

South African Budget Dictionary



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A

Accountability: The obligation on the legislature and executive to explain and justify their decisions towards the implementation of the responsibilities conferred on them by the electorate. Fiscal accountability refers to the responsibility on government to account to Parliament for the way public funds are collected, managed and spent.

Accounting: The systematic recording of the financial aspects of transactions. This is done according to recognised principles so that accounts can be audited and expenditures rendered transparent.

Accounting Basis: The body of accounting principles that determine the form of financial reporting. There are two basic ways in which this can be done, namely Cash based and Accrual based accounting. *See Cash Based Accounting; Accrual Accounting*

Accounting Officer: The civil servant in a government department who is accountable to the Minister and Parliament for financial management. The Director-General or Head of the relevant department normally fulfills this role.

Accrual Accounting: An accounting convention by which payments and receipts are recorded at the time that the parties enter into a commitment. This system would record the purchase of naval helicopters, for example, when the contract is signed, not when the helicopters are delivered and paid for (as would be the case in a Cash Accounting System). South Africa will move towards an accrual system in order to comply with the GFS requirements. *See Cash Accounting; Government Financial Statistics; Accounting Basis*

Activity Based Costing (ABC): A way of costing government services. ABC identifies what it costs (money, personnel, capital goods etc.) government to undertake a specific activity.

Adjustment Estimate/Budget: The mechanism by which Government seeks parliamentary approval for spending that differs from the allocations legislated for in the Budget and the Appropriation Act. More than one adjustment may be made to the Budget in a fiscal year. In recent years the Adjustment Estimate for national government was tabled in the first week of November. *See Appropriation Act*

Administrative expenditure: Normal overhead administrative expenses of departments including subsistence and transport costs, postal and telephone expenses. Part of the Standardised Items Classification of the provincial and national government budgets. *See Standardised Item*

Agency Payment: Payments made by one government department to another to pay for services which are the responsibility of the first department but that are administered by the department receiving the payments. Agency payments remain a

part of the budget of the department making the payment. Therefore they do not appear on the budget of the department receiving the payment. For example, provincial Health Departments pay Metropolitan Councils to operate Primary Health Care Clinics. These payments remain on provincial government budgets and do not appear on the relevant Metropolitan Council's budget. *See Conditional Grant*

All Share Index: A figure based on the average price of selected stocks, as a proxy for or indication of the [relative] average price of all shares on the Stock Exchange. *See Assets; Securities*

Allocation: Money earmarked for a particular purpose in the budget. For example the allocation for Welfare on the national budget has to be spent on Welfare.

Allocative Efficiency: Refers to the incentives for efficient allocation of factors of production (labour, capital, land) between competing uses, with the ultimate goal of maximising the economic welfare of consumers. Under standard conditions, a competitive market is allocatively efficient. A monopoly is not allocatively efficient since it produces less output at a higher price than competitive firms would. Special care has to be taken to make public expenditures as allocatively efficient as possible since the discipline of competitive markets is generally not present.

Amendment Powers: The ability of parliament to change the budget. In terms of Section 77.2 of the 1996 Constitution, Parliament has the right to amend the budget as tabled by the Minister of Finance but such powers are conditional on enabling legislation being passed. This legislation was tabled and withdrawn in 1997. No new legislation has been submitted since then.

Annexure E: The Intergovernmental Fiscal Relations Act of 1997 requires the Minister of Finance to publish this explanatory memorandum with the Division of Revenue Bill that explains the formulae and assumptions used in determining the allocations distributed to provincial and national governments. Annexure E should also explain to what extent the allocations published in the Division of Revenue Bill took account of Section 214 (2) of the 1996 Constitution and the recommendations of the Financial and Fiscal Commission. *See Financial and Fiscal Commission; Division of Revenue Act*

Appropriation Act: The annual Appropriation Act authorises the withdrawal of money from the national revenue account, to be distributed between national government departments as set out in the budget. To date this Act has only contained the main totals for each department. Background information to these totals is contained in the Estimates of Expenditure (also known as White Books or RP2). In terms of the Public Finance Management Act of 1999 the Appropriation Bill will in the future also contain totals for each programme in a given department. This means that from the 2000/01 financial years the programme as well as the departmental totals will be legally binding. *See Appropriation; Appropriation Act; Estimate of Expenditure*

Appropriation: The approval by Parliament of spending from the National Revenue Fund, or by the provincial legislature from the Provincial Revenue Account. It refers to the authority conferred under a law by Parliament or the Provincial Legislature to the executive to spend public funds for a specified purpose. Annual appropriations are made through the Budget. *See Adjustments Estimate; Appropriation Act; Supplementary budgets/appropriations*

Arrears: Outstanding debts.

Assets: Objects such as bonds, shares, houses, cars, furniture that may be owned by government, individuals or private sector companies. *See Bonds*

Auditor-General: According to the 1996 Constitution, the Auditor-General must audit and report on the accounts, financial statements and financial management of: all national and provincial government departments and administrations; all municipalities; any other institution or accounting entity required by national or provincial legislation to be audited by the Auditor-General. The Auditor-General is obliged to report to any legislature that has direct interest in the audit and to any other authority prescribed by national legislation. All such reports must be made public. On the other hand the Auditor General is politically independent and subject only to the Constitution and the law (S181 of the Constitution). He/she is also obliged to be impartial and must exercise powers and perform functions without fear, favour or prejudice.

B

Balance of Payments: A summary statement of all the international transactions of the residents of a country with the rest of the world during a particular period, i.e. the difference in value between payments into and out of the country (including money, goods and services). Balance of payments accounts form part of the National Accounts. *See Capital Account Current Account; National Accounts*

Bank Rate: A term for the rate at which the Reserve Bank lends money to commercial banks. By discounting certain securities the Reserve Bank sets the base interest rate for the commercial system. Monetary policy once depended heavily on bank rate policy; commercial prime overdraft rates were tied to the bank rate. More recent monetary policy uses the Repo Rate instead. *See Repo Rate; Monetary Policy; Securities*

Baseline Allocations: The initial allocations used by government departments during the budget process for planning purposes. Baseline allocations are derived from the previous year's MTEF projections. These provisional allocations are finalised once

government has certainty about its revenue projections. *See Medium Term Expenditure Framework; Revenue*

Basic Services: The national minimum standards of service in education, welfare, health care, housing and infrastructure as defined in the Constitution, legislation or government policy.

