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FEDUSA SUBMISSION ON THE MEDIUM TERM BUDGET POLICY STATEMENT 2015

The Standing and Select Committees on Finance

Cape Town

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TABLE OF CONTENTS

Introduction 3

Economic outlook 3

OECD economic projections 4

Diminishing inclusive economic growth 4

State-owned entities 5

Structural economic reforms 5

National indebtedness 6

Good corporate governance 6

Industrialisation and decent job creation 7

Fiscal policy 7

Harmonization of retirement reforms 8

INTRODUCTION

The Medium Term Budget Policy Statement (MTBPS) is an important instrument as it gives the Federation of Unions of South Africa (FEDUSA) and others, the opportunity to comment on the fiscal policy objectives and spending priorities over the three-year expenditure period 2015 to 2018. FEDUSA would like to congratulate the Minister of Finance and his team in the National Treasury as well as the South African Revenue Services (SARS) for ranking third out of 102 countries in the 2015 release of the Open Budget Index, conducted by the International Budget Partnership.

The MTBPS is an important part of an accountable and open budget process for South Africa. FEDUSA underscores the Money Bills Amendment Procedure and Related Matters Act (2009) as it provides the foundation when the national budget is presented in Parliament after the State of the Nation Address (SONA). The rationalization of the macroeconomic and fiscal policy context as well as the macroeconomic projections and assumptions, are crucial to reinforce the fiscal framework.

The engagements in NEDLAC with the Minister of Finance to strengthen and provide legitimacy to accentuate the mandate of government through social dialogue with organized labour, business and community remains crucial. FEDUSA supports the spending priorities over the medium term that explicitly and urgently concentrates on quality education, skills development for employability, health, social protection, social and economic infrastructure, and the provision for decent job creation.

ECONOMIC OUTLOOK

The economic projection that the South African economy is set to grow by 1.5% in 2015, 1.7% in 2016 and 2.6% in 2017, is far below the three scenarios illustrated in the National Development Plan (NDP). The NDP illustrates the following three scenarios to emphasise the importance of inclusive economic growth for decent job creation:

1. Scenario 1 of 3.3%,
2. Scenario 2 of 4.8%, and
3. Scenario 3 of 5.4%.

FEDUSA underscores scenario path 3 that could lead to more substantial investments, strengthening of municipal infrastructure and services and make education systems more affordable. The Department of Trade and Industry (DTI) should aid firms to expand and strengthen their exports through incentives, while the Department of Science and Technology should enhance the programme of government to strengthen research, development and innovation.

OECD ECONOMIC PROJECTIONS

The Organisation for Economic Co-operation and Development (OECD) argues that economic growth is slowly recovering and reflecting stronger world trade, while the depreciation of the rand should also encourage exports. Exports reliant on manufacturing goods such as commodities, remains depressed by low international prices. Infrastructure investment will contribute to growth, both by providing demand and by alleviating bottlenecks. As incomes increase and confidence slowly improves, private domestic demand is projected to increase.

Moreover, the OECD maintains that fiscal policy will remain mildly restrictive, as the government appropriately, seeks to reduce the deficit and stabilise public debt. The present supportive stance of monetary policy is appropriate, as the economy's spare capacity should contain inflation pressures. High levels of inactivity and unemployment adds to persistently high inequality and requires broad – based structural reforms to boost employment creation and make economic growth more inclusive.

DIMINISHING INCLUSIVE ECONOMIC GROWTH

The 2015 MTBPS was delivered against the milieu of a perfect global storm of diminishing growth, depressed commodity prices, low investments and high youth unemployment. Domestic tax revenues are reduced and the challenges of the country are compounded by structural dynamics such as electricity constraints, weak business confidence and low household demand, which has restricted inclusive economic growth.

FEDUSA will work side by side with government and business to support the economy in order to create more decent work and entrepreneurial opportunities for unemployed young people

through addressing the most binding constraints to inclusive economic growth. The binding constraints to inclusive economic growth should be addressed through NEDLAC, Operation Phakisa and other leadership platforms to adequately address electricity supply, to build a more competitive economy. Deep reforms are necessary to support continued investment in economic infrastructure, especially in the public transport, logistics and energy sectors. Moreover, infrastructure investment, labour-market reforms and private-sector partnerships can boost inclusive economic growth if organized labour is involved in the process. The private sector should invest more to complement public funding in social and economic infrastructure.

STATE-OWNED ENTITIES

The Presidential Review Committee (PRC) on State-owned entities found that there are about 715 entities serving various objectives. FEDUSA supports recommendations of the PRC that legislation should be adopted urgently deal with the long-term strategies of these entities. The legislation should deal with the appointment of boards, clarification of the roles of executive authorities, boards and CEOs, as well as the rationalization of the number of entities. FEDUSA is of the opinion that organized labour should also serve on these boards to ensure greater inclusivity, transparency and accountability.

The legislation should address the innovative approach to funding, based on the balance sheets and not on bailouts. The expansion of private-sector partnerships with the involvement of organized labour could rapidly deliver economic and social infrastructure for the country. Moreover, a central remuneration agency must decide on the remuneration of the Chairperson, Executive Directors and the CEO, whilst also dealing with incentives based on performance.

