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NEHAWU SUBMISSION TO THE 2017/18 NATIONAL BUDGET

STANDING COMMITEE ON FINANCE AND SELECT

1st March 2017

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1. Introduction

The National Health and Allied Workers Union' (NEHAWU), welcomes the opportunity to participate in this public hearing, immediately after the Minister of Finance has tabled the National Budget to this august house. The NEHAWU is deeply disappointed and dismayed by the 2017 National Budget - the budget speech falls short and lacks decisiveness and courage to tackle the endemic challenges of unemployment, poverty and deepening social inequality. It also fails to give content and meaning to the battle cry of the African National Congress for a "radical economic transformation". It postpones the human suffering of the poor and marginalized especially the core constituency of the ANC-the working class. It shifts the burden of adjustment to the poor and the marginalized.

The 2017 Budget as presented to Parliament by Minister Pravin Gordan, bears testimony to the fact that government lacks a coherent strategy to eradicate unemployment, poverty and social inequality. The 2017 budget does not constitute any departure from orthodox, conservative, neoliberal stance that government has been pursuing over the past 22 years.

However, there are positive areas in the 2017 budget which we will point out below, but these by and large are overwhelmed by the negative neoliberal approach that the Treasury continues to pursue to the detriment of the official ANC successive congress resolutions.

2. The Macroeconomic Policy Stance

It is unacceptable in a middle income economy like South Africa that unemployment remains stubbornly high at 26.5 per cent, of which 43 per cent of young people between ages of 18-29 are jobless. It is also a reflection of the lack of will, vision and courage that South African levels of investments in fixed capital fell by 3.9 percent. Investments by public corporations also fell due to delayed capital expenditure plans.

As NEHAWU the biggest public sector union in South Africa affiliated to COSATU we have continued to argue that the following is wrong with our country's growth path; and this calls for radical economic transformation because:

a) In the past 22 years in almost all key aspects of development, the policies our government has pursued have failed to deliver tangible material progress for the working class;
b) The past remains a huge burden in the present, economic growth reproduces inequality of incomes, power, poverty and unemployment;
c) The structure of the economy remains mineral-dependent and is now finance-led;
d) The means of production and power remain concentrated in white capitalist hands. The JSE is still dominated by few large firms; 50% of JSE is accounted for by 6 companies and more than 80% is accounted for by large banks and companies engaged in the core of the minerals-energy-complex.
e) Redistribution of income has not occurred.

3. Critique of 2017 Budget Fiscal Stance

3.1 The core elements of fiscal policy continue to be deeply rooted in neo-liberalism. To achieve the above objectives, current fiscal policy aims to:

- Reduce inflation; and
- Stabilize the debt level through deficit reduction.

3.2 Fiscal consolidation, spending ceilings, and reduction of head counts in the public service.

3.3 The current fiscal policy framework is inconsistent with the basic tenets of an employment-based, redistributive and transformative growth path because it makes fiscal policy to be pro-cyclical and not counter-cyclical.

3.4 When the inflation-forecast rises, interest rates increase in such a way as to generate high interest payments on public debt, the growth rate falls, cutting the tax base, and thus forcing government spending to fall.

3.5 The discretionary component of fiscal policy is replaced by the operation of automatic stabilizers—which are not adequate, given the large shocks, structural deficiencies in the economy and the amplitude of South Africa's employment cycle.

3.6 The current fiscal framework lacks a structural analysis of the economy, and is therefore not transformative.

3.7 Its focus on inflation fails to address cycles in the labour market, especially because in South Africa, what appears to be short-term unemployment quickly turns out to be long-term unemployment.

3.8 Because this fiscal framework is not linked to the imperatives of industrial policy, it fails to manage changes in the composition of output, which in turn leads to massive dislocation of workers, thereby contributing to structural unemployment.

3.9 Exacerbates the vulnerability of the economy to balance of payment problems, because the tax system is not designed to increase value-addition and promote downstream industries.

3.10 The current fiscal framework places heavy reliance on market forces, this is demonstrated by proposals such as "increasing private sector participation in sectors dominated by public enterprises, and ensuring that effective regulatory authorities curb the power of monopolies". The Ministers proposals are not in the spirit of the successive ANC Conference resolutions, they constitute an assault on hard worn gains of workers against privatization.

