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FEDUSA

FEDUSA SUBMISSION ON THE BUDGET 2012

The Joint Budget Portfolio Committee

Cape Town

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1 INTRODUCTORY COMMENTS ON THE 2012 BUDGET

The delivering of the budget speech on the 22nd of February 2012, came as the country and the world are struggling to recover from the worst economic recession since the great depression. The focus in the budget speech was on the need to establish a new growth path with a key focus on infrastructure delivery, not only to sustain economic recovery but also to meet the unique challenges of the South African economy. Given the backlash of the recessionary economic uncertainties, the 2012 Budget presented by the Minister of Finance, Pravin Gordhan, has to in the main be applauded. The spirit of Ubuntu and active citizenry encapsulated in the budget, extending to all South Africans to play a role in macro-economic change, stability and sustainability is positive and heartening. The Budget on a whole remained steadfast in addressing the challenges of creating jobs, reducing poverty, building infrastructure and expanding the economy. The tax relief afforded to the lower end of the tax-payers (some R9b), no doubt provides an opportunity to save.

In October 2011 Government in its MTBPS 2011 set out its expenditure and revenue plans for the next three fiscal years. A wide range of factors, ranging from the need to re-balance the economy after the deep recession, global developments and the need to make some inroads in our mass unemployment and poverty were addressed and also other issues such as the urgent need to step up service delivery and to eradicate corruption and fraud.

2 ECONOMIC OUTLOOK

2.1 Global and economic developments

In hindsight it becomes clear that the so-called deep recession affected counties, including South Africa to a much greater extent that was initially expected. According to the World Economic Outlook (WEO) of January 2012 of the International Monetary Fund (IMF), South Africa was more affected by the recession than other countries in Southern-Sahara. This could probably be because of South Africa's larger exposure to countries where the crisis originated. South Africa was however geared to face the problem. This year's budget updates the MTBPS figures according to global and domestic economic developments, and take on a more focused approach on job-creation based on the New Growth Path the President's State of the Nations address and elements of the National Planning Commission incorporated into Government strategy and strategic priorities.

In our presentation FEDUSA will comment on the effects of the deep recession on the Budget, the new broader approach to solving our serious socio-economic problems, the fiscal framework and specific expenditure and tax measures announced in the Budget.

The WEO report is also more pessimistic about global growth and has revised its estimates of growth down by 3¼ percent largely because they expect that the euro area economy be expected to go into a

mild recession in 2012. They also expect that growth in emerging and developing economies is to slow down because of the worsening external environment and a weakening of internal demand.

The figure (Table 1) below, taken out of the WEO of January 2012 shows the severity of the deep recession. It also gives an indication that it will still take some time to reach pre-recession growth levels.

Figure 1. Global GDP Growth
(Percent; quarter over quarter, annualized)

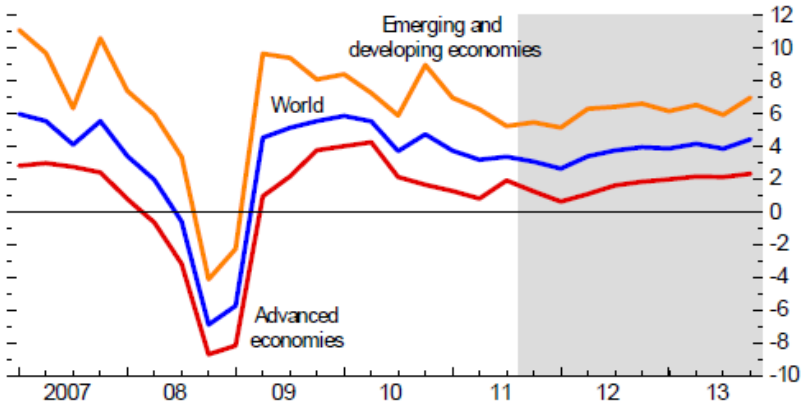

Table 1: WEO Report (January 2012)

It is therefore understandable that Government forecast that economic growth would slow from 3.1% in 2011 to 2.7% in 2012. Thereafter it is expected to increase to 4.2% by 2014. There is agreement that a much higher growth rate of 6 per cent or more is necessary to bring down our unemployment rate. It could therefore be expected that unemployment would remain high during the next few years, if something drastically is not done to bring it down. (See also the discussion under the fiscal framework below).

Government forecast that consumer price inflation to rise from average of 5% in 2011 to 6.2% in 2012, declining to 5.1% in 2014. Given however the current rise in the international price of oil taken together with the proposed increase in our fuel levies, FEDUSA is of the opinion that the inflation rate could probably be higher and remain longer outside the inflation target of 3 % - 6%.

Government expects that the current account deficit will rise from 3.3% of GDP in 2011 to average 4.4% over next three years. This can be contributed to the low demand in our exporting countries.

2.2 Economic policy issues

South Africa's macro economic goals framework includes a counter-cyclical fiscal and monetary stance that supports growth and investment. Stable and low inflation protects living standards, particularly of working families and low-income households. Low interest rates, regulatory certainty and enabling public sector investments encourage the private sector to expand existing businesses and explore undiscovered opportunities. In a mixed economy as ours, the attainment of these goals could not be left to the market alone and Government has to play a role via its instruments.

Jobless growth, high unemployment with the resultant unequal income distribution and poverty remains South Africa's most serious socio-economic challenge. Despite success with some of the other broad goals of economic policy, such as growth, inflation and the balance of payments, the need to make inroads in unemployment and poverty has being echoed in all the Budgets of the past few years and in all South Africa's socio-economic strategies, namely the RDP, GEAR and ASGISA. Job creation is the central theme in the New Growth Path (NGP) and also forms a central part in the Report of the National Planning Commission. Where the Budget concentrated on job creation in last year's Budget, this year's Budget takes a broader approach with infrastructure development as the core.

