

Annexure A

Definition of economic reporting format

This section starts with the new budget tables and definitions for receipts, followed by the tables and definitions for payments.

Tables for receipts

Format of detailed receipts table

Economic classification of receipts

Tax receipts

Sales of goods and services other than capital assets

Sales of goods and services produced by department (excl. capital assets)

Sales by market establishments

Administrative fees

Other sales

Of which: Specify at least 4 items

Sales of scrap, waste and other used current goods (excl. capital assets)

Transfers received

From: Other governmental units

Universities and technikons

Foreign governments

International organisations

Public corporations and private enterprises

Households and non-profit institutions

Fines, penalties and forfeits

Interest, dividends and rent on land

Interest

Dividends

Rent on land

Sales of capital assets

Land and subsoil assets

Other capital assets

Financial transactions in assets and liabilities

Total receipts

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Definitions for receipts

Tax receipts

A tax receipt is defined as compulsory, unrequited revenue collected by government units. 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. *Fines, penalties and forfeits* are also compulsory, unrequited receipts, but they are recorded separately from taxes. There are also other unrequited receipts collected by government that are not considered taxes, namely *transfers received*. Taxes are distinguished from *transfers received* because taxes are compulsory and *transfers received* are voluntary.

Distinguishing tax from sales revenue

Taxes must also be distinguished from the sales of certain administrative and regulatory services provided by government. It is not always easy to draw the exact line between some tax categories and these sales. To establish whether a specific item constitutes tax or sales revenue, it is necessary to ascertain whether or not the government unit provides anything in return. It is also necessary to establish whether the amount received is reasonable and in proportion to the cost of producing the service.

If the government unit provides something in return and the amount is in proportion to the cost of producing the service, the item is classified as *sales of goods and services produced by government (excluding capital assets)*. It is then a sale of a service, not a tax receipt. The type of service that government provides is often regulatory. For example, government may verify the competence of the licence holder or the safe functioning of the equipment used. Trading, game and fishing licences as well as passport fees, identity document fees and exam fees fall under this category.

But revenue is classified as a tax receipt if government has not provided a service in return for the payment directly to the payee, or if the fee/licence received is disproportionate to the cost of rendering the service. This is the case with casino taxes, horse racing taxes, liquor licences and motor vehicle licences. Other examples of taxes are sales taxes, excise taxes, business licences, import duties, income taxes and capital gains taxes.

Sales of goods and services produced by department (excluding capital assets)

This category consists of sales by government units provided that the government has produced the good or service. It is important to note that sales of capital assets are never included under this category, but under *sales of capital assets*. Thus, sales of capital assets are excluded from this category, even if they have been produced by a government unit. Capital assets are goods that can be used continuously or repeatedly in production for at least one year and that cost more than R5,000 when originally purchased. Examples of capital assets are buildings, old vehicles, used machinery, etc.

Revenue from ownership of buildings and fixed structures – rentals – is considered *sales of goods and services produced by government (excluding capital assets)*, even though a sale of a building or fixed structure is recorded under *sales of capital assets*. This is because revenue from ownership of buildings implies the provision of a service in the form of maintenance and repair. In contrast, revenue from ownership of land is more passive, and is therefore not considered a sale. Thus, revenue from ownership of buildings is 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 (defined

below). If it is impossible to split revenue earned from ownership of land from that earned from the fixed structures on it, the transaction is recorded as *sales*, and not *rent of land*.

There are three main components of sales of goods and services produced by government (excluding capital assets):

Sales by market establishments

When government units sell goods or services at market-related prices the transaction is recorded here. For example, if a government unit provides rental services by making a building or a flat available to another party, the transaction should be recorded here. However, the fee charged must be in line with prices in the private rental market. Provision of hospital services at market-related prices is also recorded here, as well as sales of any other goods or services at market prices.

Administrative fees

This item consists of revenue collected for sales of regulatory or administrative services, and is sometimes referred to as licence fees. In this category, government must exercise some sort of regulatory or administrative function. For example, it may verify the competence of the licence holder or the safe functioning of the equipment used. It is important to note that if the amount collected is not in proportion to the cost of producing the service, the item is not recorded here but under *tax receipts*. (Taxes are defined above.)