3.11 Lastly, the consistent reliance on foreign savings strategy due to persistent current account deficits undermines efforts to build the productive base of the economy.

4. Alternative Fiscal Policy Stance

4.1 NEHAWU calls for an alternative fiscal policy stance whose goals must be to:

a) Achieve full employment;
b) Redistribution of income and power;
c) Social and economic transformation: changing the structure of the economy and the social relations that underpin it;
d) Support an environmentally sustainable growth path

4.2 The core elements of the new fiscal framework must be:

a) Stabilize employment over the business cycle, and increase employment over the long term.
b) To influence changes in income distribution over the business cycle, and set target share of workers in national income over the long term.
c) Influence the structure of the economy through activist tax and expenditure policies, in line with the requirements of the new growth path.
d) Strike an appropriate balance between the provision of social and economic infrastructure, meeting basic needs and providing social protection.
e) Provide incentives for environmentally sustainable, job-creating activities.

5. Tax Policy

NEHAWU welcomes the fact the government decided against increasing the Value Added Tax, however, we are deeply disappointed by the fact that there is no mention of the following taxes:

a) Export taxes on strategic minerals, metals and other resources: to support downstream industries and to promote value-addition
b) Investment tax credits: to encourage local procurement of machinery and equipment
c) Tax on financial transactions including a capital gains tax above a certain minimum threshold: to limit short term capital flows and to encourage productive investment[96] ; and 'speed bumps' on short term capital flows, to discourage hot money
d) Special taxes on speculation on strategic commodities:
    - On food and food-related speculation
    - On strategic raw minerals and metals

Whilst we welcome the introduction of the new top personal income tax bracket of 45 per cent for incomes above R1.5 million, we however are deeply disappointed by the failure from the Minister to pronounce himself on the imposition of the Wealth Tax to the super-rich in our society.

6. Compensation of employees

In the MTBPS 2016, the Treasury stated that over the next three years a spending ceiling would be imposed, i.e. "reductions of R10 billion in 2017/18 and R15 billion in 2018/19 applied to the compensation budgets of national and provincial departments". Thus, "departments will have to align human resource plans within lower limits, moderately reducing headcounts over the medium-term". The Budget Review 2017 confirms this planned reduction in the expenditure ceiling targeting existing vacancies in the public service.

As reflected in the figure below, in our analysis this means that whilst education, health and other functions are going to still see inflation related increases in allocations for salaries, the category of the General Public Service is targeted for a drastic cut, i.e. vacancies in areas such as state administration are going to dramatically increase. This would affect the lower levels in the public service hierarchy, which also happens to be the coal-face of service delivery or contact with the general public.

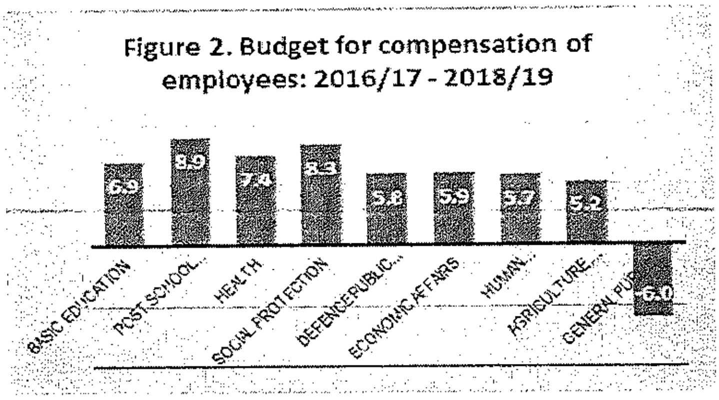

Figure 2. Budget for compensation of employees: 2016/17 - 2018/19

Source: Treasury, 2016

Indeed, according to the Budget Review 2017, provincial headcount is declining, as 'provinces continue to make progress in containing staff headcount, which has declined by 2.8 per cent since the beginning of 2016/17.'

