SOUTH AFRICAN BUDGET GUIDE AND DICTIONARY

Produced jointly by the National Democratic Institute for International Affairs (NDI), and the Budget Information Service of IDASA, under a grant from the United States Agency for International Development (USAID).

South African Budget Guide

Produced by the National Democratic Institute for International Affairs (NDI) under a grant from the United States Agency for International Development

Table of Contents

List of Figures

PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

Tel: (021) 403-2110/2123

Fax: (021) 461 9460

CHAIRPERSON
National Council of Provinces
PO Box 15
Cape Town ♦ 8000

One of the most challenging tasks faced by MPs is consideration of and voting on the national budget every year. The decision on the budget is the most significant decision taken by any Parliament.

Prior to being elected to Parliament in 1994 few members had had any experience with processing a national budget. The task proved to be daunting for many members and they had to speedily learn how to process the budget and develop questions that would guide them in approving the various allocations.

The guide provides an overview of how the budget is organised. It indicates in detail the division of revenue between the national and the provincial spheres as well as sets out the local government allocation. The section that deals with the medium term expenditure framework provides members with a frame of reference that allows them to understand the long-term financial planning of government. Utilised effectively, an understanding of the MTEF will help members to decide on aspects of policy implementation that they should review on a consistent basis as well as give them information that allows them to plan the work of their committees and the kind of questions that they should pose to departments.

The distinction that the guide draws between the role of the National Assembly and that of the NCOP assists in developing all parliamentarians' knowledge of the institution of Parliament. It is vital that parliamentarians recognise that the two Houses have distinct functions and that they exercise this uniqueness when considering the budget.

The dictionary introduces members to the most basic definition of concepts such as debt, taxation, vat, donor support and other important concepts that are utilised in the process of considering the budget.

This guide will serve as a necessary and important tool for members who wish to tackle the national budget from an informed perspective, providing knowledge and support. Even more important, it will help to demystify the budget process. It addresses questions members often confront and gives them a basis on which to make informed decisions that will assist South Africa's parliamentarians in their maturing project of transforming society.

Every member will definitely benefit from using this guide. It is a welcome addition to those documents that serve to enhance members' ability to carry out their task.

G. N. M. Pandor

G N M PANDOR
CHAIRPERSON: NCOP

INTRODUCTION

The national *budget* is the term commonly used for the process of how revenue raised by the national government will be allocated to national, provincial and local government, as well as government departments. The budget process also determines how much each province and local authority will receive from national government in the upcoming year. Through the *budgeting process,* national, provincial and local governments plan, collaborate, negotiate, and decide together on a comprehensive plan for spending governments' funds in the upcoming **fiscal year**. The budget takes the form of a package of bills considered and passed by Parliament before being signed by the President into law.

The budgeting process is not a purely mechanical or bureaucratic decision on numbers. Showing where government plans to use its resources, the budget reflects policy priorities. The budgeting process therefore becomes an important conversation between national departments and between national, provincial and local government about where money and resources are most urgently needed and, more largely, what role government ought to be playing in meeting the needs of South Africa's people.

This guide has two aims. First, it provides an overview of the budget process itself, describing how revenue is raised by the national government and then allocated between national, provincial and local government. Second, it outlines how government arrives at the annual budget, focusing on the early drafting period, as well as what happens after the budget is tabled in Parliament.

Many thanks to Tania Ajam at the University of Cape Town, and Laura Walker and Joel Friedman with the Department of Finance for their help with this project. Warren Krafchik and Albert van Zyl at IDASA's Budget Information Service also offered invaluable input.

Special thanks to Alison Hickey, the lead author and researcher of this document.

OVERVIEW OF GOVERNMENT BUDGETING:

How is the budget organised?

One of the basic principles in the Constitution is the cooperative relationship between the three spheres of government: national, provincial, and local. This principle of cooperative government is also intended to shape the financial relationship between the three spheres. Each sphere is responsible for delivery of a unique set of government services, and revenue raised nationally is distributed to provinces and local governments to assist in delivering the services for which they are responsible.

The vast majority of the revenue raised by government overall is collected by the national government through the company tax, personal income tax, and Value-Added Tax, or **VAT**.[1] In contrast, the provinces levy minimal taxes and fees. Only 4 percent of the provinces' budgets come from revenue they have collected themselves. The provinces receive nearly 96 percent of their budgets from central government, in the form of equitable share grants. In an inverse relationship, local governments raise nearly 90 percent of their budgets themselves—largely through taxes, levies and **user charges**—and rely very little on revenue from the national government.[2]

---

[1] 1999 Budget Review, Annex E—An Explanatory Memorandum of the Division of Revenue, pg. 3.

[2] 1999 Budget Review, Annex E, pg. 3.

The bulk of social service delivery is located at the provincial level. Social spending generally makes up 78 to 90 percent of a province's overall budget, with the majority of those funds going to education. Personnel costs are significant—ranging from 50 to 65 percent of total spending (see Figure 1). **Capital expenditure** is typically low, accounting for only 4 to 6 percent of provincial spending.[3]

---

[3] O'Grady, Kevin. "Provinces are starting to make headway on debt," *Business Day*, 25 February 1999.

Figure 1.

Consolidated Provincial EXPENDITURE 1999/2000		
	R billion	
Education	40.3	41%
Health	23.7	24%
Welfare	18.7	19%
Other	15.4	16%
Total Expenditure	98.1	
Social Spending as a percent of total expenditure		84%
Personnel spending as percent of total expenditure		59%
Consolidated Provincial REVENUE 1999/2000		
Transfers from National Revenue	94.3	96%
Own Revenue	3.7	4%
Total Revenue	98.1	
1999 Budget Review, Provincial and Local Government Finances.		

Figure 2 gives an overall picture of how money raised by the national government is spent.[4] The national revenue fund refers to the total resources the national government has to spend in the upcoming year. However before dividing that pie between national, provincial and local government, a certain amount is taken out to go towards **debt service** and **contingency reserves**.

[4] Presentation by Mr. Ismail Momoniat of Department of Finance to the Western Cape Provincial Legislature at a workshop organised by the NDI on behalf of the NCOP, 25 November 1997.

After this top slice is set aside, the remaining funds are divided vertically. The **vertical division** allocates funds between national, provincial, and local government. About 47 percent of these funds (excluding the top slice) are retained by the national government.[5] Another 52 percent is earmarked for the provinces, and the small remaining portion is divided between local governments (see Figures 2 and 3). A **horizontal division** divides the money for the provinces between the nine provinces.[6]

The following sections explain the composition of the budgets in more detail. They describe the vertical division between spheres of government, the horizontal division between provinces, and the process for giving funds to local government.

