



BRIEFING TO THE PORTFOLIO COMMITTEE ON LABOUR

Financial and Fiscal Commission

9 March 2016

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

1. Introduction to the Financial and Fiscal Commission
2. Background and Overview of Labour Market
3. Departmental MTEF analysis
4. Departmental 2nd and 3rd Quarter Performance Assessment
5. Public Entities Reporting to Department of Labour
6. FFC Recommendations

ROLE AND FUNCTION OF THE FFC

- The Financial and Fiscal Commission (FFC)
 - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
 - Must function in terms of the FFC Act
- Mandate of Commission
 - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
 - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
 - Includes regulations associated with legislation that may amend or extend such legislation



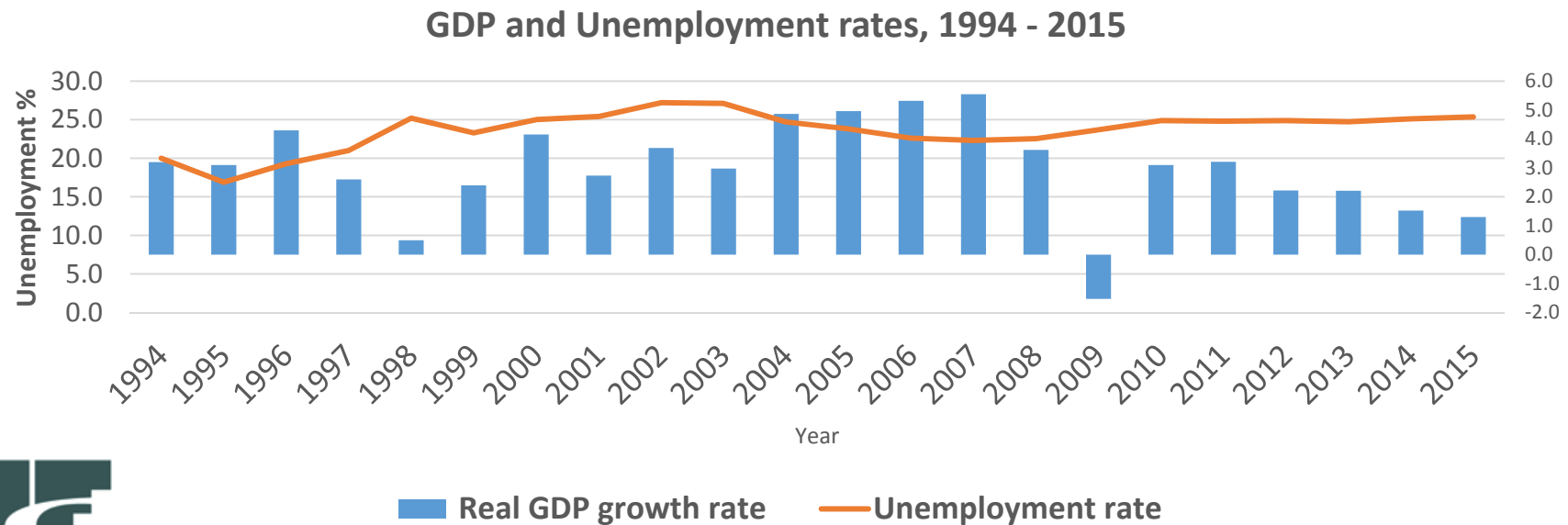
Commission must be consulted in terms of the FFC Act



2. BACKGROUND AND OVERVIEW OF LABOUR MARKET

BACKGROUND

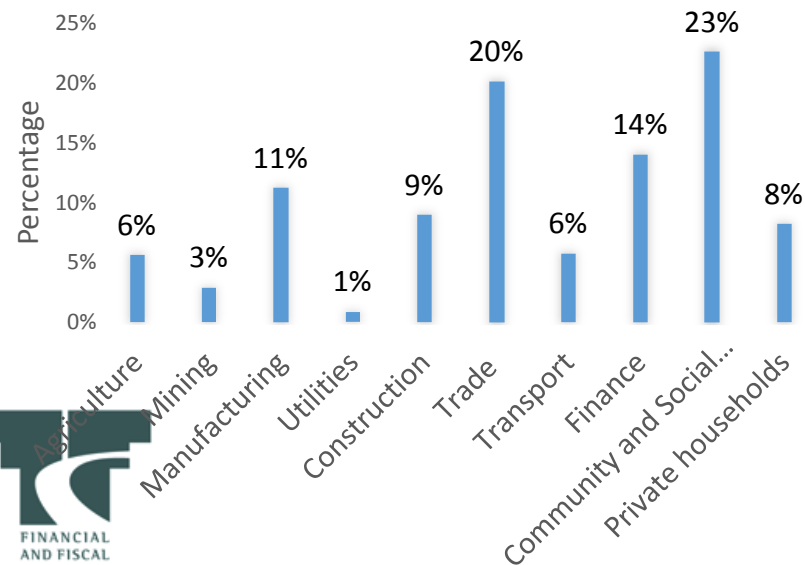
- There is a close association between the economic growth rates of South Africa and unemployment rate. When economic growth was strong during the 2000s unemployment rate declined but with economic growth weakening, unemployment is starting to increase



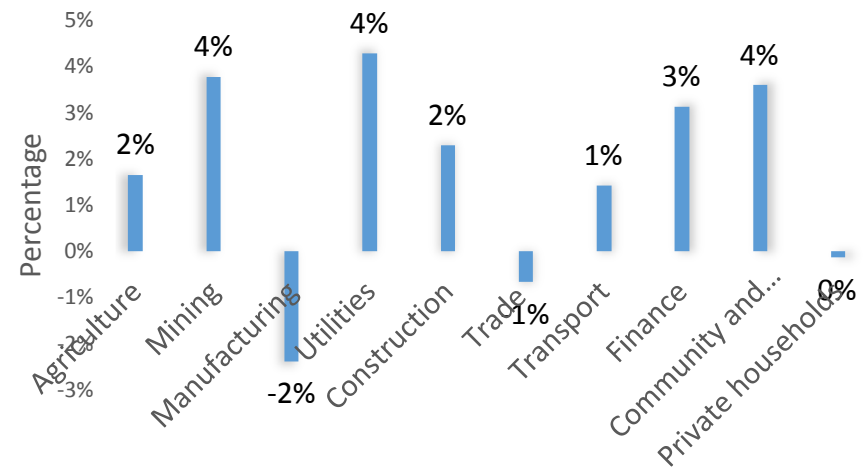
BACKGROUND [CONT.]

