SUBMISSION OF THE PEOPLE'S BUDGET COALITION TO THE STANDING AND SELECT COMMITTEES ON FINANCE ON THE 2012/13 FISCAL FRAMEWORK AND REVENUE PROPOSALS

COSATU

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PEOPLE'S BUDGET COALITION SUBMISSION TO THE PUBLIC HEARINGS ON THE FISCAL FRAMEWORK AND REVENUE PROPOSALS

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1. INTRODUCTION

The People's Budget Coalition (PBC) is grateful for the opportunity to present its views to Parliament on the fiscal framework and revenue proposals for the 2012/ 2013 national budget.

The PBC is a civil society coalition comprising the Congress of South African Trade Unions (COSATU), the South African Council of Churches (SACC) and the South African Non-Governmental Organisations' Coalition (SANGOCO). This coalition has for the past twelve years tabled proposals on the government's spending allocation and revenue collection and in support of a participatory budget process.

We have campaigned for many years for the adoption of fiscal and monetary policies that will make a decisive intervention in the battle against unemployment, poverty and inequalities and ensure the meaningful redistribution of wealth to the poor.

The PBC notes the 2012/ 2013 budget speech by the Minister for Finance, Pravin Gordhan. Our analysis and critique of the budget is guided by how it will impact on our triple challenges of massive levels of unemployment, poverty and inequality. Levels of inequality that now rank South Africa as the most unequal society in the world.

We are also guided by how the budget will capacitate our government to deliver upon the African National Congress' 2009 election manifesto and in particular its five key priority areas of the creation of decent work; the promotion of better education; improved healthcare; rural development, food security and land reform; and the fight against crime and corruption. Whilst we welcome aspects of the budget we are still deeply concerned by other areas and worrying trends.

2. CONTEXTUAL CONCERNS

We note that the budget sets a forward-looking framework over the next three years and in so doing provides key indications about government priorities.

Our view is that all such statements must be measured against the five priorities of the current administration, namely the:

- Creation of decent work and sustainable livelihoods;
- Improving the quality of education;
- Improving access to quality healthcare;
- Promoting rural development, food security and land reform; and
- Fighting crime and corruption

In order to achieve these, will require an expansive fiscal stance guided by effective redistributive strategies are required to enable a context for growth to take place. Such strategies should find expression in a macro-economic policy framework that puts decent work at its centre. Fiscal and monetary policy mandates need to actively promote the creation of decent employment, economic growth, industrialisation, reduce income inequality and other developmental imperatives.

Yet the challenges are immense. The problem of high unemployment has been at the centre of all major economic policy documents[1]. Yet, there is ample evidence that policies to deal with this problem continue to fail. It is increasingly becoming clear that part of the reasons for this failure is the understanding of the reality that these policies seek to transform.

Table 1 shows the impact of the global crisis on the South African labour market at a sector level. Total job losses from 2009 to the second quarter of 2011 amounted to 1 038 000, with the largest job losses being registered by the wholesale and retail trade and manufacturing sectors. Between the fourth quarter of 2009 and the fourth quarter of 2010, the proportion of the unemployed that have been without work for more than a year rose from 59% to 68%, while discouraged work-seekers increased by 26% over the same period. These facts show that most of South Africa's unemployment is of a structural nature. They show that while the economy may experience a cyclical downswing, the resultant job losses translate not into a cyclical unemployment, but in fact that these losses assume a more or less permanent nature.

Table 1: Job Losses in the South African Economy (2009—2011:2)

	2009	2010	2010:4-2011:2	2009-2011:2
Total	**870**	**161**	**7**	**1038**
Agriculture	149	0	29	178
Mining	25	8	16	49
Manufacturing	202	8	48	250
Utilities	-12	7	1	-4
Construction	106	72	13	191
Trade	291	-38	31	284
Transport	35	10	-16	29
Finance	-123	218	-110	15
Community and Social Services	33	-147	-5	-119
Private Households	163	20	0	183

Negative figures reflect increases in employment, while positive figures reflect losses

[1] See for example GEAR (1996), the Employment Strategy Framework (1998), ASGISA (2004), the New Growth Path (2010).

