

COSATU Submission:

Fiscal Framework and Revenue Proposals

03 March 2021



COSATU

Submitted to:

Standing and Select Committees: Finance

Parliament

Republic of South Africa

1. Introduction

The Congress of South African Trade Unions (COSATU) believes that the Budget Speech by Minister Mboweni was a huge let-down for workers and the poor.

The Federation notes the government's 2021/22 Budget and Medium-Term Expenditure Framework (MTEF). Our critique of the budget is focused on its impact on poverty and unemployment. We assert again that our major problem is not the budget deficit and the national debt but economic stagnation.

COSATU had called for a Budget that was going to focus on speeding up economic development in order to create jobs, focus on supporting rural and township economy, ensure people in all parts of the country have access to services, and then intensify the rural development and urban renewal programmes.

Sadly, this budget does not just fail in addressing most of our pressing concerns, it is also doing nothing to fix the broken systems inside the state. This is a pro-business budget that is divorced from the realities of ordinary South Africans.

The people who drafted this budget speech do not believe that we have an economy deeply mired in a recession, state institutions and enterprises in varying stages of collapse or an unemployment crisis in this country, if they do believe, then they do not care or do not know what must be done.

2. Fiscal Framework

This budget proves that there is nothing that will convince National Treasury to abandon its addiction to destructive neo-liberal policies. The essence of the Budget and MTEF is a freeze in expenditure across the state. When inflation is factored in, this will mean cuts. This will be done upon the backs of public servants through a four year wage freeze imposition.

Treasury's obsession of linking growth to slashing the budget is counterproductive and, in fact, has been rejected even by the IMF. It is equal to putting the cart before the horse. And to telling the horse it must find its own feed and load its own cart.

COSATU Proposals:

- Need for a meaningful review and overhaul of government's macro-economic framework to ensure that it balances the need to reduce the debt and deficit levels and trajectories as well as to stimulate the economy and plug the gaping holes in the fiscus.
- This should take place at Nedlac as a matter of urgency and as part of the ongoing engagements on medium and long term interventions under the Economic Recovery and Reconstruction Plan.

3. Taxes

COSATU welcomes that there will be no additional taxes upon working and middle class families. The adjustment of tax brackets for inflation will provide relief for

workers. This is a welcome change from recent years where government did not adjust tax brackets for lower and middle income earners fully for inflation.

However, we believe that government should have explored measures to ensure the wealthy pay their fair share through an increase in income, inheritance, and estate taxes for the rich and import duties on luxury goods that can be produced locally.

Government needs to invest much more in capacitating SARS to crack down more effectively on the billions lost to tax and customs evasion. SARS needs to move with speed on lifestyle audits of the wealthy.

Reducing the corporate tax rate to 27% in 2022 whilst freezing public servants' salaries for 4 years is the clearest proof that this is a pro-business budget. In short government will balance the fiscus by pickpocketing public servants and reducing social grants to the poor but will reward business with a corporate tax cut in 2022.

The budget fails to examine and account for what impact did the previous corporate tax cuts have on job creation, investments and economic growth. If it did not help to stimulate these, then all it will do is to worsen the fiscal crisis.

COSATU Proposals:

- A review of the tax regime needs to be undertaken for the 2022 budget. It should look at how the tax burden upon working and middle income earners can be eased and to ensure that the wealthy pay their fair share.
 - This should include increases income tax, inheritance and estate duties and levies on luxury imports.
- SARS needs to be further reinforced e.g. additional financing to:
 - Modernise its IT systems;
 - Fill more than critical 800 vacancies;
 - Increase customs inspections from the current 5% rate and to prioritise illegal imports in the clothing, tobacco and other manufacturing sectors; and
 - Crack down on tax evasion, in particular by the wealthy, the tobacco and the informal sectors.

4. Covid-19

Whilst appreciating the initial roll-out of the vaccination programme, there is a need to expedite the process. The target of reaching the 70% population immunity level only in June 2022 is far too unambitious. The economy cannot afford to sustain periodic lockdowns. Government needs to drastically ramp up the vaccine plan to ensure that we reach the 70% immunity level in 2021.

