Policy Briefing Note on the Budget
March 2021
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The Implications of the Budget Vote for Public Sector Workers

The National Treasury claims that the budget vote presented on 24 February 2021 is framed by two policy objectives set out in the Medium-Term Budget Policy Statement (MTBPS): (i) the promotion of economic recovery in the wake of the Covid-19 pandemic, and (ii) the need to return public finances to a sustainable position, primarily through fiscal consolidation and debt stabilisation.[1] Key to the first policy objective is the mass COVID-19 vaccination rollout – provided free of charge and aimed at supporting the reopening of the economy. The second policy objective is anchored in stabilising the debt-to-GDP ratio through reductions to expenditure.

Budget Vote Policy Objectives

The first policy imperative that framed the budget vote incorporates a clear element of social protection. This extends to workers in the public sector. The mass vaccination programme is designed to prioritise healthcare workers and essential workers – many of whom are public sector workers. If the rollout strategy is implemented efficiently, the country's economic conditions might improve, and with an uptick in revenue collection. Such positive conditions might augur well for confidence, including restoration of faith in three-year wage bargaining process, which at the moment is floundering under the weight of economic strain.

In terms of the second policy objective, the National Treasury has signalled its intentions to reign-in public expenditure. This is informed by the growth in the public expenditure coupled with the fall in revenue collection. Tax revenues have been in decline for the past few years despite the VAT increases in 2018 and introduction of the of the sugar tax in 2018. The revenue collection shortfalls will also be exacerbated by the economic contraction caused by the economic contraction induced by the COVID-19 pandemic. The suite of tax relief measures introduced in the 2020 *Draft Disaster Management Tax Relief Bill* and 2020 *Draft Disaster Management Tax Relief Administration Bill* – including the four-month deferral of employees' tax liability (which impacted the PIT collected between April and July 2020) and the broadening of eligibility criteria for deferral of provisional tax liabilities – also adversely impacted tax revenue for the current financial year.

These declines in revenue collection are also aggravated by the Special COVID-19 Grant of R350 introduced as a short-term measure to reduce the immediate impact on the livelihoods of poor South Africans and extended to April 2021.[2] The introduction of this grant was also coupled with the topping up of existing grants – even though it was for a limited period.

[1] National Treasury. 2021. Budget 2021 – Renewing the Economy and Restoring Public Finances.
[2] Parliamentary Budget Office. 2021. 2021 Pre-budget Briefing

The reprioritisation of existing budgets in the special appropriations budget presented in June 2021 has also meant resources that were initially earmarked for services had to be redirected towards efforts meant to combat the COVID-19 pandemic. The shortfall in revenue collection together with monies redirected towards COVID-19 relief efforts has left a gaping hole in resources meant for typical service provision. This is likely to intensify efforts to cut back on expenditure while providing services. The public wage bill has been one of the focal points in seeking to curtail the spiralling expenditure growth.

Public Sector Wage Bill

Currently, the National Treasury has – through the 2020 Budget - proposed compensation reductions totalling R160.2 billion for 2020/21 to 2022/23, relative to the pre-Budget baseline. The 2020 MTBPS proposed further downward adjustments to compensation, amounting to R143.2 billion for 2021/22 to 2023/24. The focus on the public wage bill is – in part – motivated by the public service compensation absorbing 41% of government revenues in 2019/20 and 47% of revenue in 2020/21. A phenomenon that is seen as untenable.

The bulk of the envisaged fiscal consolidation measures will come from the public service wage bill. Mechanisms under consideration to effect this include "doing away with annual cost-of-living adjustment in the public service up until 2023/24, together with measures to reduce headcounts – a combination of early retirement and natural attrition, as well as freezing or abolishing of non-critical posts".[3]

If these measures pass through, they will place public servants under very difficult socio-economic strain. It is clear that in the current circumstances it makes little sense for public sector workers to bind themselves to three-year wage agreements. The political and economic environment is extremely fluid, and the employer has shown that it cannot be trusted to keep to agreements. In the coming round of wage negotiations, and to be limited to 12 months, public sector workers will need to insist on a reform package that includes steep cuts in the perks of political principals, the number of political appointees (for example a cap on the ministerial staff including advisors), moratorium in the use of consultants for non-critical assignments and ceilings on consultancy spend by government departments, deep cuts in South Africa's diplomatic missions abroad including consolidation of some into regional missions rather than stand-alone country missions, and a package of reforms to reduce wastage in state-owned enterprises.