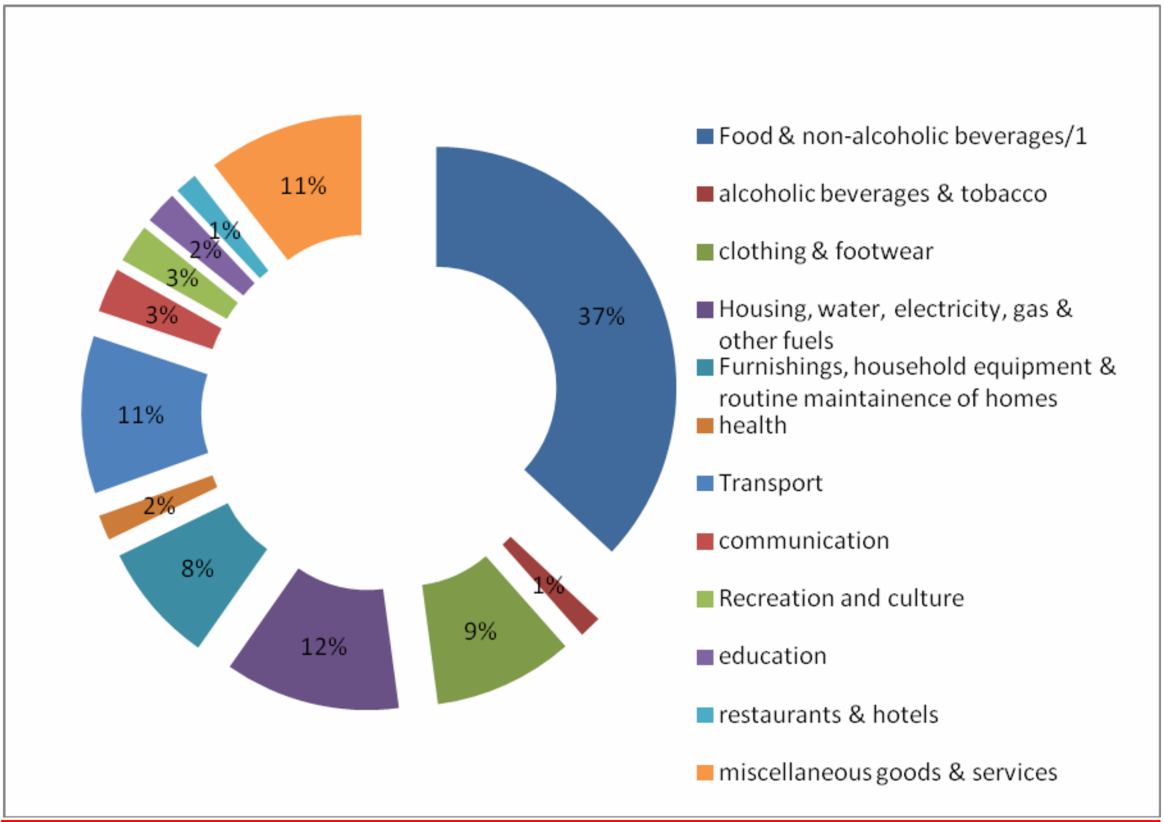
An estimated 72% of the unemployed are young people between 15—36 years of age. An estimated 60% of these young job seekers having minimal or no secondary education. These concentrated levels of youth unemployment have led many to misconstrue that young people are considered too expensive to employ. The youth wage subsidy is premised on this belief. It then seeks to bridge the gap between young people's wage aspirations and what employers are willing to pay. However, if an inexperienced, young person who has not completed secondary education enters the labour market, it is likely that they will earn in the bottom 25% of the current pay scale. The evidence from the most recent statistics shows that people who have not completed secondary education earn on average R1 200 a month. People between 15—34 earn below R1 300. So it is highly likely that young, inexperienced people without secondary education would earn R1 250 a month. Deducting an average R20 daily transport cost to work means that R850 is left for survival, which amounts to R28 a day.

