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| **COSATU Submission:** **2019/20 Budget** **27 February 2019** |
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**Submitted to:****Standing Committee on Finance****National Assembly****Republic of South Africa** |

1. **Introduction**

The Congress of South African Trade Unions (COSATU) notes government’s 2019/20 Budget delivered by Finance Minister Tito Mboweni in Parliament.

Considering the fiscal, revenue, corruption and expenditure crises facing the nation, COSATU believes that the budget was very underwhelming. The budget does not go far enough given the extent of the many crises facing government, workers and the economy as a whole.  The reality is that we are in an economic crisis and this current crisis can only be understood by looking at the root causes in a holistic way.

The solution to our economic problems lies in bold measures of transformation, not in marginal programmes and projects. The budget is a reminder that we still lack a developmental vision, do not have a comprehensive development strategy and totally lack the necessary coordination of activities of various economic agents.

COSATU is deeply worried about the way forward after this placid policy statement at a time when we expected a much bolder and decisive leadership from government.  This represents another missed opportunity because what is contained in the statement is nothing new.

1. **Economic Context**

COSATU has noted the 2019/20 budget as presented by the Minister of Finance Tito Mboweni. This budget comes at a time when many households continue to struggle to absorb the escalating living costs since the last year’s VAT hike.  Last year’s VAT hike found many low-income households already in a very severe economic crisis.

Over the past five years, unemployment has been getting worse. Out of the 9, 2 million South Africans that are unemployed, about 8,3 million of them are black. The expanded unemployment rate for Black South Africans is 41%. About 12, 1 million Black South African workers support 45,7 million persons who live in 13,5 million households.

According to Stats SA, 13,8 million people live below the food poverty line and 30,4 million live below the upper bound poverty line. For black South Africans, around 29 million live below the upper bound poverty line. This budget has no plan to extricate many of these people from the jaws of poverty.

It is also obvious that there is no plan to wean people off social grants because this budget will not transform the economy and the low baseline wage regime that has kept many people dependent on government.

There is nothing in the budget that will provide the possibility to change the outcomes of our economic development trajectory. There is no clear strategy to help stimulate growth and regenerate our economy. This will leave more people isolated from the mainstream economy and still dependent on the government for their survival. The survivalist informal economy that feeds and clothes many families has again been abandoned in this underwhelming budget.

In short, COSATU believes that government did not rise to the occasion.  This was a missed opportunity to stabilise the state, save the SOEs, grow the economy and create jobs.

1. **Growing the Economy, Protecting and Creating Jobs**

It is obvious that the overreliance on Foreign Direct Investment continues. The Minister barely touched on how the government will ensure that the recent Presidential Investment and Job Summits targets will be met.  He did not even mention how many jobs have been created or will be created.

Less than 6 departments have tabled job creation targets in the 2019 budget and most of these are in fact EPWP programmes. This is despite thousands of jobs being lost since the summits were held.

COSATU acknowledges the partial successes of the Jobs Fund and Industrial Business Incentives.  However, we had hoped to hear from the Minister what the government would do to take the economy from 1% to 3% economic growth.

We had hoped to hear from the Minister that he would ensure the Reserve Bank emphasises both protecting and creating jobs and growing the economy in addition to protecting workers from inflation in its work.

**COSATU Proposals:**

* A clear plan (inclusive of targets, time frames and resource allocation) by all departments, provinces, municipalities and SOEs to ensure that government meets its jobs and investment summit commitments.
* A commitment to engage the SARB on measures they can undertake to support economic growth and job creation whilst managing inflation levels.
1. **Revenue**

COSATU appreciates that the state cannot tax its way out of the crisis.  However, we believe this budget misses several key interventions that could address the revenue and expenditure crises.

We believe that there is still a space to increase company tax from 28 to 30% without spooking investors. Equally, there is space to increase personal income tax for those earning above R1.5 million per annum.  There is also a need to increase inheritance and estate duty taxes for the wealthy.  We had hoped to hear from the minister measures to close tax loopholes for the rich.

It is not helpful for the government to continue squeezing workers’ meagre salaries by not adjusting tax brackets for inflation.  This is merely an income tax hike on workers through the back door.  In short, workers’ small increases will go to inflation and SARS.

