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| **COSATU Submission:** **Medium Term Budget Policy Statement****06 November 2019** |
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**Submitted to:****Standing and Select Committees: Finance****Parliament of South Africa**1. **Introduction**

COSATU is extremely disappointed by Government’s shockingly weak and inadequate 2019/20 Medium Term Budget Policy Statement.Despite facing our worst economic crisis since 2008, and government and the State Owned Enterprises (SOEs) facing their most serious threats since 1994, the state has failed to present any serious or clear plans to stem and halt these existential crises. Or at least to share these with the public.This MTBPS 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 worsened. 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. To say it was a wasted opportunity is a massive understatement.  Government has failed to rise to the challenge.Millions of workers depend upon the state getting its house in order and turning the economy around.  We are running out of time.  It is clear that this cannot be left to tepid Ministers anymore.COSATU has met with the leadership of the ANC and government to raise its concerns and expectations with regards to the MTBPS.   The federation will now be seeking urgent engagements with the President and leadership of the ANC and government to reach agreements on interventions needed by government to address these massive challenges in preparation for the February 2020 budget.  This includes the upcoming Alliance Political Council.1. **Economy**

Workers are being battered by South Africa’s worst economic crisis since 2008.  40% of workers are unemployed.  Many are condemned to long term unemployment.  Thousands are being retrenched monthly across most economic sectors.  400 000 new job seekers enter the economy each year.  Yet we are left with barely 1% economic growth.The President hosted a very progressive Jobs and very positive Investment Summits in 2018 at COSATU’s insistence.  Excellent agreements were reached.  Yet too little has been done since by government at all levels and the private sector to honour these agreements.  The Minister for Finance barely makes any reference on how far government and the private sector are with regards to implementing these agreements.  There is no reference to a national jobs creation target in the MTBPS.  Only a few departments make any reference to creating jobs.  The few that do are woefully behind those meek targets.If we do not deal with our 40% and rising levels of unemployment, then we will not make any progress as a nation.  It is the greatest threat to our social stability.  It appears that Treasury believes jobs will fall from the sky and that no direct interventions are needed by the state to save workers and their families from the devastation of unemployment.The latest Stats SA unemployment report showed we have now reached an 11 year high.  And yet there is no response from Treasury in the MTBPS.COSATU is pleased that at its insistence, government has removed the bulk of the nakedly anti-worker attacks proposed by Treasury in its Economic Strategy Paper.  However COSATU notes and reject Treasury’s defiant insertion of its proposal to collapse collective bargaining by allowing SMMEs to be exempted en masse from collective agreements. This is in open defiance of the ANC’s agreement with COSATU to remove all labour market matters from Treasury’s economic strategy and for government, if the relevant department so wishes, to engage on such matters at Nedlac. This is an extreme provocation by Treasury and will be dealt with by COSATU with the ANC and government. If needs be, workers will go on strike to defend their hard won rights to collective bargaining and protections.The federation appreciates the intervention by the President to ensure that Treasury’s Thatcherite calls to collapse the brand new National Minimum Wage, collective bargaining and agreements, and other progressive constitutional labour rights has been removed from Treasury’s paper.  COSATU will ensure that such attacks on workers’ hard won rights to not be paid a slave wage, subject to unsafe work environments, to paid maternity and parental leave etc. are defended and retained.COSATU agrees with government that a clear economic strategy and narrative is needed.  The bases for this are the Department of Trade and Industry (DTI)’s progressive Industrial Strategy, the Jobs and Investment Summits Agreements and the ANC’s 2019 elections manifesto.  What is needed is for these to be implemented not for reckless poorly thought through policy zigzagging and uncertainty.The federation is disappointed that the MTBPS fails to mention how government will hold the private sector accountable for the billions of Rands in subsidies and incentives that it receives from workers’ hard earned taxes each year.  Billions have been given to the private sector through the Employment Tax Incentive, YES! Programme and industrial and manufacturing subsidies.  Yet there is no report from government on how these companies have utilised this generosity or how many jobs have been saved and created.  Yet many of these companies are retrenching workers or simply recycling existing jobs to access these subsidies.It is equally amazing that the MTBPS fails to mention some of the achievements that DTI has been able to achieve.  In the past few weeks the President and Minister for DTI have presided over the opening of our first cellphone manufacturing plant and new car plants in KwaZulu-Natal, Gauteng and the Eastern Cape.  These have yielded billions of Rands in new investments and thousands of new jobs.  Government needs to learn to communicate such victories.  Workers need to be given a sense of hope.  We have to ask what exactly is GCIS doing?One of the greatest challenges to growing the economy and placing workers in jobs is that our education and skills system are not geared towards the needs of the economy and workers for today and tomorrow.  Yet the MTBPS contains no proposals or plans by government in this regard.  Instead there is a cut in SETA funding.Government has made significant progress over the years in dealing with infrastructure under expenditure.  Yet the MTBPS fails to mention that there is currently an under expenditure of R50 billion in infrastructure funding and what is being done about it.  Whilst DTI has done excellent work in driving the reindustrialisation of the economy, it remains woefully underfunded.  Equally government fails to appreciate that the industrialisation of the economy cannot be left to one department alone.  It must be led by the Presidency and all departments, spheres and SOEs must be part of it and held accountable for their roles.  Otherwise it will never achieve its targets.COSATU is pleased that the MTBPS commits Treasury to releasing the long delayed Public Procurement Bill.  This must happen as a matter of the highest urgency.  It must be released before December 2019 and passed by Parliament in 2020.  Local procurement by the state and private sector is key to building our manufacturing capacity and driving economic growth and creating jobs.  We cannot become an economy of importers.The federation is pleased with the intervention of the Presidency and DTI to ensure the long promised introduction of the scrap metals export tax.  This is critical towards boosting local industries and beneficiation.  The silence of the MTBPS on how government intends to stem the flow of cheap, subsidised illegal imports through our ports and borders is incomprehensible.  SARS’ failure to inspect more than 5% of imports entering our ports and borders is inexcusable.  Not only does it undermine the billions spent by government to protect and grow local industry, it robs government of billions of badly needed taxes and plunges thousands of workers into unemployment.  The President must intervene in this crisis.  Clearly Treasury and SARS are not able to appreciate the severity of this crisis.Much has been said about the advent of the 4th Industrial Revolution and the need for a Just Transition not only to ensure workers, communities and industries are protected from climate change but that they are also helped in the transition to massive economic and technological changes taking place.  Yet there is nothing in the MTBPS that speaks to this.  This is in spite of 56% of workers’ jobs estimated to be at risk due to the 4IR and automation.  This kind of governance by lethargy from government and the private sector will only see unemployment rise.The MTBPS is worryingly silent on the very serious danger of Treasury’s imposition of 5% to 8% expenditure cuts to a still fragile economy that has only recently emerged from a recession.  The European Union has shown the devastation that austerity cuts pose to economic growth and recovery, especially for the poor.  COSATU cannot agree to any cuts that may plunge the economy into a further crisis.**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 Presidential 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. **State Owned Enterprises (SOES)**