Bonds: A certificate issued by a government or a private sector company promising to repay borrowed money at a fixed rate of interest at fixed times, with a final capital repayment at a specified date.

Borrowing Requirement: The deficit before borrowing and debt repayment of the central government, provincial governments, local authorities and non-financial public enterprises and corporations. The government has to finance the borrowing requirement through local or foreign loans. *See Deficit*

Budget Council: A consultative forum established to coordinate financial relations between national and provincial government. Its role is to make a recommendation on the division of revenue before this decision is finalised by the Cabinet. The Budget Council consists of the Minister and Deputy Minister of Finance and the nine provincial MECs for Finance. The Financial and Fiscal Commission (FFC) has observer status. The chairpersons of the Portfolio and Select Committees on Finance have on occasion been invited to observe. The Minister of Finance is the chairperson of the Budget Council. The Budget Council was formalised by the Intergovernmental Fiscal Relations Act of 1997. *See Financial and Fiscal Commission; Division of Revenue Act*

Budget Forum: A consultative forum established to coordinate financial relations between national, provincial and local government. The Budget Forum consists of members of the Budget Council and representatives of Organised Local Government. The FFC has observer status. The Budget Council was formalised by the Intergovernmental Fiscal Relations Act of 1997

Budget Review: A readable and accessible summary of the Estimate of Expenditures. It also includes summary tables and plain English explanations of the policy choices reflected in the Budget and some of the thinking behind them. It includes Annexure E. *See Annexure E; Estimate of Expenditures*

C

Capital Account: The balance of payments is divided into two sections: the capital account and the current account. The capital account deals with capital movements, consisting of short-term capital flows, long-term capital flows and movements in the

country's reserves. *See Balance of Payments; Capital inflows/outflows; Current Account*

Capital Expenditure/Spending: Spending on an asset that lasts for more than one year is classified as capital expenditure. This includes equipment, land, buildings and legal expenses and other transfer costs associated with property. For capital projects (e.g. afforestation, water supply) all associated expenses are considered as capital spending - even wages and transport.

Capital Gains Tax: A tax levied on the profits realised from the sale of capital assets or investments by a taxpayer. "Capital gain" can be defined as the selling price minus the purchase price of the relevant capital asset. The tax will apply to capital gains derived from 1 April 2001. It will not apply to family homes, private vehicles or ordinary household possessions.

Capital Inflows/ Outflows: A capital inflow is a movement of short-term or long-term capital into a country. A capital outflow is movement of capital out of a country. Of most importance is the net position over a period of time. *See Capital Account*

Capital Markets: The financial markets for financing medium to long-term investments, i.e. a year or more.

Carry-through costs: The costs of projects not incurred during the period for which the funds were made available. For instance, if R 100 million was appropriated for a project to be completed in the 1999/2000 fiscal year and only R60 million was spent in that year, there would be a carry-through cost of R40 million that would have to be financed in the 2000/2001 fiscal year.

Cash based accounting: An accounting system that recognises transactions and events only when cash is received or paid, not when the transaction is undertaken (as in Accrual Accounting). Assets are fully accounted for at the time that they are paid for. In such a system the loss in value of capital assets (such as hospitals) over time would, for example, not be recorded. The cost of the hospital would simply be recorded at the time of its purchase. *See Accounting Basis; Accrual Accounting*

Closed Economy: An economy that is protected from outside economic influence through laws that prohibit or inhibit foreign trade and capital movements. *See Open Economy*

Concurrent Competency: Expenditure functions, such as health, for which, in terms of the Constitution, national and provincial governments are jointly responsible.

Conditional Grant: Allocations of money from one sphere of government to another that are conditional on certain services being delivered or on compliance with specific requirements. These funds can therefore be used for no other purpose. For example the national Department of Health has transferred money to the KwaZulu-Natal provincial government for the construction of an Academic Hospital. Conditional

grants appear as expenditure in the budget of the department making the grant and as revenue of the province or municipality receiving the grant. *See Agency Payment*

Conditions of Service: The terms of employment that determine the relationship between the employer and employee and their respective duties and responsibilities. This would include salary levels, benefits, job descriptions etc.

Consumption spending: Spending on consumable goods and services (and not on assets). Theory suggests it be financed by recurrent expenditure. Lack of spending on capital may reduce the efficacy of consumption expenditure in the long run. *See Current Expenditure/Spending; Capital Expenditure*

Contingency Reserve: A separate budget provision set aside in advance to meet changes to the economic environment and/or unforeseen and unavoidable expenditure that may arise during the budget year. In the current year the budget has R2 billion in the Contingency Reserve. In previous years this money was used to help provinces to pay off their debts or finance unanticipated civil service salary costs. *See Unallocated Reserves*

Contingent Liabilities: Spending commitments that may or may not arise such as a debt default by a lower sphere government (which may require a bail-out by central government). Contingent liabilities are obligations that have been entered into, but the timing and amount of which are dependent on the occurrence of an uncertain future event.

Core Inflation: Measures the underlying inflation trend for a basket of goods in the economy and excludes more volatile elements. It is calculated by excluding the following from the consumer price index (CPI): prices of fresh and frozen meat and fish; vegetables, fresh fruit and nuts; interest rates and mortgage bonds, overdrafts and personal loans; value added tax and property taxes. *See Consumer Price Inflation*

Cost drivers: Those major factors that determine the costs of a particular programme or activity to change over time, for example learner numbers and teacher salaries in education.

