



## **Public Service Staff Cost is not sustainable, they cannot have their cake and eat it**

**Johannesburg, 21 February 2018** - The 2018 Annual Budget Review delivered on 21 February 2018 marks the end of a historical event, being that the 2017/18 fiscal year has been the leading year of a gross tax revenue shortfall amounting to R48.2 billion. Not to dwell too long in the past the question should be what must change to ensure history does not repeat itself in the future.

According to Madelein Grobler, SAICA Project Manager: Tax, "Given the announcements of the recent increases in existing taxes such as the increase of VAT by 1% effective 1 April 2018, a higher estate duty tax rate of 25% for estates greater than R30 million, ad-valorem excise duty and a 52 cents increased fuel levy, there is very few leg room to manoeuvre with going forward to increase net tax revenue. The remaining option is to scrutinize expenditure within the public sector.

The public service staff cost has outperformed all other areas of expenditure and takes the biggest slice of the revenue cake, being 45% of net revenue in 2016/17 and an estimated 46% of net revenue in 2017/18. National Treasury reported in the 2017 Medium Term Budget Policy Statement (MTBPS) that the public service compensation has grown at an average rate of 10.3% over the last 8 year period. The only other expenditure which may take the cherry for fastest growing is the interest repayment.

The public service staff cost has grown at an exponential rate compared to the average nominal Gross Domestic Product (GDP) growth of 7.3% of the last past 8 years, per the MTBPS. It is not sustainable.

If the historic trends continues, it is estimated that within 24 years from now, meaning by 2042 the public service staff cost would equal to more than 100% of net revenue, resulting in the public services having the Country's cake and eating it too. This is the result if one considers the average nominal GDP growth rate and average tax to GDP rate of historic and for casted years.

The analysis of the data indicates that if Government's wish is to not have a net revenue shortfall in future and ensure that history does not repeat itself, it should blow out quite a few candles in the public service space. Such an action would result in having net revenue funds available to utilize for other plans as announced

in the 2018 Annual Budget Review, like National Health Insurance and free Higher Education,” concluded Grobler.

Written by

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