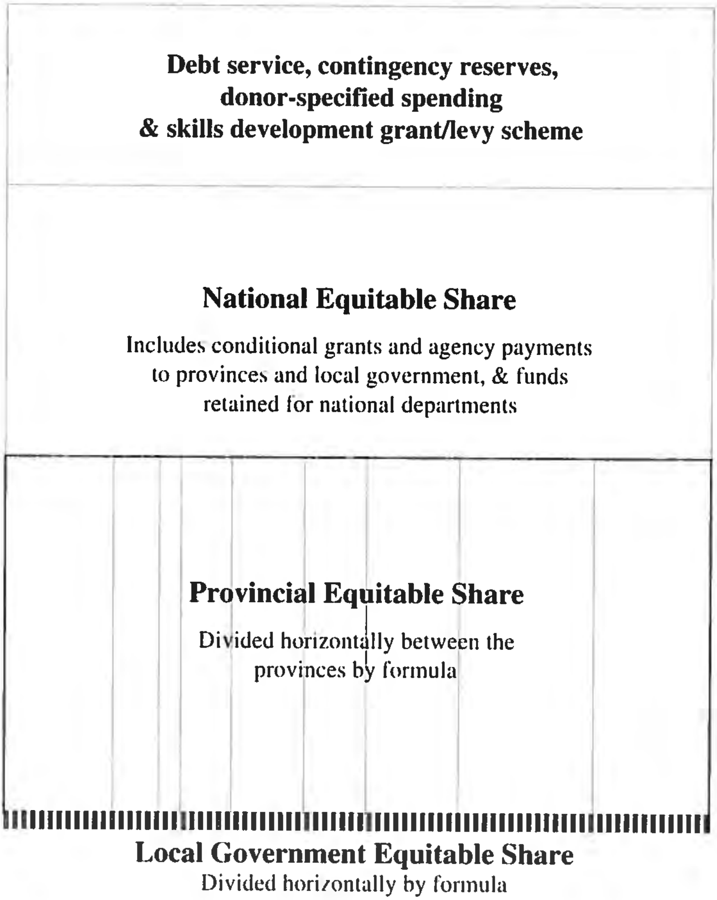
---

[5] This 47 percent *includes conditional grants,* which will go to the provinces. See page 11.

[6] Department of Finance Presentation by Mr. Brian Molefe, Director: Provincial Budget Analysis, 1 April 1998, National Council of Provinces Budget Workshop.

Figure 2.

Division of Revenue Raised Nationally



*I. **Vertical Division Between Spheres of Government:*** *How is the budget distributed between national, provincial, and local government?*

Before the national government even begins allocating funds between national, provincial and local government, a portion of the national budget is set aside. This amount is "*sliced*" off the top so that it remains available to all three spheres of government. The top slice goes to pay for four items:

- *Debt service costs*—The interest the government pays on its loans.

- *Contingency reserves*—The pot of money government sets aside for unanticipated needs or national emergencies.

- *Skills development*—The levy collected from private sector employers for a fund for training and skills development for personnel.[7]

- *Donor-financed spending*—Money from foreign donors dedicated to specific projects and thus not part of the revenue available to be shared.

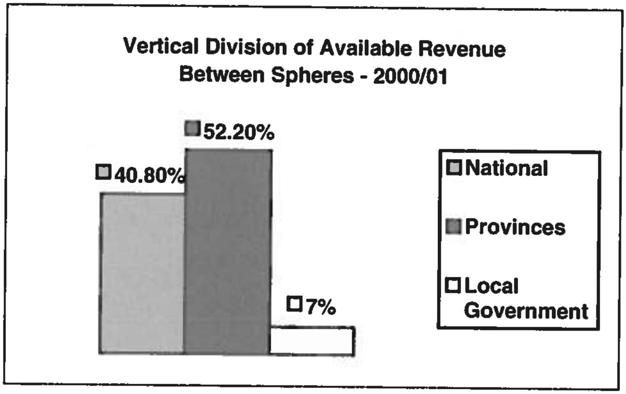
Notably, skills development and donor-financed spending are new additions to the national revenue fund but do not create an increase in the total amount taken off the top for debt servicing. The skills development scheme is entirely funded by the private sector, and the donor-financed spending category was created to provide

---

[7] 1999 Budget Review, Overview, Department of Finance, pg. 7.

greater information and transparency. (This money was previously spent, but not reflected in the budget.) Thus these two new designations provide more detailed information, but do not indicate a shift in how resources are allocated.

Figure 3.



Source: 2000 Budget Review, Department of Finance, pg. 7.

The remaining funds are divided between the three spheres of government based on the division of responsibilities between the spheres and their alternative sources of revenue (outside of transfers from central government). The following sections describe the factors affecting the vertical division and the how it is determined.

A. What are the different responsibilities of each sphere of government?

Schedules 4 and 5 of the Constitution explain the sharing and division of responsibilities between the three spheres. As a general rule, national government retains responsibility for those functions and issues of national interest that bridge provincial boundaries. The national government *shares* responsibility with the provincial governments for many other services, such as education, health, housing, and public transport.

National government priorities include national defence and police, prisons, justice, finance, trade and industry, labour, and international relations.[8] The central authority is also concerned with public administration and infrastructure in the sense of establishing norms and standards for programmes and coordinating government policy between spheres.

Provincial governments are primarily tasked with social services as well as roads and regional economic planning and development. Notably education, health and welfare services—the three most expensive items in the country's whole budget—are functions shared by the national and provincial government, but their delivery rests with the province. *Local* governments deliver basic services including water, electricity, and refuse collection.[9] The responsibilities of each sphere of government are important because, in the budgeting process, funding is allocated to each level to fulfill its unique functions.

---

[8] 1998 Medium Term Budget Policy Statement, Division of Revenue, pg. 2.

[9] 1999 Budget Review, Provincial and Local Government Finances, pg. 5.

B. Besides transfers from national government, what are the additional sources of revenue for provincial and local government?

As mentioned earlier, provinces rely heavily on national government transfers and grants. Revenue raised by provinces themselves makes up only 4 percent of total provincial revenue. In contrast, local governments raise nearly 90 percent of their budgets themselves.[10] Besides these transfers from national government, provinces and local government have limited taxing and borrowing powers, which they utilise to different degrees. The additional sources of revenue for provinces and local government are important because they impact the vertical division.

Taxing

The Constitution carefully specifies which taxes may be levied by which sphere of government. According to Section 228, only the national government can collect a VAT tax, personal and corporate income tax, and customs duties. The provinces are free to collect surcharges on taxes levied by the national government subject to national legislation, but are constitutionally forbidden to impose a tax that interferes with another sphere. For example, the provinces cannot collect a property tax. That is a local government tax. But the provinces can impose a **flat-rate surcharge** on some national tax schemes.

---

[10] 1999 Budget Review, Provincial and Local Government Finances, pg. 3.

Both provinces and local government collect **user charges**, which are classified as non-tax revenue. For instance, the Northern Cape's sources of revenue include motor vehicle licenses, hospital fees, gambling and racing revenues. However, these levies and taxes generally do not exceed 5 percent of the total budget of the province. (Figures 4 and 5 show the sources of revenue for the provinces and local government.)