The additional 17 000 health worker appointments in 2020 are welcome. More needs to be done to reinforce the health infrastructure and the proposed savings of R62 billion in health expenditure over the MTEF is pure madness.

COSATU Proposals:

- A ramped up vaccine plan needs to be urgently developed to ensure more than 40 million persons receive their vaccines within 2021.
- Further reinforcements of the health care infrastructure, including the filling of vacancies needs to happen before the expected third wave in June 2021.
- Preparations for the National Health Insurance need to be accelerated and this requires increasing healthcare expenditure not decreasing it.

5. Economic and Social Relief

We welcome the extension of economic and social relief measures to distressed workers and businesses. However, to only extend these until March and April is inadequate and in fact an abandonment of those who cannot find jobs or are prohibited by the disaster management regulations from legally working.

We demand that these relief measures continue beyond April and we urge Parliament to reject this date and reverse this decision.

The R350 Covid-19 unemployment grant needs to be continued as these workers will not miraculously find jobs overnight. The ANC and government have repeatedly called for a basic income grant. The R350 Covid-19 grant is a BIG in essence with all its challenges. The time to have a BIG is when the economy is facing its worse crisis in a century, not in some indeterminate time when things are better.

The UIF's Covid-19 TERS needs to continue for those workers who remain under restrictions. It is immoral to ban workers over the age of 60 years or with co-morbidities who cannot be given alternate work or work from home from working yet provide them with no UIF relief. The UIF has sufficient funds available to continue to help this limited sector of the workforce.

The government as an employer needs to engage with labour at the Public Service Collective Bargaining Council on a reasonable road map for it to begin contributing to the UIF.

The lower than inflation increases to social grants will be distressing for these destitute recipients.

It is galling that National Treasury and the banks have still not proposed any measures to revamp the Loan Guarantee Scheme, despite the SONA's commitment to precisely do that.

The failure to ensure that the monetary policy gives some additional support to the economy in the absence of a fiscal stimulus is reckless mismanagement of the economy.

The failure by National Treasury to speak to the tabling of a parliamentary Bill that will allow distressed workers limited access to their retirement savings threatens to collapse the agreement that such withdrawal relief would come into effect by 1 October 2021. This needs to be tabled at Parliament before Easter so that it can come into effect in 2021.

COSATU Proposals:

- Extend the R350 Covid-19 Grant for the duration of the 2021/22 fiscal year.
- Extend the UIF Covid-19 TERS for restricted workers and businesses for as long as they remain under disaster management restrictions that prevent them from working.
- Treasury, the Reserve Bank and the commercial banks to present proposals on a revamping of the Loan Guarantee Scheme to Nedlac for engagement with organised labour and business.
 - A revamp should look at lower interest rates, easier payment terms, the usage of DFIs and the Post Bank to disperse loans and grants to incentivise job retention and creation.
- The tabling of the agreed amendment bill to allow workers who have experienced financial losses or distress limited access to their pension funds.
 - This must be tabled at Parliament by Easter 2021 in order to come into effect by 1 October 2021.

6. Corruption

It does not appear that government is interested in fighting corruption in the state. We have heard of the numerous scandals on outsourced contracts, corruption, fruitless and wasteful expenditures. Yet the budget contains no new or meaningful measures to tackle this cancer eating at the heart of the state.

The Auditor-General shows year after year in countless reports that government loses an average of R150 billion in corruption and wasteful expenditure annually. Mpumalanga alone lost R12 billion in the previous financial year. Yet there are few if any consequences.

This budget is indifferent to the monumental failure of the National Treasury as the custodian of public finances.

No one seems to have told them that in addition to allocating the fiscus, they have an ethical duty to see to it that the money is used for its designated purposes. Where there are gaps, they need to proactively support capacity building and accountability.

But this is impossible because the same National Treasury, according to the Auditor-General of South Africa, incurred R249 million in irregular expenditure and failed to comply with guidelines and financial regulations.