The government should focus on dealing with tax evasion by the rich and business.

COSATU urges the government to rapidly introduce the levy on the exporting of scrap metal.  This is critical to growing local industry. However we are concerned that this has been promised by government for many years. We hope that the budget speech is a sign that government will now act on it.

COSATU is disappointed that the government is happy to announce the Carbon Tax and an increase in the Sugar Beverages Tax but has abandoned its just transition commitments to protect vulnerable workers’ jobs in those sectors.

We are pleased to see SARS beginning to be restored to its stable position.  We welcome the re-establishment of the illicit trade enforcement unit.  It must tackle both the explosion of illicit tobacco and the flood of illegal imports, in particular clothing and cars.

**COSATU Revenue Proposals:**

COSATU believes that government can significantly increase revenue and thus providing more resources in support of economic stimulus, job creation and developmental objectives by:

* Cancel the VAT tax hike to 15%.
* Fast track the implementation of the SARS Commission of Enquiry and its recommendations.
* Rebuild the leadership of SARS.
* Fast track the engagement on and implementation of progressive tax proposals from the Judge Davis Tax Commission.
* Increase company taxes to 30% or 32% which should generate an additional R13 to R26 billion in revenues.
* Increase the estate and inheritance taxes.
* Crack down on the massive rise in illicit tobacco sales and customs fraud, especially textile imports.
* Increase capital gains tax to 45% which should generate an additional R4 billion in revenue.
* Increase income tax for incomes above R1 million to 45% which should generate an additional R5 billion.
* Introduction of progressive tax system, with an introduction of a tax category for the super rich.
* Introduction of solidarity tax, whose aim is to cap the growth of earnings of the top 10% and to accelerate the earnings of the bottom 10%.
* Introduction of tax on both domestically produced and imported luxury items, but a higher tax on luxury items which are imported.
* Increase in the dividends tax to encourage re-investment, job-creation and to reduce the financialisation of company assets.
* Imposition of a land tax to aid the process of land redistribution.
* Zero-rating of medicines, water, domestic electricity and public education.
* Introduction of export taxes on strategic minerals, metals and other resources to support downstream industries and to promote value-addition.
* Introduction of investment tax credits to encourage local procurement of machinery and equipment.
* Increase taxes on financial transactions e.g. capital gains tax above certain levels to limit short-term capital flows and to encourage productive investment, and speed pumps on short term capital flows to discourage hot money.
* Introduction of tax on firms that resistant to closing the wage gap.
* Taxation of firms that pay below the statutory minimum wage, and the distribution of such tax proceeds back to the workers concerned.

**4.1 VAT**

COSATU welcomes the exemption from VAT of flour and sanitary pads.

But given the escalating tax and tariff hikes and inflation decimating the salaries of workers and the poor, we had hoped the Minister would table something meaningful.

COSATU is calling upon the government to urgently increase the allocation of free water and electricity to indigent households.  This will help protect the poor from the brunt of the VAT and other anti-poor hikes.

**COSATU VAT Proposals:**

* Increase the allocation of free water and electricity to the 3.6 million indigent households by 50%.
* Provide vouchers for locally produced school uniforms at no-fee schools.
* Introduce a luxury VAT rate for luxury goods.

**4.2 Fuel Levy**

COSATU is deeply concerned by the lack of urgency in government to deal with the ballooning of the RAF’s deficit from R241 billion in 2019 to a projected R400 billion in 2021.  Increasing the fuel levy to deal with this will only make transport and consumer goods more expensive and further squeeze the economy.

The solution is in passing the RAF and Road Accident Benefit Scheme Bills by Parliament.  These will help ensure RAF money goes to road accident victims and not lawyers and that there is a more equitable distribution of benefits.

We welcome Treasury’s commitment to now support these bills.

**COSATU Proposals:**

* Review fuel price and tax structure to ease burden on the poor and the economy.
* DTI and EDD to engage with the motor-manufacturing sector and Eskom to fast track plans to build locally produced electric vehicles, especially public transport, to help reduce our dependency on fuel.
* Intervention to fix Metro Rail and to expand affordable public transport e.g. trains, busses and taxis.
1. **Expenditure**

COSATU acknowledges the need for government expenditure to be sustainable.  We are worried that government debt levels are rising at dangerous rates and lack credibility.