Administrative fees collected are considered sales by government. Examples are trading, game and fishing licences as well as passport fees, identity document fees and exam fees.

Other sales

This item includes revenue from the sale of all other goods and services produced or partially produced by a government unit. To be part of this category, the fee charged must be below prices prevailing in the private market. Examples are rentals of buildings and machinery, as well as non-market related hospital, university, park and museum fees. Sales of seeds and livestock produced by government units are considered *other sales*. Sales of items purchased from another economic unit and then resold are also included under this item; an example would be a postcard sold by a museum.

Sales of scrap, waste, arms and other used current goods (excluding capital assets)

This item includes sales of all used goods that are not considered capital assets and not produced by government, for example, paper sold for recycling, scrap material sold, used arms sold by the Department of Defence. This category therefore includes the sale of all goods that can be used continuously or repeatedly in production for at least one year but that cost less than R5,000 when originally purchased. Examples are small tools and used calculators.

Transfers received

This item consists of all unrequited, voluntary receipts from other parties. Thus, an entry is made under this item when government does not provide anything directly in return for the transfer from 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 receipt, which the government unit is required to use toward the acquisition of a capital asset. All other transfers are current, for example, donations and grants, which the government is not obliged to use to acquire capital assets.

Government units distinguishes between the following transfer categories:

- Transfers received from other governmental units (including government-owned hospitals, clinics and other entities engaged in providing health services, as well as government-owned development organisations, but excluding universities and technikons). Provinces make entries under this category to reflect transfers received from national government;
- Transfers received from universities and technikons;
- Transfers received from foreign governments;
- Transfers received from international organisations;
- Transfers received from public corporations and private enterprises;
- Transfers received from households and non-profit institutions (including privately owned educational institutions).

Fines, penalties and forfeits

This item consists of all compulsory receipts imposed by a court or quasi-judicial body. Out-of-court settlements are also included in this category. As with taxes, this item consists of unrequited, compulsory transactions. Thus, the recipient government unit does not provide anything in return for these receipts.

Interest, dividends and rent on land

Interest

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

Dividends

This item consists of the revenue associated with ownership of the capital or part of the capital of a productive unit, for example a state-owned enterprise. Dividends come in the form of revenue from shares and distribution of profits to the owner. Gains/losses associated with valuation changes is not included in the amount reported under this item.

Rent on land

This item consists of the revenue due to ownership of land. If it is not possible to distinguish revenue due to ownership of land from revenue due to the fixed structures on it, the whole amount is recorded under *sales of goods and services produced by government (excluding capital assets)*.

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.

Sales of capital assets

This item has two components:

Land and subsoil assets

Land excludes fixed structures on it. However, if it is not possible to separate the land from the structures, the combined value of the sale is recorded under *other capital assets*.

The category, *subsoil assets*, consists of all assets found in subsoil, for example proven reserves of oil, minerals and ores.

Other capital assets

This item consists of the sale of goods that can be used continuously or repeatedly in production for at least one year and from which future economic benefits or service potential are expected to flow. Examples are buildings, bridges, roads, machinery, vehicles, software and cultivated assets. Breeding cattle, dairy cattle, wool-producing animals as well as trees and shrubs used for production of fruit and nuts are examples of cultivated assets. Slaughter animals are not cultivated assets, because they can only be used once.

Sales of goods worth less than R5,000 when originally purchased, such as small tools, are not included under *sales of capital assets*. These sales are classified under *sales of scrap, waste, arms and other used goods (excluding capital assets)* unless a government unit has produced them, in which case they are recorded under *sales of goods and services produced by department (excluding capital assets)*.

More details on the capital asset categories are included in the section defining *payments for capital assets*.

Financial transactions in assets and liabilities

It is necessary to provide for receipts associated with certain transactions in financial assets and liabilities. Most financial transactions are not considered revenue items, but in some cases these items are included as revenue, due to the fact that the South African Government is currently using the cash basis of accounting. This item is mainly used for recording repayment of loans and advances previously extended to employees and public corporations and stale cheques cancelled from previous accounting periods.