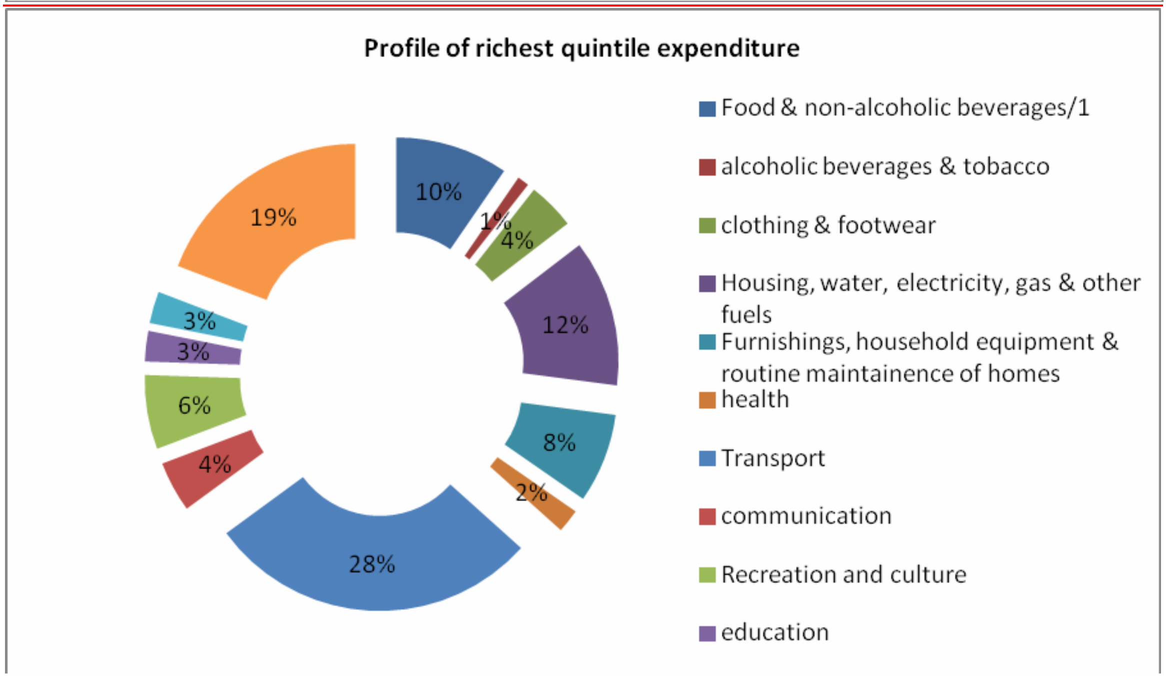
In 1995, the Gini coefficient stood at 0.64 but it increased to 0.68 in 2008[4]. The share of employees in national income was 56% in 1995 but it had declined to 51% in 2009. The top 10% of the rich accounted for 33 times the income earned by the bottom 10% in 2000[5]. This gap is likely to have worsened, given the fall in the share of employees in national income and the global economic crisis of 2008[6]. Approximately 20% of South Africans earned less than R800 a month in 2002, the situation is worse for Africans. By 2007, approximately 71% of African female-headed households earned less than R800 a month and 59% of these had no income; 58% of African male-headed households earn less than R800 a month and 48% had no income.

Differences in consumption expenditures patterns between the richest and poorest income quintiles illustrate the stark inequalities between wealth and poor households. Food and non-alcoholic beverages accounted for the largest share of consumption amongst the poorest quintile (37%) and only 10% of the consumption share amongst the richest quintile. Although poor households spend proportionately more on food and non-alcoholic beverages, they still spent far less than the richest quintiles when measured in terms of total money value. Figure 1 below provides additional details on consumption expenditure patterns.

[4] Development Indicators 2009, The Presidency, p.25. These are based on Income Expenditure Surveys.
[5] Human Development Report: Fighting Climate Change-Human Solidarity in a Divided World, 2007/08, p.283.
[6] In the Budget Speech 2010, the Minister of Finance notes that in South Africa "income inequality is among the highest in the world; and half of our population survives on 8% of national income". Nevertheless, the policy proposals that are contained in the Budget Review 2010, completely fail to address this problem.

Figure 1: Profile of Expenditure of the poorest quarter and richest quarter





Source: Income and Expenditure Survey 2005/6

3. BUDGET FRAMEWORK

South Africa’s economy remains fragile and susceptible to the ongoing global economic crisis. Moreover our developmental challenges require massive shifts in resources in order to achieve the badly needed improvements in employment, poverty and inequality levels as well as to ensure broader access to affordable and improved service delivery. In this context the PBC welcomes that total government expenditure will increase to 32% of GDP in this financial year.

However we remain concerned that the overall capacity levels in national departments, provincial departments and district and local municipalities is uneven and at times woefully inadequate for the tasks placed upon them. Key problems encountered have been their abilities to spend their capital expenditure budgets in ways that boost service delivery and infrastructure development that improves the overall industrial capacity of the economy and assist towards the creation of decent work. A key failure is government’s inability to spend 32% or R82 billion of its R260 billion capital budget in the past financial year. This failure is not limited to historically weak rural municipalities alone but also to the better capacitated Metro Councils as well.

We further note with concern that the budget deficit will decrease to 3% of the GDP by 2014. The unpredictability of the current economic crisis in Europe will continue to impact negatively on South Africa’s economy. It is therefore critical that our government avoids decreasing the budget deficit over the MTEF and thus prevent our economy from deteriorating into a second round recession. Reducing deficit spending at this particular time is simply not a sound economic measure given the current global economic crisis and the triple crisis that we continue to face in South Africa.

4. THE MACRO-ECONOMIC POLICY

Fiscal Policy Framework

We are concerned with the fiscal stance taken by the Treasury in the 2012/13 budget and over the period of the Medium Term Framework (MTEF), despite the projected “modest” GDP growth rate of 2.7% in 2012, 3.6 % and 4.2 % in 2013 and 2014 As argued earlier the forecasted reduction in budget deficit is a poor economic choice under the current global and local challenges. Deficit targets must be realistic and factor in our enormous developmental challenges, including our inability to recover from the mass job losses since 2008.