- A large number of jobs are based in the Community, Trade and Manufacturing sectors
- The average yearly growth in manufacturing has been negative between 2008 and 2015. This is a concerning trend since manufacturing has been earmarked as a sector with the most employment creation opportunities
- The main sources of employment creation last year was ironically agriculture despite drought, and construction despite reports of the absence of sufficient projects, financial services and community services

Proportion of Jobs per Sector, 2015



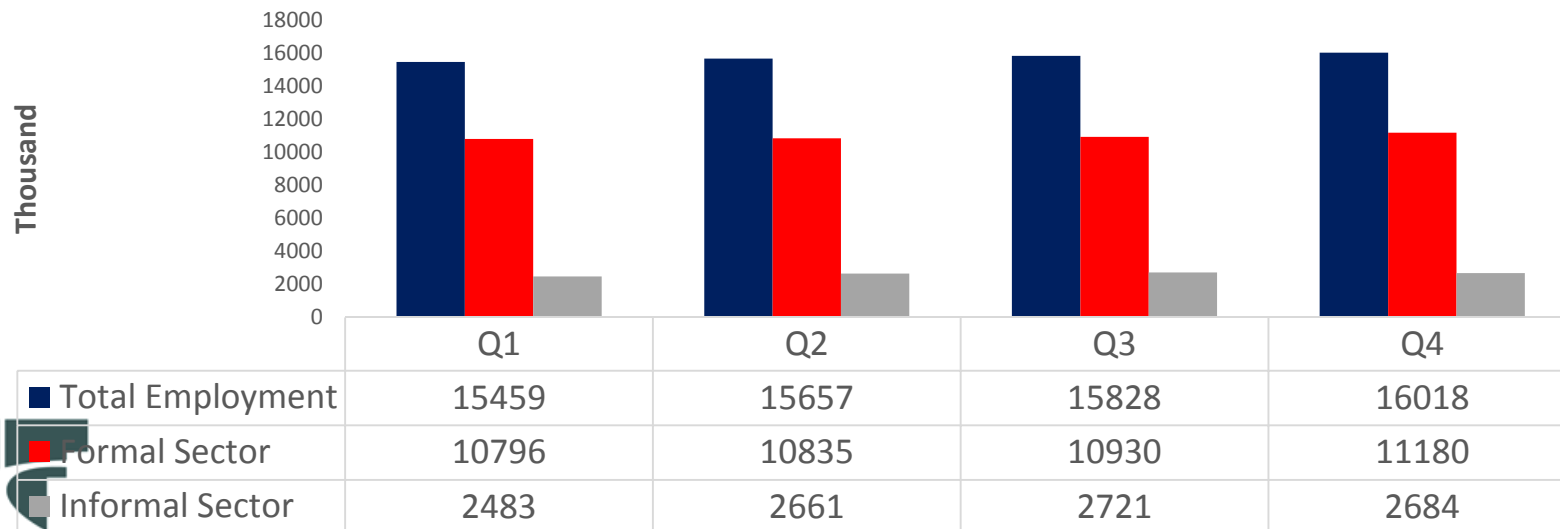
Average Annual Growth in Employment, 2008 - 2015



BACKGROUND [CONT.]

- 2015 quarterly data reveal that total employment increased by 190,000 in Q4, up slightly from the 171,000 increase recorded in the 3rd qtr. Employment in the Q4 of any year does tend to be boosted seasonally by increased temporary employment in the retail and tourist sectors over the Christmas period
- Especially encouraging is the fact that there was a 250,000 increase in formal sector employment in the Q4 on a q-o-q basis
- .

Quarterly Employment Trends, 2015



BACKGROUND [CONT.]

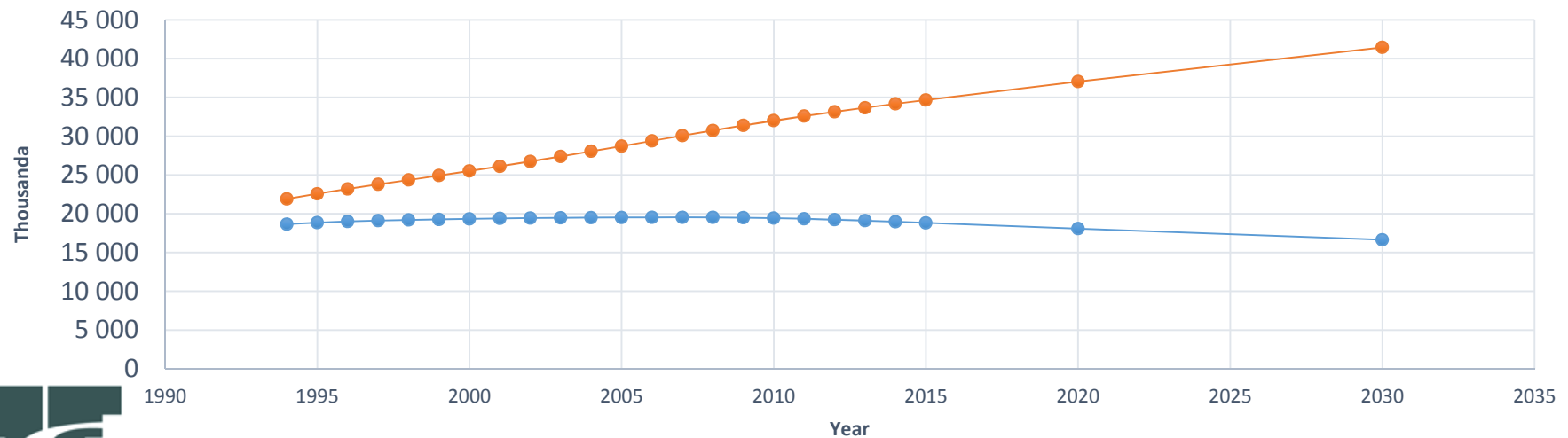
- The table below shows the relationship between demand, output and employment for each sector. For agriculture, R1 million extra output in the Agriculture sector, overall output increases by R1.7 million in the economy and creates 4.9 jobs