Tables for payments

Format of detailed payments table

Economic classification of payments

Current payments

Compensation of employees

 Salaries and wages

 Social contributions

Goods and services

Of which : Specify at least 4 items

Interest and rent on land

 Interest

 Rent on land

Financial transactions in assets and liabilities

Unauthorised expenditure

Economic classification of payments (continued)

Transfers and subsidies ¹

To : Provinces and municipalities

Provinces ²

Provincial Revenue Funds

Provincial agencies and funds

Municipalities ³

Municipalities

Municipal agencies and funds

Departmental agencies and accounts ⁴

Social security funds

Provide list of entities receiving transfers (grouped in categories, e.g. regulatory, etc)

Universities and technikons

Public corporations and private enterprises ⁵

Public corporations

Subsidies on production

Other transfers

Private enterprises

Subsidies on production

Other transfers

Foreign governments and international organisations

Non-profit institutions

Households

Social benefits

Other transfers to households

Economic classification of payments (continued)

Payments for capital assets ⁶

Buildings and other fixed structures

Buildings

Other fixed structures

Machinery and equipment

Transport equipment

Other machinery and equipment

Cultivated assets

Software and other intangible assets

Land and Sub-soil assets

Total payments

6. Of which capitalised compensation

1. Details of capital transfers to be included in a note to the budget statement.

2. Includes all grants to provinces and grants from national departments to provincial entities.

3. Includes all grants to local government and grants from national departments to local government entities.

4. This only includes agencies of the sphere of government reported on, grouped into various categories, e.g. regulatory, SETAs, etc. - No business entities included here.

5. Category exclusively for business oriented entities, NT to decide which entities to be included.

Definitions for current payments

Compensation of employees

Government units distinguish between two components of gross remuneration: Salaries and wages; and social contributions.

Salaries and wages

This item includes most payments to government employees, except social contributions (defined below) and payments to government employees working on capital projects. The latter payments are classified as *capitalised payments* (see below under *payments for capital assets*).

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 also included, provided that these staff members are paid at regular intervals and that they are listed on the government payroll;
- 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.

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

- Reimbursements of expenses incurred by employees on tools, equipment, uniforms and other items that are needed to enable them to carry out their work;
- Reimbursement of expenses 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;
- 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.

Expense under the first four of these five categories is classified as *goods and services*. Expense under the last category is classified as *transfers to households, social benefits*.

Compensation of employees does not include payments to people who are not government employees, such transactions constitute purchases of services, and are recorded under *goods and services*. Examples of such people are consultants, architects, engineers and occasional workers, not on the government's payroll.

Social contributions

This item is the second component of the broad category *compensation of employees*. The item includes the government's 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.

Goods and services

This item includes payments for all goods and services used by a government unit, excluding purchases of capital assets¹. Purchases of capital assets fall under *payments for capital assets*.

¹ Capital assets are defined either as a) goods that can be used continuously or repeatedly in production for at least a year and from which future economic benefits or service potential are expected to flow to the owner of the asset or b) land and sub-soil assets – see below under *payments for capital assets*.

Payments for goods and services to be used as input into a capital project executed by government are also excluded from *goods and services*. Such payments are classified as *capitalised payments* and are explained in more detail below under the heading *payments for capital assets*. It also deserves mention that all goods to be used by a government unit and costing less than R5,000 are included here, provided that they are not intended for use as input in a capital project.

Goods that are purchased for resale are also classified as *goods and services*.

Presently, goods that are purchased by government but later transferred in kind to employees or other units are recorded as part of *goods and services*. This is due to the fact that South Africa is still using cash accounting. Once accrual transactions are recognised, these types of transactions will be recorded as *compensation of employees* or in the appropriate transfer category.

The item, goods and services includes the following:

Goods to be included in *goods and services* are for example petrol, coal, small tools and equipment, stationery, foodstuff and electricity. In addition, goods purchased for resale fall under this category, such as postcards to be resold by government-owned museums. Examples of services to be included are hotels, restaurants, transport, communication, banking, business services, consultants' fees, market research and staff training, as well as rental of buildings, other fixed structures, equipment and vehicles. Payments for research, design costs, bursaries to government employees and consultants' fees are also considered purchases of services and as such are classified under *goods and services*.

