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Cutbacks 'threaten health, education'

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CAPE TOWN — Health and education were likely to bear the brunt of huge cutbacks that provincial and local spheres of government would be forced to undertake to accommodate the much slower growth in revenue, the Financial and Fiscal Commission has warned.

Many municipalities are on the knife-edge of survival, and likely to be further hobbled by their shrinking revenue.

Commission deputy chairman Bongani Khumalo told Parliament's finance committee, which is holding public hearings on the budget, that the fiscal situation of provincial and local governments was "very weak".

Slower growth of national government tax revenue meant it could probably not pump in extra funds to avert huge layoffs of employees at local and provincial level, as was the case in the current fiscal year ending next month.

"Given the slow state of the economic recovery and the inherent lag in provincial and local government tax revenue growth, many provinces and local governments will eventually be forced to enact large cuts in public spending," Khumalo said.

"Unfortunately, public education and health are likely to be hit very hard.

"The commission wishes to ensure that cuts will be limited to noncore areas and done in a reasonable way so that basic service delivery is not compromised, nor the progressive realisation of socioeconomic rights," he said.

Deficits of provincial and local governments were expected to widen significantly as spending would be slower to decelerate than revenue. To deal with this they

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would have to raise more tax revenue, reduce or defer spending and become more efficient.

The commission is a statutory body established by the constitution to advise the government on allocation of funds to the different spheres of government.

It also expressed concern over the contingent liabilities facing the government as a result of the guarantees extended to parastatals such as Eskom, Denel, South African Airways and the SABC. These now amount to R138bn.

“These contingent liabilities might become an actual liability and a loss, and depend on something in the future which may be beyond government’s control,” Khumalo said. The guarantees should be monitored carefully.

Also of concern was the envisaged increase of concessionary finance to the Industrial Development Corporation under the industrial policy action plan.

The commission said the budget’s R15bn guarantee to recapitalise the Development Bank of Southern Africa carried unintended risks such as squeezing out private lenders or increasing lending to municipalities. The bank, which concentrates its lending on creditworthy municipalities, should be given clear policy objectives.

The commission argued that the government should postpone the imposition of mining royalties to give the industry a chance to recover from the recession. The levy, which was postponed for a year to reduce the burden on the mining industry, will become effective from Monday.

The commission felt that March 1 was too soon, “given the fact that the mining sector and domestic imports were severely affected by the global recession and the fall in commodity prices”.

The Treasury expects the levy to generate about R3,54bn for the fiscus in 2010-11.

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