	Domestic output multiplier	Employment multiplier effect
Agriculture, forestry and fishing	1.7	4.9
Mining and quarrying	1.4	1.6
Manufacturing	1.4	2.6
Electricity, gas and water	1.6	1.4
Construction	1.9	4.9
Wholesale, retail and motor trade; catering and accommodation	1.6	5.3
Transport, storage and communication	1.6	2.9
Finance, real estate and business services	1.7	3.1
Community, social and personal services	1.5	4.1

BACKGROUND [CONT.]

- A strong shift in population towards urban areas is apparent in South Africa's demographic profile since 1994
- According to projections by the United Nations, urban population in South Africa will exceed 45 million by 2030 while rural population is expected to decline even further
- The need to find a job strategy to address this demographic shift will therefore be paramount

Urbanisation Trends



BACKGROUND [CONT.]

- The National Development Plan (NDP) recognises job creation as a key driver for accelerated growth and a higher standard of living. The NDP has the following targets:
 - Reduce the unemployment rate to 14% by 2020, and 6% by 2030
 - Increase the number of people employed to 23.8 million in 2030, therefore increasing the percentage of the working age population (15 – 64 yrs) employed to 61%
- To achieve these goals, the NDP highlights that:
 - Capabilities of the workforce must be improved
 - Bargaining and labour relations should be stabilised in a manner which is conducive to investment
 - To raise economy to higher growth level, the structure of the South African economy needs to move away from resource-intensive to more energy-efficient labour-absorptive industries
- Support economies with high potential for job creation and benefits other sectors in the economy

BACKGROUND [CONT.]

- The South African labour market is confronted with a number of critical challenges that need to be addressed if the economy is going to create the level of jobs envisaged by the NDP
- Some of these labour market challenges include:
 - A mismatch of skills demanded and supplied within the labour force, perhaps as a result of a disconnect between industries and the education system
 - Some labour economists have argued labour legislation remains highly restrictive by global standards
 - The collective bargaining system is adversarial and does not promote a stable economic environment



3. DEPARTMENTAL MTEF ANALYSIS

DEPARTMENTAL OVERVIEW

- The department consists of 4 programmes
 - Administration, Inspection and Enforcement services, Public Employment Services, Labour Policy and Industrial Relations
 - The Department of Labour (DoL) makes transfer payments to five public entities
 - Mandate: Regulate the labour market through policies and programmes developed in consultation with social partners
- The main focus of the department over the medium term in line with the NDP relates to:
 - Minimum working conditions, fair labour practises, supporting work seekers and regulating the workplace

• The department contributes to outcome 4 of the Medium Term Strategic Framework (decent employment through inclusive growth)