Tax hikes and their impact on workers

Despite the tax relief measures, the budget vote announced several tax hikes that are likely to adversely impact workers. Prominent amongst those are the general fuel levy and Road Accident Fund (RAF) levy – these increases will take effect from 7 April 2021. The 15c/litre general levy increase is inflation-related while the 11c/litre increase in the RAF levy is higher than inflation.[4] The two levies combined already account for 38% (about R5.88 per litre) of the fuel price (for 93 octane petrol), and these increases will push the combination of these levies to constitute about R6.15 of the cost of a litre of 93 octane petrol.[5]

South Africans are already spending too much on petrol. Currently, South Africans spend more money filling up their petrol tanks than they buy new cars. About 26.9% of the money South Africans spent in the motor trade sector goes towards purchasing fuel.[6]

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[3] National Treasury. 2021. Budget Review – 2021. http://www.treasury.gov.za/documents/national%20budget/2021/review/FullBR.pdf

[4] Business Tech. 2021. Fuel tax increases to hit motorists in South Africa from April. https://businesstech.co.za/news/budget-speech/470778/fuel-tax-increases-to-hit-motorists-in-south-africa-from-april/#:~:text=The%20increase%20will%20see%20motorists,the%20Road%20Accident%20Fund%20levy.

[5] National Treasury. 2021. Budget Review – 2021. http://www.treasury.gov.za/documents/national%20budget/2021/review/FullBR.pdf

[6] Statistics South Africa. 2021. Motor trade sales (Preliminary) – December 2020. http://www.statssa.gov.za/publications/P63432/P63432December2020.pdf

In essence, for every R100 spent in the motor trade sector in South Africa, about R26.90 go towards fuel. According to data from the Bloomberg Petrol Price Rankings for 2020, South Africans spend 3% of their income on buying fuel - the third-highest amount of all countries.[7]

In addition to direct expenditure on fuel, workers who are reliant on the public transport system will also feel the pinch as service providers are likely to hike prices – thereby increasing the cost of travel. This likely increase will be on top of the already high monetary costs of commuting in South African cities.[8] The fuel levies hike is also likely to have a negative impact on food prices. This is because the increase in fuel levies' hike - coupled with the fuel price increases in the first quarter of the year - will have a direct impact on the price of logistics.

This increase will in all likelihood be absorbed by consumers, i.e. workers. The likely increase in food prices will be in the backdrop of an estimated 17% increase in food prices over the course of 2020.[9] The increase in food prices outstrip inflation rate for the previous year by a considerable margin (inflation rate was 3.3% in 2020[10]). Further, Eskom has also been granted a 9.4% tariff increase by NERSA, a decision that will hit workers hard and erode their disposable incomes.

Concluding remarks

The public wage bill forms the crux of government's efforts to curb public expenditure. Public sector workers are expected to shoulder the bulk of fiscal consolidation. They will be expected to do this while the cost-of-living increases as exemplified by fuel levy increases that are likely to have a domino effect on consumer goods prices – particularly food. Despite this reality, the National Treasury is unlikely to approve any wage increase demand that is not in line with the policy objective of fiscal consolidation and debt stabilisation. The expectation from National Treasury is that wage demands must take into account prevailing economic conditions. Workers will need to include a broader set of demands when negotiating. These include institutional reforms, reduction in the perks of politicians, limiting the use of consultants, and reform of state-owned enterprises.

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[7] Bloomberg. 2020. Gasoline Prices Around the World: The Real Cost of Filling Up. https://www.bloomberg.com/graphics/gas-prices/#20202:South-Africa:ZAR:l

[8] Kerr, A. 2017. "Tax(i)ing the Poor? Commuting Costs in South African Cities", South African Journal of Economics, Vol. (85)3, pp. 321 – 340.

[9] Pietermaritzburg Economic Justice and Dignity Group (PEJDG). 2020. Household Affordability Index – December 2020. https://pmbejd.org.za/wp-content/uploads/2020/12/December-2020-Household-Affordability-Index-PMBEJD_16122020.pdf

[10] Statistics South Africa. 2021. Inflation for 2020 was the lowest in 16 years and the second lowest in 51 years. http://www.statssa.gov.za/?p=13930