Business Day

MPs urged to brace for extreme budget cuts in 2021

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Cuts to government services in the 2021 budget will be "eye-watering" and could damage programmes of critical importance, such as schooling, a body that is charged with making recommendations on the fiscal framework told parliamentary committees on Tuesday.

Deputy chair of the Financial and Fiscal Commission Michael Sachs, the former head of the Treasury's budget office, said there must be an underlying plan for each department to ensure the cuts did not undermine government priorities.

The commission and the parliamentary budget office on Tuesday presented their views on the medium-term budget policy statement, tabled in parliament by finance minister Tito Mboweni last week, to parliament's two finance and two appropriations committees.

The medium-term budget policy statement proposes a 2.8% cut in noninterest government expenditure in 2021 as part of a bid to stabilise mounting levels of debt. This burden will be borne by departments, provinces and local governments, but most significantly by public sector employees.

Sachs said 2021's budget cuts would be unprecedented and could pose real challenges across the government. He urged MPs to focus on 2021's budget rather than the uncertain medium term, saying the budget tabled by Mboweni in February will be critical.

For instance, the department of home affairs would have its budget cut by 13.5% next year; the department of defence by 9.3%; and legislative and executive services, which includes parliament, by 3.8%.

The social development budget will decline by 1%, the peace and security budget by 2.8%, and the agriculture and rural development budget by 3.1%.

Unprecedented

Sachs stressed that if there were no policies to underpin these fiscal choices, it was likely that the burden of the adjustments would fall on those who depend on public services and were least able to resist them, such as schoolchildren.

"These kind of cuts where you see the nominal level of expenditure drop are unprecedented. They have never happened before in SA."

Basic education, for example, would not have a cut in its budget, but on a consolidated basis will have no increase next year while costs for items such as electricity, school maintenance and stationery will increase.

"There is a real danger that the quality of education provided to schoolchildren will fall as a result of this 0% increase," Sachs said.

A real erosion in the quality of services would result if the government and labour agreed on a wage increase instead of the wage freeze for public sector workers for which the Treasury is planning. This would require a reduction in the number of teachers and staff in schools to accommodate the above-zero wage increase.

Sachs noted two forces that would impose extreme pressure on budgets next fiscal year. The first would be the overall cap on expenditure in a bid to achieve fiscal consolidation, and the second would be the drive to shift spending from consumption to capital expenditure.

Consumption expenditure covers the core social services that the government provides, such as education, health care and policing and includes salaries of public servants.

Extreme pressure

"So we are seeing those departments which provide core government services placed under a double burden," Sachs said.

This would also result in a big reduction in the equitable share to provincial and local governments and a big increase in conditional grants, which finance capital spending.

The provincial equitable share will be slashed by R60bn next year and the local government equitable share will decline by R14.5bn. The Treasury projects that across government payments for capital assets will grow by 13.4% in 2021/2022.

Local government is already under extreme pressure and in 2020/2021 will have much higher salary costs as most municipalities have agreed to a 6.5% wage increase.

Financial and Fiscal Commission head of research Mkhululi Ncube emphasised that the government could not abandon its core mandate of consumption spending on basic services such as health, education, water and sanitation at local level.

The nominal decline of 9% in the local government equitable share next year was of concern, Ncube said, especially given the distress many municipalities face. Service delivery would be affected.

https://www.businesslive.co.za/bd/national/2020-11-03-mps-urged-to-brace-for-extreme-budget-cuts-in-2021/