A PRIMER ON BUDGET TERMINOLOGY

This note defines some of the common terms used in the *Medium Term Budget Policy Statement* and the *Budget Review*.

The Constitution establishes a **National Revenue Fund**, into which all money received by national government must be paid. Government raises this money mainly from taxation, departmental revenue and by issuing debt. Personal income tax, corporate income tax, value-added tax (VAT) and customs duties account for more than 80 per cent of tax revenue. A significant portion of customs revenue is deducted from the National Revenue Fund and transferred to South Africa's partners in accordance with the Southern African Customs Union agreement. Departmental revenue arises from fees charged for services, fines, penalties and other sources of non-tax revenue.

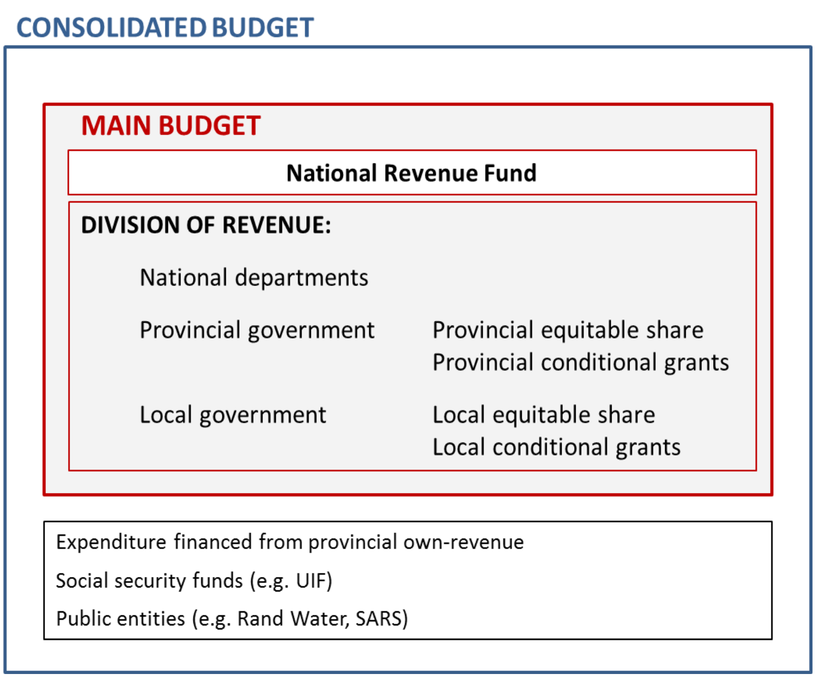
The **main budget** covers expenditure financed from the National Revenue Fund. This revenue is divided between national, provincial and local government – and between departments – according to constitutional imperatives, government priorities, developmental needs and spending efficiency. Transfers from national departments to provinces account for a large proportion of spending on the main budget, meaning that most provincial spending is financed through these transfers. The main budget also finances a significant proportion of municipal expenditure.

Table 1 shows the main budget and the **division of revenue** between national, provincial and local government after deducting debt-service costs. This division is regulated by a Division of Revenue Act. A **contingency reserve** is left unallocated to allow for uncertainties and provide for future policy priorities.

The **financing requirement** of government is the shortfall between revenue and expenditure on the main budget. The National Treasury issues debt instruments, such as bonds and treasury bills, to finance this shortfall. Most debt-related information concerns the main budget.

Since 2002/03 government has presented consolidated accounts in line with international standards. The **consolidated budget** is a broader category that includes the main budget, provincial spending financed by provincial own-revenue (e.g. gambling tax), and the activities of **social security funds** and **public entities**. The social security funds are the Unemployment Insurance Fund, Road Accident Fund and two worker compensation funds. There are 192 public entities included in the consolidated accounts, ranging from Rand Water to the South African Revenue Service. Many of these funds and institutions finance their activities from revenue that is not sourced from the National Revenue Fund. **State-owned companies**, such as Transnet and Eskom, are not defined as public entities and are not included in the consolidated government accounts. This is because they are not agencies of government, but companies in which government is the major or sole shareholder.

Figure 1 The consolidated budget and the main budget



Main budget expenditure accounts for over 90 per cent of the consolidated budget. However, the consolidated budget provides a fuller picture of the public finances. For this reason, the **budget deficit** is generally reported at the consolidated level and used by as the core measure of fiscal sustainability. At some point in future, government hopes to include local government in the consolidation.

Table 2 shows the consolidated fiscal framework, as reported in the 2012 MTBPS. The fiscal framework is updated in each successive Budget Review and MTBPS. Some of the terms used in the consolidated fiscal framework are:

- **Revenue:** Total consolidated revenue received by government (e.g. tax revenue like VAT, personal and corporate income tax as well as departmental revenue), plus non-tax revenues such as social security fund contributions, provincial own-revenue (e.g. gambling taxes), income of public entities (e.g. water sales revenue of the Water Boards) and departmental revenue. Transfers to SACU partners are a deduction from revenue.
- **Expenditure:** Total expenditure of national government, provinces, social security funds and extra-budgetary institutions. Total expenditure is split into non-interest expenditure and interest costs.
  - **Non-interest expenditure**: All expenditure excluding interest repayments on national debt.
  - **Interest cost**: Interest repayments and other costs associated with servicing national debt.
- **Budget balance**: Difference between total revenue and total expenditure. This is the most common measure of government's fiscal stance.
- **Primary balance**: Difference between total revenue and non-interest expenditure. The primary balance is a key driver of government's debt stock. In general, when the primary balance is in deficit, the debt-to-GDP ratio can be expected to rise. When the primary balance is in surplus, the debt-to-GDP ratio can be expected to fall.