As noted under the definition of *compensation of employees*, the item, *goods and services*, also includes:

- Reimbursements of expenses incurred by employees on tools, equipment, uniforms and other items that are needed to enable them to carry out their work;
- Reimbursement of expenses 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; and
- Payments for travel and subsistence while on government duty away from duty station. Per Diem and out-of-town allowances fall under this category.

Payments for rent of land are not included in *goods and services*. However, if it is impossible to distinguish between the rent of land and rental of the fixed structures erected thereupon, the whole amount, including the payment for use of land, is included in *goods and services*.

The item, *goods and services*, includes all payments for services purchased. Thus, if a department uses another unit or agency (within or outside government) to carry out a service directly on its behalf, the payment is classified as *goods and services*. For example, if a department pays the CSIR to carry out vehicle inspections for which the department is responsible, the transaction is recorded as *goods or services*.

Interest and rent on land

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 government units are included here. Where possible, interest paid on overdue accounts is also included under this item.

Rent on land

This item includes the total value of payments due to use of land owned by another party, including other government units. If possible, payments associated with use of land are distinguished from payments due to use of buildings or other fixed structures. Payments associated with use of land are recorded here, but payments associated with use of buildings and other fixed structures are classified as *goods and services*.

Sometimes it is not possible to distinguish between payment for the use of land and the fixed structures on it. If a clear distinction is not possible, the whole amount is recorded under *goods and services*.

Financial transactions in assets and liabilities

It is necessary to provide for payments associated with certain financial transactions in assets and liabilities. This item consists mainly of transactions that create or increase a debtor's outstanding account. Examples are lending to employees and public corporations for policy purposes, meaning that these transactions are treated as expense items. The reason for expensing this payment rather than treating it with other financial transactions is that, unlike other financial transactions, the purpose is not market-oriented.

Definitions for transfers and subsidies

Transfers and subsidies include all unrequited payments made by the government unit. A payment is unrequited provided that the government unit does not receive anything directly in return for the transfer to the other party.

Both current and capital transfers are included in this item. The main reason for including both current and capital transfers under the same heading is that in practice it is often difficult to differentiate between these two categories. In addition, both have the same effect on net worth of government. Capital transfers are accounted for as a note to the budget statement.

Examples of current transfers are social security benefits paid to households, fines, penalties, compulsory fees and compensation for injuries or damages paid to another unit.

Government units need to distinguish between the following transfer categories:

- Transfers to provinces (including the Provincial Revenue Fund; provincially owned entities, like hospitals, clinics and other entities engaged in providing health services; as well as provincially owned development organisations, but excluding universities and technikons)
- Transfers to municipalities (including development organisations owned by municipalities and other municipal entities)
- Transfers to departmental agencies and accounts (including national public entities listed in the PFMA, such as social security funds, unemployment insurance funds and other funds and accounts)
- Transfers to universities and technikons
- Transfers to public corporations and private enterprises:
 - Subsidies on production
 - Other transfers to public corporations and private enterprises
- Transfers to foreign governments and international organisations
- Transfers to non-profit institutions (including privately owned educational institutions)

Transfers to households:

- Social benefits
- Other transfers to households.

All these transfer categories are self-explanatory, except subsidies on production, other transfers to public corporations and private enterprises, social benefits, and other transfers to households, which are explained in more detail below.

Subsidies on production

Subsidies on production comprise all current, unrequited payments to businesses – 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 products or on production 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*.

Other transfers to public corporations and private enterprises

Other transfers to public corporations and private enterprises consist of all capital transfers and those current transfers whose purpose is not to subsidise production. Most of these transfers are capital transfers. Examples of this category include payments to corporations and enterprises to finance purchases of capital assets, to compensate them for damages to capital assets, and to cover large operating deficits accumulated for at least two years.