Cost-benefit analysis (CBA): A way of presenting information to assist government choice in the selection and appraisal of projects. Such an analysis compares the costs in delivering a particular service with the benefits that citizens are likely to derive from it. Given this information government can decide which projects it should undertake to maximise the value of benefits less costs.

Costed norms approach: An approach proposed by the FFC for the calculation of the share of funds transferred from national to provincial government. This approach calculates costs of providing services efficiently at the level determined by national norms and standards. The normative costs of all the services for which a given

province is responsible would determine its equitable share. *See Equitable Share; Vertical Division/Split*

Consumer Price Inflation: The Consumer Price Index (CPI) reflects the price of a representative basket of consumer goods and services. This index measures the impact of inflation on the average consumer. *See Core Inflation; GDP Inflation; CPIX*

CPIX: This is used as the benchmark for inflation targeting. It includes the full basket of goods and services that a typical household consumes – measured by the familiar consumer price index (CPI), but excludes interest costs as these are a direct outcome of monetary policy. *See Consumer Price Inflation; Core Inflation; GDP Inflation*

Current Account: The part of the balance of payments relating to imports and exports of goods and services. A current account deficit means that the sum of all these activities are negative; a current account surplus means that the sum is positive. *See Balance of Payments; Capital Account; Trade Balance*

Current Deficit: A measure of the extent to which government has to borrow money. The current deficit is equal to the conventional budget deficit or surplus (that is, the difference between expenditure and revenue) minus investment expenditures and capital revenues (that is, asset sales). *See Deficit; Expenditure; Revenue; Savings*

Current Expenditure/Spending: Recurrent expenditure on goods and services, which are not transfer payments or capital assets. It includes salaries, rentals, office requirements, the operating expenses of government industries and services, interest and maintenance of capital. *See Capital Expenditure*

Customs Duties: Duty levied on imports of goods and services from foreign countries.

D

Debt Service Costs: The interest payable on debt. This excludes the repayment of the amount of money originally borrowed.

Debt: a) Private debt refers to sums repayable by individuals and companies. Interest is normally payable on private debt. b) National debt is the money owed by the state in its corporate capacity.

Deficit: The amount by which total expenditure exceeds total revenue.

Depreciation allowances: Allowances made in valuations, estimates and balance sheets for the reduction of value of goods (capital and other) as a result of wear and tear. *See Accrual Accounting; Capital Goods; Cash Accounting*

Derivatives: Financial instruments that derive their value from another financial instrument. They are most frequently based on shares in private companies. For instance, an option confers the right to buy or sell a share at a specified price on or before a specified date. Options are themselves assets which can be traded in financial markets. *See Assets; Securities*

Direct Taxes: Taxes charged on the taxable income of individuals and legal entities. *See Indirect Taxes*

Dissaving, Government: Measured by the extent to which current expenditure exceeds current income. *See Current Deficit*

Division of Revenue Act: The legislation that provides for allocation of funds between the spheres of government, as required by the Constitution (Section 241). The Division of Revenue Act determines the sizes of Equitable Shares, Conditional Grants and some Agency Payments. *See Agency Payments; Conditional Grants ; Equitable Shares*

Dow Jones Index: A figure based on the average price of selected stocks, indicating the average price of shares on the New York Stock Exchange.

E

Economic Classification: A way of classifying government budgets. Classification of expenditure by the nature, rather than the purpose of transaction (as in Functional Classification). It divides expenditure into transfers and direct expenditure; or current or capital (fixed or movable) expenditure. *See Transfers; Current Expenditure; Capital Expenditure; Functional Classification*

Economic Growth: Economic growth refers to the increase in the quantity of goods and services in a country. Economic growth can be measured by changes in GDP. *See GDP*

Economies of scale: A reduction in the unit cost of a product as a result of increasing quantities produced. Diseconomies of scale refer to the opposite, when unit cost increases if production is increased. The printing of books is usually a case where economies of scale apply.

Equipment: Assets used to produce other goods, such as heavy and durable machinery; hospital, laboratory and scientific furniture and labour-saving devices. *See Standardised Items; Stores and Livestock*

Equitable Share: The share of funds in the National Revenue Account that each sphere of government is entitled to constitutionally. The criteria on which this division is based are listed in Section 214 (2) of the 1996 Constitution. *See Annexure E; Division of Revenue Act*

Equity: a) In a public company, a synonym for a share (as distinct from fixed interest investment); b) in a private company, the interest or value which an owner has in its assets over and above the debt against them.

Estimate of Expenditure: A document setting out the detailed spending plans of each government department for the coming year. Also known as the “White Book” or RP2. This document serves as background to the Appropriation Act, which makes these spending plans legally binding. *See Appropriation; Appropriation Act*

Exchange Control: Government regulations restricting the free exchange of the domestic currency to and from foreign currencies. Limits on foreign assets which may be owned by South Africans are a form of exchange control, as are limits on foreign currency which may be purchased at the time of international travel.

Excise Duties: Taxes on the manufacture or sale of certain domestic or imported products. Excise duties are usually charged on products such as alcoholic beverages, tobacco products and petroleum products. Excise duties are normally an extremely regressive tax. *See Regressive Taxes*

Expenditure: Government spending of

money, amount of money spent.

Externality/Spill Over: The positive or negative side effects that the provision or non-provision of certain government services has on other actors/stakeholders. For example, if one province did not inoculate for TB, this would have a negative impact on the health costs of surrounding provinces, since there would be more sources of infection in those provinces as people move around. An example of a positive externality is the training of medical staff by some provinces that makes trained medical staff available to other provinces without additional expense to them.

Extra-budgetary funds /accounts (EBFs): The term refers to government transactions that are not included in the annual budget. These may not be subject to the same level of scrutiny or accounting standards as the annual budget. The Road Accident Fund is an example of extra-budgetary funds.