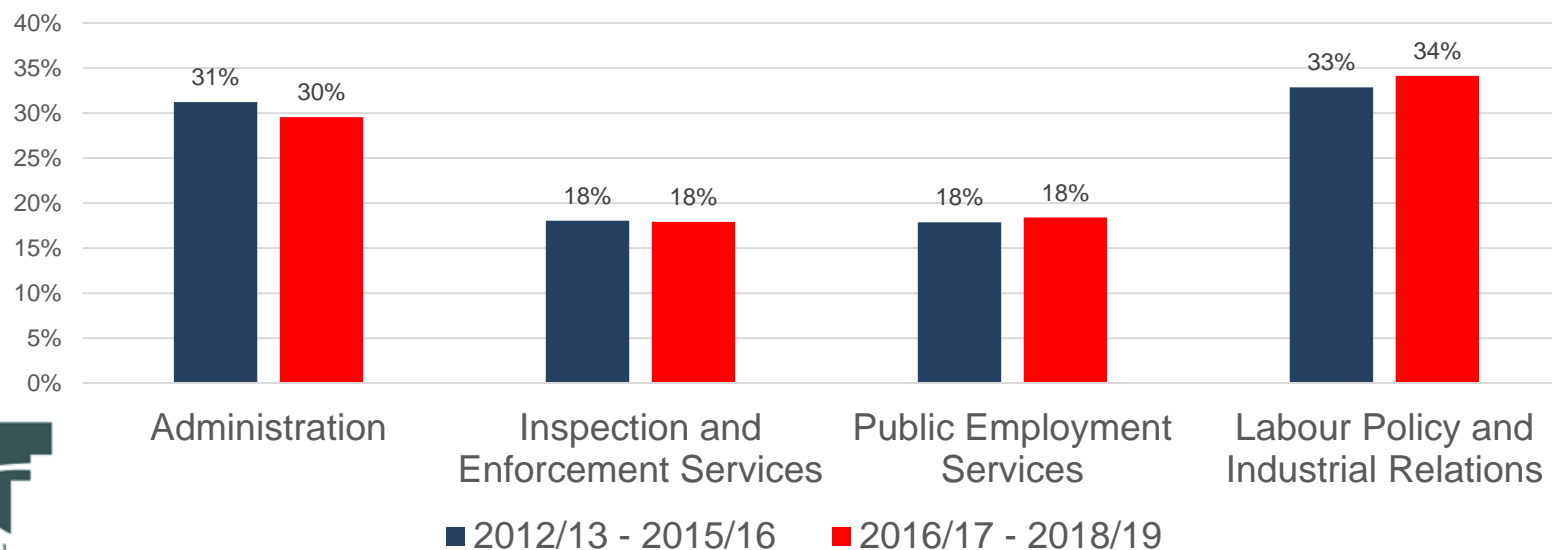
SPENDING AND MTEF BUDGET BY PROGRAMMES

- In 2016/17, the DoL is allocated a budget of R2.8 billion which increases to R3.2 billion in 2018/19.
 - This represents a real annual average growth of 0.1% per annum compared to 4.2% for the period 2012/13 to 2015/16
 - The slower growth is a result of Cabinet decision to lower national aggregate expenditure ceilings which has resulted in R197 million reduction in compensation and R50 million reduction in goods and services over the 2016 MTEF

R'million	2012/'13	2013/'14	2014/'15	2015/16	2016/17	2017/18	2018/19	2012/13 - 2015/16	2016/17 - 2018/19
								Real Avge Growth P.A	Real Avge Growth PA
Administration	688	796	676	794	853	895	941	0.4%	-0.4%
Inspection and Enforcement Services	396	412	431	472	519	530	582	0.5%	1.1%
Public Employment Services	332	413	465	497	510	572	594	9.1%	0.0%
Labour Policy and Industrial Relations	620	750	848	920	965	1 035	1 108	4.2%	0.2%
Total	2 035	2 371	2 420	2 683	2 848	3 032	3 224	4.2%	0.1%

PROGRAMME SHARE OF TOTAL SPENDING AND BUDGET

- Administration and Labour Policy and Industrial Relations consumes the largest share of DoL's budget over both periods reviewed
- Over the 2016 MTEF period, proportion of budget allocated to Labour Policy and Industrial Relations highlights priority attached to implementation of various labour legislation and a national minimum wage.
 - The programme will also be filling 12 critical vacant posts



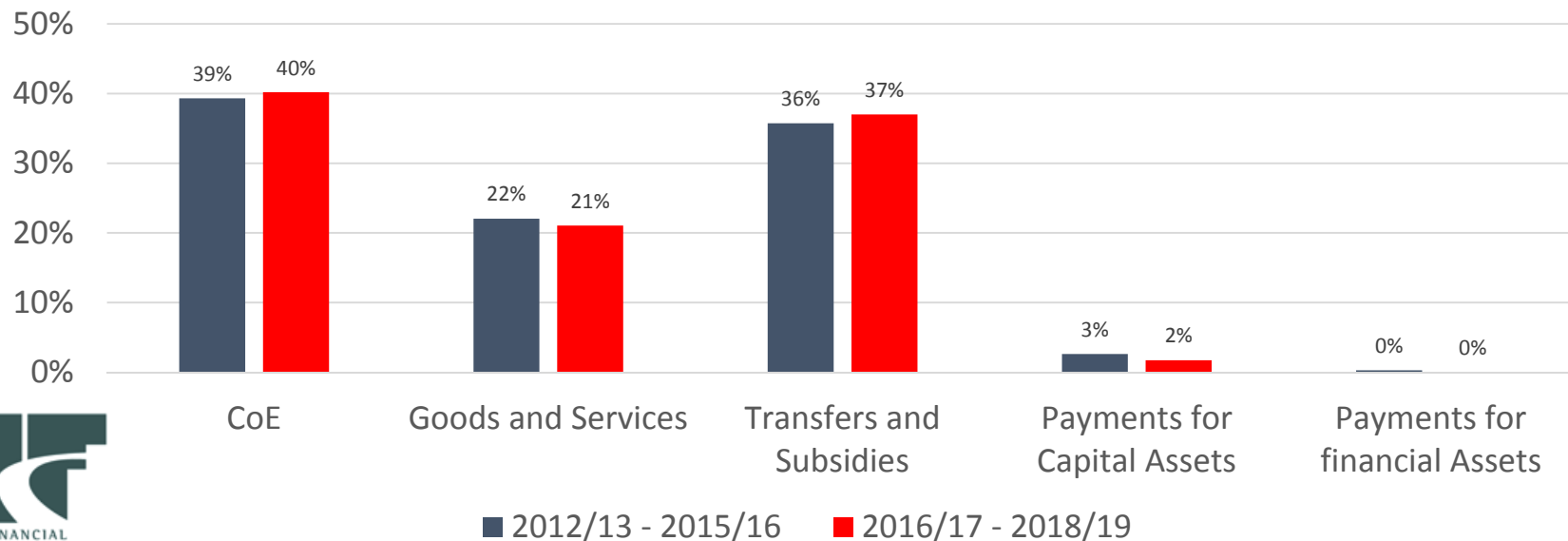
SPENDING AND MTEF BUDGET BY ECONOMIC CLASSIFICATION

R'million		2012/'13	2013/'14	2014/'15	2015/16	2016/17	2017/18	2018/19	2012/13 - 2015/16	2016/17 - 2018/19
									Real Ave Growth P.A	Real Ave Growth PA
	CoE	820	866	998	1 053	1 132	1 221	1 308	3.2%	1.3%
	Goods and Services	456	603	461	571	583	649	687	5.0%	0.2%
	Transfers and Subsidies	658	823	925	1 009	1 065	1 119	1 184	9.6%	-0.8%
	Payments for Capital Assets	93	60	36	49	68	42	45	-19.0%	-3.9%
	Payments for financial Assets	6.2	18.1	0.9	-	-	-	-	-7.3%	0.0%
	TOTAL DEPT EXP. & ESTIMATES:	2 035	2 371	2 420	2 683	2 848	3 032	3 224	4.2%	0.1%