The vertical division takes into account how much money the provinces and local government raise themselves through taxes.[11] According to the Constitution, Parliament may consider "the **fiscal capacity** and efficiency of the provinces and municipalities" when deciding how much national government should give them.[12]

Under the Constitution, the provinces' and municipalities' revenue may not be deducted from their **equitable share** or other allocations from the national government (e.g. **conditional grants**). Further, the national government is under no obligation to compensate provinces or municipalities that "do not raise revenue commensurate with their fiscal capacity and **tax base**."[13]

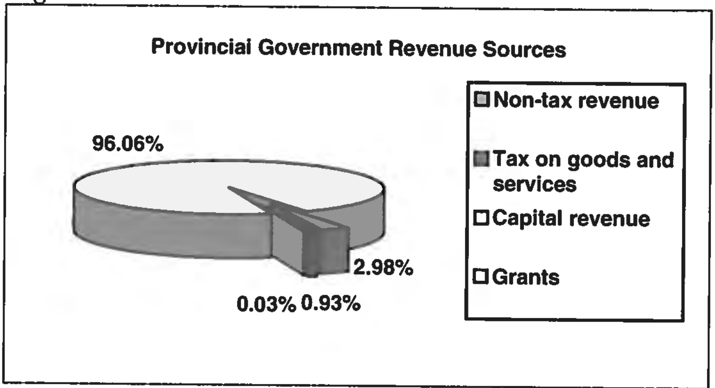
---

[11] 1999 Budget Review, Provincial and Local Government Finances, pg. 5.

[12] South Africa Constitution, Chapter 13, Section 214, (2)e.

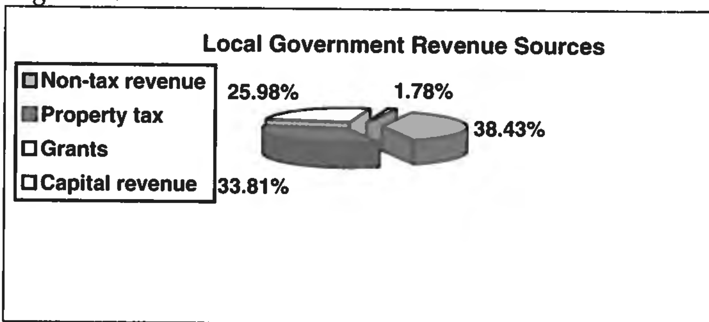
[13] South Africa Constitution, Chapter 13, Section 227 (2).

Figure 4.



1999 Budget Review, Public Finance, pg. 9.

Figure 5.



1999 Budget Review, Provincial and Local Government Finances, pg. 15.

Borrowing

The Constitution states that provinces and municipalities may borrow funds, but only for capital expenditures. Provinces and municipalities are barred from taking out loans for **current expenditures** such as wages, except where necessary to bridge temporary gaps in funding. In these situations, the loan must be repaid within the same year.[14] Provinces cannot guarantee loans made by local governments, and the national government does not guarantee provincial loans, unless they are to foreign creditors.[15]

In practice, provinces do very little borrowing on the capital market. Instead they have relied on overdrafts from banks made on a short-term basis.[16] In contrast, local governments rely much more on borrowing.

C. How is the vertical division determined?

The **division of revenue** between spheres of government is not based on a technical formula. Essentially, it is a political judgment based on the programmatic responsibilities of each sphere, the capacity of each sphere to raise its own revenue, and

---

[14] South Africa Constitution, Chapter 13, Section 230 (1).

[15] Iraj Abedian, Tania Ajam, and Laura Walker. Promises, Plans, and Priorities: South Africa's Emerging Fiscal Structure. Cape Town: IDASA, 1997. pg. 65.

[16] 1998 Medium Term Budget Policy Statement, Division of Revenue, pg. 2.

national policy priorities as determined by the government.

Two points must be noted. First, because certain functions are assigned to particular spheres of government, the decision of where the money goes is not simply a structural decision between spheres of government. Instead it represents a *political* choice between national, provincial, and local programme priorities.

The second important point pertains to the apparent stability of the vertical division of revenue for the next three years. Figure 6 gives the vertical division for fiscal years 1999-2001. The Medium Term Expenditure Framework (MTEF) system has allowed for more stability in the allocations to each sphere, as can be seen by the relatively constant ratio of the vertical split. Yet, functions have been shifted to the provinces from national government. These added demands for services from the provincial governments are not easily apparent from these numbers.

Figure 6.

Vertical Division of National Revenue

R million

	1999/00	2000/01	2001/02
Total revenue raised nationally	**216,780**	**230,722**	**247,250**
Top slice	50,072	55,070	55,359
Debt service	48,222	49,820	52,609
Contingency reserves	1,100	3,500	8,000
Skills development		1,000	2,000
Donor-financed spending	750	750	750
National equitable share	**78,733**	**81,100**	**84,489**
Conditional grants to provinces and local government	8,761	8,361	8,257
As percent of national equitable share	*11.1%*	*10.3%*	*9.8%*
Retained for national departments	69,972	72,739	76,232
As percent of national equitable share	*88.9%*	*89.7%*	*90.2%*
Provincial equitable share	**86,302**	92,071	96,822
Local government equitable share	1,673	2,480	2,580
Total revenue available to be shared[17]	166,708	175,652	183,891
National equitable share as	*47.2%*	*46.2%*	*45.9%*

[17] Total revenue minus the top slice.

percent			
Provincial equitable share as percent	*51.8%*	*52.4%*	*52.7%*
Local equitable government share as percent	*1.0%*	*1.4%*	*1.4%*

Addendum[18]	**96,736**	**102,912**	**107,659**
Provincial allocations including conditional grants	94,420	100,432	105,079
Local government share including conditional grants	2,316	2,480	2,580

Source: 1999 Budget Review, Provincial and Local Government Finances, pg. 6. Also Annex E, pg. 8.

[18] The Addendum refers to appropriations made in the Supplementary Estimate of Expenditures. See page 23.

II. ***Horizontal Division Between Provinces:*** *How is the budget divided between the provinces?*

The equitable share for the provinces is another key budgeting principle in the Constitution. According to Sections 214 and 227, each province is entitled to an equitable share of the revenue raised nationally.[19] The purpose of the equitable share is to provide provinces with resources to uphold national standards in providing those services that are the concurrent responsibility of national and provincial governments. Provinces still retain some independence in setting their own budgets and determining how their equitable share is spent.

However in practice, much of the provinces' funds are tied up in fulfilling National Executive mandates or upholding contractual obligations.[20] For example, large salary bills negotiated at a national level immediately consume a portion of the provincial budget—more than one half—and thus limit the flexibility the provincial governments have in their spending.

The total funds transferred to the provinces from the national government take three forms: the equitable share block grant, conditional grants and agency payments. These are described below.

---

[19] Wehner, Joachim. "Resolving the uneven distribution of wealth among provinces," *Budget Watch,* Vol. 3, Issue 3; September 1997. (IDASA Budget Information Service).

[20] Tania Ajam, Deputy Director, Applied Fiscal Research Centre, University of Cape Town. Interview.
4 August 1999.

A. How is the Equitable Share for each province determined?

The equitable share is an unconditional allocation delivered as a block grant. This means that provinces are free to distribute this money to particular departments and programmes as they see fit. They are directly accountable for how the money is spent. However, this money is generally spent on services, which are guided by national standards.

The amount of each province's equitable share is computed using an objective, technical formula that aims to take into account the size and demographics of its population, the relative size of its rural communities, and the poverty level of the province. The formula is explained in the Budget Review, a document tabled by the Minister of Finance in Parliament. Annexure E is the section of the Budget Review with an explanatory memorandum on the division of revenue. (See page 26.)