The National Development Plan analysed our socio-economic problems in a more systematic and pragmatic way than previous monitoring programs. The Commission identifies unemployment, income inequality, poor-quality education, poorly located and insufficient infrastructure, the resource intensity of exports and skewed spatial patterns as the main challenges facing the economy.

In the Development Plan interventions are proposed which aim to expand economic opportunity for all through investing in infrastructure, diversifying exports, strengthening links to faster-growing economies, enacting reforms to lower the cost of doing business, reducing constraints to growth in various sectors, moving to more efficient and climate-friendly production systems, and encouraging entrepreneurship and innovation. According to the Development Plan, improving infrastructure and network services that support industries such as mining and agriculture, as well as new, dynamic industries, will be the focus of a more labour-absorbing growth path. Regulatory reform, improved competitiveness and an enabling investment climate will boost employment and growth prospects. FEDUSA met with the Chairperson of the National Planning Commission during November 2011 and will make formal proposals during February 2012.

Lower living costs and improvements in the skills base will improve the ability of individuals to respond to job openings and economic downturns. Combined with higher labour market participation, earnings moderation will help to lower the level of income inequality. In a mixed economy such as South Africa , there is a role for both the private sector and Government. If each of the social partners do what they "can do best" within the economy this would lead to higher growth and employment. FEDUSA note that in this year's Budget the proper roles of the social partners is acknowledged.

Over the past decade or so, social services and social grants received high real increases relative to productive spending in infrastructure. Expenditure will increase by some 2 per cent in real terms for the next three years, but infrastructure investment will receive a much larger emphasis. FEDUSA fully agree with this shift in expenditure. International experience demonstrates that higher levels of public and private investment in economic and social infrastructure promotes more rapid GDP growth, rising employment and per capita incomes, and a broadening of economic activity

FEDUSA would require further details from the Minister in spelling out clearly how the increased infrastructure will be financed and the roles of the different institutions that will provide the finance. FEDUSA also noted with satisfaction that consultation on the Budget took place within NEDLAC involving all the social partners.

FEDUSA agree with this all-inclusive approach to solving our serious socio-economic problems and would urge Government to make all efforts to convert these plans into action. The budget emphasized the importance of the private sector investment in building economic sustainability.

2.3 Fiscal framework

Table 2 shows the macroeconomic assumptions of the Budget, while *Table 3* is a short summary of the fiscal framework. The effect of the deep recession on the economy can clearly be seen from the two graphs. Economic growth was already lower in 2008 than the average 5 per cent in previous years. During 2009 it reached its lowest point where after it is projected to slowly rise to 4.2 per cent in 2014.

Macro economic projections 2008/09 – 2014/15							
	2008	2009	2010	2011	2012	2013	2014
Real GDP growth	3.6	-1.5	2.9	3.1	2.7	3.6	4.2
GDP Inflation	8.3	7.7	7.9	7.2	6.1	6.2	6.1
Headline Inflation	9.9	7.1	4.3	5.0	6.2	5.3	5.1

TABLE 2: *Source: Budget Review 2012*

The lower growth in turn caused revenue to fall, and with expenditure keeping its level resulted in an increase in the budget balance to not less than 6.5 per cent in 2009. This naturally also led to an increase in our public debt and debt servicing cost.

From a macroeconomic point of view, this was the right policy to counteract the effects of the recession. Unfortunately the increase in expenditure was to a large extent current expenditure for social grants, increased security and high real wages. The result on our growth and employment could well have been more favourable if expenditure was targeting infrastructure. As mentioned above, the shift from current expenditure to infrastructure spending announced is the correct way to go.

FEDUSA applauds the Minister for the efforts made over the medium term to bring the deficit back to an acceptable level and that a sustainable fiscal framework, based on the principles of counter-cyclicality, debt sustainability and intergenerational equity underpins Government's growth strategy.

Consolidated government budget framework, 2008/09 – 2014/15							
Percentage of GDP	2008	2009	2010	2011	2012	2013	2014
Revenue	29.7	27.2	27.5	27.7	27.4	27.8	28.0
Expenditure	30.8	33.7	31.7	32.5	32.1	31.7	31.0
Budget balance	-1.1	-6.5	-4.2	-4.8	-4.6	-4.0	-3.0

Table 3: *Source : Budget Review 2012*

2.4 Expenditure measures.

There are already targeted job-creation programmes in place for increasing employment in the budget's expenditure framework. FEDUSA welcomes further steps to increase jobs. In this year's budget the minister announced further steps in job creation, such as an additional R4.8 million for the expanded public works programme, R3.5 million for the community works programmes; Working for Water and Working on Fire receive an additional R1.1 billion and the National Rural Youth Service Corps receives an additional R200 million.

2.5 Social protection

In a recession the poor are those who suffers most. FEDUSA welcomes the increase in the monthly state old age grant and the disability grant by R60 a month to R1 200 and to R1 220 for pensioners older than 75. Also the increase in foster care grants by R30 to R730 and the child support grant R280 in October this year.

In last year's Budget the Minister stressed that the basic reason for the high dependency rate is that these citizens do not belong to a retirement or medical scheme. The starting point is therefore to bring more people to provide for their old age retirement in terms of pensions and medical insurances.(See the FEDUSA comments on NHI and retirement reform).

3 TAX PROPOSALS AS CONTAINED IN THE 2012 BUDGET

The Minister announced tax amendments, which will benefit some taxpayers while others, would pay more. According to the Budget Review chapter 1, there will be a net 2.3 billion tax relief to tax payers. The personal tax relief is R4.3 billion, business taxes will be R6.4 billion less, while taxes on goods and services will be higher by R8.3 billion. The changes to the different tax components will affect workers contributing to taxes differently as it depends on how much you receive of your salary every month (income tax and deductions), how much you pay for certain things (VAT and sin taxes), and how much you need to pay when you sell certain assets (Capital Gains Tax). FEDUSA welcomes the personal income tax relief of R9.5 billion which will bring some relief to individuals.