F

Financial and Fiscal Commission (FFC): An independent body established by Chapter 9 of the 1996 Constitution to make recommendations to Parliament and Provincial legislatures about financial issues affecting the three spheres of government.

Financial Management System (FMS): The computer system used by national and provincial governments in South Africa to manage their finances.

Financial Year: The 12 months according to which companies and organisations budget and account. In the private sector, this varies from company to company.

Fiscal Drag: The effect of inflation on effective tax rates. When salaries are adjusted to compensate for the effect of inflation on the value of money, the taxpayer is pushed into higher income tax brackets where higher rates apply. In this way the individual's effective tax rate is increased, even though real incomes may not be increasing. *See Inflation; Nominal terms; Real Terms; Tax Rate*

Fiscal Exposure: The total legal financial responsibilities of government. These include explicit and implicit government guarantees on debt and its own debt commitments.

Fiscal Federalism: A system whereby fiscal authority, that is expenditure and taxation decisions, is devolved to subnational governments (provincial and local). This may be the result of either constitutional provisions or internal agreements of government.

Fiscal Management: The management of government revenue and everything that influences it, including debt levels and sources and levels of tax revenue.

Fiscal Policy: Policy on tax, spending and borrowing by the government.

Fiscal Year: The 12 months on which government budgets are based, beginning 1 April and ending 31 March of the next calendar year.

Fixed investment: Spending on grounds, buildings, and immovable machinery and equipment contributing to production capacity.

Foreign Direct Investment: New investment or acquisition of existing assets by foreigners. An example would be expansion by BMW (a German company) of its production capacity in South Africa.

Forward Book: All the future transactions to which the Reserve Bank is committed. Usually the position is that the Reserve Bank has net commitments to supply foreign currencies in the future. The extent of this commitment is referred to as the net open position. Because of the thinness of the market and exchange control, the Reserve Bank functions as a foreign exchange trader. It may enter into transactions that involve exchange of rand for foreign currencies in the future, as well as in the present. *See Capital Account; Exchange Control*

Forward Cover: Transactions involving the supply of foreign exchange at an agreed rate at a future date. These transactions reduce the risk of individuals and firms who are contractually obliged to make payments in foreign currencies in the future. *See Forward Book*

Fuel Levy: An excise tax on liquid hydrocarbon fuels (petrol, diesel etc.). *See Excise Tax*

Function Shift: The movement of responsibility for the delivery of a service from one government department to another.

Functional Classification: A way of classifying budgets. It is generally used to measure the allocation of resources by government to various activities and objectives (such as health, education, and transportation and communication), rather than the nature of expenditure (Economic Classification). It differs from Economic Classification in referring to the activity (programme or department) for which the expenditure is made, not to what is bought. This is one of the changes in government budgets proposed by the GFS system *See Economic Classification; Government Financial Statistics; Standardised Items*

G

GDP Inflation: A measure of the average increase in prices in the whole economy. Unlike the CPI inflation, GDP inflation includes price increases in goods that are exported, excludes imported goods, and includes intermediate goods such as machines. *See Consumer Price Index; Core Inflation; GDP*

Gini-coefficient: A measure of the inequality of income distribution between rich and poor. The measurement ranges between 0 and 1. The higher the value, the more unequal the distribution

Government Finance Statistics (GFS): A system designed by the International Monetary Fund (IMF) for the analysis of fiscal policy. It specifies accounting rules, balance sheet formats, definitions and classifications of revenue and expenditure. South Africa is in the process of implementing this system. *See Functional Classification*

Graduated rate structure: This refers to the way that rates and taxes to be paid are organised. A “graduated” structure refers to the fact that people in different income categories, for example, would pay different rates of income tax. A progressive income tax would be an example of a graduated rate structure. *See Progressive Tax; Regressive Tax*

Gross Domestic Product (GDP): Total value of final goods and services produced in the country during a calendar year. GDP per person is the simplest overall measure of income in a country. Economic growth is measured by the change in GDP from year to year. *See Gross National Product*

Gross Fixed Capital Formation: Total value of investment in fixed assets during a calendar year, before depreciation is taken into account. *See Depreciation*

Gross National Product: The GDP plus the total net income from abroad. *See Gross Domestic Product*

I

Import Intensive: Goods and services which require a larger than average share of imports in their production.

Improvements in Conditions of Service: The sum set aside in the budget to meet the costs of pay increases for public servants. The distribution of funds allocated to “Improvements in Conditions of Service” depends on the agreements between

government as employer and the public service unions. *See Conditions of Service; Personnel Expenditure*

Incentive: The reason or motivation that is expected to drive a particular course of action by economic agents, or influence their decision-making processes. For example, reduced company tax rates can motivate the private sector to increase investment.

Incremental Budgeting: Occurs when the past is used as point of departure in compiling the budget. The current budget levels are adjusted for changes that are expected to occur during the next budget period. In this way the allocations to existing programmes and departments are not evaluated. *See Zero-based Budgeting*

Index: A number showing the variation of prices (or another magnitude) as compared with a chosen base period. If the Consumer Price Index was 100 in 1995 and 110 in 1996, this means that the inflation rate between 1995 and 1996 was 10 percent. *See Consumer Price Index*

Inflation Targeting: The practice of determining a given inflation rate (or band) as the objective of monetary policy. The government has chosen an inflation band of 3-6 percent in 2002 as the inflation target. The Reserve Bank is expected to conduct monetary policy in such a way as to achieve this target. *See Monetary Policy*

Inputs: Resources used by government to render a certain service. Examples of such inputs are money, personnel, buildings, IT systems and capital. *See Outputs; Outcomes*

Interest Rate: A proportion of a loan paid for the use of that money until the debt is repaid. If the interest rate is 12 percent per annum, this means that the borrower has to pay R120 per year for the use of R1000, until the capital sum is repaid. *See Debt*

Intergovernmental Fiscal Review (IGFR): A review of the actual expenditure and service delivery achievements of provincial and local government published by the national Department of Finance. It is the equivalent of the National Expenditure Survey for provinces and local government. The IGFR was published for the first time in 1999 but did not include local government data. *See National Expenditure Survey*

L

Land and Buildings: Expenditure on the purchase or renting of land, buildings and structures. *See Standardised Items*

Levy: Compulsory statutory payments made in exchange for non-direct benefits received e.g. fuel levies, which are partly used to finance third party road insurance.