An equitable shares formula was introduced in the Medium Term Budget Policy Statement for fiscal year 19997/98.[21] It relies on the official statistics of Statistics South Africa (formerly CSS), but also utilises data from the Departments of Health and Education. Changes to the fundamental structure of the formula are avoided, but as new demographic data becomes available, the numbers are updated. Currently the formula has seven components with the following weightings given to each factor:[22]

---

[21] See section below on the Medium Term Expenditure Framework, page 15.

[22] 2000 Budget Review, Annex E, pg. 11.

1. **41 percent Education Share**: This is determined based on both the size of the school-age population (ages 6-17) in the province *and* the total number of students enrolled in public schools. School-age children receive twice the weighting as the number simply enrolled. It also avoids distorted incentives that would be created if only enrollment rates were considered.

2. **19 percent Health Share**: Since all citizens are eligible for public health service, this share is based on the population of the province. However, people without private medical insurance are clearly more likely to take advantage of public health services. Therefore the number of people *without* medical aid is given four times as much weight as the number of people who have private medical aid.

3. **17 percent Welfare Share**: This share covers social security payments to the elderly, disabled, and children. It is determined by calculating the number of people in each province who are eligible for each type of social security grant. For example, the number of children under age six in the province would determine the childcare component of the welfare share. This number is then adjusted by an income factor for that province. This is done because the income level of recipients of old age pensions and child support grants are taken into account in determining eligibility.

4. **7 percent Basic Population Weighting**: This is determined by the percent share of the total population in the country.

5. **3 percent Backlog Share**: In the 1999/00 budget, a **backlog** share was added because of criticism that the previous formula did not recognise the backlogs some provinces confront. The backlog share is divided between provinces based on the relative demand for services in each. It is calculated based on the capital needs of the province, as measured by looking at the schools register of needs, the audit of hospital facilities, and the share of rural population in each province.[23]

6. **8 percent Economic Output Share**: This part of the formula recognises that some expenditures are due to the province's economic activity, and not just the size of the population, such as the maintenance of roads. Provinces currently have very limited taxing power. This part of the formula attempts to compensate wealthier provinces that are disproportionately affected by this limitation. In 1999, this economic output share was determined using the total remuneration of employees country-wide as a proxy for the province's tax capacity.[24]

7. **5 percent Institutional Component**: This amount is the same for each province, regardless of the size of the population. This is because government operations entail overhead costs regardless of the size of the population served.

---

[23] 1999 Budget Review, Annex E, pg. 15.

[24] Laura Walker, Deputy Director: Provincial Policy, Intergovernmental Relations, Department of Finance. Correspondence. 21 September 1999.

As with the vertical division between spheres of government, it is constitutionally forbidden to deduct the revenue that provinces raise themselves from their equitable share. But at the same time, the national government is not required to compensate provinces that do not collect fully on their tax base.

A second point to note is that the weighting given to these components in the formula does not indicate the amount of money those functions are assigned in the provinces' budgets. For example, the 18 percent weighting for the health share does not necessarily mean that 18 percent of the provinces' budgets go towards health services. As noted earlier, the equitable shares transfer to the provinces is an unconditional grant, and provinces then independently determine the priority given to education, health, and welfare, depending upon their particular constraints and needs.

B. How do the Conditional Grants to the provinces work?

Provinces also receive grants from the national government, which come with conditions on how they are spent. In contrast to the equitable share block grant, which provinces may allocate as they see fit, the conditional grants are earmarked to be spent for specific functions. Typically, these are areas where national government functions are shared by provincial governments, or require the cooperation and empowerment of provincial authorities for their delivery. Conditional grants make up roughly 10 percent of the funds provinces receive from the national government and are primarily for improvements in conditions of service and hospitals.[25]

Conditional grants are a relatively new feature of the budget, introduced in 1998/99. They are included as part of the national equitable share, and are listed in Schedule 3A of the Division of Revenue Bill.[26] For instance, improvements in conditions of service for public employees are listed as part of national share in the Division of Revenue Act, and then given to provinces as a conditional grant in adjusted estimates. The administration of these grants works in the following manner:

- The national department retains responsibility for monitoring compliance;
- The provincial government takes care of actual expenditure of funds, and;
- Funds are usually paid in lump sums up front, or on a previously-agreed schedule.[27]

C. How do Agency Payments differ from conditional grants?

Agency payments are best described as fee-for-service arrangements between departments or between spheres of government. The government body with responsibility for a function may contract with another

---

[25] Tania Ajam, Deputy Director, Applied Fiscal Research Centre, University of Cape Town. Interview. 4 August 1999.
[26] 1999 Budget Review, Annex E, pg. 9.
[27] Ibid.

department or another sphere of government to deliver that service.

Agency payments therefore provide another way for funds to flow from the national departments to provincial departments. In the case of agency payments, the national government retains accountability for the funds and their expenditure. The relationship is similar to a contractual agreement: provinces or local government agree to perform a function or administer a program on behalf of the central government. Usually provinces are reimbursed for expenses in the case of agency payments. They also do not current flow through the budgets. They are not voted upon in provincial budgets as in the case of conditional grants.

III. Determination of Local Government Share: How are resources divided between local governments?

Local governments, in a financial sense, are expected to be mostly self-sufficient. Local governments raise all but about 10 percent of their budgets. This is done through property taxes, user fees for water and electricity, and other local taxes and levies.[28]

As with provinces, the Constitution states that the revenue local governments raise on their own cannot be deducted from their share of nationally-raised revenue.[29] However when determining the local government equitable share, the finance ministry *does* consider what

---

[28] 1999 Budget Review, Provincial and Local Government Finances, pg. 14.

[29] South Africa Constitution, Chapter 13, Section 227 (2).

other funds local government is also receiving from the national government—including conditional grants for capital or operating expenditures.[30]

In 1998/99, a new local government funding system was established on the recommendation of the Financial and Fiscal Commission (FFC). The new system of fiscal transfers to municipalities was announced in an April 1998 document entitled "Introduction of an Equitable Share of Nationally Raised Revenue For Local Government." The system will be phased in gradually over four to seven years.

The new system includes two significant changes. First, transfers will no longer pass through the provinces as conditional grants earmarked for local government. Instead they will go directly to the local authorities from the central government.[31]

A second important change is the adoption of a formula-based system that accounts for the poverty levels. This will mean that after an initial transition phase, poor rural areas will be receiving considerably more than their urban counterparts.

Transfers from the national government to local governments include:

---

[30] Section 4.4.6. "The Introduction of an Equitable Share of Nationally Raised Revenue for Local Government," Ministry of Finance, 21 April 1998.

[31] Van Zyl, Albert. "Poorer local authorities biggest winners," *Budget Briefs*, No. 1; June 1998. (IDASA Budget Information Service).