Counter-cyclicality is one of the three principles adopted by the Treasury in the 2011 Budget Review, alongside debt-sustainability and inter-generational equity. The fact that there is no commitment to addressing intra-generational equity underpinning the present fiscal policy raises some concern and as the PBC we are convinced that with this approach the five million jobs target or reducing poverty and addressing structural inequality[2] in terms of the New Growth Path appears to be already unlikely to be realised.

The macro-economic policy framework in the 2012/13 budget does not represent a shift but rather continues upon the same old path. The budget projects that the economic growth will fall from 3% to 2.7% in 2012 and remain in that range for the MTEF period. Despite this projected decline in economic growth, the budget targets the deficit to decline to 4.6% in 2012 and to 3% by 2014. Government spending is expected to grow by a mere 2.6% in real terms up from 2.3% in the previous financial year. Public borrowing requirement will decline from 7.1% of the GDP in 2011/12 to 5% in 2014/15.

Monetary policy and Inflation targeting

Here address the shortcoming of inflation targeting policy and the failure of the SARB to factor in employment into the inflation targeting regime – see the CSS section on this its fairly consistent and clear

Exchange Rate Policy

We do not think that the current level of the real exchange rate helps to stimulate the economy in a manner that preserves jobs and enhances industrialisation. Finding a competitive exchange rate is critical for growing manufacturing and our overall industrial capacity

The real exchange rate has strengthened by more than 40% since the beginning of 2009. In the Minister's 2011/12 budget speech he indicated that Treasury was observing the approaches of Brazil, Taiwan and others with regards to preventing exchange rate volatility and was monitoring the Rand's exchange rate. In this budget speech there is no mention of what are government's plans and mechanisms to ensure that stability in the Rand's exchange rate or how it can best be managed to maximise the competitiveness of South African exports internationally.

For the PBC a macro-economic policy framework, must address the the following set of interventions such as::

- Creating an environment for a competitive exchange rate as well as reducing its volatility that supports domestic manufacturing and industrialisation.

[2] Here we refer to both income and asset inequality. Asset inequality refers to imperfections in financial markets, poor education outcomes for low-income households, no access to land for example

- Adequate Capital Controls including the introduction of financial transactions taxes on derivatives, short-term capital flows and on domestic financial markets. Our current financial transaction tax should be increased to 1%.
- Ensuring that adequate and affordable credit is supplied to industries.
- A progress report on the formation of a State Bank, and the consolidation of development finance institutions and their mandates.
- The introduction of a tax on luxury items.
- The creation of new income tax bracket that taxes the super-rich, Setting up clear local procurement guidelines and enforcement, combating import fronting and encouraging Broad Based Black Economic Empowerment (BBBEE).
- A greater shift in macro-economic policy towards greater employment focus, and the use of tools to ensure that targeted sectors as outlined in IPAP 2 and the New Growth Path receive adequate support.
- The elimination of tenders and the strengthening of the public sector to deliver quality and affordable infrastructure and basic services.

5. CREATION OF DECENT WORK

The economic support measures proposed in the budget are welcomed as an important step towards growing our manufacturing and agricultural sectors. The PBC believes in much greater financial support and an increased role for the state in the economy. Whilst incentives are an important tool this has not always worked in attracting sufficient investment in key industrial sectors. Whilst it is hoped that the existing and expanding Special Economic Zones will contribute towards addressing this challenge, the state must also define a more strategic role for itself by investing in key and potential industrial sectors

The PBC continues to support measures in improving the rolling out of public and community works programmes. They remain important programmes that assist with regards to providing minimum employment programmes, allowing for community participation, some forms of income and contribute towards infrastructure development and maintenance and other social goods. However these are usually short or medium and not long term forms of employment and do not create decent work. The additional allocations to the EPWP and CWP and their increase in employment targets are welcomed.

The budget provides “support for job creation, training and community works”. Fundamentally, this will require significant effort in not only ensuring training targets are met but that qualitatively the training provides better opportunity to be absorbed into the labour market. t

The PBC supports the interventions for small and medium enterprises. These steps are important for existing and new small and medium businesses. However we must warn that this in no way should be construed as a mechanism in reducing worker rights and benefits.

Overall whilst many of the initiatives to create jobs are welcome we are concerned that they will fall far short of what is needed to ensure that we reach the national target of creating 5 million jobs. The creation of over 300 000 jobs last year is in itself far short of what is needed to be created each year in order to make a major impact upon the levels of unemployment as well as to absorb population growth. We are also concerned that efforts to create jobs are scattered and not sufficiently focussed and managed as government was able to do effectively with its preparations for the 2010 soccer world cup.