Line Function Department: A Department that is directly involved in service delivery, for example, Health and Welfare. Such departments are to be distinguished from departments that are responsible for the general operation of government such the Departments of Finance and Public Service.

Line Item: An item in a departmental budget that refers to the amount of money allocated within a programme or sub-programme.

Line Item Budgeting: A budgeting system in which expenditures are listed according to objects of expenditure, or line items. The South African system generally specifies three line-items: allocations to departments, programmes and sub-programmes. The focus of this system is to ensure that departments do not overspend on line-items. The weakness of this system is that it gives no information on how money was spent or on the efficiency or effectiveness of programmes, as do Outcome and Output based budgeting. *See Programme Budgeting; Allocative Efficiency; Productive Efficiency*

Liquidity: a) The ability of an investment to be easily converted into cash with little or no loss of capital and minimum delay. An example of a highly liquid asset is a short-term bank bill or promissory note. These can be traded quickly and easily. Property is a relatively illiquid investment. It takes time to sell and there are substantial transactions costs. For many securities, the degree of liquidity depends on the depth of the secondary market for that security; b) The maintenance of cash and reserves by a financial institution to fund withdrawals by depositors, unit holders or clients. *See Capital Market; Money Market*

M

Macro-economic Policy: Broad government policies to ensure economic stability. It includes monetary and fiscal policy, as well as government's priorities in allocating resources.

Marginal Tax Rate: The rate of tax on the last rand of income earned. *See Tax Rate*

Marketable Securities Tax: An excise tax on the purchase of securities traded on the stock exchange. It is set at a rate of 0.25 percent on the value of the stock exchange transaction. *See Securities; Excise Tax*

Measurable objectives: A way of measuring the performance of government departments. Performance is often measured by looking to outputs, because the factors contributing to a change in outcomes normally cut across departments. The Public Finance Management Act obliges accounting officers to publish such measurable objectives in their department's budget. *See Outputs; Outcomes; Performance Budgeting*

Medium Term Budget Policy Statement (MTBPS): Sets the fiscal planning framework for the upcoming budget and the two years following. The MTBPS includes up-to-date macro-economic projections, a revised fiscal framework setting out affordable levels of taxation, public spending and borrowing; analysis of the existing spending plans and a summary of likely implications for service delivery. It also sets out the main policy choices that Government confronts as it finalises the budget. The MTBPS is published about five months before the beginning of the new fiscal year (October or November) by the national Department of Finance

Medium Term Expenditure Framework (MTEF): The three-year revenue and expenditure plans of provincial and national governments. Each year the projections for the first year are voted on as the budget. The two outer years are retained as a basis for future planning, while a new year 3 is added on. MTEFs are therefore also known as "rolling budgets". MTEFs also integrate fiscal policy and budgeting over the medium-term by linking a system of aggregate fiscal forecasting to a process of maintaining medium-term budget projections by ministries reflecting existing government policies. It thus provides a skeleton for meeting policy objectives, within which annual spending decisions can be made. It provides a useful way of checking that spending decisions of each department made now will help to realise overall long-term goals. *See Baseline Allocations*

Minimum Standards: Standards for provincial service delivery published by a national department. For example the Norms and Standards for School Funding regulate the way in which provinces fund the non-personnel expenditure of schools.

MinMEC: A political forum where national and provincial departments in the same sector discuss policy issues. It consists of the national Minister and the nine provincial Members of the Executive Committees, supported by key departmental officials. MinMECs cover areas of concurrent constitutional responsibility.

Monetary Aggregates (M0, M1, M2 and M3): There are four main monetary aggregates. They are distinguished by the types of money included. M0 is the most restricted aggregate and consists of notes and coin in circulation. M1 is M0 plus cheque and transmission deposits of the private sector with monetary institutions plus other fixed deposits held by the domestic private sector. M2 is M1 plus other short-

term and medium-term deposits held by the private sector. M3 is M2 plus long-term deposits held by the domestic private sector.

Monetary Policy: A policy determined by the Reserve Bank to influence the supply and demand for money in the economy. There are a number of approaches to setting goals and defining instruments for monetary policy. At various times, policy has targeted the growth of monetary aggregates, interest rates, the exchange rate and the inflation rate. *See Inflation Targeting*

Money Market: The market for trade in short-term securities such as Bills of Exchange, Promissory Notes and Government and Semi-Government bonds. Participants in the money market include banks and other financial institutions, life offices, sharebrokers, pension funds and Government authorities. Long-term securities are traded in the capital market. *See Capital Market; Bonds*

Money Supply: The amount of money in the economy as a result of monetary policy measures.

Moral Hazard: The possibility that the expectation of possible future government support may induce undesirable behaviour by provincial or local government, for example, engaging in more risky activities because some of the potential losses are seen as being effectively underwritten by the government.

Mortgage: Property pledged by a debtor to a creditor as security for a debt, on the condition that it shall be returned unencumbered on payment of the debt within a certain period.