They did not just fail to implement the Integrated Financial Management System but they also failed to submit financial statements and Treasury's annual report on time.

COSATU will continue to pursue its demand for the ban on public servants doing business with the state be extended to politicians and their spouses. The government cannot afford to be hypocritical in the fight against looting. Politicians must choose if they want to be in government or business, they cannot be both.

COSATU Proposals:

- A revamped single online and transparent public procurement system covering and binding upon all departments, municipalities, entities and State Owned Enterprises.
 - This must be provided for in the Public Procurement Bill which needs to be fast tracked and tabled in Parliament by the end of 2021 not 2022.
- Centralised public procurement of key goods in bulk, e.g. text books, medical supplies etc.
 - This can help ensure cost efficiency and reduce the opportunities for corruption or the supply of sub-standard goods.
- The extension of the ban on public servants and members of the executives from doing business with the state to:
 - National and provincial leaders of political parties holding seats in national cabinet and provincial and mayoral executive committees and their spouses and children.
 - The spouses and children of members of national cabinet and provincial and mayoral executive committees.
- The urgent capacitation of commercial crimes courts and their prioritisation of corruption cases.
 - This must include corruption in both the public and private sectors.
- Parliament holding the leadership of the National Prosecuting Authority, SA Police Service and Judiciary to account for their dismal records in the prosecution of corruption cases.
- Parliament holding the government to account for their failure to exercise its powers in the Auditing Amendment Act that empowers the state to seize the pensions and assets of politicians and managers found guilty of corruption and wasteful expenditure.
- Parliament to require Cabinet, Provincial and Municipal Executive Committees and senior managers in the public service, entities, SOEs and municipalities to undergo life-style audits annually. These should be conducted by SARS or another appropriate authority.

7. Public Service

This government cannot wish away the public service wage dispute. None of the promises and commitments made will be realised in an environment where public servants are demotivated and there is labour instability.

The Federation will not allow a defeat of the public sector workers and the unilateral imposition of a wage freeze This is blatant attempt to undermine the democratic institutions and scapegoat public servants for the mismanagement of the economy.

We know the full political and economic implications if the public sector workers lose this battle. The entire government continues to fail the poor South Africans by failing to provide the necessary leadership to resolve the public service stalemate. Defunding the public service will exacerbate the problems and not resolve them.

The reality is that the public service wage bill has been stable at 35% of the budget since 2009. The public service head count to population ratio has drastically plummeted since 1994 when there were 1 million public servants for 34 million South

Africans to 1.2 million public servants for 60 million South Africans. This has had a huge strain upon the capacity of the state to deliver quality essential public services.

The real causes of the fiscal crisis are the:

- Loss of R150 billion annually to corruption and wasteful expenditure;
- Billions required to save SOEs run into the ground due to corruption, mismanagement and structural changes in their sectors;
- Billions lost to tax and customs evasion and illicit outflows as a result of state capture at SARS under its previous leadership; and
- Stagnant economy where millions of jobs have been lost and thousands of companies closed and as a result declining tax revenues.

These are the issues that government needs to tackle to stabilise the fiscus. What it has tabled at Parliament with a four year fait accompli wage freeze is to dump the bill for looting on public servants.

This will spur a brain drain of skilled public servants e.g. doctors, nurses, paramedics, teachers etc to the private sector and wealthier countries who are actively recruiting skilled South Africans.

Yet government has not shown similar courage when it comes to reducing the number of political office bearer positions or the exorbitant packages paid to politicians and managers across the state.

COSATU Proposals:

- Government must commit to respecting collective bargaining and the 2018 wage agreement.
- Government must engage with unions at the PSCBC on the wage bill and the next wage agreement.
- Government must reduce the packages of political office bearer and senior management in the public service, entities, SOEs and municipalities by 25%.
- The President must reduce the number of Deputy Ministers from 33 to 10.
- A single wage bill structure must be put in place for the entire state, including departments, entities, SOEs and municipalities, and to extend the salary caps of senior managers from the public service to entities, SOEs and municipalities.
- The Public Investment Corporation which invests public servants' pension funds must demand companies where it invests draft plans on how they will reduce their wage gaps and ensure that management does not earn exorbitant packages.