The federation does not believe that expenditure and debt management need to be achieved through austerity. The Auditor General estimates that up to 10% or R150 billion is lost every year to corruption, wasteful expenditure and rollovers.  Billions are allocated for catering even in the 2019 budget.

Government has made a lot of noise about the wage bill. Yet in the budget shocking figures continue to be allocated for the excessive amounts departments are spending on head offices with no justification.

The government needs to learn to manage workers’ hard-earned taxes better.  It does not make sense to spend R13 billion on four departmental head offices, Tshwane council head office and the South African Consulate in New York yet on the one be blaming nurses and teachers for wanting to be paid enough to buy their children food::

* Stats SA R2.5 billion
* Correctional Services R3.6 billion
* Rural Development and Land Reform R1.1 billion
* Tshwane City R2 billion
* Sanral R2.1 billion
* Dirco New York Embassy R765 million.

We had hoped to hear a clear plan from the Minister on how the government will reduce corruption and wasteful expenditure and recover stolen funds.

COSATU applauds the projected R526 billion in infrastructure.  We need to hear more from the government on measures to prevent it from falling into the hands of looters.

More needs to be done by the Chief Procurement Officer to save costs through central and transparent procurement processes.  The public procurement bill must be fast-tracked and prioritised at all costs so that we can use local procurement as a way of growing the economy.

The government needs to end outsourcing in particular at Correctional Services where everything has become a looting frenzy and also has been shown to be more expensive than Insourcing.

**COSATU Proposals:**

* Need for a clear plan from government to reduce wasteful and irregular expenditure.
* Expansion of CPO’s role to ensure more cost effective centralised public procurement.
* Plans to end expensive and corrupt outsourcing in government and SOEs.
* Clear plans and action by government to freeze assets and recover stolen billions.
1. **Public Sector Wage Bill**

 COSATU welcomes the freezing of Cabinet members’ salaries and below-inflation increases for senior management.  They are after all the ones who have mismanaged the state; however, these do not go far enough.  National and provincial cabinets and mayoral committees can easily be cut by 50%.  They should equally accept 25% salary cuts.

The salaries and benefits of SOE executives must be capped to the levels of the public service.  It cannot be acceptable to pay SOE managers salaries of R8 million while making many doctors work 48-hour shifts due to frozen posts.

We urge the government to release the SOE shareholder management bill and to place all public sector entities and companies under the Public Service Collective Bargaining Council.  This will help stabilise public spending, reduce the growing wage gap, protect low paid SOE workers and reduce exorbitant management salaries.

COSATU is pleased that according to the budget tabled, the public sector wage bill is, in fact, stable, appropriate and in line with international norms at 35%.  This is in spite of the Minister’s inflammatory and misleading rhetoric about it threatening the state’s survival.

However, the government does not assist anyone by negotiating in Parliament instead of using the appropriate platforms. If it wants stable labour relations then it must engage workers about their conditions.  It cannot announce unilateral changes to performance and overtime pay, matters that are governed by law, and not engage workers at the PSCBC.  This will push workers to strike to protect their rights.

Government is obliged to pay overtime and provide time off when workers work overtime.  Yet they are now providing neither to traffic police and yet they are forcing them to work overtime.  This will only further exacerbate our high levels of corruption, road lawlessness and deaths.

Whilst government is boasting about the declining numbers of public servants, it fails to mention how this is resulting in long queues at hospitals and home affairs, rising teacher-learner ratios in classes, declining policing levels etc.  The government needs to reduce the bloated cabinet and executive structures and not reduce and overwork service delivery workers.

Equally government and municipalities need to stop outsourcing permanent functions to EPWP programmes.  It cannot be justified to employ fire fighters and pay them EPWP rates of R80 per day.

COSATU’s welcomes the government’s commitment to fill healthcare posts.  The public service vacancy levels are approximately 140 000 currently and critical service delivery posts in health, education, police need to be filled urgently.