Multi-year budgeting: The practice of budget planning over a horizon longer than a year. In the South African case that means planning for the next three years. This practice allows planning of expenditure and revenue decisions in a manner that enhances sustainability of long-term programme expenditures. It avoids initiating projects in one year that cannot be afforded in subsequent years. It also recognises that the delivery of public goods and services are ongoing and seldom an annual undertaking. *See Medium Term Budget Policy Statement; Medium Term Expenditure Framework*

N

National accounts: Public sector accounts. Record Gross Domestic and National Product and their components, such as consumption, saving and investment, government accounts and the balance of payments. South Africa's national accounts are published in the Reserve Bank Quarterly Bulletin. *See Balance of Payments; Capital Account; Current Account; Gross Domestic Product; Gross National Product*

National Skills Fund: A fund established by the Skills Development Act of 1998 for skills training in the private and public sectors. All private sector employers with monthly remuneration of more than R250 000 must pay a levy grant in terms of the Skills Development Levies Act of 1999. This constitutes 0.5 percent of payroll from April 2000 and 1 percent from April 2001. *See Skills Development Levy*

Nominal Terms: Actual monetary value in terms of the purchasing power of the day (at current prices). The devaluing effect of inflation on the real value of the money is not taken into account. Government budgets do not adjust totals for inflation. *See Real Terms*

Non-interest Expenditure: Total government expenditure minus debt service costs. This measures government expenditure on the provision of goods and services rather than payment of creditors. *See Debt Service Costs*

O

Open Economy: An economy that is exposed to the international economy through its transactions via imports and exports, and transactions in the markets. *See Closed Economy*

Outcomes: The ultimate impact on the broader society or economy that is pursued by a particular programme of government, for example the improvement of the nation's health or reductions in the rate of crime. In assessing government performance, outputs are defined as the goods or services produced by government agencies (e.g., teaching hours delivered, welfare benefits assessed and paid). Outcomes are defined as the impacts on social, economic, or other indicators arising from the delivery of outputs (e.g., student learning, social equity). Outcomes often depend on outputs from more than one department. *See Outputs; Output Based Budgeting*

Output Based Budgeting: Results based budgeting, as opposed to budgets reflecting inputs to the goods and services produced by the government, such as line item budgeting. *See Outputs; Line Item Budgeting*

Outputs: The public services that are provided, such as the number of medical operations that are performed, or the number of prisoners that are accommodated in cells.

P

PAYE (Pay As You Earn): The deduction of income tax from wages at source, that is the employer deducts income tax from salaries before they are paid out and in turn pays this over to the SA Revenue Service (SARS).

Payroll Tax: A tax on the total amount of money paid to the people employed by a particular company.

Performance Budgeting: A budgeting system designed to indicate the most efficient method of accomplishing a given objective. Performance budgeting requires that Government not only budgets for inputs, but also explains at the same time the planned quantity and quality of public services that will be delivered. Conventional budgeting links financial resources to the inputs that will be bought. The outputs and outcomes of public spending are not quantified, and seldom stated. Performance budgeting is enhanced by a budgeting format that links inputs to outputs. It begins with the objectives of the department or organisation and determines which outputs contribute to these objectives. Then the inputs into each activity are examined to see how the inputs link to outputs and outcomes. This system shows how efficient departments are in reaching their goals, but it does not reflect on whether the goals themselves are appropriate. *See Inputs; Outputs; Outcomes*

Personnel Expenditure: Refers to all expenditure relating to conditions of service of employees including salaries, wages, overtime, bonuses and employer's contributions to pension and medical funds. This forms part of the Standardised Items Classification of the provincial and national government budgets. *See Conditions of Service; Standardised Item*

Portfolio: The collection of investment holdings of a particular investor. It is usually considered with reference to its composition i.e. the mix of different classes of assets, such as bonds, property, shares and cash. Sometimes it can refer to a single asset class such as shares, in which case the mix of different industrial sectors is considered. *See Assets*

Portfolio Inflows: Capital inflows, other than direct investment. These consist mainly of purchases of bonds and equities. *See Capital Inflows/Outflows; Foreign Direct Investment*

Portfolio Investment: Investment in financial assets, such as stocks and shares or government bonds.

Poverty: Poverty can be viewed as an absolute or a relative concept. The absolute poverty approach defines minimum levels of income required to sustain life: for example estimating minimum dietary needs and how these can be met most cheaply. The relative poverty approach defines the poverty of one group of people relative to

that of another. In terms of this definition someone can have enough to sustain life, but still be defined as being poor, compared to other people.

Price Stability: This refers to a situation in which inflation is zero, or close to it. *See Consumer Price Index; Inflation*

Primary Goods: Agricultural goods or minerals that are sold with the minimum of processing.

Primary Rebate: A reduction in income tax that is available to all taxpayers.

Privatisation: When state-owned enterprises are sold to private individuals or companies. The enterprises may be sold in full (for example Aventura) or the government may retain a share in them (for example Telkom, at present).

Procurement: The process whereby government buys something. Large items have to be procured usually by competitive tender. Such processes are tested and evaluated by the Auditor General.

Productive Efficiency: A situation in which an enterprise produces outputs in the technically most efficient way possible, without waste. *See Outputs; Outcomes*

Productive Infrastructure: Infrastructure that contributes to the production of goods and services for sale. Roads are an example, making possible the transport of goods from the factory to shops. Electricity generation and transmission capacity is another example.

Professional Services and Special Services: Payment for services rendered by professional and specialised persons in firms such as architects, accountants and auctioneers. *See Standardised Items*

Programme budgeting: While performance budgeting tries to find the most efficient way of reaching a given policy goal, programme budgeting tries to consider the appropriateness of the policy goals or outcomes themselves. However, a weakness of this system is that it is not clear how the policy goals are to be evaluated. *See Cost-benefit analysis; Performance Budgeting*

Programme: Groupings of government activities e.g. Primary School Education.

Progressive Tax: A system of taxation that collects proportionately more from the rich than from the poor. South Africa's income tax system is an example of a progressive tax. *See Regressive Tax*

Protectionism: This refers to the protection of domestic industry by the imposition of high customs duties on imports which compete with domestic output. *See Customs Duties*

Provisional Tax Returns: Individuals and companies are assessed for tax once a year. However, companies and some individuals (a substantial part of whose income is not subject to PAYE) are required to estimate their annual income in advance and to make six monthly provisional tax payments. These payments are credited against their final tax assessment.

