
THE GOVERNMENT ACCOUNTS

INTRODUCTION

South Africa's national government accounts are set out in Annexure B in a structure based on, but different to, the standard Government Finance Statistics (GFS)¹ classification. In addition, both of these methodologies differ in several respects from the System of National Accounts (SNA)² used in Chapter 2. of this Budget Review.

These three different methodologies are all used for the compilation of fiscal data, but each for a different purpose. This annexure therefore serves to describe the GFS system, and explain where and why the national budget data differs from it. The main differences between the SNA and GFS systems are also summarised below.

THE GOVERNMENT FINANCE STATISTICS SYSTEM

The GFS system is cash-based and excludes all government transactions that do not represent an actual cash flow. The system organises a multitude of transactions carried out by government into the following main categories: revenue, expenditure, lending minus repayments and financing. The budget deficit/surplus is calculated as revenue less expenditure and lending minus repayments. It is, by definition, equal to total financing (with an opposite sign).

¹ International Monetary Fund, 1986, **Government Financial Statistics**. Washington, D.C.: IMF.

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

Revenue

Revenue collected by government is divided into current revenue, capital revenue and grants. Current revenue comprises tax and current non-tax revenue. Taxes are then classified according to the type of activity upon which they are levied. The main “tax bases” include income and profits, the consumption of domestic goods and services and international trade. Current non-tax revenue is classified by the nature of the receipt, such as property income, proceeds from non-capital sales and fines. Capital revenue includes proceeds from the sale of various kinds of capital assets and capital transfers from non-governmental sources.

Expenditure

Government expenditure is classified in two ways in the GFS system: by the purpose or function served and by its economic characteristics. The functional classification of government expenditure distinguishes the different services provided by government, such as defence, healthcare, education or transport, while the economic classification distinguishes between various categories of current and capital expenditure.

Government functions

General government services refer to those indispensable activities performed by the state, the benefits of which cannot be allocated to specific groups, businesses or individuals. These include fiscal management, general personnel management, the conduct of external affairs, defence activities and public order and safety.

Community and social services are supplied directly to the community, households or individuals, and include educational, health care, social security and welfare, housing, community development and recreational and cultural activities.

Economic services cover government expenditures associated with the regulation and more efficient operation of the business sector. This category incorporates government objectives such as economic development, the redressing of regional imbalances and employment creation. Examples of economic services rendered to industries by general government bodies are trade promotion, geological surveys and the inspection and regulation of particular industries.

Other expenditure includes interest payments, the underwriting costs of public debt and transfers of a general nature to other units or levels of the general government sector.

Expenditure in a particular budget vote may cover more than one function: for example, spending in the Health Vote may include spending on education (medical training) as well as spending on medical functions.

Current expenditure

Current expenditure refers to payments for goods and services, excluding purchases of capital assets or goods or services to be used in the production of capital assets. In addition, current expenditure excludes payments which permit recipients to acquire assets; provide compensation for damage or destruction of capital assets; or contribute towards an increase in the financial capital of the recipients. Current expenditure is divided into the following main categories:

- ◆ *Goods and services* refer to all government payments in exchange for goods and services. This category includes wages and salaries to employees and employer contributions to employee benefit schemes, and other purchases of goods and services.
- ◆ *Interest* is defined as payment for the use of borrowed money and is distinguished from the repayment of borrowed money, which is classified under financing.
- ◆ *Subsidies and other current transfers* include all unrequited, nonrepayable payments by government for current purposes, i.e. payments for which no goods or services are received in return. This category includes subsidies and transfers to other levels of general government, to households, nonprofit institutions, and abroad.

Capital expenditure

Capital expenditure are payments for the acquisition of fixed capital assets, strategic or emergency stocks, land, intangible assets, or capital transfers.

- ◆ The *acquisition of fixed capital assets* refers to payments for the production of new or existing durable goods, which in turn are to be used for productive purposes. Capital assets may be purchased from the private sector or government, but only include goods of a significant value that have a normal life span of more than one year.
- ◆ *Purchases of stocks* covers payments for the purchase of strategic and emergency stocks, stocks purchased by market regulatory organisations within government and purchases of stocks of grain and other commodities of special importance to the nation.
- ◆ *Purchases of land and intangible assets* include payments for the purchase of land, forests, inland waters and subsoil deposits. It excludes any improvements to natural resources, such as buildings.
- ◆ *Capital transfers* refer to unrequited government payments (or transfers), made for the purpose of permitting recipients to acquire capital assets, compensating recipients for damage or destruction of capital assets or increasing the financial capital of the recipients. Capital transfers can be divided between transfers to other levels of general government, non-financial public enterprises, financial institutions, private enterprises, non-profit institutions and households and transfers abroad.