**COSATU Proposals:**

* Engagement by government with unions on the wage bill at the PSCBC.
* Reduce national and provincial cabinet and mayoral committee posts.
* Reduce bloated management structures.
* Consolidate and reintegrate fragmented departments and SOEs in a humane manner that does not throw workers into unemployment.
* Redeploy staff from bloated departments and SOEs to departments and municipalities where there are personnel shortages.
* Reduce the public service wage gap.
* Place SOEs and public entities under the PSCBC and its negotiating processes.
1. **State Owned Enterprises (SOEs)**

COSATU welcomes the additional funding allocation of R23 billion per annum over the MTEF to help stabilise Eskom.  Workers and the economy cannot afford for Eskom to collapse.

The government needs to assure workers that Eskom and the SOEs will not be privatised and that workers will not be retrenched.  If head counts are too high in one workplace, then those workers must be retrained and redeployed to other SOEs or government departments, where there is a shortage of workers.

No worker must be retrenched and new industries must be developed to ensure no workers are left unemployed. Solar panel and water conservation factories must be created in Mpumalanga and Limpopo as the economy transitions from the carbon economy.

Eskom and the other SOEs can and must be saved.  Comprehensive forensic audits must be instituted, the bleeding stopped, stolen funds recovered, incompetent managers fired and new funding and operational plans put in place.  These must be discussed with the affected workers.

Eskom must be saved from the unaffordable IPP contracts where it is obliged to buy electricity from IPPs at a higher rate than it sells them.  Eskom must be allowed to produce renewable energy itself.

The Department of Energy needs to resuscitate its solar panel rollout the programme to indigent households to help make electricity affordable to them and to ensure those panels are locally made.

Eskom tariffs must be made affordable to workers and industry as well as neighbouring states.  DTI must work with the auto-manufacturing sector to produce electric vehicles like these will help secure and increase electricity demand.

COSATU is not convinced unbundling will address ballooning management costs, in fact, we fear it will make things worse.  We welcome the government’s plans to ensure tighter oversight over the SOEs.  We worry that there is still no plan to stabilise and reduce Eskom’s crisis debt levels.

COSATU equally worries that there is no clear plan to stabilise and save SABC, PRASA, Denel and PetroSA.

The government needs to explain what state assets it wants to sell because COSATU won’t support the privatisation of SOEs.  The government needs to explain what it means by allowing equity partners on board.

**COSATU Proposals:**

* Government to engage with labour on plans to stabilise, save and grow key SOEs e.g. Eskom, SABC, SAA, SA Express, Prasa and Metro Rail, RAF and Denel.
* These plans should find alternatives to retrenchments e.g. redeploying staff from Eskom to work in municipality electricity departments or to departments experiencing staff shortages e.g. Home Affairs.
* Comprehensive forensic audits of all SOEs and the recovery of stolen funds and charging and prosecution of accused.
1. **Departments**

**8.1 Law Enforcement**

COSATU is disappointed by the lack of an anti-corruption plan in the budget.

We are pleased though with SAPS’ commitment to recruiting 3000 new officers per annum.  However more needs to be done to shift SAPS officers from desk duty to visible and other forms of policing.  It is immoral that the government allocates more to bodyguards for politicians (R3 billion) than it does for land reform.

We had hoped to hear from the government on its plans to reduce the Labour and other court backlogs.  COSATU welcomes the increased funding for Legal Aid for the poor.

The government needs to explain its plans to clean up the intelligence services and the mass looting that is alleged to have happened there.

**COSATU Proposals:**

* Redeploy two thirds of SAPS members deployed to head offices and desk jobs to specialised units, station level and community policing.
* End all outsourcing in security cluster e.g. Bosasa catering in prisons.
* Plans to deal with labour and other courts backlogs.
* Comprehensive forensic audit of State Security Agency expenditure.

**8.2 Health Care and Social Development**

We welcome the filling of medical positions and the increased allocations towards the NHI.  More needs to be done to arrest the collapse of public healthcare, in particular, its infrastructure.  Without the provincial management of public hospitals, NHI will never happen.

We applaud the termination of the CPS looting of SASSA.  This has confirmed COSATU’s stance that outsourcing is unaffordable and is looting with a high school certificate.

**COSATU Proposals:**

* Urgent interventions to arrest the collapse of public hospitals.
* Fast tracking of plans to build the NHI.
* Filling of public health care posts.