- Effect of Cabinet-approved reductions evident particularly with respect to transfers and subsidies, goods and services and compensation
- Despite the reductions, compensation and goods and services budgets are still growing positively over the 2016 MTEF, although by a smaller amount compared to 2012/13 – 2015/16

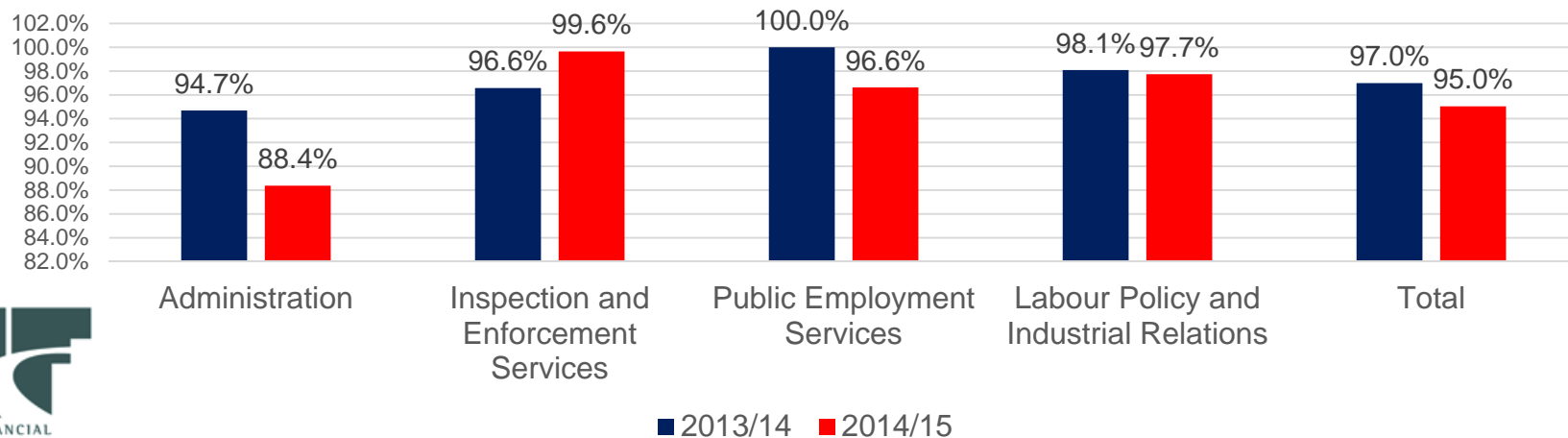
LINE ITEM SHARE OF TOTAL SPENDING AND MTEF BUDGET

- The CoE and Transfers and Subsidies budgets consume the bulk of the allocations to the DoL
 - Despite reductions to CoE and Transfers and Subsidies over 2016 MTEF period, the share of the budget allocated to these two line items is set to increase marginally from 75% for the period 2012/13 – 2015/16 to 77% over the 2016 MTEF period
 - This implies that the rest of the DoL budget items are reducing at a much faster rate than compensation and G&S



DEPARTMENTAL SPENDING PERFORMANCE

- Underspending persistent in the department, worsening from 97% (R73.8 million) in 2013/14 to 95% (R126 million) in 2014/15
- Poor spending took place across all programmes in 2014/15, although significant underspending noticeable in *Administration* and *Inspection and Enforcement services*
- Reasons for underspending in 2014/15 include:
 - Department of Public Works invoicing for an amount significantly less than budgeted for
 - The claims from the compensation fund less than anticipated