FEDUSA welcome the fact that the bulk of this benefit will go to lower income earners. For example, someone earning R65 000 will pay R260 tax compared to R945 in the previous years – a saving of 73%, while someone that earns R250 000 would pay R2 135 less tax – a saving of 5,1%.

The primary rebate for people over the ages of 65 and 75 has also increased, which means that these tax payers will have a little extra money in their pockets. FEDUSA would have liked to see a stronger correlation here with the thrust in the budget to create a savings culture to prevent the major dependency on old age pensions.

3.1 Tax treatment of medical expenses

The Minister announced that as from 1 March 2012 the tax credit for contributions to medical schemes will be introduced, at a rate of R230 a month for the first two beneficiaries and R154 each for additional beneficiaries. The change from medical deductions to medical credits was previously communicated by the Minister. Now it will be implemented from 1 March 2012. A move to tax credits means that everyone gets the same tax relief, and it means that higher income earners will not benefit more from the same medical expenses. Taxpayers 65 years and older and people with disabilities will be included in the second phase of this reform, which will be implemented in 2014. According to Treasury these reforms will significantly improve the fairness of the personal income tax system. FEDUSA would like to raise the concern that many tax payers are dependent on the current tax treatment of medical expenses and do their planning on this basis. For many these would actually imply a tax increase.

Taxpayer contributions to medical schemes up to a specified monetary threshold are tax deductible, as are qualifying out-of-pocket medical expenses. The monthly deductions for contributions to medical schemes and for qualifying out-of-pocket medical expenses will be converted into tax credits effective 1 March 2012. A tax credit provides for more equitable tax relief, as the relative value of the relief does not increase as the marginal tax rate of the individual increases, as is currently the case. A discussion document on these credits will be published by the end of March 2011 and FEDUSA reserve our right to comment with the publication of the discussion document.

The Taxation Laws Amendment Act of 2011 converts the current income tax deductions for medical scheme contributions for **taxpayers below 65 years** into such credits from 1 March 2012. The monthly tax credits that would have applied from 1 March 2012 will be increased from this date from R216 to R230 for the first two beneficiaries and from R144 to R154 for each additional beneficiary. From that date onwards (apart from those with disabilities), where medical scheme contributions in excess of four times the total allowable tax credits plus out-of-pocket medical expenses combined exceed 7.5 per cent of taxable income, they can be claimed as a deduction against taxable income.

To ensure improved equity of the tax system and to help curb increases in health costs, additional medical deductions will be converted into tax credits at a rate of 25 per cent for taxpayers aged below 65 years with effect from 1 March 2014. Also with effect from the same date, employer contributions to medical schemes on behalf of ex-employees will be deemed a taxable fringe benefit and such ex-employees will be able to claim the appropriate tax credits.

3.2 Retirement funding and savings

The reform of the tax treatment of contributions to retirement funds is also envisaged from 2014. For the past three years FEDUSA have been calling for a discussion document to contextualize further retirement reform to encourage voluntary savings. Consideration is being given to the introduction of tax-exempt short and medium-term savings products. The proposal is that individuals should be permitted to save up to R30 000 a year, with a lifetime limit of R500 000, in registered savings or investment products that would be free of tax on interest. FEDUSA would welcome this opportunity to

increase voluntary savings but believe it should be subjected to a thorough consultative process within NEDLAC by all social partners.

During last year's budget speech the Minister already demonstrated the intention to simplify the retirement environment. For consumers, it means less hassle to understand all the complexities and differences between pension, provident and retirement funds. One of these simplification measures with regard to the retirement space is to change the workings of the tax system between the different retirement systems. It is expected that a discussion document detailing the system would be released for public comment later in 2012.

The proposed implementation for such amendments is envisaged to take effect from 1 March 2014. The indication is that proper consultation needs to take place on various principles such as preservation etc. The proposals seem to indicate that if you're under 45 years of age, you can deduct up to 22,5% of your income if you contribute this towards your retirement –irrespective of whether you are saving in a pension or provident fund, and irrespective of whether you or your employer makes the contribution. An encouraging aspect is that, for people 45 years of age and older, there is now an allowance for a greater deduction of up to 27,5% of their income. This provides for people who are closer to retirement and need to contribute more, and who may not have contributed enough in their earlier working lives. Many South Africans leave saving for retirement too late and this additional amount will assist South Africans to make up the shortfall.

These deductions will, however, be limited to a maximum annual deduction of R250 000 for people younger than 45 and R300 000 for people older than 45.There are further proposals in the budget speech around retirement reform to assist individuals to be able to receive an adequate income in retirement, however these proposals still need to be finalised. A major retirement fund issue addressed in the budget speech centres on funds preservation. Minister Gordhan suggests that social partners consider ways to limit people's ability to withdraw money from their retirement savings. The concern, essentially, is that people are inclined to withdraw their retirement savings before they actually reach retirement, with the result that – when they do reach retirement – they don't have sufficient savings to provide them with an adequate income during their retirement years. FEDUSA applauds the Minister for clear direction but would favour to achieve a tax-free retirement in future.

Findings in the Sanlam 2011 Benchmark survey showed that 20% of people indicate that they withdraw their retirement savings when they leave a job and move to another employer. The concern here is that, in this context, 72% of people used their retirement savings to settle debt and 29% used it to provide for living expenses. A key policy challenge facing SA is the lack of adequate retirement benefits for all due to the fact that there is allowance to cash in employer retirement savings when changing jobs and on divorce. Most heartening from the Budget, the IRF states, is the vision and measures put in place to encourage domestic savings, with proposals for certain tax-free savings and investment plans. The expansive and ongoing problem of low savings levels amongst all South Africans is not a new phenomenon, says IRF, and government's envisaged plan to make certain savings and investment plans tax free go a long to provide alternatives to the current tax free income groups. FEDUSA would see the move to restrict lump sum withdrawals to 1/3 of accumulated savings as a step in the right direction to ensure savings for retirements. Different views are however amongst various affiliates in specific sectors and thorough consultation is still needed once there is a proper discussion document tabled.