6.1 But as NEHAWU we are concern about the silence of the Treasury on the question of the incorporation of 20 000 Community Health Workers and Home-based Carers in terms of the Draft Policy Framework and Strategy for Primary Healthcare Outreach Teams. According to the Department of Health (DOH), which presented this at the Public Health and Social Development Sectoral Bargaining Council (PHSDSBC) this is envisaged to take place in the 2017/18 financial year. For us as a formation that has campaign for years for a primary health care approach as a foundation of the NHI, this would be an important development in strengthening and giving shape to the District Health System in which this cadre would be indispensable agents. So whilst it is suggested by the DOH that this is going to be fiscally neutral at this initial stage as provinces would be expected to use current allocations for Community Health Workers and Home-based Carers, as NEHAWU we are concerned when there is silence on this matter from the Treasury because:

a) This initiative is proposing the expansion of the size of the ward-based outreach teams to 10 members, with 6 Community Health Workers and 4 Home-based Carers, in addition to the team-leader and data-capturers.
b) Naturally the incorporation of these workers into the public service necessarily means a shift away from the current disparate arrangements of stipends given to these workers by different provinces and indirectly through the NGOs. As soon as their employment arrangement falls under the Public Service Act, their conditions of service would have to be agreed to at the appropriate forum, namely the Public Health and Social Development Sectoral Bargaining Council (PHSDSBC).

6.2 In principle as NEHAWU we believe that more resources must be channelled towards capital investment to catalyse socioeconomic development, however it is regrettable to note that the Treasury is still stuck in the old Neoliberal rationality that sees the compensation of employees as wasteful consumption expenditure. We now have a situation where the fiscus is suddenly placed under pressure because of the growing demands in post-schooling education, especially higher education, primarily because for a considerable time allocations to institutions remained relatively stagnant despite the growing demand. In our view, this is partly because of this Neoliberal dogma that see public services as consumption when it fact the opposite is true – such spending is actually investment in human development and actually makes economic growth sustainable and contribute towards social cohesion. Many of the 1.32 million public service workers, especially those in the lower levels of the public service are actually responsible for the welfare of at least more than 5 individuals in their households and families, including investment in their education, health, food and shelter. Thus, this is critical for the long-term development of the country and in our view reducing the spending ceilings narrowly focused on targeting public service wage actually contracts and undermines economic growth given the structural nature of our economy in which household spending and consumption is important for growth.

6.3 This category of the general public service workers where the bulk of the decline in headcount is taking place tends to be those who are the main point of contact of government with the public. Thus, where there are increased shortages of staff, it is the poor members of the public who are more depended on government service who would suffer from poor service delivery. In institutions such as hospitals, whilst government might say that nurses and doctors are excepted from this ban on the hiring of public servants, shortages of workers in the laundry, the potters, cleaners, security and others not only means deterioration in the quality of service to poor communities that depend on public hospitals but more disturbingly such shortages may lead to hazardous environment from a clinical care point of view.

6.4 It seems to us that the Treasury has not internalised the mistakes of the past where the size of the public service was drastically reduced largely on the basis of consideration of fiscal ratios, without taking into account the consequences on the quality of service whereby many experienced teachers, nurses and other professionals left the service enticed by voluntary severance packages. It is disturbing that in the Budget Review 2017, the Treasury is entertaining "testing the idea of voluntary severance packages", though the details as to what this means are not there.

7. National Health Insurance Fund

The Budget Review states that this fund, the National Health Insurance Fund, would be created 'through the combination of reorganisation and legislative amendments.' Importantly it further states that government 'is exploring a small reduction in the tax credit on medical schemes contributions to provide initial resources for the fund.' NEHAWU welcomes this development as the continuation with the current R46 776 102 083 worth of subsidies to only 16% of the population, many of whom also enjoy the same kind of tax subsidies in retirement insurance arrangements, is unjustifiable in the face of the vast inequalities in access to health and retirement insurance and the absence of a seamless and comprehensive social security system.

We do accept as it has been stated that the initial focus of this fund at this stage would largely be geared at the primary health care level, amongst others for the contracting of providers at the PHC level to deal the 'common set of maternal health services and make hearing aids and spectacles available through school health programmes.'