Lending minus repayments

Lending minus repayments (sometimes referred to as net lending) covers loans made and equities purchased by government units whose funds come entirely from government minus government receipts from the repayment of these loans, equities sold (for example, privatisation) or equity capital refunded to government. Lending minus repayments only include transactions undertaken for public policy purposes rather than for the management of government liquidity or the earning of a return, and excludes amounts classified as pure capital expenditure.

Financing

The classification of financing shows the sources of funds obtained to cover a government deficit or the use of funds available from a government surplus. Financing includes government's borrowing transactions (net of repayments of previous borrowing) and changes in government deposits or cash balances. Financing could be classified by the type of debt holder or debt instrument. A distinction is also made between the residency of the debt holder, i.e. domestic and foreign financing.

THE NATIONAL BUDGET DATA VS. DATA COMPILED ACCORDING TO THE GFS METHODOLOGY

For several reasons, the national budget data, as published in Annexure B of this Budget Review, differs from the fiscal data compiled in accordance with the GFS methodology and published in the *Quarterly Bulletin* of the South African Reserve Bank. These differences relate to the time at which transactions are recorded and the classification of certain transactions.

Timing

Unlike the GFS system, which records transactions in the period in which the cash flows, the national budget data are compiled according to the period for which they were authorised or budgeted. Mainly for auditing and budgeting control purposes, the budgetary system allows for a complementary period, i.e. a period after the financial year-end in which the books are kept open to finalise all transactions relating to that specific year. These complementary period transactions are reflected in the national budget data for a specific financial year and include:

- ◆ Tax payments made in the financial year but only recorded by SARS after the financial year-end.
- ◆ Late requests of funds by government departments to settle obligations committed in or relating to the specific financial year.
- ◆ Surrenders of unspent funds by government departments, i.e. funds requested by the departments but subsequently not used.
- ◆ Correcting revenue, expenditure or financing transactions that were, for example, erroneously classified.
- ◆ Adjustments to the expenditure data, for auditing and Parliamentary purposes, to show only authorised expenditure for the particular financial year (i.e. excluding all unauthorised spending), as well as unauthorised expenditure incurred in previous financial years that were authorised by Parliament in that financial year.

Classification

Although most of the national budget data are classified in accordance with the GFS methodology, certain transactions are treated differently:

- ◆ In the GFS system, proceeds from the sale of government equity are shown as repayments under the heading "lending minus repayments". In the national budget data, these receipts are classified as sources of financing. As a result, government's deficit/surplus is not affected by these receipts.
- ◆ Repayments of loans previously extended by government for policy purposes are recorded as repayments under the "lending minus repayments" category of the GFS system, but are recorded as revenue in the national budget data.
- ◆ Sales of strategic oil supplies by the Strategic Fuel Fund (SFF) are shown as repayments of loans in the GFS system. In the national budget data, these receipts are shown as sources of financing. As a result, government's deficit/surplus is not affected by these receipts.
- ◆ Lending by government for policy purposes is recorded under the category "lending minus repayments" in the GFS system, but are included as capital expenditure in the national budget data.
- ◆ In the national budget data, the amortisation of zero coupon bonds is treated on an accrual basis. In other words, the interest payments and amortisation of the principal are accrued over the maturity of the bond. According to the GFS system, which is cash-based, the discount is shown as an interest payment when the bond is redeemed and the remainder of the face value redemption payment is shown as a loan redemption.

Reconciliation of the GFS and exchequer classification systems

The revenue and expenditure tables below illustrate some of the major differences between the GFS data published by the SARB and the national budget data compiled by the Department of Finance. For the 1997/98 financial year, a number of adjustments to the national budget data have been included as additional lines to reconcile this data with the Exchequer Account and GFS data published by the SARB. The same GFS data are used in Chapter 3 of this Budget Review.