Retirement reform will affect not only how we all save for retirement, but also the income we will receive during retirement. Proposals will be made during this year and changes will only follow later.Partnership was a strong theme of the 2012 budget and the Minister made the point repeatedly that, in order for South Africa to effectively address inequality and poverty, a partnership between government and the private sector was critical. None so important as within the Retirement reform process. FEDUSA concur with the view of the IRF that this will encourage a new generation of savings products. This will encourage employees and the society in general, to save for their retirement and will in a long run, elevate poverty.

Whilst there were no concrete solutions to enhancing and monitoring governance of pension funds, in light of a series of fraud and corruption cases last year alone, the Minister did allude to the reforming of the retirement industry discussion papers that will be released this year to address good governance as a fundamental to pension provisioning. Trustee Education and communication within the pension sector did not receive a mention in this budget. FEDUSA have identified one of the most critical issues needing to be addressed given the changes in economic landscape, is the need for tight governance and proper accountability. Treasury must be urged to elevate these issues higher on the agenda.

To encourage South Africans to save for retirement, contributions by employees and employers to pension, provident and retirement annuity funds are tax deductible.

A rollover dispensation, similar to the current retirement annuity contributions, will be adopted to allow flexibility in contributions for those with fluctuating incomes. Contributions towards risk benefits and administration costs within retirement savings will be included in the maximum percentage allowable deduction.

Lump sum commutations upon retirement from pension and retirement annuity funds are restricted to a maximum of one-third of accumulated savings. Consultations will be held with interested parties on a uniform approach to retirement fund commutations, taking into account vested rights and appropriate transitional arrangements.

3.3 Dividends tax

An unexpected surprise was the announcement that the secondary tax on companies will be terminated on 31 March 2012 and a withholding tax on dividends of 15 per cent will be implemented on 1 April 2012. According to him this will align our tax treatment of dividends with that in most other countries. He is of opinion that pension funds will benefit from this transition, as they will receive dividends tax-free. The question that arises is whether this tax treatment of dividends is in line with other countries at the same stage of development as South Africa.

Although this tax is not applicable to retirement funds, individuals' savings in equity investments will result in slightly lower dividend returns. FEDUSA welcome the provision that with effect on 1 April 2012 dividend withholding tax will come into effect. This provision will ensure a more equitable taxation in the economy.

3.4 Capital Gains Tax (CGT)

The introduction of Capital Gains Tax in October 2001 was an important step in broadening the tax base. In order to reduce the scope for tax arbitrage and broaden the tax base further, the Minister announced that the CGT inclusion rate for individuals and special trusts will be increased with effect from 1 March 2012 from 25 to 33.3 per cent, and for companies and other trusts from 50 to 66.6 per cent. To mitigate the impact on middle-income earners, various exclusion thresholds are increased.

Although FEDUSA agrees that for tax fairness all incomes should be included under the tax umbrella, the increase at this stage come at a very unfortunate time where the ordinary citizen find it difficult to survive. Although there are measures to mitigate the effect on middle-income earners this will not be enough to mitigate the whole effect thereof.

Changes in Capital Gains Tax will also affect the allure of SA's to save their money by investing in capital interest. The increase in Capital Gains Tax inclusion rate from 25% to 33% contradicts the 'saver friendly' context of the budget to the detriment of asset owners. As inflation erodes the value of any asset, it must grow and taxing this inflation protection becomes a disincentive to hold assets.

Although the maximum effective rate at which the tax is charged has gone up from 10% to 13.3% for individuals and special trusts, government has tried to limit the effect of the higher rates of the middle income earners by adjusting the amounts at which capital gains tax are payable by individuals.

3.5 Relief for small businesses

In our previous comments (2004-2011) on the Budget FEDUSA has recommended that there should be more favourable tax treatment for small and micro businesses. We are therefore pleased with the different steps announced in this year's Budget. This include the increase in the tax-free threshold for small business corporations to R63 556, the 10 per cent rate is reduced to 7 per cent and the threshold up to which this rate applies is increased to R350 000. For taxable income above R350 000, the normal 28 per cent corporate rate applies.

Other steps include that qualifying micro-businesses (within the R1 million turnover limit) will be able to pay turnover tax, VAT and employees' tax twice a year. This means that the number of returns and payments a year will be reduced from about 18 to just two thereby reducing the red tape of doing business for the engines of job creation.

3.6 Levy on electricity

The Minister announced that the levy on electricity generated from non-renewable sources will increase by 1c/kWh as from 1 July 2012 and will replace the current funding mechanism for energy efficiency initiatives such as the solar water geyser programme. According to the Minister there should be little overall impact on electricity tariffs. FEDUSA will monitor this and alert any concerns as soon as it arises.

3.7 The general fuel levy on petrol and diesel

Where there could be agreement with the Minister that the electricity levy will not have much effect, the situation with the fuel levy is quite different. The increase by 20c with effect from 4 April 2012, and the Road Accident Fund by 8c to 88c/l will have serious consequences for the ordinary citizen. It comes at time where inflation is starting to rise and will without doubt affect it negatively. The increase in the petrol price will be felt in all spheres of the economy and have a direct impact on all South Africans.

Regarding tax amendments there are therefore some good and some bad news. The good news will probably be overshadowed by announcement of the increase in the fuel levy.

3.8 Sin taxes

This is probably the most talked about item every year in the budget speech – probably because it is one of the most visible areas of our everyday lives. As has been the pattern over the last number of years, this year once again sees an increase in most of the sin taxes. FEDUSA would like to raise our concern with the agricultural sector and specifically wine industry to prevent our products from becoming too expensive for the international market when South Africa is competing with major global players in this regard.