6. YOUTH WAGE SUBSIDY

We reiterate our rejection of the proposed “youth wage subsidy” as we believe that it is no more than a corporate welfare scheme - which is part of Treasury’s long-standing commitment to a two-tiered labour market. In the midst of the ongoing escalation of casualisation and scarce fiscal resources as a result of the economic crisis, it is puzzling to us that the Treasury is committed to find R5 billion to subsidise business, especially given the fact that this can only serve to undermine the gains of an already dwindling section of the current labour force.

Labour has tabled a range of proposals to deal with unemployment and in support for the creation of decent jobs, including proposals that seek to address the plight of the 42% of our young people between the ages of 18 and 29 that are unemployed.

7. INFRASTRUCTURE

The PBC welcomes the increased allocation towards infrastructure expenditure to the amount of R3.2 trillion over the MTEF. This is significant and will allow infrastructure spend to increase above projected GDP growth and relatively higher than any other budget expenditure item. ,

This however must be accompanied by the need to increase the capacity of the state appropriately spend the allocated amounts. We support the proposed establishment of the municipal infrastructure support agency to assist with regards to enhancing the infrastructure development capacity of rural municipalities in particular. This is an important step given that the state has not been in a position to address is infrastructure delivery mechanisms. Over the years, we have experienced chronic under-spending by departments.

We therefore call on the Presidential Infrastructure Commission to ensure that the commitments provided in the State of the Nation Address are implemented. While infrastructure spend is important to support investment and growth, it is critical that it too be geared in meeting the social needs of the poor.

Due to worrying levels of corruption and abuse and the need to capacitate the state to deliver key services and infrastructure, we believe there is a need to ensure adequate measures are put in place to monitor tender process, allocation and delivery. Overall we need a state that has the capacity and ability to manage as well as deliver on its mandate.

8. INDUSTRIAL DEVELOPMENT

Whilst the budget mentions the need to increase investment in mining, it does not mention beneficiation as the cornerstone to building downstream industries. In addition the infrastructure spending that is mentioned in the document is not linked to local industrial development through interventions such as local procurement.

9. HOUSING AND SPATIAL DEVELOPMENT

Expansion in housing delivery must address the continued apartheid spatial patterns. The PBC cannot support human settlements that simply perpetuate apartheid spatial divisions. However are we on track towards meeting the 2014 target of eradicating informal housing? Are we confident in the quality of housing that the state is providing?

10. ELECTRICITY AND ENERGY DELIVERY

We welcome government's efforts to increase our electricity generating capacity and to expand the amount of green energy contribution towards an appropriate mix of energy to meet our existing and future demands. But has enough been done to deliver upon government's commitment to green energy?

The PBC rejects our shift towards the increasing use of nuclear energy given the environmental and safety impact. We argue instead that expenditure allocation can be better placed by up-scaling budgetary spend on renewable energy source to meet our energy needs.

11. TRANSPORT

While we note the acknowledgement made by the Minister, that the Gauteng e-tolling system will have a negative impact on the road users in the province and the workers in particular, hence the proposed adjustments in tariffs.

However, the PBC rejects the continued reliance on user pay principle in the development of road infrastructure. We do not support e-tolling and call for a reliable, safe, affordable and integrated transport systemWith regards to the Gauteng Freeway Infrastructure Programme, we reject the free-way tolling being introduced.

User-fee or cost recovery mechanisms will place additional burden on workers and the poor.

In this respect we do not see the proposed “appropriation of R5.8 billion” addressing the needs of the workers and the poor as far as the Gauteng Freeway tolling is concerned.

Firstly, the PBC believes that there are sufficient funds available within the budget to meet public transport needs and support the free access to all South African roads Rather than seek to impose an additional tax burden on the poor for what is a public good and not a luxury, government should rather plan properly and ensure the efficient use of taxpayers’ money. User fees cannot be introduced where there is no alternative form of public transport in place that is safe, reliable and adequately accessible. Already workers pay excessive amounts for existing poor public transport. In addition “vanity” projects such as the Gautrain continues to fail to service the poor.

The PBC however welcomes the commitment to purchase additional passenger trains by PRASA as well as the increased investment by Transnet to expand the capacity of our ports Once again we wish to raise our concerns of projects such as the planned R300 billion high speed train connection between Johannesburg and Durban.. Is this the most efficient and effective use of such funds and is such a connection the most pressing transport need? Would such funds not be better utilized to provide affordable, safe and reliable public transport for people commuting to work? The proposed high speed train appears to be another vanity project similar to the Gautrain and PBMR. The PBC rejects the principle of Public-Private Partnerships as a delivery mechanism for the State

We also are concerned about the impact of the 28 cents per litre additional increase in the fuel levies and the impact of this upon workers and the economy as a whole.