**8.3 Transport**

COSATU is shocked that no plan was tabled to stem the collapse of Metro Rail, in fact, there is an intention by Prasa to decrease infrastructure expenditure.  Public transport is critical to economic growth yet the government has no public transport plan.

It is amazing that Ministers Mboweni and Nzimande are sticking to E Tolls despite its rejection and collapse.

**COSATU Proposals:**

* Engagement by government with civil society etc. on an alternative to E Tolls.
* Intervention plan to save Metro Rail.
* Plans to expand reliable, accessible and affordable public transport in communities.

**8.4 Water, Sanitation and Housing**

The Department of Water and Sanitation has effectively collapsed. South Africa is in a water crisis.  The Giyani project has ballooned from R40 million to R4 billion yet the budget offers no plan and Minister Mokonyane remains a cabinet member.

COSATU welcomes the allocations for upgrading informal settlements and support for the missing middle to acquire homes.

**COSATU Proposals:**

* Intervention plan to turn Department of Water Affairs around.
* Plan to hold the guilty accountable for the Giyani water debacle.
* National, provincial and local plans to turn South Africa from a water scarce to a water wise nation.
	1. **Education and Public Works**

COSATU applauds the government’s increased funding for free tertiary education.  We welcome the allocations to address the school infrastructure and sanitation crises.  Clear dates and targets are needed for the government to be believable.

Public Works needs to be woken from its deep slumber to ensure learner and workers are safe in schools and public buildings.

**COSATU Proposals:**

* Clear targets and dates to eradicate mud schools, sanitation and school infrastructure crises.
* Clear plans by Public Works to ensure all public buildings are safe.

**8.6 Local Government**

The AG estimates 90% of municipalities are in severe financial distress yet the budget offers no plan to arrest this.  All those workers have seen is their jobs outsourced to EPWP.

**COSATU Proposals:**

* Ending of outsourcing of municipal jobs to EPWP and CWP.
* Insourcing of all EPWP and CWP workers into permanent municipal posts.
* Plans to stabilise distressed municipalities.
* Integration of municipalities that are too small or lack a significant rates base.

**8.7 Labour**

COSATU welcomes the increased funding for the CCMA to help ensure workers’ rights are protected, including not to be paid less than the National Minimum Wage.

More funding is needed to hire labour inspectors to ensure employers abide by all labour, health and safety laws.

**COSATU Proposals:**

* Employment of labour inspectors to enforce labour laws.
1. **Public Investment Corporation Amendment Bill**

COSATU has long championed the PIC Bill as a key anti-corruption tool to tackle corruption in the PIC, to ensure accountability and transparency, provide for worker representation on its board and to set progressive investment guidelines.

The SCOF has done fantastic work in developing the PIC Bill. Given the size of the PIC and its importance to the economy, the extent of corruption allegations, the worrying signs of GEPF shortfalls of up to R25 billion; this bill is long overdue and to be welcomed. It is critical anti-corruption tool. It is one of the most progressive and pro-worker bills since 1994.

Treasury and Minister Mboweni continues to resist this.  We had hoped he would have seen the light and announce he will now support this anti-corruption and pro-workers’ bill and supported its passage by Parliament before the 2019 elections.

COSATU condemns in the strongest possible terms the covert attempts by some in the ANC and Treasury to delay and collapse the PIC Amendment Bill. COSATU believes this is a reactionary attempt to suppress the ability of Parliament to assert its constitutionally guaranteed right to legislate and to cover up those comrades who have looted, are continuing and want to continue to loot workers’ hard earned pension and insurance money at the PIC.

COSATU will go to the street to defend and ensure the passage of the PIC Amendment Bill by the 5th Parliament.

The ANC and government must not provoke workers. Failure to pass the PIC Bill will be seen as a declaration of war by government against workers.

**COSATU Proposals:**

* The looting at the PIC must stop.
* The NCOP must be allowed to pass the PIC Amendment Bill as is by March 28 2019 without further interference by Treasury or any other persons.
1. **Conclusion**

COSATU hopes that our highlighting of the conditions faced by our members’ children and our proposals for interventions by Parliament in the budget will be taken into account during the Committee’s deliberations.

COSATU would like to thank the Committee for the time it has spent on the budget. We will remain available as always to assist the Committee in any way possible.

Yours comradely,

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