Last year the Minister proposed a gambling tax. The innovative measure to broaden the tax base is welcomed and this budget simplified the tax to a 1% levy on gross gambling revenue effective from 1 April 2013 which will include the national lottery.

4 TOLLING OF ROADS AND THE E-TOLL SYSTEM IMPLEMENTATION

Government noted the outcry over the tolling of roads in Gauteng and the Minister made reference to lower tolls for public transport (no tolls for taxis) and frequent users, as well as a monthly cap for frequent users. The announcement by Finance Minister Pravin Gordhan in his budget speech on Wednesday that e-tolling would be going ahead in Gauteng at a rate of 30c/km was lower than the rate expected by consumers. Motorists are under pressure already and the prospect of sizeable petrol price increases in the coming months could have a crippling effect on the workers of South Africa. A lot of the people who use these toll roads to commute daily are not the highest income people. They are commuting towards the higher-income areas. A lot of commuting is towards the northern part of Johannesburg, from the West Rand, from the East Rand and from Pretoria. So it's a slightly lower income motorist who often lives out in those areas because the properties are cheaper.

FEDUSA would recommend a much more phased-in approach over a good number of years, rather than the sudden shock treatment of increasing the costs quite dramatically, because the whole property market needs to adjust and it will take time. FEDUSA has therefore filed our section 77 tollroad protest action at NEDLAC to deliberate on the matter.

The issue of tollfees must be seen holistically as it started with the likes of Eskom already ramping up tariffs, and the municipalities' water and sewage infrastructure is probably coming under pressure, so

FEDUSA expect some significant increases there too. FEDUSA will ask the Minister of Finance to meet with us to find a amicable solution regarding the Guateng E Tolling System. FEDUSA is of the view that Cabinet does have the legal mandate to make decisions regarding the policy and the final price that consumers must pay. The final price and setting of tariffs is the role of an independent regulator. This is the case of electricity, pipelines and other sectors.

5 ENCOURAGING HOUSEHOLD SAVINGS

FEDUSA have been calling for years for household savings to be increased. A discussion document to be published in May 2012 will provide more details on creating a savings culture. South Africans are not good at saving. We consume all our money and do not save enough for tomorrow. Not only do we need South Africans to save more to provide for their own future and their families, but the economy also needs us to save. With the high debt levels and the low savings levels we, as a nation, are consuming today what we have not yet earned tomorrow.

To encourage greater savings among South Africans, tax-preferred savings and investment accounts are proposed as alternatives to the current tax-free interest-income caps. This will encourage a new generation of savings products. Returns generated within these savings and investment vehicles (including interest, capital gains and dividends) and withdrawals, will be tax exempt. Aggregate annual contributions could be limited to R30 000 per year per taxpayer, with a lifetime limit of R500 000, to ensure that high net-worth individuals do not benefit disproportionately. The design and costs (banking and other fees) of these savings and investment vehicles may be regulated to help lower-income earners to participate.

Government proposes to introduce these tax-preferred savings and investment vehicles by April 2014. A discussion document will be published by May 2012 to facilitate consultation and refine these proposals. Currently there are not enough incentives to save and in the budget speech the Minister proposed new savings mechanisms to help us save: The discussion document will be published in May 2012, and the product will be available from April 2014. A mechanism which enables you to save up to R30 000 per year up to a cumulative lifetime limit of R500 000, without paying tax on the returns you earn, will surely enable many South Africans to make their savings work harder.

6 NATIONAL HEALTH INSURANCE

Healthcare is an important benefit provided by the state to its citizens and in the budget the Minister commented on the improvement to the health infrastructure. FEDUSA and our affiliates applaud the additional allocations to be spent on nursing colleges and the rebuilding of 5 tertiary training hospitals, to the benefit of all South Africans. In the context of National Health Insurance (NHI), the Minister spoke about some of the interim plans to build towards NHI. FEDUSA will comment on the detailed NHI as per the discussion document once the greenpaper have been published.

FEDUSA is concerned about the apparent lack of consultation on the NHI process between the Department of Health and relevant stakeholders. The Budget Review 2012 contains no new information

relating to NHI funding, and the expectation therefore remains that this will be funded from an increase in VAT, payroll taxes of employers or additional tax on individuals, or a combination of these. FEDUSA believe that the matter should be subjected to thorough discussion at NEDLAC by all relevant stakeholders. The intention from Government's strategic plans are that the proposals will only be published later in the year, but what it boils down to is that through some or other mechanism individuals will contribute more in total taxes to help fund the NHI system. As an organisation representing workers in South Africa we would like to be part of the process of aligning the social Funding options for national health insurance.

National Health Insurance is to be phased in over a 14-year period beginning in 2012/13. The new system will provide equitable health coverage for all South Africans. Plans to begin the first phase of national health insurance, and initial funding requirements, are discussed in some detail in Chapter 6 of the Budget Review on: www.treasury.gov.za . Over time, the new system will require funding over and above current budget allocations to public health. Funding options include an increase in the VAT rate, a payroll tax on employers, a surcharge on the taxable income of individuals, or some combination of the above.

Achieving an appropriate balance in the funding of national health insurance is necessary to ensure that the tax structure remains supportive of economic growth, job creation and savings. The role and implications of co-payments or user charges under certain circumstances (for example, to limit overuse and risky behaviours) will also be explored. A discussion paper will be published by end-April 2012.

7 2012 GOVERNMENT PRIORITIES AND BUDGET VOTES

7.1 Vote 3- Cooperative Governance & Traditional Affairs, Community Works Programme

FEDUSA appreciates the significant designation of an extra R3.5 billion to the expansion of the community work programme, which will increase the potential number of people employed in 2014/2015 to 332 000 from the 90 000 in March 2011, and simultaneously contribute to providing better community-based social services such as early childhood development and home-based care. FEDUSA cautions however that the programme does not become a process of administering hand-outs, but rather shows the measurable transfer of employable skills, and creates meaningful employment for those participating therein.

