

---

# ANNEXURE D

# GOVERNMENT

# ACCOUNTS

---

## 1. INTRODUCTION

The classification of government financial statistics differs in several respects from the standard treatment of the general government in the national accounts. This annex explains the main differences.

The financial statistics set out in this Review are classified in accordance with “Government Finance Statistics” (GFS) standards, as set out in the 1986 IMF Manual<sup>1</sup>. National accounts are prepared in accordance with the system of National Accounts (SNA) framework<sup>2</sup>.

## 2. 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 continuing flow of information for the monitoring, analysis and evaluation of economic performance.

### SNA93

SNA93 is the latest edition of the SNA manuals and replaces the previous manual that was released in 1968. The 1993 SNA improves on the previous version by:

- ◆ increasing the scope of transactions included in the production accounts;

---

<sup>1</sup> International Monetary Fund, 1986. **Government Finance Statistics**. Washington, D.C.: IMF.

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

- ◆ introducing a new distinction between collective and individual public services;
- ◆ changing the valuation and treatment of product taxes;
- ◆ distinguishing between market and other types of transactions and introducing alternative measures of non-market transactions;
- ◆ extending and improving the specification of the concept of assets and capital formation;
- ◆ further refining the treatment of financial instruments and assets; and
- ◆ harmonising the concepts and classifications used to ensure compatibility with balance of payments statistics compiled using IMF guidelines.

**Implementation of SNA93**

South Africa, like many other countries, is in the process of implementing the United Nations' new System of National Accounts (SNA93). Good progress has been made and statistics prepared in terms of the new guidelines can be expected early in 1999.

**The SNA93 and gender issues**

Although the revisions of the SNA have made some progress in recognising the role of women in the household, it still does not fully measure women's contribution to economic welfare. It should be recognised, however, that national accounts serve a variety of analytical and policy purposes and are not compiled simply to produce indicators of welfare.

**Cash versus accrual**

The SNA 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. Governments draw up their budgets on a *cash flow basis* and they may use the GFS system to classify all their activities during a specific year. The South African exchequer accounts are prepared on a cash basis and are largely compatible with GFS standards. Several differences are noted in the footnotes to the tables in Annexure B.

**SNA versus GFS**

The table below shows the main differences between the SNA and GFS methods in the measurement of government's activities. For example, universities and technikons are regarded as part of government (extra-budgetary institutions) in the GFS accounts but they form part of the household sector in the SNA.

Table 1: Differences between SNA and GFS methods of recording government transactions

GFS	SNA
<b><i>BASIS OF REPORTING</i></b>	<b><i>BASIS OF REPORTING</i></b>
Cash flow	Accrual
<i>Compensation of employees</i>	<i>Compensation of employees</i>
Recorded when amount is actually paid over to the employee	Recorded when amount was earned, irrespective of the time when amount is actually paid
<i>Goods and services</i>	<i>Goods and services</i>
Transactions recorded when payments made	Transactions recorded on transfer of ownership or delivery of service
<i>Indirect taxes and subsidies</i>	<i>Indirect taxes and subsidies</i>
Indirect taxes and subsidies are recorded when payments made	Indirect taxes and subsidies are recorded when initial transaction took place, i.e. when goods were sold
<b><i>INSTITUTIONAL CLASSIFICATION</i></b>	<b><i>INSTITUTIONAL CLASSIFICATION</i></b>
Only 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
<b><i>TRANSACTIONS</i></b>	<b><i>TRANSACTIONS</i></b>
Only cash transactions	Cash and <i>in kind</i> transactions
<b><i>CAPITAL TAXES</i></b>	<b><i>TAXES</i></b>
Tax revenue includes all taxes, whether of a capital or current nature	Taxes of a capital nature are recorded as capital transfers, for example estate, inheritance and gifts
<b><i>FEES AND CHARGES</i></b>	<b><i>FEES AND CHARGES</i></b>
Fees and charges form part of non-tax income and include fees paid by households, business enterprises and sales	Only sales are regarded as fees and charges, which are subtracted from consumption expenditure to show final consumption expenditure. Rest of fees and charges regarded as current transfers
<b><i>COMPENSATIONS OF EMPLOYEES</i></b>	<b><i>COMPENSATIONS OF EMPLOYEES</i></b>
Includes only cash payments	Includes cash and <i>in kind</i> payments
<b><i>TAXES PAID BY FOREIGNERS</i></b>	<b><i>TAXES PAID BY FOREIGNERS</i></b>
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
<b><i>DEPRECIATION</i></b>	<b><i>DEPRECIATION</i></b>
No imputations are made for depreciation allowances since these kind of transactions do not represent a cash flow	Includes depreciation allowances on residential buildings, non-residential buildings, transport equipment and machinery and other equipment

### 3. GOVERNMENT FINANCIAL STATISTICS

#### Revenue

According to the GFS system, revenue collected by government is divided into *current and capital revenue*. Current revenue comprises *taxes and current non-tax revenue*. The tax is classified according to the types of activity upon which the tax is levied. Typically “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 inflow, such as property income, non-capital sales proceeds 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: functionally and economically. A *functional classification* of government's expenditure indicates the amount of money spent on different types of services that government provides (for example defence, health services, and transport). In an *economic classification* of expenditure, the main distinction is between *current and capital expenditure*.