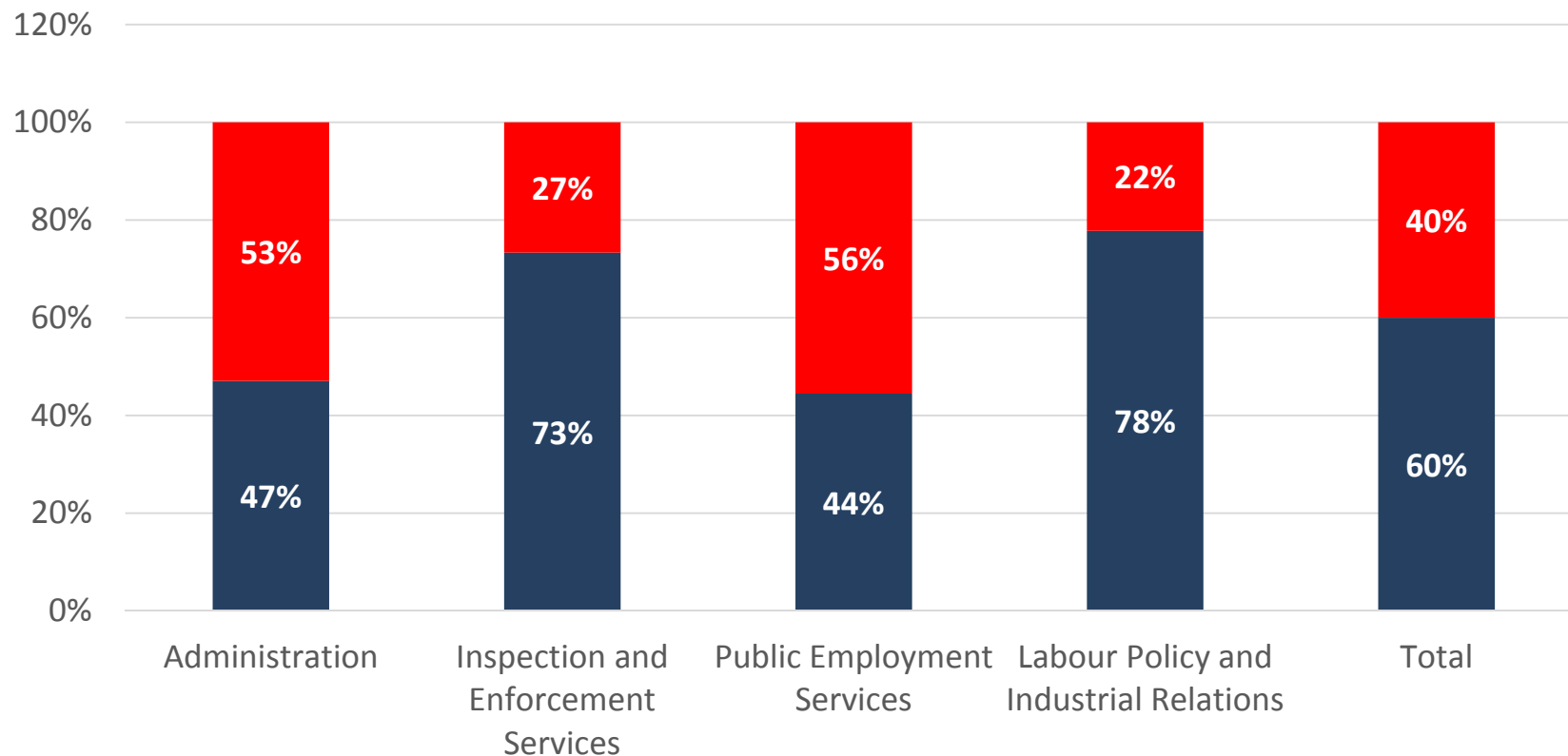
ASPECTS HIGHLIGHTED BY THE AUDITOR-GENERAL

- Audit opinion of DoL:
 - 2012/13 to 2014/15: Unqualified with emphasis of matter
- Matters of emphasis highlighted by the Auditor-General in 2014/15 report
 - Material underspending of the budget
 - Performance information contained in programmes 2,3 and 4 were not specific, time-bound, measurable and well-defined
 - Sometimes no variances reported, and where variances are reported, not supported by any evidence
 - The Accounting Officer did not take effective steps to avoid irregular expenditure as required by the PFMA and neither were effective steps taken against those possibly responsible for financial misconduct
 - The Accounting Officer did not prepare complete, accurate and reliable financial statements that are supported by reliable evidence