FEDUSA agree that the best way to expand the programme is to expand on existing sites where there has been positive progress and outcomes, and to intensify the existing work activities to improve the quality and effectiveness of work performed. This will ensure that the community based services provided through the programme are of an acceptable quality. FEDUSA suggests that the programme is adapted so as to not only provide unemployed persons with 2 days of work a week, but also provide a system in which participants can develop a career path and move into full time meaningful employment through the programme, thus broadening our labour force, and maximising on the opportunity for work-based training.

FEDUSA sees this programme as an innovative solution to providing both economic and social development within our more disadvantaged communities, and is supportive of the roll on effect of

ownership and mobilisation of participating communities. We look forward to monitoring the programme and its desired outcomes over the medium term.

7.2 Vote 8: Women, Children and People with Disabilities

7.2.1 Women, Empowerment and Gender Equality

The Commission for Gender Equality (CGE) has been allocated 65% of the budget within this programme, and FEDUSA supports not only the awareness and education role it plays on behalf of the department, but specifically the work the commission does with regards to monitoring, reviewing and enforcing the relevant legislature, and investigating and redressing complaints and violations of gender rights across the public and private sectors.

FEDUSA congratulates the commission on its performance over 2011/2012. The Budget 2012 Vote on Women, Children and People with Disabilities states that the commission reviewed five pieces of pre 1994 legislature and completed 90% of gender based complaints received in 2011/2012. Furthermore it completed 135 advocacy and awareness campaigns. This performance is attributed to investment in human capital development through training of staff and the maintenance of a stable workforce. However, the commission had no fewer than 9 vacancies at the close of 2011, and the Ad Hoc Committee for the Filling of Vacancies in the Commission for Gender Equality was established in order to address this problem. FEDUSA is concerned with consistency in this regard, and will actively monitor the progress of the appointment process, as well as the spending of the largest portion of the department's budget.

FEDUSA furthermore welcomes the projected increase in advocacy and awareness programmes from 220 in 2011/2012 to 300 in 2014/15 and especially the commitment to train double the number of NGOs on gender equality and related issues by 2014/2015.

FEDUSA worked closely with the International Labour Organisation and other stakeholders to popularise the ILO Domestic Work Convention 189 and Recommendation 201 and its implications to workers in Southern Africa. We are therefore pleased to note one of the core objectives of the Women, Empowerment and Gender Equality programme in 2012/2013 is to adapt international and regional instruments on women empowerment and gender equality into existing national gender initiatives by reviewing the Domestic Violence Act (1998) and government's maternity leave policy. FEDUSA supports the rights of women within the workplace and therefore welcomes these initiatives.

FEDUSA also believes in the power of social dialogue to reach productive resolutions on matters that affect the national workforce. For this reason FEDUSA is pleased to note that the department will hold consultative meetings in the different provinces to discuss the draft bill on gender equality. FEDUSA wishes to ensure that they and other labour constituency partners will be included in these consultations. Likewise, we positively acknowledge the commitment to workshopping and consulting around rural women's development in all the provinces.

7.2.2 Children's Rights And Responsibilities

FEDUSA is pleased to see that the department plans to lead consultations with various departments with regards to training officials on mainstreaming children's considerations. Furthermore we appreciate the commitment to the Sanitary Dignity campaign, but questions whether there are plans to coordinating further implementation of the campaign in South Africa as opposed to only financing consultants to mainstream the campaign for women and girls in Kenya.

7.2.3 Rights Of People With Disabilities

Several of the objectives outlined in Programme 4 of Vote 8 are appreciated by FEDUSA, particularly the intention to foster public private partnerships to develop a coordinated intervention model to improve the quality of educations a special schools and an integrated support model to increase access to institutions of higher learning. We also appreciate the plans made to increase the participation of people with disabilities in the expanded public works programme, but once again cautiously observe whether their incorporation will lead to the transfer of sustainable and employable skills, and lead to relevant career paths, or merely provide compensation for unskilled labour.

FEDUSA furthermore supports the decision to develop a model outlining the norms and standards for mainstreaming disability considerations in skills development centres, so as to ensure that people with disabilities are not excluded from the opportunity to contribute to our economy.

7.3 Public Service and Administration: Vote 12

FEDUSA would like to raise our concern that the State as employer abuses the Budget speech to commence with collective bargaining. The fact that 5% has been laid down as an absolute figure almost obviates the need for collective bargaining. The matter was raised with the Minister of the DPSA during bilaterals at the end of 2011, and an undertaking to address the issue were given. It is our contention that it does not auger well for collective bargaining if the first salvos are in the public domain, and we trust that collective bargaining will not fall into the pattern of communicating through the media.

Treasury is also acutely aware that in terms of PSCBC Collective Agreement 1 of 2011, there are numerous uncompleted processes that also require funding to be finalised. The most notable is housing benefits. FEDUSA believe that housing benefits have remained unresolved for a number of years, and will remain so.

Mention was also made of the NHI that will be implemented. A quality service orientated public health system is supported by all, but the perception is that the right of employees with regard to an employer subsidy (2 thirds to a max rand amount) may be sacrificed. This matter is extremely sensitive and need to be finalised as soon as possible and further clarity are required from Treasury in the discussion documents to be released in 2012.

In light of the above, FEDUSA expect a tempestuous period of collective bargaining based on the fact that the process commences with a perception among organised labour that the employer is not prepared to enter into a good faith collective bargaining.

Recent decisions of the International Labour Organisation (ILO) Committee on Freedom of Association with regard to the public sector wage negotiations is quoted as follows where it is stated that Government run the risks that FEDUSA will ask the ITUC to report the "Violation of collective bargaining" to the ILO.

Extract from the ILO Freedom of Association Digest of decisions and principles of the Freedom of Association Committee of the Governing Body of the ILO.