#### Government functions

The GFS classification recognises four major categories of functions performed by governments: General Government Services, Community and Social Services, Economic Services and Other.

General government services include those activities required for the government of the country that cannot be associated with services to individuals or to businesses. These include overall fiscal services, general personnel policies, the conduct of external affairs, defence activities and public order and safety. These services, which are indispensable for the functioning of a modern state, cannot be allocated to particular groups of beneficiaries.

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

Economic services cover government expenditures associated with the regulation and more efficient operation of business. It includes such government objectives as economic development, the redressing of regional imbalances and the creation of employment opportunities. Examples of services rendered to industries by general government bodies are research, trade promotion, results of geological surveys and inspection and regulation of particular industry groups.

The other category contains interest payments, underwriting costs of the public debt and transfers of a general nature to other organs of general government. Transfers of a general nature to other levels of general government are not attributable to particular services. When statistics of the levels and bodies of general government are consolidated, the payment and receipt of these transfers are netted out.

#### Current expenditure

Current expenditure includes required payments other than for capital assets or for goods or services to be used in the production of capital assets, and required payments for purposes other than permitting the recipients to

acquire assets, compensating the recipients for damage or destruction of capital assets or increasing the financial capital of the recipients. It can be divided into the following categories:

<b>Goods and services</b>	<p>Expenditure on goods and services includes all government payments in exchange for goods and services, whether in the form of:</p> <ul style="list-style-type: none"><li>◆ wages and salaries to employees;</li><li>◆ employer contributions to employee benefit schemes outside this level of government in compensation for employee services;</li><li>◆ other purchases of goods and services; and</li><li>◆ interest payments, defined as payment for the use of borrowed money.</li></ul>
<b>Subsidies</b>	<p>Subsidies include all unrequited payments on current account to private industries and public enterprises and the cost of covering the cash operating deficits of departmental enterprises sales to the public.</p>
<b>Transfers to other levels of government</b>	<p>Transfer payments to other levels of general government, which are designated for current purposes or for general or diverse purposes, should be classified under this item.</p>
<b>Current transfers</b>	<p>Current transfers (or unrequited payments) are payments for which something (goods or services) is not given in exchange or in return. It is not compulsory to purchase durable assets with the income provided. Current transfers are customarily classified as transfers to non-profit institutions (for example hospitals and sports clubs), transfers to households (for example social pensions) and transfers abroad to non-resident institutions and individuals.</p>
<b>Capital assets</b>	<p>Acquisition of capital assets covers payments in the market or for the production within government of new or existing durable goods to be used for productive purposes. It only includes goods with both a normal life span of more than one-year and which have a significant value.</p>
<b>Purchases of stocks</b>	<p>This category covers payments for the purchase of strategic and emergency stocks, stocks purchased by market regulatory organisations within government and purchase of stocks of grains and other commodities of special importance to the nation.</p>
<b>Purchases of land and intangible assets</b>	<p>This heading includes payments for the purchase of land, forests, inland waters and subsoil deposits. It excludes improvements to the natural resources such as buildings.</p>
<b>Capital transfers</b>	<p>Capital transfers are in unrequited government payments (or transfers), made for the purpose of permitting the recipients to acquire capital assets, compensating the recipients for damage or destruction of capital assets or in order to increase the financial capital of the recipients. Capital transfers can also be divided between transfers to:</p> <ul style="list-style-type: none"><li>◆ other levels of general government;</li><li>◆ non-financial public enterprises;</li><li>◆ financial institutions;</li></ul>

- ◆ private enterprises;
- ◆ non-profit institutions and households; and
- ◆ transfers abroad.

**Lending minus  
repayment**

This category covers government payments giving rise to financial claims upon others or to government equity participation in the ownership of enterprises, minus government receipts reducing or extinguishing such claims or equity holdings. It thus includes loans made and equities purchased by government minus government receipts from loans repaid, equities sold or equity capital refunded to government, excluding amounts classified as capital transfers.