Public Finances: The financial affairs of central, provincial and local government

Public Sector: All institutions owned or controlled by government. These include national, provincial and local government, extra-budgetary governmental institutions and non-financial public enterprises (e.g. Telkom, DENEL).

R

Rating Agency: Institutions that evaluate the ability of countries or other borrowers to honour their international and domestic debt obligations. International investors use such credit ratings to measure the potential risk of investing in a particular country. Standard and Poor and Moody's are two of the best-known rating agencies. The rating given to a country also determines the rate at which a country can borrow relative to interest rates in low risk developed countries.

Real Terms: Value measured in terms of the purchasing power of money at a particular time. For instance GDP may be measured in constant 1995 prices by taking the devaluing effect of inflation into account. *See Nominal Terms*

Recurrent Expenditure: *See Current Expenditure*

Regressive Tax: A form of tax where lower-income people pay proportionately more of the income in tax than the rich, even though the actual amount paid may be the same. Excise duties on cigarettes and alcohol are examples of regressive taxes, because the poor spend a higher proportion of their income on these items than the rich. *See Progressive Tax*

Remuneration: The costs of personnel, including salaries, housing allowances, car allowances, and other benefits.

Repo Rate (Repurchase Rate): A discount rate at which the Reserve Bank accepts repurchases of certain securities from banks. In this way the Bank determines, on a daily basis, the price of liquidity it is willing to supply. This price in turn determines the interest rate of commercial banks and other lending institutions. *See Liquidity; Money Supply; Securities*

Reserves: Stores of foreign exchange held by the Reserve Bank.

Residence-based income tax: Principle according to which residents of a country are subject to tax on their world-wide income and non-residents are only subject to tax on domestic-source income. *See Source-based Income Tax*

Restructuring: Refers to full or partial privatisation of state-owned enterprises as well as the placing of public enterprises on a more commercial basis.

Revenue: Government's annual income collected from taxes on salaries, profits etc.

Ring-fencing: A practice where treasuries allocate money to certain priority areas before the budget process starts. In 1999 for example, the Gauteng government first funded personnel and capital expenditure needs before dividing up funds between departments. More generally, it refers to the insulation of financial conditions in one part of an enterprise from those in other parts.

Rolling Budgets: A budget system in which multi-year forward projections (3 years in South Africa) are revised annually. *See Medium Term Budget Policy Statement; Medium Term Expenditure Framework*

S

SASRIA: The South African Special Risks Association was created in 1979 to provide insurance against damage to property caused by political acts. The object of the Conversion of SASRIA Act of 1998 was to convert SASRIA from a section 21 company to a public company with the State as the sole shareholder.

Savings: The difference between income and consumption. In the national accounts, savings are divided into three components: household savings, corporate savings and government savings. Government saving is the difference between government revenue and expenditure. Savings plus net foreign capital inflows finance domestic investment. *See National Accounts*

Skills Development Levy: A payroll tax designed to finance training initiatives, in terms of the skills development strategy. *See Payroll Tax; National Skills Fund*

Securities: Certificates attesting credit or the ownership of stock and bonds. *See Bonds*

Social Safety Net: Government programmes that protect people against permanent and temporary poverty. For example, old age or disability cause

permanent poverty by affecting an individual's ability to work. Unemployment and natural disasters can cause transient poverty for people who would otherwise be able to earn a living.

Social Spending: Spending on programmes that have particular importance to the poor, such Health, Education and Welfare.

Source based income tax: A tax system where income is taxed in the country where it originates. *See Residence-based income tax*

Spending power. Another way of referring to inflation is to speak of the spending power of the rand. Forty years ago, a letter could be sent internally for one cent; today it costs R1.20. *See Consumer Price Index*

Standardised Item: A way of classifying budgets by referring to certain general categories of expenditure common to all government departments, for example Personnel Expenditure, Equipment and Land and Buildings.

Stores and Livestock: Expenditure on items of a consumable nature such as medicines, printing, stationery and paint. Part of the Standardised Items Classification of provincial and national government budgets. *See Standardised Item*

Supplementary Budget: An addendum to the main Budget's Estimates of Expenditure and Revenue which includes items that were not added in time for inclusion in the Budget Estimates. *See Estimates of Expenditure*

T

Tax Amnesty: When government allows a period within which taxpayers, who are outside the tax net but should be registered for tax purposes, can register for tax without incurring penalties for the period in which they were illegitimately outside the net.

Tax Arbitrage: This entails taking advantage of the different rates at which different kinds of income or different individuals are taxed, or where the same kinds of income or individuals are taxed differently in different tax jurisdictions. For instance, a lower rate of corporate tax than the top rate of income tax encourages professional people to incorporate themselves as businesses.

Tax Avoidance: When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability. A change in tax structure usually modifies behaviour. For instance, changes in depreciation provisions can induce a change from ownership of assets to leasing them.

Tax Base: The size and number of sources that government can tax.

Tax Burden: Tax that should be paid. Same as the tax yield of government.

Tax Delinquency: Failure to pay tax by the day that it is due.

Tax Dispensation: An exemption from a specific tax or duty.

Tax Evasion: When individuals or businesses illegally fail to meet their tax obligation. Failure of a business to register for VAT when it has a turnover of R300 000 or more would be one example. “Under the table” transactions not reflected in company books or individual tax returns would be another.

Tax Gap: A measure of the extent of tax evasion that compares the tax liability or taxable income declared to the tax authorities with the tax base or taxable income calculated from other sources.

Tax GDP-ratio: A country’s tax burden, or Tax GDP-ratio, is measured by taking the total tax payments for a particular financial year as a percentage of the GDP for that year. *See Tax Burden; GDP*

Tax Incentives: Specific provisions in the tax laws that provide favourable tax treatment to individuals and businesses to encourage specific behaviour or activities. As an example, government often provides “tax holidays” for companies that invest in economically stagnant regions. *See Incentives*

Tax Incidence: Refers to the final distribution of the burden of tax. *See Progressive Tax; Regressive Tax; Tax Burden*

Tax Liability: The amount of tax that a person or company has to pay.