"Quote:

"1036. In so far as the income of public enterprises and bodies depends on state budgets, it would not be objectionable – after wide discussion and consultation between the concerned employers' and employees' organizations in a system having the confidence of the parties – for wage ceilings to be fixed in state budgetary laws, and neither would it be a matter for criticism that the Ministry of Finance prepare a report prior to the commencement of collective bargainingwith a view to ensuring respect of such ceilings.

(See the 1996 *Digest*, paras. 896 and 898; 318th Report, Case No. 1993, para. 590; 325th Report, Case No. 2068, para. 325, and Case No. 2106, para. 486; 327th Report, Case No. 1865, para. 501; and 330th Report, Case No. 2166/2173/2180/2196, para. 290.)

038. The Committee has endorsed the point of view expressed by the Committee of Experts in its 1994 General Survey:

While the principle of autonomy of the parties to collective bargaining is valid as regards public servants covered by Convention No. 151, the special characteristics of the public service described above require some flexibility in its application. Thus, in the view of the Committee, legislative provisions which allow Parliament or the competent budgetary authority to set upper and lower limits for wage negotiations or to establish an overall "budgetary package" within which the parties may negotiate monetary or standard-setting clauses (for example: reduction of working hours or other arrangements, varying wage increases according to levels of remuneration, fixing a timetable for readjustment provisions) or those which give the financial authorities the right to participate in collective bargaining alongside the direct employer, are compatible with the Convention, provided they leave a *significant* role to collective bargaining. It is essential, however, that workers and their organizations be able to participate fully and meaningfully in designing this overall bargaining framework, which implies in particular that they must have access to all the financial, budgetary and other data enabling them to assess the situation on the basis of the facts.

This is not the case of legislative provisions which, on the grounds of the economic situation of a country, impose unilaterally, for example, a specific percentage increase and rule out any possibility of bargaining, in particular by prohibiting the exercise of means of pressure subject to the application of severe sanctions. The Committee is aware that collective bargaining in the public sector "calls for verification of the available resources in the various public bodies or undertakings, that such resources are dependent on state budgets and that the period of duration of collective agreements in the public sector does not always coincide with the duration of budgetary laws – a situation which can give rise to difficulties". The Committee therefore takes full account of the serious financial and budgetary difficulties facing governments, particularly during periods of prolonged and widespread economic stagnation. However, it considers that the authorities should give preference as far as possible to collective bargaining in determining the conditions of employment of public servants; where the circumstances rule this out, measures of this kind should be limited in time and protect the standard of living of the workers who are the most affected. In other words, a fair and reasonable compromise should be sought between the need to preserve as far as possible the autonomy of the parties to bargaining, on the one hand, and measures which must be taken by governments to overcome their budgetary difficulties, on the other.

(See the 1996 *Digest*, para. 899; and, for example, 299th Report, Case No. 1561, para. 38; 300th Report, Case No. 1806, para. 122; 306th Report, Case No. 1859, para. 238;
307th Report, Case No. 1873, para. 98; 308th Report, Case No. 1921, para. 571;
318th Report, Case No. 1999, para. 168; 329th Report, Case No. 2123, para. 531;

330th Report, Case No. 2166/2173/2180/2196, para. 290; 333rd Report, Case No. 2288, para. 826; and 337th Report, Case No. 2356, para. 704.) "

FEDUSA is of the view that the constitution principle must not be sacrificed and we propose that the assistance and wisdom of the International Labour Organisation (ILO) must be used to develop a fair framework for negotiations in the public sector. The ILO has experts in this field to provide support for government as the employer and organised labour.

7.3.1 Filling of vacant posts

It is quiet disturbing that the Minister at this point in time 2012, to be still talking to the filling of vacant position. The PSCBC has in 2007 signed Resolution 1 of 2007 which specifically dealt with the issue of funded vacant posts. Clause 14 of this resolution read:

"14.1 The employer will ensure that:-

14.1.1. All current funded vacancies are advertised, in terms of existing departmental policies, within 6 months of the date of agreement.

14.1.2. All new funded vacancies are advertised, in terms of existing departmental policies, within 6 months of these vacancies arising.

14.1.3. As far as possible all vacant and funded posts should be advertised and filled within 12 months from date of arising.

14.1.4. The employer will provide Council with regular reports on the advertising and filling of posts in the public service. The report to include the number of funded vacancies, number advertised, number filled, number unfilled and the reasons for not filling. These reports to be submitted every 6 months to Council for distribution to trade union parties to Council."

This agreement was signed on the 5th July 2007. To date the employer, representing Government has failed to comply with this resolution. The issue of the vacant posts place a huge burden on those employees presently in the employ of Government, to carry the load of having to perform duties over and above what they are employed for.

The results to the challenge are among others:

- High absenteeism;
- Abuse of sick leave;
- Fatigue;
- Poor service delivery;
- Migration of professionals etc.
- Added to this challenge is the employment of unqualified people/deployments.

7.3.2 Reducing the wage bill

It is unfortunate that it is only the Public Servants that are focused on when it comes to state saving on the wage bill, especially our members who are between salary levels 1-12.

Labour in the PSCBC, is aware and sensitive to the needs of the Country, thus in our wage demands, we look at issues like 1) Socio-Economic Context of the Country which is characterized by poverty, job losses, unemployment, and inequality;2) Inflation Forecast; 3) CPI etc.

The employer in the Public Service has continuously failed to improve the working conditions of by employees by failing to adhere to time lines to deal with substantive issues as per the different resolutions signed in the PSCBC, example PSCBC Res. 2 of 2011 that deals with among others;
1. Medical assistance; 2.Home ownership; 3.Minimum service agreement; 4.All outstanding matters.

These outstanding matters are the ones that could be used to mitigate against a higher wage percentage increase. Without this FEDUSA do not see how Government will succeed in convincing employees to buy into their vision.

