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State warned on public sector wage bill

by Linda Ensor, 03 June 2014

THE size of the public sector wage bill would have to be cut if government wanted to maintain its level of expenditure on service delivery and improve its quality in the context of slower economic growth, a government advisory body on fiscal and finance policy warned on Monday.

The Financial and Fiscal Commission said such "hard trade-offs" and "tough decisions" would be necessary as the government accommodated itself to a tighter fiscal situation involving lower growth, onerous levels of debt and more strident demands for social services in the coming years.

Commissioner Tania Ajam said at a media briefing on the commission's report on the division of revenue for 2015-16 that too much money was spent on administrative staff rather than service delivery staff.

When a ceiling was placed on overall expenditure, as undertaken by the Treasury, then spending on the essential materials required for the delivery of services, such as medicines and textbooks, suffered.

The International Monetary Fund agrees with this view. It noted in last year's country report on South Africa that the bloated public sector wage bill was largely responsible for the deterioration in the budget deficit since 2007-08.

It reduces "expenditure flexibility and crowds out government capital spending".

This year the government's wage bill for the nearly 1-million civil servants will amount to R439bn, or about 39% of total noninterest government expenditure. This is way higher than last year's average of 22% for other emerging markets.

The report stressed that the government would have to do things differently if it wanted to maintain service delivery at existing levels without raising taxes. Public spending would have to be made more efficient through greater coordination across the government and by stamping out corruption.

Financial and Fiscal Commission chairman Bongani Khumalo noted there was an "enormous" amount of waste and underspending in the system. The government needed to use available resources more efficiently. "There is a crisis of quality," the commission's report said.

People had gained access to more health, education and social services but the quality had not improved.

Reforming the way public services were delivered would lower costs as well as improve quality.

The government should not resort to simply cutting costs to reduce public debt but rather reform programmes and service delivery.

"Simple cost cutting does not encourage longer-run fiscal stability or allow for reforms that will generate more value for money spent," the commission said.

It also urged the government to avoid setting "rigid" public debt targets or the imposition of across-the-board cuts or expenditure ceilings in order to control debt. This hurt good programmes as much as it did poorly managed ones.

http://www.bdlive.co.za/national/2014/06/03/state-warned-on-public-sector-wage-bill