STRUCTURAL ECONOMIC REFORMS

FEDUSA is part of the Committee of Principals chaired by the Deputy President and the Federation is committed to find lasting and workable solutions for the labour-market reforms that could aid and avoid protracted violent strikes. It is critical to expand investment opportunities for the independent power producers to expand energy infrastructure. FEDUSA supports and encourages affordable, reliable and accessible broadband access, as it would connect more people. The promotion of black ownership of productive industrial assets is

critical for inclusive economic growth and participation of black people in the economy. The finalizing amendments to the Mineral and Petroleum Resources Development Act (2002) could unlock new opportunities and encourage investment in the sector. Furthermore, continuing dialogue with the industry and emerging entrepreneurs are crucial to support collaboration and co-operation to promote of decent work. FEDUSA calls on government to table the paper on the review business incentive programmes in all economic sectors in NEDLAC to ensure that resources supports labour-intensive and decent job-creating outcomes.

NATIONAL INDEBTEDNESS

FEDUSA concurs that national indebtedness is a valid concern. Government should manage the growing public debt of the country wisely to prevent exposing the economy and people to the shocks that could set back the future prospects for faster economic growth over the long term. Growing public debt also diverts spending from social and economic priorities to service rising interest payments. The budget deficit has enlarged sharply and is expected to be 3.8 per cent of GDP this year, falling to 3 per cent over the medium term. Moreover, government debt increased from around 26 per cent of GDP to 47 per cent in March this year. Public debt is estimated to increase to R600 billion over the next three years.

GOOD CORPORATE GOVERNANCE

FEDUSA supports the proposal that a new and innovative legislative framework to regulate state-owned companies should be introduced urgently to tackle good corporate governance, reduce corruption and improve efficiency. Eskom, Transnet and several other state-owned companies have large borrowing requirements but these companies cannot assume that taxpayers must continuously bail them out.

Eskom constitutes the largest share of government's guarantee portfolio. The utility benefits from a R350 billion guarantee facility, of which R162 billion has been utilized, and a further R23 billion of equity will be injected into the company during the 2015/16 financial year. FEDUSA expects stability and assurance over the coming term to ensure that cash – strapped consumers and businesses will not have to bear the brunt of additional increases in electricity, to keep the lights on.

Likewise with our cities, larger municipalities and water utilities also require access to the capital markets for large infrastructure projects ; management of these entities should be driven with the responsibility for growth-enhancement and self-sustainability. FEDUSA foresees a further risk if unqualified and inexperienced executives are appointed; it is crucial that Government strengthens these Boards through the Social and Ethics Committee.

INDUSTRIALISATION AND DECENT JOB CREATION

The Federation is in favour of the allocations to public employment programmes to encourage decent job creation over the next three years, amounting to R37 billion. It is estimated that about 6 million short-term jobs would be created through the Expanded Public Works Programme (EPWP) and the Community Works Programme (CWP) should likewise be strengthened in every municipality. Support for enterprise development over the MTEF period includes R24 billion in tax incentives and R16 billion in direct funding to support industrialisation. These initiatives include the Manufacturing Competitiveness Enhancement Programme (MCEP) and the Automotive Production and Development Programme (APDP). Special economic zones will receive continued funding, including new zones in the Free State and Gauteng. A review is proposed to assess the impact of fiscal incentives on economic growth, productivity, competitiveness, the balance of trade and employment. FEDUSA calls on Government to establish industrialization Phakisa to deal with the complex issues of manufacturing.

FISCAL POLICY

FEDUSA commends Government for prioritising the stabilisation of debt as a share of GDP, as the central fiscal objective over the period ahead, as the current debt situation remains seriously concerning. With gross loan debt increasing from R1.98 trillion to R2.01 trillion, or 49% of GDP and debt service costs, the fastest growing expenditure item in the budget, increasing from R126.4 billion to R127.9 billion, FEDUSA urges government to remain vigilant in addressing and managing this priority. Henceforth, further expectations to narrow the deficit from 3.8% of GDP this year, to 3% over the medium term would be cautiously anticipated.

FEDUSA supports the MTBPS proposal that the spending ceiling should be linked to South Africa's long-term economic growth projections to support the long-term fiscal framework, taking due cognisance that revenue will not increase without economic growth, whilst expenditure cannot increase without revenue growth.

Although the Minister has committed to minimising the budget deficit, stabilising public debt, and building fiscal space, FEDUSA likewise supported the counter-cyclical stance of government to invest in infrastructure, education and health, combined with growing local procurement as critical drivers to stimulate inclusive economic growth to bring about more equitable outcomes.

FEDUSA firmly believes that fair compensation for public servants is imperative to support inclusive economic growth, thus, the emphasised change in the fiscal framework by comparison with the February budget arising from this year's settlement of salary adjustments and benefits of public servants, should not be viewed as an opportunity to reallocate spending from other priorities. FEDUSA condemns the assertions by the Ministry that the improvement in compensation means that there is no room for expanding government employment. A total dilution and erosion of the Batho Pele Principles would thus be evident of ensuring an efficient and effective public service for the provision of adequate service delivery.

Whilst the Minister alluded to improvements in the negotiating process and reforms to the public sector remuneration, FEDUSA is of the view that it is important to conclude realistic and practical wage agreements that could translate into sustainable approaches over the medium to long term - without having to reduce essential spending on the core and critical skills needs for quality public service delivery. A modern approach to collective bargaining will also be necessitated to ensure more sustainable outcomes for workers and enterprises in the public sector.

HARMONIZATION OF RETIREMENT REFORMS

The FEDUSA supports the principles of harmonization of the retirement reform process concerning membership of provident funds. It is imperative that the vested interest and rights of members be protected; therefore FEDUSA calls on the Minister of Finance to implement the retirement reforms process in the 2016 financial year, as it would be advantageous to members

of provident funds. The principle of preservation of accumulated wealth of provident fund members are secured, consequently if a member retires in 10 years time, such a member has the right to decide to withdraw the accumulated lump sum in cash or preserve. Federation would like to increase in applicable thresholds to protect the vested interest of members.