Table 1 Main budget expenditure framework and the division of revenue*

R billion	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
		Outcome		Revised estimate		Medium-term estimates	
Debt-service cost	57.1	66.2	76.5	88.8	98.6	106.8	114.8
Non-interest expenditure	690.1	738.9	811.6	878.7	953.0	1 030.5	1 119.0
Total expenditure	**747.2**	**805.1**	**888.0**	**967.5**	**1 051.6**	**1 137.4**	**1 233.8**
Contingency reserve					4	10	30
Division of available funds							
National departments	**345.4**	**355.2**	**380.8**	**412.3**	**446.6**	**481.4**	**510.4**
Provinces	**293.2**	**322.8**	**362.5**	**388.9**	**417.9**	**447.5**	**477.9**
Equitable share	236.9	265.1	291.7	313.0	335.3	357.3	378.8
Conditional grants	52.1	57.7	70.8	75.9	82.7	90.2	99.1
Local government	**51.5**	**60.9**	**68.3**	**77.5**	**84.5**	**91.6**	**100.7**
Equitable share	23.8	30.5	33.2	37.9	40.6	44.5	49.7
Conditional grants	20.9	22.8	26.5	30.6	34.3	36.9	40.4
Total	**690.1**	**738.9**	**811.6**	**878.7**	**949.0**	**1 020.5**	**1 089.0**
Percentage shares							
National departments	50.0%	48.1%	46.9%	46.9%	47.1%	47.2%	46.9%
Provinces	42.5%	43.7%	44.7%	44.3%	44.0%	43.9%	43.9%
Local government	7.5%	8.2%	8.4%	8.8%	8.9%	9.0%	9.2%

** Note that certain elements of the table have been removed for simplicity. Please refer to budget documents for full information.*

Table 2 Consolidated fiscal framework (MTBPS 2012)

R billion / percentage of GDP	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	Outcome		Estimate	Medium-term estimates		
Revenue	**757.4**	**837.0**	**900.6**	**986.1**	**1 092.1**	**1 205.0**
	27.5%	*27.7%*	*27.5%*	*27.5%*	*27.6%*	*27.6%*
Expenditure	**874.4**	**964.4**	**1 057.1**	**1 147.4**	**1 238.1**	**1 339.0**
	31.8%	*32.0%*	*32.3%*	*32.0%*	*31.3%*	*30.7%*
Non-interest expenditure	808.2	887.9	968.3	1 048.8	1 131.3	1 224.2
	29.4%	*29.4%*	*29.6%*	*29.2%*	*28.6%*	*28.0%*
State debt cost	66.2	76.5	88.8	98.6	106.8	114.8
	2.4%	*2.5%*	*2.7%*	*2.7%*	*2.7%*	*2.6%*
Budget balance	**-117.0**	**-127.4**	**-156.5**	**-161.3**	**-146.0**	**-134.0**
	-4.3%	*-4.2%*	*-4.8%*	*-4.5%*	*-3.7%*	*-3.1%*
Primary balance (percentage of GDP)	*-1.8%*	*-1.7%*	*-2.1%*	*-1.7%*	*-1.0%*	*-0.4%*

Where to find budget information for the different levels of government

All major budget publications contain a glossary of terms.

MTBPS 2012: Headline consolidated government figures are in table 3.2 of Chapter 3. The main budget balance is in Chapter 3, table 3.5, which shows the main budget net borrowing requirement and financing. Details of main budget expenditure are given in Chapter 4, which shows the division of revenue in table 4.2.

Budget Review 2012: Headline consolidated government figures are in table 3.1 of Chapter 3. In Annexure B:

- Table 1 shows revenue, expenditure and borrowing at the main budget level. In this instance, expenditure is split by economic classification.
- Table 2 shows main budget revenue by source.
- Table 8 shows consolidated government (national, provincial, SSFs, public entities and RDP funds)

ENE and AENE: The Estimates of National Expenditure (ENE) is released with the Budget Review in February, while the Adjusted Estimates of National Expenditure (AENE) is released with the MTBPS in October. The ENE only covers expenditure by national departments. For example, in 2010/11, spending by the national department of health was R23 billion, while consolidated health spending amounted to R101 billion. Most of this spending would have taken place at provincial level.

For detailed provincial budget information, go to
http://www.treasury.gov.za/documents/provincial%20budget/default.aspx

The municipal fiscal year runs from 1 July to 30 June. For municipal budget information, go to
http://www.treasury.gov.za/publications/igfr/default.aspx.