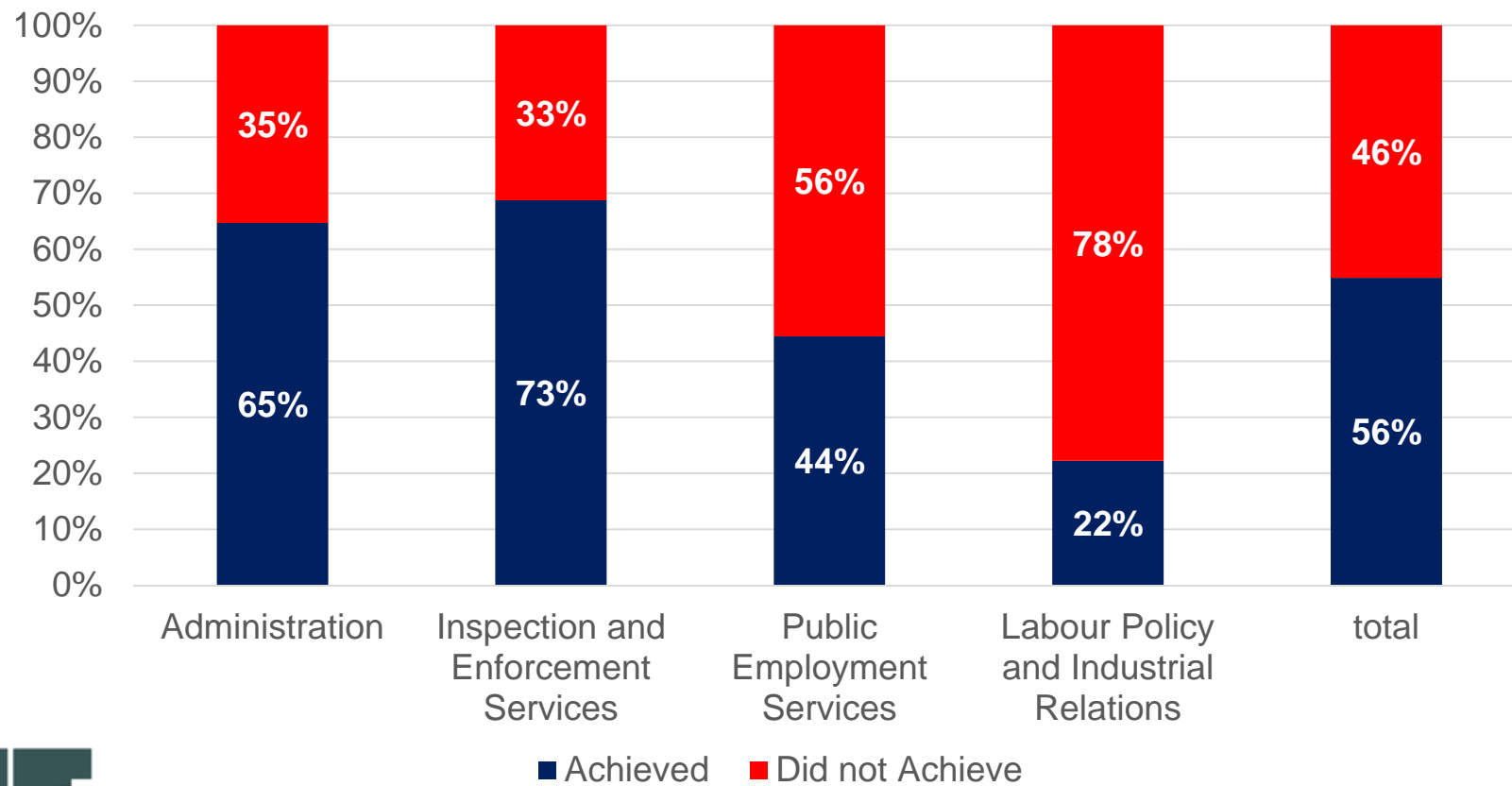


4. 2ND AND 3RD QUARTER PERFORMANCE ASSESSMENT

ACHIEVEMENT OF 2ND QUARTER PERFORMANCE TARGETS – 2015/16



ACHIEVEMENT OF 3RD QUARTER PERFORMANCE TARGETS – 2015/16



ASSESSMENT OF 2ND AND 3RD QUARTER PERFORMANCE

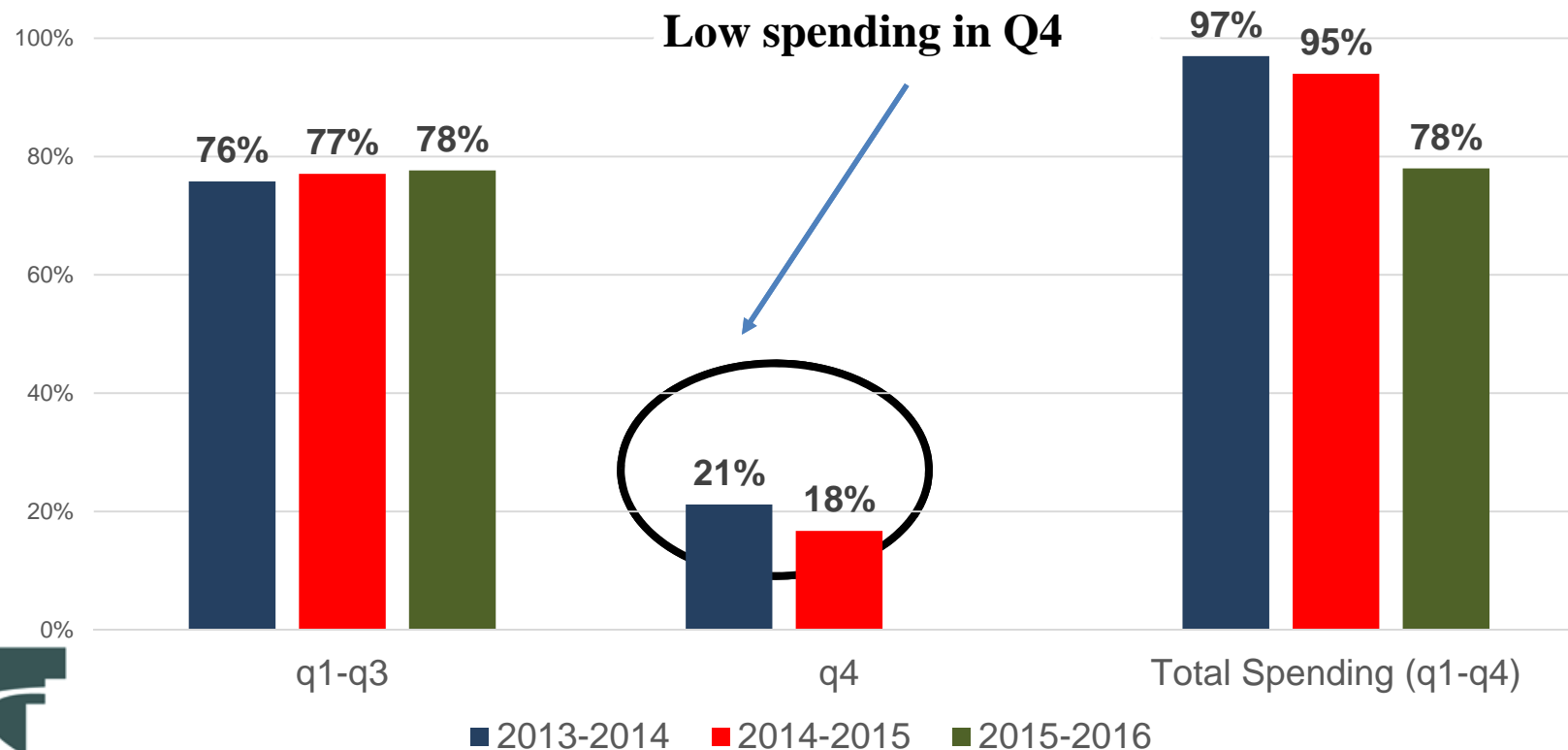
- Significant under-achievement of targets by DoL in quarters 2 and 3
 - Programme 3, *Employment Services*, consistently performed poorly, achieving less than 50% of its targets in both quarters
 - The major challenge appears to be the difficulty in achieving turnaround times of some performance indicators (E.g. processing work visas of foreign corporates within 30 days – 41% achievement in Q2)
 - To improve turnaround times, work processes may need to be re-examined to identify any overlaps, duplication or bottlenecks in the system
 - Programme 2, *Inspection Services.*, best performer, achieving close to 75% of all its targets in both quarters
- Most of the programmes did not include any spending information even though this is a requirement in terms of the quarterly performance template

ASSESSMENT OF 2ND AND 3RD QUARTER PERFORMANCE [CONT.]