12. EDUCATION

Education funding will grow by 1% in real terms. Though spending on education by the government is amongst the highest levels internationally, it fails to address the deep structural problems and continued unequal education outcomes still prevalent in South Africa. Out of 1.2 million children entering the education system in grade 1, only half a million make it to matric and less than half of these achieve university exemptions.

Through the Department of Basic Education 10-Point Plan, a focus on addressing backlogs in school infrastructure, curriculum development, and improving the quality of teaching and learning has become a critical area of focus.

Backlogs in Basic Education include the fact that 93% of schools have no libraries or libraries are not stocked, 42% of schools depend on boreholes or rainwater or have no access to water. 61% of schools have no arrangement for disposal of sewage, 21% of schools have no toilets on site or have more than 50 learners per toilet; 62% of schools have a learner educator ratio that exceeds 30; 81% of schools have no computers or more than 100 learners share a computer, etc.

If class sizes are to be equated to those in Brazil and if we are to reduce the learner-educator ratio to 20, from the average of 30, at least 210 000 more educators would have to be trained. This does not include the need to build more schools, address equipment and furniture shortages, expand and re-capacitate colleges and their associated support staff.

The extension of computer laboratories and libraries will create in excess of 80 000 direct permanent jobs for librarians and computer teachers. This does not take into account jobs created for maintenance of computers, and the fact that many schools need to be connected to the internet and to be provided with TVs.

The budget should have laid the foundation to address these backlogs. It should have ensured that teacher colleges are re-opened and new ones built, not through tenders, but through internal state capacity. It should have ensured that it allocates resources so that these are directed where they are needed most, in schools. Teacher training institutes needs to be set up across the country to re-train teachers so as to improve the quality of teaching, particularly at Former Township and Rural schools

The Department of Higher Education and Training aims to expand the Further Education and Training sector so that its intake per annum is 1 million by 2014. If this programme is to be a reality, it is estimated that we need 20 000 more lecturers. This means that the sector must increase its intake by 150 000 per annum, from its current 700 000. The number of lecturers need to increase by 5 000 per annum.

The re-opening of teacher colleges, nursing colleges, technical colleges, and the building of new institutions, including the two universities in the Northern Cape and Mpumalanga, needs to be expedited. The allocation of R20 billion for the establishment of the two new universities in Northern Cape and Mpumalanga is welcomed. Our national budget must reflect an array of expenditure allocations from construction, to resourcing, to supporting the efficient and well managed institution.

This is important if we are to stem the tide of ill-equipped young people entering the labour market. The PBC continues to question the political commitment provided on free education up to an under graduate level and the failure to provide resources for the. This has simply not been implemented with many students having to commit to costly loans in supporting their Higher Education needs. Many of the country’s universities have expanded to accommodate the ever-increasing number of matriculants and yet budget allocations have not met this demand. Clearly greater allocations will have to be made to ensure that no deserving young person is denied an opportunity to further their studies. The recent intervention by government to assist university students with their loan repayments is indeed welcomed.

A 1.6% real increase will make a dent in expanding the FET sector by 150%, for example. At this rate, we are concerned that the Manifesto commitments will remain deferred.

13. HEALTH

The budget mentions that health spending will increase by 1.5%, in real terms. This is worrying given the massive crisis we face in this area. There are staff shortages and non-availability of medicines; we need improved efficiency in the link between warehouses, hospitals and clinics. There are infrastructure backlogs, a need to extend physical infrastructure, including beds and linen, and inadequate systems such as:

- A lack of ICT;
- Management and administrative support; and
- Availability of equipment.

These challenges have generated the following negative outcomes: maternal mortality has increased from 81 to 600 (per 100,000) between 1997 and 2005. Yet the United Nations' Millennium Development Goal target is 38. Child mortality has been on the decline, but remains high at 68 (per 1000 live births), yet a comparable country, Brazil, has reduced this figure from 58 in 1990 to 22 in 2007. Under-regulation of the private health sector and over-concentration of resources in the health system remains a major problem, though even the private healthcare sector is facing serious challenges of efficiency.

The budget was supposed to ensure that the Department of Health's 10-Point Plan, which was outlined in the 2010 Budget Review, is adequately resourced. The heart of this Plan is to transform the South African healthcare system, the centre-piece of which is the implementation of the National Health Insurance (NHI). The continued support for the implementation of the NHI is a step in the right direction. The successful implementation of the NHI requires ongoing budgetary support towards addressing key deficiencies in the public healthcare system. These include improvements in the:

- Management and skills in the running of health facilities;
- Procurement of medication and other supplies required to run health facilities; and
- Quality, responsive and timeous health care for patients.

The budget was supposed to clarify the financing mechanism of the NHI and make the necessary budgetary allocations to phase in the system. The budget should have begun to indicate how the health system will be transformed.