Much of workers’ expectations for the MTBPS rested upon government having clear plans to save and turn around our bleeding SOEs.  Yet to date government has not announced any such plans.  This is 18 months after the changes in Cabinet.  Yet throughout the past 2 years Eskom and the other SOES Prasa, RAF, SAA, SA Express, SABC and Denel have teetered on the brink of collapse.It appears that government does not know what to do.  The pontification by Treasury does not help matters either.  How will SAA attract investors if the Minister says it’s not worthwhile?Whilst COSATU supports the additional financial support provided for these SOEs as they provide critical public and economic goods, workers there and in the broader economy depend upon them, bail outs are not a plan.  **COSATU Proposals:**What is needed for Eskom is:* A comprehensive public audit of all Eskom expenditure and contracts;
* The arrest of those implicated in its looting and the seizure of their assets;
* The dismissal of those implicated in its mismanagement;
* The cutting of tariffs charged by coal suppliers and IPPs to affordable prices.  If not then they must be nationalised;
* Amending Eskom’s mandate to allow it to produce and own cheaper renewable energy;
* The reduction in electricity tariffs to levels that are affordable to consumers, industry and export markets;
* An increase in free electricity for indigent households;
* Reducing Eskom’s debt level from R450 to R200 billion through an Edcon like package where all investors (government, bond holders and other lenders agree to contribute and sacrifice);
* Tapping into available international funding for cleaner energy production (clean coal and renewables);
* No retrenchments but rather the reskilling and redeployment of workers as needed within Eskom, municipal electricity departments and the state;
* Clamping down on municipalities and departments to ensure they pay what is due to Eskom;
* A specific campaign to ensure that Soweto pays as all other communities pay;
* The creation of a single holding account under Treasury into which all electricity consumers pay to stop the culture of municipalities refusing to transfer what is due to Eskom;
* The rapid development of a Just Transition Plan for workers in the coal mines and plants and their host communities who are at risk when those mines and plants come to the end of their life span in the near future.  This must include building local industries to produce renewable energy technology, solar panels etc in those communities to ensure that no workers are left unemployed.
* The urgent creation of local electric vehicle production to help transition the economy for fossil fuels to green technology, save the auto-manufacturing sector and create badly needed jobs and a long term stable demand base for Eskom.