A. *Equitable share grants*—Similar to the provinces, the Constitution entitles local governments to an equitable share of nationally-raised revenue. An equitable share formula divides funds between the local authorities, including tiny rural villages and larger metropolitan areas.[32] According to the new system of intergovernmental transfers for local government, the equitable share grant includes four components:

- *Municipal basic services transfer*: This is intended to ensure that all South African residents have access to basic municipal services. The amount of the transfer is computed by multiplying the number of people in poverty by the cost per person of providing services. (This sum is then multiplied by the fraction of that need which will be covered by the municipal basic services transfer. For example, if the national government decides the basic services transfer should cover 50 percent of the need of the poor in the municipalities, the sum would be multiplied by one half.)[33]

- *Municipal institution transfers*: This provides funds for operating and maintaining basic facilities for local government, so that local

---

[32] 1999 Budget Review, Provincial and Local Government Finance, pg. 14.

[33] In this formula, poverty is defined as a household income of less than R800 per month for a family size of 4.5. The annual cost of providing basic services is set at R230 per person. Notably, both figures are the same nation-wide. Section 4.2.1. "Introduction of an Equitable Share of Nationally Raised Revenue for Local Government," Ministry of Finance, 21 April 1998.

authorities lacking infrastructure or administrative capacity to raise taxes can at least operate at a minimum level (e.g. community centres and an office for elected officials.) The intention of these transfers is to promote democratic local government. The amount of the transfer is defined as the difference between the normative income generated by the local authority from user charges, and the minimum level of funds necessary to support municipal government institutions.[34]

- *Spillover transfers.* Some services create important benefits for residents outside of the local authority in which they are undertaken. When programmes benefit people other than those incurring costs for them, they are said to create **spillover**. These transfer payments by the central government support the essential infrastructure for those programmes with positive economic spillover.

- *Equalisation transfers.*[35] These are transfers between substructures within the same metropolitan council jurisdiction in order to equalise the tax base. Their purpose is to rectify

---

[34] "Normative" refers to the income the local authority ought to be able to raise from its tax base. It is determined by looking at the average personal income in the area. The reason for tying this formula to the amount the local authority *could* raise—as opposed to actual revenue from rates—is so that local authorities do not have perverse incentives to make little effort to raise taxes.

[35] Van Zyl, Albert. "Poorer local authorities biggest winners," *Budget Briefs*, No. 1; June 1998. (IDASA Budget Information Service).

the uneven development in metropolitan areas where households, capital investment, and labour are not spread smoothly throughout an area, leaving some local authorities with a weaker tax base than others. The transfers are computed using a formula.[36]

B. R293 towns staff and functions grants—This is a transitional measure to be phased out by 2002/03. These are conditional grants and funds going directly to particular municipalities to cover personnel and services in the R293 towns of the former homelands.[37]

C. Other transitional allocations—Besides the R293 grants, other allocations will be phased out as the formula-based system is phased in over the next four to seven years. These include a fund for local governments to help with transitional and emergency costs, water services in rural areas, and subsidies from the Department of Land Affairs.

---

[36] Section 4.2.2. "Introduction of an Equitable Share of Nationally Raised Revenue for Local Government," Ministry of Finance, 21 April 1998.

[37] 1999 Budget Review, Provincial and Local Government Finance, pg. 19.

WHAT IS THE MEDIUM TERM EXPENDITURE FRAMEWORK?

The Medium Term Expenditure Framework (MTEF) was adopted in 1998 as part of a wide package of budget reforms that included the Intergovernmental Fiscal Relations Act of 1997 (IGFRA). That year, for the first time, the annual budget included three-year spending plans. Although Parliament only votes on the upcoming fiscal year, the government presents numbers for the following two years as well.

The MTEF is a tool to encourage cooperation across ministries and planning over a longer horizon than the upcoming fiscal year. This approach is preferable to reactive, piecemeal, short-term decisions that ordinarily characterise budgeting because it:

Enhances stability, by letting provinces and national ministries know what resources will likely be available to them in future years. This allows government planning to be more credible and accurate.

Encourages investment, by making taxation, interest rates, and government spending more predictable.

Improves transparency, by making government's long-term policy goals and overall strategy available to the public. Outlining future spending provides a signal to civil society and public at large of government's priorities and how it intends to them.

Eases program evaluation, by providing a baseline for assessing the effectiveness of the past year's programs.

How does it work?

Timing

The Medium Term Budget Policy Statement, (MTBPS), is published by the Ministry of Finance in October, five months before the following year's budget is tabled in Parliament. For example, the government's policy framework for the 1999 Budget was published in the Medium Term Budget Policy Statement of 2 November 1998.[38] This document does three things:

- Delineates the equitable division of revenue between the three spheres of government,
- Gives the rationale for that division in terms of macro economic context and assumptions, and
- Provides spending estimates for the next three years.

These spending projections serve as a starting point for the next year's detailed budget. For example, the forward estimates for the 1999/00 fiscal year included in the MTBPS will be the baseline for determining the fiscal year 2000/01 budget. Appropriate adjustments are made to these baseline numbers if policies are altered, government priorities shift, or the macro-economic environment changes unexpectedly.

---

[38] 1999 Budget Review, Overview, pg. 1.

The final budget numbers and projections for the next three years are then announced in February when the budget is tabled in Parliament.[39]

Contents of the Medium Term Budget Policy Statement (MTBPS)

The Medium Term Budget Policy Statement includes the following sections:

- *Macro-economic context*—The MTBPS summarises the assumptions and predictions underpinning the government's fiscal policy. It provides the key numbers for the government's three-year estimates specifically on: the projected real Gross Domestic Product (GDP) growth, real private consumption growth, real gross domestic fixed investment growth, and GDP inflation. The MTBPS also describes current trends in employment, consumption and investment.

- *Overall Fiscal Policy*—The MTBPS lays out the principles behind the fiscal policy, its overall aims, and the subsequent objectives for the next three years. Following this, the MTBPS describes what adjustments have been made to the numbers in the previously published projections. A detailed rationale is given for each revision.

[39] 1998 Medium Term Budget Policy Statement, pg. 1.

- *Division of Revenue*—The decision on how funds are to be allocated vertically is not determined by formula but by policy. This section spells out the policy priorities and values that guide that decision, along with the factors laid out in Section 214 (2) of the Constitution. It also provides information on the equitable share and conditional grant transfers to provinces.

- *Medium Term Expenditure Projections*—Lastly, the MTBPS projects expenditures over the next three years.

National Expenditure Survey

As part of the Medium Term Expenditure Framework, the government published a National Expenditure Survey (NES), for the first time in 1999. This is a separate document intended to complement the Estimate of Expenditure (see page 23).[40] It is an account of money spent and outcomes achieved by national government departments and agencies. Each national department submits a report to the Ministry of Finance, which shows what programmes or services were successfully delivered with the expenditures of the previous year.

In this way, the NES directly links spending to service delivery and outputs. Instead of focusing strictly on accounting and asking whether actual expenditure

---

[40] 1999 Budget Review, Chapter 1, pg. 2

exceeded the previous year's budget, the NES looks at what national departments delivered for that money. In other words, it evaluates the budget by the tangible outcomes produced on the ground.[41]

The NES can be a critical instrument for evaluating programmes and understanding the value of spending in certain areas. Currently the NES is only produced for national ministries and agencies. Similar reporting for provincial departments and standardisation of the reporting format across departments would make it a more useful and accessible tool.

---

[41] Tania Ajam, Deputy Director, Applied Fiscal Research Centre, University of Cape Town. Interview. 4 August 1999.