The role of community care workers as part of the public health system cannot be minimised. They need to be integrated into the public service. In order to decisively address the chronic problem of staff shortages, the state should lead the process of training of nurses and doctors and resist the incursion of the profit motive in the process. The nurse/ patient ratio remains low; it must be increased from 4 per 1000 people to 8 per 1000 and the ratio of physicians to 1000 people to 1 over the short to medium term from the current 0.69. This will require at least 200 000 additional nurses and at least 15 500 additional physicians. This excludes the need to build additional clinics and hospitals.

The budget should therefore have indicated how many nursing colleges have been re-opened and how many are still to be re-opened. How will the increase in the number of physicians and associated professionals be funded? There needs to be an indication on the scale of infrastructure expansion in the public health system as a basis for phasing in the NHI.

The proposal to include an increase in VAT to fund the NHI is strongly rejected by the PBC. We are concerned about the ongoing attempts by the Treasury to dilute the ANC's commitment with regards to the funding mechanisms for the NHI. We reject any consideration of an increase in VAT as well as user charges as part of the funding mechanism for the NHI. We believe this is an attempt to replace the proposed NHI with a social insurance with the insistence on the multi-payer model. This will have a negative impact upon the objectives of guaranteeing universal access to health insurance.

We agree that there will have to be additional revenue in order to finance the NHI and that such revenue, in the spirit of solidarity upon which the NHI is premised, should be sourced from the wealthy to redress historical inequalities. South Africa is already the most unequal society in the world with the poorest 10% of society having only 0.6% of its income and the richest 10% having 72.5% of its income.

VAT is not a progressive tax. It is an extremely regressive tax that impacts upon the poorest sectors of society the hardest and thus other funding sources for the NHI should be considered. It is well known that VAT impacts more upon low income earners – the percentage of VAT paid in the household budgets of low income earners is much larger than the percentage of VAT paid in the household budgets of middle and high income earners. VAT is a retrogressive tax. Additional more appropriate options for funding should also include an increase in the excise on luxury items such as alcohol and tobacco especially taking into account their negative effects on their consumers' health and society as a whole.

One of the principles of the NHI is social solidarity whereby employee contributions from high income earners and young workers will support the needs of low income earners and the elderly.

With regards to the potential imposition of user fees to fund the NHI, we believe that user fees are in effect co-payments and that these are an inherent problem in a multi-payer system. Such a model would militate against the pooling of funds which is a key objective of a single-payer system. A multi-payer system would inevitably contribute to higher costs as the private health care providers would expect to make profits for shareholders. User fees would undermine the principle of free health at the point of service delivery and would consequently be a barrier to low income earners seeking quality health care.

Lastly, a critical ingredient in the health system is the availability of quality and cheap medicines. The is very little mention on the allocation of resources in establishing the state-owned pharmaceutical company. We do not believe that a 1.5% increase in healthcare spending puts us on a path to meet the promises contained in the Manifesto.

14. RURAL DEVELOPMENT, FOOD SECURITY AND LAND REFORM

The budget mentions the strengthening of local government in rural communities. This is to be welcomed, as it signals the prioritisation in line with the Manifesto commitment. We also welcome the prioritisation of water infrastructure, and to upgrade waste water treatment works in rural areas. The budget further mentions the role of the Land Bank in supporting agriculture, thereby increasing the production of food. The intention to upscale support to small scale farmers is also a welcome move. The alignment of programmes between the Department of Rural Development and Land Reform, Agriculture, Water Affairs and Forestry is also an important step that ensures support for improved institutional coherence when it comes to rural development and agriculture.

The budget makes an important observation about the need to address backlogs in public service delivery in rural municipalities. This is important because it addresses the question of the rural-urban divide. In addition, the focus on rural development should go some way in easing migration to cities.

However the budget decries the rise in food prices, without providing an indication of what government is going to do about this. The budget should have proposed measures to limit speculation on essential food items in financial markets. Another factor that should have been factored into the budget are cost drivers faced by farmers, such as fertiliser, electricity, transport and water tariffs. In this context the re-nationalisation of SASOL becomes important.

The PBC feels that the targeted 4000 land claims in the budget is extremely inadequate. We can no longer play lip service to land reform and land distribution. We continue to call for the scrapping of the “willing buyer willing seller” principle and a much greater commitment to speeding up land distribution programmes.

Moreover we still do not have a national land register and thus government cannot say what land the state owns amongst its different department and between the national, provincial and municipal spheres. The dysfunctional nature of the two main state land holders, the Departments for Public Works and Rural Development and Land Reform, exacerbates an already untenable situation.

The PBC calls for greater resource allocation, support and promotion of alternative forms of ownership such as cooperatives and other forms of collective ownership of land, farms and agro-processing industries. This must be accompanied by an effective rural development strategy that requires significant infrastructure development such as roads, public transport and other basic services to meet social and economic needs, particularly in former Bantustan areas.