Similar turn around plans are needed for the other ticking time bombs of PRASA and the RAF as well as the smaller SOEs SAA, SA Express, SABC, Denel.  COSATU is pleased that Treasury now acknowledges the need for Parliament to urgently pass the Road Accident Benefits Scheme Bill.  This bill has been delayed by Treasury and is critical towards dealing with the massive deficit crisis at the RAF that has been created by lawyers feasting on what is due to road accident victims and survivors.**COSATU Proposals:*** Government to engage with labour on plans to stabilise, save and grow key SOEs e.g. SABC, SAA, SA Express, Prasa and Metro Rail, RAF and Denel;
* These plans should find alternatives to retrenchments e.g. redeploying staff within the SOEs and to departments experiencing staff shortages e.g. Home Affairs; and
* Comprehensive forensic audits of all SOEs and the recovery of stolen funds and charging and prosecution of accused.
1. **Expenditure**
	1. **Public Service and Sector Wage Bill**

COSATU rejects Treasury’s continuous attacks on the rights of nurses, teachers, police and correctional service officers, cleaners, doctors etc to earn a living wage.  Many of the wage bill stats in the MTBPS in fact are distortions.  Treasury complains that the wage bill has increased yet it fails to mention that this was done in part to address apartheid wage gaps.  Does Treasury want to return to the days of paying workers racially skewed wages or peanuts?  Equally Treasury fails to adequately explain how a large part of the increase in wages is actually due to an explosion of what the executive and management pay themselves.Treasury is disingenuous by not mentioning that in 1994 with 34 million South Africans there were 1 million public servants.  In 2019 with 57 million citizens there are 1.1 million public servants and 128 000 vacancies.  The MTBPS does not disclose the massive strain that the freezing of critical service delivery posts is having on the functions of public hospitals, clinics, schools, prisons, the SAPS and home affairs.  **COSATU Proposals:**The federation appreciates the overdue recognition by government that any engagement belongs in the respective collective bargaining forums as stipulated by law.  If government wants to engage in a serious and responsible manner, than unions are ready to do so.  If government wants to reduce the fat then it should:* 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, sector and SOE wage gap;
* Place all public sector entities and SOEs under the PSCBC so that there is one collective bargaining process;
* Cut the exorbitant salaries and perks of the executive and management from Cabinet to Provincial Cabinets, Mayoral Committees, Public Service Departments and Entities and the SOES;
* Place the public sector entities and SOEs management under the salary caps of the public service;
* Scrap the insulting perks afforded to the executive under the Ministerial Hand Book; and
* Fill critical service delivery posts.

**4.2 Expenditure Crises**COSATU expected the MTBPS to confront the real crises facing the state.  The Auditor General year after year reports to Parliament how on average 10% of the budget is lost to corruption and wasteful expenditure.  The President recently indicated that R500 billion is thought to have been lost to state capture.  The revelations at the State Capture, PIC and SARS Commissions have been illuminating but in fact just the tip of the iceberg.  Eskom’s debt levels jumped from R45 billion to R450 billion in a decade.  Half of this is due to the rampant looting and mismanagement at Kusile and Medupi.  A week does not pass without further corruption scandals.  Yet the MTBPS offers nothing on what government is doing to deal with this.  No mention is made of arrests and imprisonment.  Little mention is made of what stolen assets have been recovered.  Little said on what government is doing to hold those Ministers, Premiers, Mayors and management to account for such acts of treason and idiocy.  Yet the MTBPS goes to great efforts to attack public service workers for wanting to feed their families.Workers’ patience is not infinite.  Whilst COSATU appreciates the additional allocation to the NPA and law enforcement bodies, their successes are underwhelming.  The arrest of a handful of people is an indictment upon the state’s political will.  The identity of the looters is not secret.  If the leadership of our law enforcement bodies does not have the capacity or appetite to do what is expected, then the President must fire them.  Their mediocrity is undermining the President’s call for a new dawn.The MTBPS offers no excuse nor solutions to the billions of funds that will be rolled over.  Nor does it mention a need to shift funds from those who cannot spend to those who need additional funding.  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; and
* Dirco New York Embassy R765 million.