Social benefits

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; old age grants, 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 transfers to households

Other transfers to households consist of all other transfers to households, including capital transfers to households. This category also includes payments of bursaries (but excluding bursaries

to government employees, which are recorded under *goods and services*), fines and penalties paid to households. It also includes compensation for injuries and damages caused by natural disasters or government units if paid to households.

Definitions for payments for capital assets

Capital assets comprise five main categories:

- Buildings and other fixed structures
- Machinery and equipment
- Cultivated assets
- Software and other intangible assets
- Land and sub-soil assets.

Expenditure on goods, such as small tools worth less than R5,000, is not included under *payments for capital assets*. Purchases of such goods are categorised as *goods and services*.

Payments on the first four main asset categories (i.e. excluding land and sub-soil assets) represent the sum of:

- Purchases and own-account construction of new assets;
- The cost of upgrading/improvements/extensions to existing capital assets;
- The cost of improvements to land (classified as buildings or other fixed structures as the case may be);
- The cost of ownership transfers of land, buildings and other structures (classified as *buildings* or *other fixed structures* as the case may be).

Buildings and other fixed structures

This asset category is divided into two main components: buildings and other fixed structures.

Buildings

These assets are fixed structures which are inhabitable by people, animals or plants or which can be used for storage. These assets can be used continuously or repeatedly in production for at least one year.

Other fixed structures

This asset category consists of all fixed structures other than buildings. It includes roads, bridges and dams. These assets can be used continuously or repeatedly in production for at least one year.

Machinery and equipment

This asset category is also divided into two main components: transport equipment and other machinery and equipment.

Transport equipment

This asset category includes vehicles, ships, aircraft and any other asset that can be used for transportation of goods or persons. These assets can be used continuously or repeatedly in production for at least one year.

Other machinery and equipment

This asset category includes machinery, engines, motors, generators and computer hardware. These assets can be used continuously or repeatedly in production for at least one year.

Cultivated assets

Cultivated assets are animals and plants that are used repeatedly or continuously for more than one year to produce other goods or services. Examples of animals included in this category are dairy cattle, draft animals, wool-producing animals, breeding stocks, game and animals used for transportation and entertainment. Examples of plants are trees, vines and shrubs cultivated for production of fruits, nuts, sap, resin, bark and leaf products. Slaughter animals are not cultivated assets, because they can only be used once.

Software and other intangible assets

This asset category includes computer software and mineral exploration, as well as any other intangible asset that can be used continuously or repeatedly in production for at least one year. (Research, staff training and market research do not constitute intangible capital assets. Payments on such items should be classified under *goods and services*.)

Land and sub-soil assets

This asset category may also be divided into two parts: land and sub-soil assets.

Land

As the name implies, *land* consists of land, but excludes structures on it. It also excludes improvements to land or the cost of ownership transfer of land. Improvements to land and the cost of ownership transfer of land are recorded under *buildings* or *other fixed structures*, as the case may be. Furthermore, if it is not possible to separate the value of the land from the structures on it, the combined value of the acquisition is recorded under *buildings* or *other fixed structures*.

Sub-soil assets

Sub-soil assets consist of proven reserves of oil, minerals and ores.

Capitalised payments

When government units engage in capital projects on own account, for example the Public Works Department constructs a new road, certain payment categories are *capitalised*. The relevant payment categories capitalised are:

- Compensation of employees

Goods and services.

These two payment categories are not capitalised unless payments are *directly associated* with the *capital project*. A capital project is defined as a project executed by the government unit to construct a new asset or upgrade/improve/extend an existing capital asset. However, payments on *current projects*, namely maintenance and repair of existing capital assets, are not capitalised.

Payments to employees are not capitalised unless they work in direct association with a capital project. This is particularly relevant for employees in administration, because their salaries are often not capitalised due to the fact that they normally work not only with capital projects.

Similarly, payments for goods and services are only capitalised if they are used directly as input into the capital project.

Capitalised payments should be classified under the relevant asset category, for example, *buildings, other fixed structures* or *software and other intangible assets*, as the case may be. Capitalised *compensation of employees* is included at the bottom of the payments table as additional information.