8. Economic Recovery and Reconstruction Plan (ERRP)

The budget is silent on many of the key commitments of the ERRP that are critical to growing the economy. Of particular concern is the absence of any information and commitment by the state to ramp up local procurement. The endless delays in the

Public Procurement Bill, which is critical to streamlining the dilapidated and corrupt public procurement system and driving local procurement is scandalous.

The Federation does welcome the commitment to spend R791 billion on key infrastructure investments over the MTEF in rail, energy, water, higher and basic education, the National Health Insurance, and agriculture.

The proposed Amendments to Regulation 28 to ramp up investments in infrastructure is also welcome. But none of this spending will address our crisis if the leakages that have led to billions being stolen are not plugged.

The progress in beginning the implementation of the Eskom Social Compact is welcomed. It is worrying that we do not have clear plans to stabilise and rebuild our other embattled SOEs from the varying states of collapse like Transnet, PRASA, the SAA Group and Denel. The proposed budgetary cuts to SABC and the retrenchment of a further 300 workers there undermine public commitments by the Minister for Digital Communications that retrenchments would be stopped.

We hope that the SOE Shareholder Management Bill will be prioritised and assist in bringing back good governance to the SOEs.

COSATU Proposals:

- The urgent effecting of the proposed amendment of Regulation 28 to allow for pension funds to invest in infrastructure.
- Clear oversight mechanisms to prevent corruption in the infrastructure programme.
- Fast tracking of the SOE Shareholder Management Bill.
- Prioritisation of investments in ports.
- Clear road maps for embattled SOEs that are not based upon throwing workers into the unemployment queue and where job losses may be unavoidable, that a just transition jobs plan be put in place to transition those affected workers to new jobs.

9. Appropriations

COSATU welcomes the proposed expenditure of R81 billion on the Public Employment Initiative over the MTEF. However, the lack of clear job creation targets for each department, state entity, SOE and municipality is not helpful at all.

Key areas of concern in the freeze and reductions in appropriations to departments are the impact they will have on badly needed public services. The proposed reductions and freezes to the DTIC's industrial financing programmes, the CCMA, PRASA, NSFAS, SAPS, Correctional Services, Health, Water and Sanitation are particularly problematic.

Whilst most departments will experience cuts, the government has found an appetite to spend R900 million revamping our Embassies overseas. This is a vanity project that is not a priority

COSATU Proposals:

- Parliament must exercise its legislative powers and reverse the cuts to the CCMA and DTIC as well as the Departments of Health, Basic Education, SAPS and NSFAS.
- Parliament exercise its legislative power and remove vanity spending from the Budget e.g. the DIRCO embassy upgrading expenditure of R900 million.

10. Local Government

The cuts of R19 billion to local government will weaken an already dysfunctional arm of the state. Again, it is alarming that the budget provides no plans on what is going to be done to rebuild the many municipalities that have deteriorated to the degree that they cannot even pay their workers.

COSATU Proposals:

- Treasury and COGTA needs to explain what is the plan to deal with the billions lost to corruption and wasteful expenditure and in some cases the outright collapse of municipalities.
 - This needs to be more than simply a PowerPoint presentation on the District Model.

11. Conclusion

This is not a budget for a country that has about 14 million people of working age unemployed. This is not the budget that is meant to address the fact that about 15 million people in this country struggle to have three meals a day.

This is a pro-business budget that gives tax incentives to the private sector with no conditions. They will continue to mechanise and retrench, take money out of the country and hide it in tax havens and also hoard it. This is not a tax incentive but a charitable donation from the government to the private sector.

This is a budget that you can expect from people who pay no price for being wrong and who know that they will not be held accountable for under-performing and failing.



Matthew Parks
Parliamentary Coordinator

Cell: 082 785 0687
Email: matthew@cosatu.org.za

6th Floor, Constitution House,
124 Adderley Street
(corner of Church Street)
Cape Town 8000, South Africa