15. CRIME AND CORRUPTION

The budget must address the resourcing of the police service, ensure adequate resources for institutions, especially community policing forums, provide conditions for the Criminal Justice Cluster to attract and retain highly skilled personnel in its departments to deal with, for example, fast-tracking of cases, sentencing of offenders, and adequate resourcing to minimise repeat offences.

Among interventions to deal with corruption is to impose stricter penalties to deter public servants from using state resources for their own interests. The creation of a naming and shaming list that is easily accessible to the public should be expedited. Dealing with corruption in the criminal justice system demands improving the capacity of the Independent Complaints Directorate, listing companies and individuals that have been found guilty of corruption, and instituting targeted lifestyle audits.

But the most powerful way to deal with most of the corruption is to eliminate the use of tenders to deliver basic goods and services and to build the capacity of the state to directly deliver these and create jobs.

16. CALLS FOR PUBLIC SERVICE WAGE RESTRAINT

We note with concern that the budget calls for wage moderation in the public service and goes as far as to suggest that public sector wage increases constrain government from delivering basic services and infrastructure. This is problematic, especially since estimates from the Quarterly Employment Statistics indicate that real wages have declined by 6% over the past two and a half years. Average monthly wages declined from R3336 in the 4th quarter 2010 to R3 175 in 2011

We believe the average real inflation rate that is faced by workers is 10% based upon the proportion of their household budgets' expenditure on food, electricity, transport and other goods, and most wage settlements in the public sector were between 6% and 8%. This attack on public sector workers is therefore unwarranted. Whatever workers have gained continues to be eroded by job losses that stem from constrained real wage growth. We cannot call for reduction of inequality on the one hand, and enforce a real wage freeze on the other hand. It also ignores the many impoverished financial dependents and families that public servants support.

It should rather be noted that the public service wage bill is primarily rising because of the filling of vacancies and the general expansion of the public service rather than solely annual wage increases which have been mostly in line with inflation rate increases. The wage bill is bound to increase further if government is to meet its commitments on health, education and the retention of professionals in terms of its human resource strategy.

Resolution 1 of 2007 adopted at the Public Service Collective Bargaining Council (PSCBC), was an agreement to end a month long strike in that year, government committed itself to negotiate with the public service unions before finalising its budgets. This was a proposal tabled by the unions with all sincerity to avoid unnecessary strikes and additional appropriations in Parliament after budgets have been passed.

Therefore, it comes as a surprise that in his 2012/2013 Budget Speech the Minister refers to his annual presentation at NEDLAC, which includes other constituencies, as amounting to "a pre-budget consultation" in which he implies that there was an agreement on the "sustainability of increases in the public-sector wage bill".

As we have stated before, the rising public service wage bill is mainly caused by the filling of the funded vacancies and the expansion of employment in the public service – which were in fact decimated by GEAR's restructuring – rather than the legitimate annual wage increases. We hope that this is will not undermine bona fide negotiations with public service unions at the PSCBC.

The public service wage bill is sustainable given the current debt/ GDP ratio and that in fact it is bound to increase if government implements all its undertaking especially with regard to the NHI and in retaining the necessary skilled personnel and professionals in the public service such as nurses, doctors and other medical and social service professionals. In addition, we view Treasury's statement that "we need to reduce the administrative staff" outside proper engagement at the PSCBC as provocative.

Administrative staff and the public service workers' legitimate demand for a living wage should not be pitted against the broader interests of society (of which they are part) in terms of fiscal sustainability or the legitimate need for the frontline teaching, nursing and service delivery personnel.

The PBC believes the manner in which the issue the public sector wage cost has been raised is extremely mischievous to the say the least. Growth in the Public Sector must be seen in the context of our developmental objectives; addressing poor service delivery; creating sufficient state capacity, and promoting employment for young workers in the public service for instance. These are important challenges and will require an efficient, well resourced and capacitated state to ensure effective service delivery.

The notion of a lean state is simply not an option to consider given our immense challenges to improve service delivery.

17. PARLIAMENTARY CAPACITY TO AMEND MONEY BILLS

Prior to the enactment of the Money Bills Amendment Procedure and Related Matters Act, the PBC boycotted parliamentary hearings on the budget as Parliament did not have the power to amend money bills. Public participation therefore would have had no impact on the process.

Notwithstanding the lifting of our boycott of the process we have continued to emphasise the need to strengthen the technical capacity of Parliament, and in particular the establishment of a Parliamentary Budget Office. We note that the Estimates of National Expenditure published in February 2011 indicated that "Parliament will fund the establishment of the Parliamentary Budget from its retained earnings in the first two years of the MTEF period". As indicated in previous submissions on the 2011/ 2012 Budget, we again seek clarity regarding the details and progress made in the setting up of this office.