THE BUDGET PROCESS:

How does government arrive at the annual budget?

The following sections first explain the bodies that coordinate decision-making in the budget process and then describe the budgeting chronology in detail. Essentially there are two stages: the drafting stage and the legislative process.

I. Who are the main actors in the budgeting process?

The IGFRA empowered three intergovernmental bodies to strengthen cooperation on budgeting between the executive and parliament, and between spheres of government. The Act helped to clarify the roles of the FFC, Budget Council and Budget Forum in the budget cycle. The MTEF teams, also explained below, are intergovernmental teams that take a unique sectoral perspective on budgeting and planning.

A. Financial and Fiscal Commission

The FFC is an independent, impartial body constitutionally established in 1994. It is intended to serve as an expert resource for Parliament, the provincial legislatures and the Budget Council.

The FFC has 22 members, serving terms of five years. They include:

- Nine persons, each nominated by the provincial Executive Councils;
- Two persons nominated by SALGA, and;
- Eleven members appointed by the President.

The FFC plays the greatest role in the earliest stages of the budget process by recommending the formula for determining the equitable share allotted to each sphere of government, and also the share going to each province. It makes its recommendations in May, ten months prior to the tabling of the budget.

B. Budget Council

The Budget Council consists of the Minister of Finance and provincial Members of Executive Committees for Finance, along with a few others. They make recommendations to the Cabinet on the budget. In practice, it has become the principal forum for consultation and debate at the executive level in the ten months leading up to the official tabling of the budget in Parliament.

Chaired by the Minister of Finance, the Budget Council also includes:

- The Deputy National Minister of Finance and Ministry advisors,
- Director General of Finance and Heads of Treasury, and
- The FFC (as observers).

The Budget Council was formalised and given specific functions by the IGFRA. The Act also requires the Ministry of Finance to convene the Council at least twice a year. The Budget Council met seven times during the 1999 budget process.[42]

C. Local Government Budget Forum

The Local Government Budget Forum examines the allocations to local government in particular. It consists of:

- The Budget Council,
- The Chairperson of the FFC, and;
- Fourteen representatives from local government appointed by SALGA.

Legislation requires the Minister of Finance to convene the Local Government Budget Forum at least once a year. The 1999 budget process included two meetings of the Budget Forum.[43]

D. MTEF Sectoral Teams or "4x4s"

In 1998, Medium Term Expenditure Framework Sectoral Teams were created as task forces for budget planning in a particular sector. The MTEF teams assigned to carry out these sectoral reviews included

---

[42] 1999 Budget Review, Provincial and Local Government Finances, pg. 4.
[43] Ibid.

Ministry of Finance officials, treasury officials from all provinces, and national and provincial department members for that sector. They closely evaluated expenditures over the previous years, measured the effectiveness of those policies, and produced policy options.[44]

However the MTEF teams were found to be cumbersome, and recently were transformed into leaner "4x4s." The teams still discuss policy options for the sector, problems with service delivery and budget difficulties, yet the composition of the groups may vary. The new 4x4s are designed to include four national and four provincial representatives, with both treasuries and the line departments present.[45] Only a few provinces are represented on a particular 4x4 but each province is involved in at least one. However, the important element of the 4x4s is that they bring together Finance and line departments, at both the national and provincial levels.

The 4x4s are more permanent than the MTEF teams, meeting throughout the year and picking up on other sector-wide policy issues beyond budgeting. Where the original MTEF teams were formed for health, education, welfare, personnel and justice, 4x4s have now been convened to tackle infrastructure and transport.

The 4x4s have a standing slot on the agenda of Budget Council meetings to report on progress. In this way, the 4x4s feed their work into the decisions of the Budget Council. The 4x4s also have significant impact

---

[44] Ibid.

[45] Joel Friedman, Senior Manager: Provincial Budget Policy, Department of Finance. Interview. 24 August 1999.

on the Medium Term Budget Policy Statement released in November. Besides their role in the budgeting process, the 4x4s inform Joint MinMEC meetings (meetings between Ministers and MECs of Finance and line departments where political dimensions are addressed).[46]

The purpose of the 4x4s is to enhance inter-governmental relations and the exchange of information, while taking a long-term perspective on spending and policy. The important point to note is that while the rest of the budgeting planning is done along provincial lines, the sectoral teams are taking a *global* look at a particular government function. However ultimately the 4x4s are advisory bodies of officials and do not have particular decision-making power.

II. Stage One: Drafting the Budget

The budget process begins approximately ten months prior to the April start of the fiscal year. For example, the FY2000/01 budget process would be initiated in April 1999, stretch through that year, and only finish when the fiscal year begins in April 2000. (Figures 7 and 8 provide a timeline and flow chart of the budget process.)[47]

---

[46] Laura Walker, Deputy Director: Provincial Policy, Intergovernmental Relations, Department of Finance. Correspondence. 17 September 1999.

[47] Thanks go to Tania Ajam and Laura Walker for their help in clarifying this timeline.

A. Cabinet and Ministry of Finance set preliminary allocations

Between November and February of the year prior to the particular fiscal year, the Department of Finance determines the basic fiscal, policy and spending parameters for the budget. The Ministry uses the MTEF projections of the previous year as a starting point to ascertain the total expected revenue for that fiscal year, anticipated expenditure, and resulting shortfall or **deficit**. The Finance Department also makes a preliminary recommendation on the division between national departments and between the nine provinces. The result of this top-down process is an overall set of parameters for the departments and provinces to work within—these are referred to as the **indicative allocations**, or resource envelopes.

In January, the Cabinet meets to set priorities and review and approve these preliminary allocations.

B. Budget Council meets to determine vertical division of revenue

By requirement of the IGFRA, the FFC is required to submit its recommendations on the revenue split between spheres of government and among the nine provinces at least ten months before the start of the fiscal year. In practice, this means May of the prior year. At this time, the FFC is supposed to send its recommendations to the Budget Council, Parliament, and the provincial legislatures.

In May or June, the Budget Council meets for the first time to consider the recommendations of the FFC. A preliminary decision on the vertical division of revenue between the spheres of government is made at this point. At the same meeting, the Council makes a tentative decision on the horizontal division of revenue between the nine provinces. These are soft allocations that may change.[48]

C. Detailed departmental budgets drafted

The budgeting process now becomes a more bottom-up procedure. From approximately May through August of the prior year, detailed departmental planning and budgeting takes place. Each provincial treasury takes the preliminary allocation assigned to their province in the May Budget Council meeting and makes rough allocations between their provincial departments. The provincial departments then draw up proposals of how that money will be spent, making decisions between programmes and line items. (The provincial departments' detailed plans or proposals will later be brought to the second meeting of the Budget Council in October.)

Also during this period, the national ministries compile their budgets, determining allocations between programmes and line items. At the end of this process, the national departments submit their budgets to the Department of State Expenditure, and provincial

---

[48] Laura Walker, Deputy Director: Provincial Policy, Intergovernmental Relations, Department of Finance. Interview, 31 August 1999.

departments submit their detailed draft budgets to their treasuries.