COSATU does welcome the proposed reduction on travel expenses.  However this is not bold enough.  We have some Ministers who believe that their calling in life is to explore the world with their spouses.  This must end.  Government delegations overseas must be drastically cut and limited only to trips that will generate investments in South Africa.  **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.

**4.3 Departments**COSATU will release deeper breakdowns of problems in departmental expenditure during the Parliamentary Appropriation Bill public hearings.  However the following departments show extremely worrying levels of under expenditure and failure to achieve key service delivery targets.  There must be interventions by the President, Parliament and the Auditor General to hold such underwhelming achievers personally liable.  The most glaring and underperforming departments include:* Basic Education (missed sanitation targets, infrastructure under expenditure, safety at schools and increasing teacher learner ratios);
* Higher Education (failure by universities to spend allocations);
* Water and Sanitation (failure to meet sanitation and upgrading of informal areas targets);
* Human Settlements (failure to meet housing roll out targets);
* Energy (cutting of household electrification targets whilst under spending by R250 million);
* Treasury (under expenditure whilst failing to adequately resource Customs to crack down on illegal imports);
* SAPS (under expenditure of R700 million in face of high crime levels);
* Correctional Services (under expenditure whilst prisons suffer from high levels of crime);
* State Security Agency (no report on mass corruption allegations);
* Transport (no plans to deal with collapse of Metro Rail and no proposals to end long rejected E Tolls);
* Environmental Affairs, Fisheries and Forestry (failure to achieve jobs targets);
* Small Business Development (under expenditure failures whilst SMMEs are crying for help);
* Health (under expenditure whilst public health care lacks basic resources and staffing); and
* Cooperative Governance and Traditional Affairs (under expenditure whilst municipalities are collapsing and no clear plans to intervene in municipalities failing to pay workers taxes and salaries).

**COSATU Proposals:****Law Enforcement*** 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.

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

**Transport*** 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.

**Water, Sanitation and Housing*** 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.

**Education and Public Works*** 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.

**Local Government*** 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.
1. **Taxation**

Key to stabilising the state is fixing SARS.  COSATU welcomes the initial interventions by government to fix SARS.  We are hopeful that this may help to turn the tide.  However the federation believes government is too timid.  More needs to be done to recapicitate SARS but also to boost tax revenues.  These must include:**COSATU 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:* Massive investment in SARS Customs capacity.  This must include additional personnel and technology.  Currently only 5% of imports entering our ports and borders are inspected.  This must be increased to 100%.  Additional staffing would generate revenue through ensuring all imports pay the custom duties due.
* Holding companies accountable for the tax breaks and incentives that they receive in exchange for job protection and creation;
* Cracking down on tax evasion by both the wealthy and companies;
* Closing of existing tax loopholes;
* Shifting the tax regime to become more progressive through:
	+ Increases in personal income tax for those earning more than R1.5 million;
	+ Increases in company taxes for wealthy companies;
	+ Increases in inheritance, estate, land and dividends taxes for the wealthy; and
	+ Increases in VAT for luxury goods and custom duties for imports.

**Further COSATU tax reform proposals:*** Cancel the VAT tax hike to 15%.
* Fast track the implementation of the SARS Commission of Enquiry’s 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.
* 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.

**5.1 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. **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.Kind regards, |
| cid:image005.jpg@01CC26CB.2C4815C0 | Matthew ParksParliamentary CoordinatorCell: 082 785 0687Email: matthew@cosatu.org.za6th Floor, Constitution House,124 Adderley Street (corner of Church Street)Cape Town 8000, South Africa |