Table D.1 National budget revenue

1997/98	R millions
Total Revenue (Budget Review)	163 492
<i>Plus</i> amounts in transit	702
<i>Plus</i> surrenders and other receipts	1 778
Total exchequer receipts³	165 972
<i>Less</i> surrenders and other receipts	2 051
<i>Less</i> repayments of loans	89
<i>Plus</i> withholding tax	19
Total revenue and grants (GFS)⁴	163 851

Table D.2 National expenditure

1997/98	R millions
Total expenditure (Budget Review)	190 608
<i>Less</i> delayed departmental requests and other outstanding transfers	958
<i>Plus</i> standing appropriations	35
<i>Plus</i> other issues	257
<i>Plus</i> cashflow adjustment	92
Total cash flow adjusted³	190 034
<i>Less</i> surrenders and other receipts	2 051
<i>Less</i> sale of strategic oil reserves	1 250
<i>Less</i> privatisation proceeds	1 698
<i>Less</i> other adjustments	164
Total expenditure and net lending (GFS)⁴	184 871

SYSTEM OF NATIONAL ACCOUNTS

What is the SNA?

The System of National Accounts (SNA) consists of a coherent, consistent and integrated set of macroeconomic accounts, balance sheets and tables based on a set of internationally agreed concepts, definitions, classifications and accounting rules. It provides a comprehensive accounting framework within which economic data can be compiled and presented in a format that is designed for purposes of economic analysis, decision-taking and policy-making. The accounts are compiled for a succession of time periods, thus providing a continuous flow of information for the monitoring, analysis and evaluation of economic performance.

SNA versus GFS

The SNA refers to the economy as a whole, of which the general government is but one sector. Moreover, it measures all transactions relating to production, income, consumption, saving and capital accumulation on an *accrual* basis, while the GFS records *cash* payments to and from government during a specific period.

³ Exchequer Account, SARB Quarterly Bulletin, S-55.

⁴ Main Budget, SARB Quarterly Bulletin, S-71.

The South African national budget data are mainly compiled on a cash basis, and are broadly compatible with GFS standards, while the national accounts data used in Chapter 2 are prepared according to the SNA system. The table below shows the main differences between the SNA and GFS methodology in the measurement of government's activities.

Table D.3: Differences between SNA and GFS methods of recording government transactions

GFS	SNA
BASIS OF REPORTING	BASIS OF REPORTING
Cash flow	Accrual
Compensation of employees	Compensation of employees
Recorded when amount is actually paid over to the employee	Recorded when amount was earned, irrespective of the time when amount is actually paid
Goods and services	Goods and services
Transactions recorded when payments made	Transactions recorded on transfer of ownership or delivery of service
Indirect taxes and subsidies	Indirect taxes and subsidies
Indirect taxes and subsidies recorded when payments made	Indirect taxes and subsidies recorded when initial transaction took place, i.e. when goods were sold
INSTITUTIONAL CLASSIFICATION	INSTITUTIONAL CLASSIFICATION
Non-financial public enterprises form part of the public sector. Financial public enterprises are classified with private business enterprises	All financial and non-financial public enterprises (including public corporations) form part of the public sector
TRANSACTIONS	TRANSACTIONS
Only cash transactions	Cash and <i>in kind</i> transactions
TAXES	TAXES
Tax revenue includes all taxes, whether of a capital or current nature	Taxes of a capital nature, for example estate, inheritance and donations taxes, are recorded as capital transfers.
FEES AND CHARGES	FEES AND CHARGES
Fees and charges form part of non-tax income and include fees paid by households, business enterprises and sales	User charges are regarded as sales and are subtracted from government consumption expenditure. Other fees and charges are regarded as current transfers to government.
COMPENSATIONS OF EMPLOYEES	COMPENSATIONS OF EMPLOYEES
Includes only cash payments	Includes cash and <i>in kind</i> payments
TAXES PAID BY FOREIGNERS	TAXES PAID BY FOREIGNERS
Taxes paid by foreigners on dividends received in South Africa are regarded as part of taxes	Tax payments by foreigners are classified as transactions with the rest of the world, such as transfers from abroad
DEPRECIATION	DEPRECIATION
No imputations are made for depreciation allowances since no cash flows are involved.	Depreciation allowances are included on residential buildings, non-residential buildings, transport equipment and machinery and other equipment