D. Briefings held

In August the Department of Finance reports to the Finance Committee in the National Assembly. Its presentation covers the basic macro view of the budget and the medium-term expenditure framework. In essence, this briefing is the first time Parliament receives word on the developing budget.[49]

Also in August, the Minister's Committee on the Budget meets to discuss government priorities and the fiscal framework for the budget. The Minister's Committee on the Budget (or MINCOMBUD) is a technical subcommittee of the Cabinet, most closely involved in the oversight of the developing budget and its compliance with government goals.

In September and October, the Medium Term Expenditure Committees or MTECs[51] meet to evaluate whether the spending plans submitted by departments are economical, efficient and equitable. National government and all provincial governments have MTECs led by the Treasury. During these meetings, the State Expenditure and Finance departments meet with the separate departments. The meetings shed light on

---

[49] Laura Walker, 31 August 1999.

[50] Laura Walker, Deputy Director: Provincial Policy, Intergovernmental Relations, Department of Finance. Correspondence. 21 September 1999.

[51] "Spend and Deliver: A Guide to the Medium-Term Expenditure Framework" by Laura Walker and Berhanu Mengistu, Idasa 1999

various spending pressures, which help to inform decisions on priorities. Those priorities are laid out in the Medium Term Budget Policy Statement published the next month. (Parallel MTEC hearings at the provincial level are held in October.)[52]

E. Budget Council meeting on horizontal division of revenue

In October the Budget Council meets again. At this meeting, the final decision is made on the horizontal division of revenue between the provinces.

Following the Budget Council meeting, the MINCOMBUD meets. An extended Cabinet meeting on the budget follows, and is attended by the provincial premiers. The purpose of this meeting is to discuss and finalise the vertical and horizontal divisions of revenue. Parliament is then provided with updated briefings, and the outcomes of the parliamentary briefings are fed back into the process.

F. Medium Term Budget Policy Statement published

In November, the Ministry of Finance publishes the MTEF Budget Policy Statement, drawing on the work of the 4x4s, the revised macro projections, the MTEC process and preliminary Cabinet decisions on priorities.[53] The MTBPS contains preliminary spending projections for the next immediate fiscal year, as well as the two years following. It includes the numbers from the October Budget Council meeting which produced the

---

[52] Laura Walker. Interview. 31 August 1999.
[53] Laura Walker. Correspondence. 21 September 1999.

formula for the revenue division between the provinces. The MTBPS is also discussed by the Cabinet.[54]

G. Negotiation and reconciliation of requests

With the final allocation for the provinces determined at the October Budget Council meeting, the months between November and January are used by the provincial treasuries to move money between departments and programmes. Adjustments to original budget proposals developed might require adjustment once the provinces know the actual amount they will be receiving from the national government.

The Minister of Finance then presents the outcome of these meetings and negotiations to the Budget Council, to be accepted or sent back for changes. At the provincial level, a parallel process occurs: each provincial department meets with the provincial treasuries or executive committees.

H. Budget Council approval and ratification by Cabinet

Once the Budget Council approves, the Minister of Finance presents the budget to the Cabinet, seeking its ratification of the proposal. This normally occurs in November or December. In the provinces, the provincial MEC for Finance submits the budget to the provincial cabinet for ratification. This usually happens in December.[55]

---

[54] Laura Walker. Interview. 31 August 1999.

[55] "The Budget—A Tool for Change, Drafting Training Manual", IDASA Budget Information Service, April 1998, pg. 14.

I. Final changes and printing

The two months prior to the tabling of the national budget in Parliament is characterised by final, often secret, negotiations and small changes. It concludes with the printing of the budget. (The provinces table their budgets approximately one week after the tabling of the national budget.)[56]

III. Stage Two: The Legislative Process

A. How is the national budget legislation structured and classified?

On Budget Day, the Minister of Finance delivers his Budget Speech in the National Assembly and formally tables the national budget in Parliament. The national budget is presented as two pieces of legislation, introduced at the same time.

- *Division Of Revenue Bill.* In addition to providing for the distribution of revenue between spheres and provinces, the Division of Revenue Bill must be accompanied by a memorandum that explains the rationale for the divisions proposed between spheres of government and among provinces.[57] The Minister also has a legal obligation to respond in this memo to the FFC recommendations,

---

[56] Joel Friedman, Senior Manager, Provincial Budget Policy, Department of Finance. Interview. 24 August 1999.

[57] This memorandum is mandated under the Intergovernmental Fiscal Relations Act, and commonly referred to as "Annexure E".

explaining why those recommendations were adopted or rejected.[58]

- *Appropriations Bill.* This legislation gives departments the legal authority to spend the money allotted to them. The budget is divided into "votes" which refer to the sub-budgets of each department.

Section 77 of the Constitution defines a money bill as one, which "appropriates money or imposes taxes, levies or duties." Thus the **Appropriations Bill** is a money bill treated as Section 75 legislation (ordinary bills not affecting the provinces). As with all other Section 75 bills, the NCOP has very limited powers. A section 75 bill passed by the National Assembly and voted down by the NCOP can still be passed through an override vote in the Assembly.

However, the **Division of Revenue bill** is tagged as Section 76 legislation affecting the provinces. This allows the NCOP to have greater impact: Section 76 bills rejected by the NCOP must be referred to a mediation committee, and should consensus still not be reached, must earn a two-thirds majority vote by the National Assembly to be passed on for Presidential approval.

B. Does Parliament have powers to amend the budget?

---

[58] Murray, Christina. "Revenue Bill Makes Sense," *NCOP News*, April 1998, pg. 4.

Currently Parliament's power to amend the taxation and appropriations bills of the national budget is ambiguous and weak. However, Parliament can amend the Division of Revenue bill. The difference is a result of the variant classifications of the three bills.

As previously stated, the taxation and appropriations bills of the national budget package are money bills, which are classified as Section 75 legislation. Theoretically, both the NCOP and NA have the power to propose amendments to Section 75 legislation. Sections 77 and 120 of the Constitution call for Parliament to enact special legislation to set up procedures for Parliament and provincial legislatures to amend money bills. However, as yet, this legislation has not been passed, and the location and extent of the proposed powers are still under debate.

What this means is that the NA and NCOP committees currently have the power to hold hearings on the taxation and appropriations bills, and recommend a vote in favour or against the bills, but cannot recommend specific changes. And although the committees and both houses theoretically have the authority to vote down these bills, this could only be done by rejecting the bills in total, an action that would cause severe upheaval in the process and essentially amount to a no-confidence vote in the executive. This is highly unlikely.

The Division of Revenue is a different matter. It is not a money bill, and therefore is covered by Section 76.[59] As a result, technically the bill *can* be amended by

---

[59] Thanks to Christina Murray for pointing out this distinction.

the NCOP without any special legislation being enacted beforehand. However, it is again unlikely this would occur.

C. What are the roles of the National Assembly and NCOP?

Budget Day marks the start of a three to four month review process in national and provincial legislatures.[60] The bill is first sent to the NA Finance Committee, and then passed along to the finance committees in each province. The NA Finance Committee then has seven days to hold public hearings on the budget and compile a report for the Assembly. Portfolio standing committees for particular sectors might also hold hearings on individual votes.[61]

The Finance Committee then presents its report to the whole Assembly, and the budget is debated for approximately one week on the floor of the Assembly.[62] The majority of time Parliament spends on the budget is thus consumed with floor debate, rather than scrutiny in committee.[63]

---

[60] Ajam, Tania. "NCOP challenged to make bigger impact on budget" *Budget Watch*, Volume 4, Issue 2; June 1998. (IDASA Budget Information Service).

