledge. This includes activities such as patenting, geological surveys, standards generation, operation of libraries and national scientific databases and the like.

28. Scientific and technical education and training (STET)

Covers all activities comprising specialised non-university higher education and training, higher education and training leading to a university degree, postgraduate and further training, and organised lifelong training for scientists and engineers.

29. Scientific and technological innovation (STI)

STI may be considered as the transformation of an idea into a new or improved product introduced on the market into a new or improved operational process used in industry and commerce, or into a new approach to a social service.

CHECKS

The checks facilitate consistency throughout the format. A rounding off difference of ±5 has been allowed. Formulae in these notes are based on the first year checks which are then copied across the other years.

30. Departmental allocation

Formula: D32-D137 = 0. This formula verifies that the allocation as stated on the revenue side is consistent with the total given on the cash flow. On receipt of the format, this input will be further checked against the one indicated by the department in their own submission

31. Cash balances

Formula: ABS (E162-D162) - ABS (E153) = 0. This formula checks that the cash balance on the financial position data increases/decreases by the net cash movement as indicated by the balance on the cash flow data.

32. Receivables

Formula: ABS (E161-D161) - ABS (E118) = 0. This formula checks that the change in receivables on the financial position data is consistent with the change on the cash flow.

33. Inventory

Formula: ABS (E159-D159) - ABS (E126) = 0. This formula checks that the change in inventory on the financial position data is consistent with that indicated on the cash flow data

34. Payables

Formula: ABS (E167-D167) - ABS (E109) = 0. This formula checks that the change in payables on the financial position data is consistent with the change as shown by the cash flow data.

35. Provisions

Formula: ABS (E168-D168) - ABS (127) = 0. This formula checks that the change in provisions on the financial position data is consistent with that indicated on the cash flow data.

36. Carrying value of assets

Formula: E157-D157+E141+E144+E55+E57 = 0. This formula checks that the changes in the value of assets on the financial position data are consistent with movement shown on the financial performance and cash flow data.

37. Financial position check

Formula: D156-D163 = 0. This check verifies that the assets and liabilities on the financial position data are balancing.