However, we have some concerns:

a) Firstly, calling this fund the National Health Insurance Fund is confusing. The White Paper on the NHI draws a clear distinction in this regard - actually what is now proposed for the coming financial year is clearly called in the White Paper as "a Transitional Fund" that would be 'established to fund contracting of providers at the PHC level." Indeed, based on what the Budget Review 2017 says about its purpose this is meant to be the Transitional Fund as also stated in the White Paper.

b) Secondly, again in the White Paper, the National Health Insurance Fund is something different – it is a 'single-payer and single-purchaser fund responsible for the pooling of funds and the purchasing of personal health services.' Indeed, it is further stated that "establishing the Fund and accompanying public entity will be a straight process legislatively", requiring the introduction of the NHI Act and amendments to the National Health Act and relevant municipal legislations. When it is stated in the Budget Review 2017 that this fund would be created 'through the combination of reorganisation and legislative amendments", this sounds more like the creation of the Transitional Fund than the envisaged NHI Fund. It is clear that this is not an issue of semantics or technicality, it is a substantive concern. Thus, we can add that the basis of our concern also arises because of the inadequate information with regard to this NHI Fund that is proposed as well as the fact that historically the Treasury has made comments that contradicted the creation of the 'single-payer and single-purchaser fund', in favour of a multi-payer model –

something which has undermined the United States' Affordable Care Act or Obamacare in terms of the promise to contain costs and create universal access.

ADDENDUM 1

OUTSTANDING COMMITMENTS BY GOVERNMENT AT THE PUBLIC SERVICE COORDIANTING BARGAINING COUNCIL (PSCBC)

The following are the commitments made by the Department of Public Service and Administration representing government in negotiations with organised labour at the PSCBC. All these commitments have budgetary implications and indeed impact on the livelihood of more than 1,3 million public servants. We do not raise these matters with the hope that Parliament could do something concrete about them. We regret the fact that collective bargaining matters pertaining to the public service workers tend to be pre-empted by government through the budgetary process. But we believe that it is important that Parliament must be abreast with some of these matters from our point of view – so that whatever happens in the coming round of the 2017 negotiations at least it is appreciated that there is a context.

Review of the Salary Structure for Employees not covered by the Occupation Specific Dispensation (OSD).

This commitment was made in 2009 aimed at review salary structures for employees who were not covered by the OSD. This was also meant to be a replacement of the old rank and leg promotion in the public service. To date public servants are stuck with no structure affording them mobility within notches and levels. The commitment made by government as the employer was that this collective agreement will be reviewed in 2011, to date that has not happened.

Review of the Remuneration Policy for Public Service

This commitment was made by government to public servants that the current remuneration policy is fragmenting the pay structures in public service in that occupational categories are not paid the same in different departments and provinces even though there may be the same KPAs and indeed within the same government. It is our view that the current policy is heavily abused by some executive authorities in which they are using the job evaluation tools to pitch salaries as high as it is possible. As a result, some of the provinces or departments that may have limited funds remain at lowest levels within public service.

Review of the Performance Management and Development System (PMDS)

This commitment was made as early as 2010 - that the current performance management policy needs to be reviewed because it is abused by managers to punish and not to reward excellent performance. The challenges created by the PMDS have in some instances resulted into a low morale within the public service. Public service workers enter into performance agreements with their supervisors. When it is time to be duely rewarded for performance, the authorities fail to meet their end of the bargain.

Bursary for Children of Public Servants

The commitment was also made as early as 2012 that DPSA will conduct a feasibility study on how best they can assist children of public servants with education costs. To date the commitment remains on paper.

Review of Post-retirement Benefits

This commitment was made in 2015 that government as the employer will once more conduct a feasibility study on extending other benefits to government employees post-retirement in particular housing assistance and medical assistance. To date the DPSA has not delivered on the outcomes of the study.

New Danger Allowance Dispensation

In the same 2015 agreement, the government as the employer made a commitment to conduct a feasibility study on improving the current danger allowance with a view to ensure that government employees whose jobs subject them to danger do not only receive an allowance but they be provided with an insurance for such eventualities. Most government employees stand to benefit from this danger allowance improvement but unfortunately DPSA has not even begun to deal with the modalities involved.

Review of Government Employees Medical Scheme (GEMS)

Government has made a commitment in 2015 to review GEMS with a view to making it the most affordable medical scheme for public servants. To date no meaningful contribution by DPSA has been done in ensuring that GEMS funding model is reviewed.

Government Employees Housing Scheme (GEHS)

The commitment to establish a government employees housing scheme was agreed to as early as 2007. The commitment to a scheme was aimed at ensuring that government employees get financial assistance and own homes. To date 2017 the GEHS is still a dream for public servants.