[61] Warren Krafchik and Joachim Wehner, "The Role of Parliament in the Budget Process", 3 June 1998.

[62] IDASA, "The Budget—A Tool for Change" Draft Training Manual, Idasa Budget Information Service, April 1998

[63] Warren Krafchik and Joachim Wehner. "The Role of Parliament in the Budget Process," Discussion Paper. 3 June 1998. (IDASA Budget Information Service).

A number of key documents are released with the budget on National Budget Day to explain the policies and numbers.

Key Documents
White Book, known officially as the Estimate of Expenditure, is the comprehensive and details list of departmental votes. It provides information on the spending plans for government departments as well as their individual departmental programmes at both the national and provincial level. **Budget Review,** is a more readable and accessible version of the White Book. Annexure E of the Budget Review is of particular importance to provincial and local spheres of government as it includes explanatory memoranda on the division of revenue as well as an overview of economic policy under which the budget was drafted. **Minister's Speech**, provides an easily understandable "popular" version of the Budget that indicates major policy shifts or funding changes. **National Expenditure Review**, is a survey of the actual expenditure during the past financial year, and provides an overview of service delivery at a national level.

Once the National Assembly has voted its approval, the budget passes to the National Council of Provinces. Following a positive vote in the NCOP, it is passed along to the President for signing.

Glossary of Terms

Appropriation	Amount of money authorised to be spent by a department, province, or local government.
Backlog	Situation where the level of resources or services in a locality are significantly below national standards (see page 10).
Bridging finance	When provinces or local governments borrow money on a short-term basis to cover an immediate need, in anticipation of income in the near future.
Capital expenditure	Money spent on an item that lasts for longer than one year—typically infrastructure, such as buildings or equipment.
Conditional grants	Money given to provinces or local government from the national government that has certain legal requirements that limit or direct how the money can be spent. (For example: requirements to deliver a particular programme, distribute goods or payments to residents, or maintain a certain standard in services).

Contingency reserves	Money set aside by the national government (before the vertical and horizontal divisions of revenue are made) to cover unanticipated expenses in the upcoming fiscal year.
Current expenditure	Money spent by government departments for routine services or goods regularly used during the fiscal year. These would include rent, wages, office supplies, etc. but does *not* include welfare payments.
Debt service	Interest that government pays on the money it has borrowed.
Deficit	Difference between government spending and government revenue.
Division of Revenue	How money taken in by the government through taxes is distributed vertically (between national, provincial, and local government), and horizontally between the nine provinces.
Equitable share	The term used in the Constitution (Section 214) to refer to the funds legally owed by the national government to the provinces and local governments.
Expenditure	Money paid out or spent by government.

Fiscal capacity	Taxing capacity or the ability of government to raise taxes in an area.
Fiscal policy	The entire collection of government taxing and spending policies.
Fiscal year	The fiscal year typically does not coincide with the calendar year. The South African fiscal year is 1 April to 31 March.
Flat-rate surcharges	A surcharge is an additional tax levied by a province or local government that is attached to a tax already collected by the national government. A flat-rate surcharge means there is a set rate (For example, the percentage cannot be graduated for different income levels).
Horizontal division	The decision on how the total funds given by national government to the provinces will be allocated among the nine provinces. The total amount of funds for local government is also distributed between municipalities according to a horizontal division.

Indaba	Meeting. In the context of the budget process, the word is used to refer to the main Budget Council meetings in May and October. *Lekgotla* is also frequently used.
Indicative allocations	The initial amounts allocated for each national department and, in turn, to each provincial department. The indicative allocations are set by Cabinet and the Budget Council in the early stages of the budget drafting process.
Lekgotla	Meeting. In the context of the budget process, the term is often used to refer to the main Budget Council meetings in May and October. *Indaba* is also frequently used.
Medium Term Expenditure Framework	The system introduced in 1998 whereby government would not simply decide the budget on a year to year basis, but plan revenue and expenditures three years ahead. The MTEF is a planning tool as opposed to a legal obligation.
R293 towns	Areas of the former homelands—largely poor—which receive special transitional grants under the local government funding scheme (see page 14).

Revenue	Money government takes in, either through taxation or by borrowing.
Spillover	When the benefits (or costs) of a program or project extend beyond the residents of the immediate area, to residents of other municipalities who do not incur costs for those positive effects. For example, a polluting factory or medical research facilities.
Tax base	What a tax is levied on (e.g. personal income, or cigarettes). More largely, the term refers to the potential funds to be raised in an area through taxes.
Transfer payments	Funds given from one body to another, with no conditions. This term is used for cash payments made by government to welfare recipients (such as the pension program), and also can refer to grants given from one sphere of government to another.
User charges	Fees for services delivered to residents. Beneficiaries are charged according to their use. Examples of user charges include licenses and utility charges.

Unfunded mandates	Legislation from national government directing provinces or local authorities to provide certain services or uphold national standards without providing the necessary funds to carry out the program or comply.
VAT—Value Added Tax	Tax levied by the national government. The VAT is an indirect tax, meaning it is paid to a second party (stores or vendors) and passed on to the national government.
Vertical Division	The decision on how the total revenue raised by the national government will be distributed between national government, provincial government, and local government.

Figure 7.

Budget Process Timeline

	2000		2001										2002			
	Nov	Dec	Jan	Feb	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
National	Department of Finance determines total anticipated revenue, expenditure and deficit, and makes preliminary recommendation on division between national departments and nine provinces		National Cabinet meeting held to set priorities and approve indicative allocations.		FFC submits its recommendations to Budget Council, Parliament and provincial legislatures.			Finance Ministry makes presentations to NA committees and cabinet	MTEC hearings held	**Second Budget Council Meeting** held to make final decision on horizontal split between the provinces.	National Minister of Finance presents plan to Budget Council for approval	National Cabinet meets to ratify budget.	Final negotiations and changes. Budget is printed		Committee hearings and floor debate take place in NA and NCOP.	***Fiscal Year begins***
National					Budget Council considers FFC recommendations.			4x4s meet to review and examine provincial and departmental budgets for their sector			**Medium Term Budget Policy Statement** is published			**Budget Day**: Finance Minister tables budget in Parliament		
National					**Budget Lekgotla** held to determine vertical split between national, provincial & local governments, and make preliminary horizontal split between provinces.											
Provincial						Provincial treasuries take preliminary figures for their province and allocate between provincial departments	Provincial departments draw up detailed budget proposals within parameters given by provincial treasuries.				Provinces revise department budgets and programmes, given their final allocation determined at the October Budget Council meeting.					
Provincial											Provincial Cabinets meet to ratify provincial budgets					

South African Budget Dictionary

Produced by the National Democratic Institute for International Affairs (NDI) and the Budget Information Service of IDASA, under a grant from the United States Agency for International Development (USAID)

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 largèr 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 or 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 finacial 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 accounted. *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 provincial 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 Minster 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*