Tax Loopholes: Unintended weakness in the legal provisions in the tax system, which taxpayers use to avoid paying tax.

Tax Rate: The amount of tax paid per unit of tax base. The tax rate of VAT for example is 14 percent of every rand spent on goods and services.

Tax Relief: A situation in which a class of taxpayers has its tax burden reduced. A reduction in excise tax on cigarettes would provide tax relief to smokers, for example.

Tax Room: A practice whereby national government reduces its tax base in order to allow provincial government to charge that same tax. The total tax burden remains the same, but the tax base is shared between the two spheres of government.

Tax Structure: The system of taxation as a whole and the burden it imposes on consumption and savings as well as taxpayers by income class.

Tax Surcharge: An additional tax levied by provincial governments and “piggybacked” on a national tax. It could be preceded by the creation of tax room.
See Tax Room

Tax Threshold: The level at which a tax becomes payable. Income tax is not collected from households with an income below a threshold level. Value Added Tax is not collected from companies who produce less than a threshold turnover.

Tax Yield: The total amount of tax that government could collect if all taxes were paid. It is calculated by multiplying the tax rate by the tax base. *See Tax Base; Tax Rate*

Taxable Income: Refers to the income of an individual or a corporation which is subject to tax. This is not the same as actual income, since deductions may be claimed for medical expenses, for instance, in the case of individuals, or for depreciation, in the case of companies.

Top-slicing: The practice of setting aside an amount of money from the National Revenue Fund before the remaining funds are split up into the equitable shares of national, provincial and local governments. In South Africa the top-slice pays for debt service costs and the contingency reserve. *See Contingency Reserve; Debt Service Costs*

Trade Balance: Receipts for the export of goods and services less payments for the imports of goods and services. It is the main determinant of the current account balance but not identical to it, since net transfers are included in the current balance but not in the balance of trade. *See Balance of Payments; Current Account*

Trade Liberalisation: The process of reducing tariffs (customs duties) in order to make domestic industry and exports more competitive. Trade liberalisation usually involves agreements between a number of countries and is co-ordinated by the World Trade Organization. *See Customs Duties*

Trade-off: A choice that is made between competing expenditure and revenue priorities. Limited resources available to government means that more spending in some areas must mean lower spending in others.

Transfers: Refer to money paid over to another person or agency without an equivalent receipt or labour, for example, pensions, loans and subsidies. Current transfers include grants-in-aid, financial assistance, pensions and social grants. Capital transfers are to allow the recipients to purchase capital, undertake capital

projects or redeem capital debts. They include loans, purchase of shares and ordinary capital transfers. Part of the Standardised Items Classification of the provincial and national government budgets. *See Standardised Items*

Transparency: Fiscal and budget transparency refers to the public availability of comprehensive, accurate, timely and useful information on government's activities with implications for its finances. Transparency is an end in itself: taxpayers have the right to know what government does with their money. Transparency is also needed for accountability. One international standard for transparency is the IMF Code on Fiscal Transparency. The code is built around the following objectives: roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should be subjected to independent assurances of integrity. The OECD Best Practice Guidelines for Fiscal Transparency highlights the fiscal reports that should be available, their contents, how they should be prepared and best practices in parliamentary and public scrutiny of the reports.

Treasury: The government department that manages the public revenue. In South Africa this is the Department of State Expenditure (DSE). The DSE and the Department of Finance will soon amalgamate into one department to be known as the Treasury.

Treasury Committee: A committee, chaired by the Finance Minister that evaluates all requests for additional funds for unavoidable and unforeseen expenditure during a financial year.

Treasury Regulations: Regulations to govern the way in which the financial transactions of government are to take place. Their purpose is to improve accountability and to prevent fraud.

U

Unallocated reserves: Funds available for expenditure that have not yet been allocated to a particular use. It consists of the contingency reserve and amounts of money left unallocated by the provinces. *See Contingency Reserve*

Unauthorised expenditure: Money that was spent for purposes other than for which it was allocated, or expenditure in excess of what was allocated. Accounting officers became criminally liable for unauthorised expenditure in terms of the Public Finance Management Act of 1998. *See Accounting Officer*

Unfunded Mandates: When national policies result in additional spending obligations on the part of provinces or local government, without providing the

necessary resources to fund these spending commitments. In terms of section 35 of the PFMA, any legislation that imposed new spending commitments on the provinces have to be costed before such legislation can be submitted to Parliament.

V

VAT (Value Added Tax): A tax on the value added (i.e. the difference between the cost of production and selling price) of most products. Certain products such as bread, milk and fresh vegetables are exempt from VAT in order to alleviate the tax burden of the poor.

Vertical Division/Split: The division of revenue between spheres of government. Before the money available in the National Revenue Fund is divided between the three spheres, an amount is top sliced for servicing government's debt. *See Division of Revenue; Equitable Share, Top Slice*

Virement: Describes the transfer of resources between different programmes within the same department vote during the financial year. Regulations with regard to virement have to reconcile the tension between administrative flexibility on the one hand and accountability on the other. A balance is essential, since both are necessary conditions for effectiveness and efficiency. In terms of Section 43.2 of the PFMA not more than 8 percent of what was originally budgeted for a programme may be moved to another programme in the same vote. *See Vote, Programme*

Vote: An appropriation voted by Parliament. The entire budget of a department. *See Allocation*

W

White Book: *See Estimates of Expenditure.*

Z

Zero-based budgeting: A method of drawing up budgets without the figures or situations or previous periods being taken into account, based on a fundamental revaluation of objectives, methods and sources. Each year the manager has to justify the expenditure that appears in the budget. *See Incremental Budgeting; Line Item Budgeting; Performance Budgeting*