7.4 Vote 17 On Higher Education

As part of FEDUSA's Resolutions taken at our 5th National Congress in 2011, it was agreed that FEDUSA would lobby with Government to incentivise universities to produce enough appropriately skilled and qualified people in disciplines central to the needs of industry. FEDUSA proposed a differentiated government subsidy system aimed at making courses delivering scarce skills inexpensive and those with an abundance of skills more expensive. FEDUSA is grateful to note that the Vote on Higher Education and Training speaks to an enrolment planning exercise conducted at all universities with a view to expanding enrolment in key scarce skills such as health sciences engineering, technology and education. This, and the final year loans programme introduced in 2011 are both considered by FEDUSA as worthwhile contributions to improving the level and adequacy of the education of our youth.

The R150 million, R300 million and R400 million allocated to improving tertiary institution infrastructure is also welcomed by the federation.

7.4.1 Skills Development

FEDUSA agrees that one of the key objectives in the Skills Development programme should be ensuring that the number of artisan learners registered for training by the SETAs increases, however FEDUSA is concerned by the low target increase from 30 000 to only 33 000. The registration of only 3000 artisan learners across the country is not sufficient to address the skills shortage in this country, and to combat the increasing percentage of youth unemployment.

7.5 Vote 18: Labour

The Budget Review and the Labour vote sets out the program and strategic priorities that talk to the aim as set out to reduce unemployment, poverty and inequality through pursuing the objectives of full and productive employment and decent work for all including: employment creation and enterprise

development; standards and rights at work including equality of opportunities; social protection; and social dialogue.

It would seem when perusing the budget provisions as if the programs are operating in silos and do not address the aim in a coherent fashion, for example, how does the labour policy and industrial relations program support inspection and enforcement services?

On page 389 of the Estimates of National Expenditure" reference is made to *"Due to professionalization of the inspectorate, the number of posts is expected to increase from 1316 to 1429"* - does this mean there are currently not enough inspectors, or are the current inspectors not on the required professional level. More bodies do not necessarily improve professionalism.

FEDUSA also note with concern that NEDLAC seems to be the "ugly stepsister". NEDLAC plays such an important role in the broader society given the requirements of the NEDLAC Act and also taking into account all the committees and work that has to take place. Their staff complement is less than a third of Productivity South Africa. A strengthened NEDLAC may assist in faster and better outcomes.

7.6 Vote 19: Social Assistance

While FEDUSA welcomes and appreciates the clear commitment to the social wellbeing of the country's most vulnerable through the increase in social assistance expenditure, there is a significant concern with the growing number of grant recipients annually. The increased expenditure of R104.9 billion allocated to social assistance may be seen as an attempt to reduce alleviate poverty amongst our poorest, but the growing rate of dependency, and the government's attempt to merely throw money at the problem will do nothing to lift these citizens out of their poverty conditions. The minimal grants allocated for individual child support grants alone will not assist a poverty-stricken parent to move out of poverty, and reduce her dependence on government assistance. FEDUSA suggests that constructive research is undertaken to look into the conditional cash transfer systems employed in other third world economies, such as the Bolsa Familia in Brazil.

Furthermore, while the overall expenditure has increased, the increase realised by each child care grant recipient is merely R15, less than the documented rate of inflation of 6.2%. This alone suggests that those receiving the grants will remain in their current vulnerable positions whilst caring for their children.

As mentioned above, the 11% annual increase in social assistance expenditure is of grave concern, however FEDUSA appreciates the 11.4% reduction in the number of disability grant beneficiaries over the last four years as a result of the improved assessment process. FEDUSA would welcome better assessment of those collecting child support and old age grants. It is of our opinion that the state may be supporting individuals over 60 who are still in employment. Streamlining this process may result in decreased expenditure on old age grants.

FEDUSA is impressed by SASSA's reduction in their average turnaround time of grant applications, and especially welcomes their efforts to encourage beneficiaries to open bank accounts. This could be the first step in implementing a conditional cash transfer system to encourage education and skills training as a precondition to receiving social grants. In a similar vein, FEDUSA appreciates the

implementation of the Inspectorate of Social Security as a vehicle to monitor and oversee grant payments, which should prevent misspending.

7.6.1 Social Welfare

Much research has shown that the success of students in high school and tertiary education is relative to their early childhood development. In a country where basic education seems to be in a state of crisis, the budgetary commitment to increasing the ECD subsidy is welcomed. The budget makes provision for the improvement of current facilities, as well as the addition of new facilities, increases in teacher salaries, and more stringent monitoring procedures. A concern however is raised with regards to the recent shutting down of several establishments in the Cape Town metropolis due to heightened registration standards, leaving many child-carers and teachers unemployed, and many children no longer in day-care or early childhood development centres. With the R24.4 million that has been allocated to audit all early childhood development facilities across the country, FEDUSA suggests that there should be thought given to interim solutions for providing services to children whilst upgrading and improving facilities that do not yet reach registration requirements. In the event that other cities should follow the lead of the Cape Town municipality, FEDUSA will be gravely concerned with the fate of the many children left no longer in child care of any sort while their parents are at work, and the fate of the many women and men that receive incomes through the current informal childcare centres.

The Isibindi programme is acknowledged as an innovative and beneficial one. The commitment to training 10 000 unemployed people as Child and Youth Care Workers works towards both the aims of alleviating unemployment and poverty, while simultaneously caring for those who have been most affected by these social ills.

8 CONCLUSION

As in the past, the yearly Budget contains a lot of information and it is only possible to comment on a few aspects. According to FEDUSA the most important aspect is probably the incorporation of the report of the National Planning Commission and the reprioritizing of expenditure towards infrastructure to steer the economy on a growth and employment creation path. FEDUSA also feel more comfortable with the direction that the Minister wants to steer public finance towards a more sustainable basis.

9 REFERENCES

Note: Addendums to the Budget Submission is available on the FEDUSA Website at : www.fedusa.org.za where all the Congress 2011 Resolutions underpinning policy positions can be found.

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