- Big variances reported for critical indicators related to good governance and employment creation (E.g. disciplinary and fraud cases finalised within timeframes, placing work seekers in employment, etc.)
- Some indicators may not be taking into account the need to control expenditure to achieve cost savings as highlighted in Budget 2016
 - E.g. DoL is aiming to reduce its vacancy rate from 12% (1062 vacancies) to 8% (701 vacancies) by the end of 2015/16
 - Irrespective of whether or not the DoL achieves its target of recruiting 361 new staff by end of quarter 4, what remains unclear is whether the department assessed the financial viability of achieving this target within the available resource envelope

IN-YEAR SPENDING PERFORMANCE

- The low spending in Q4 is partly a result of large transfer payments effected in Q1 and Q3 to the CCMA. From 2017/18, the department will be effecting transfer payments to the CCMA on a quarterly basis to smooth out spending patterns over the four quarters





5. ENTITIES REPORTING TO THE DoL

ENTITIES REPORTING TO DoL

- DoL made transfers to four entities in 2014/15. UIF does not receive any transfer payments from the DoL

Name of Entity	Nature of Operations	Financial Relationship
Compensation Fund	Provide compensation for disablement caused by occupational injuries or diseases	Transfer Payment
Unemployment Insurance Fund	Provides short-term unemployment insurance to all workers who qualify for unemployment and related benefits	Entity
Commission for Conciliation, Mediation and Arbitration	The Commission's functions include: conciliate and arbitrate workplace disputes, establish picketing rules, facilitate establishment of workplace forums, accredit applications for subsidy to bargaining councils and private agencies and support essential services committees	Transfer Payment
National Economic Development and Labour Council	Promotes economic growth and social equity through getting organised labour, business and government to work as a collective.	Transfer Payment
Productivity South Africa	Improves the productive capacity of the economy through interventions that encourage social dialogue and collaboration between partners	Transfer payment

COMPENSATION FUND

- In its submission on its response to the 2015 Appropriation Bill, the Commission called on the DoL to play a more active role in its oversight of the Compensation Fund
 - The Commission’s comments were made in the context of poor audit outcomes by the public entity and also significant expenditure spike in 2014/15 as a result of compensation claims in excess of 200% of the budget allocated
- The Commission welcomes the subsequent establishment of a task team by the Minister of Labour and the implementation of a system that will account for all the benefits paid

	(2011/12)	(2012/13)	(2013/14)	(2014/15)
Spending and deviation from final budget (%)				
Compensation Fund	100%	100%	100%	130%
Audit Outcomes				
Compensation Fund	Qualified	Disclaimer	Disclaimer	Disclaimer

PERFORMANCE OF OTHER ENTITIES REPORTING TO DoL

- All other entities either received an unqualified audit or unqualified audit with matters of emphasis from the AG in the past three audited financial years
- No significant overspending is observed among the entities. CCMA overspent by 2% in 2013/14 but subsequent years, spending roughly in line with allocations

	2013/14	2013/14	2014/15
Spending and deviation from budget			
CCMA	102%	97%	99%
Productivity South Africa	89%	79%	91%
NEDLAC	N/A	99%	N/A
UIF	82%	99%	90%

Audit Outcomes

CCMA	Unqualified	Unqualified; emphasis of matter	Unqualified
Productivity South Africa	Unqualified	Unqualified	Unqualified
NEDLAC	N/A	Unqualified; emphasis of matter	N/A
UIF	Unqualified	Unqualified	Unqualified

CONCLUDING REMARKS

- The NDP has set ambitious job creation goals for the South African economy
- With economic growth expected to decline over the medium term, allocations to the DoL is growing at a slower pace compared to previous years.
 - If the macro-economy continues on its current trajectory, likely to see further cuts to the department's baseline allocations
- The DoL has received an unqualified audit in the past three years, although the AG raised matters of interest, especially in relation to performance information in its 2014/15 report
- Aspects requiring attention
 - Spending performance of the programmes have been consistently poor in 2013/14 and 2014/15. The poor performance can be isolated to the fourth quarter where most of the underspending took place. It is unclear why the department struggle to spend in quarter 4 and the Committee may want to raise this issue with the department
 - The performance reports does not capture spending data as required by the quarterly template

CONCLUDING REMARKS [CONT.]

- All programmes underperformed over both quarters, although *Employment Services* is the worse performer and a need to reassess programme work processes may be required
- The DoL may need to assess the affordability of its staff establishment in relation to allocations over the 2016 MTEF period
- Coordination between DoL and other national departments that implement job creation initiatives need to be strengthened so that efforts are synergised while any duplication and overlaps are removed
- Better reporting in respect of spending data on key indicators should be encouraged for better oversight purposes
- The Committee should continue monitoring the effectiveness of DoL in exercising oversight over its public entities. Particular focus should be placed on the Compensation Fund until all audit queries raised by the AG in its 2014/15 SG report have effectively been addressed



6. FFC: LABOUR –RELATED RECOMMENDATIONS

Submission	FFC Recommendations
<p>Submission for the 2013/14 DoR</p>	<p>With respect to unemployment and the intergovernmental transfer system, the Commission recommends that government should:</p> <ul style="list-style-type: none"> • Re-direct government spending towards those activities that directly or indirectly create jobs through enhancing productivity performance. • Activities such as healthcare, durable goods manufacturing, agriculture, community services, and hospitality and food service should also form the basis of much of the expanded infrastructure expenditure plan which traditionally have gone chiefly to construction activities (e.g. building highways and bridges, dams and flood control structures) <p><i>Government Response:</i> <i>The 2012 Budget Review highlighted that productivity gains are essential to improved growth and rising incomes. Wage settlements that increase real wages at a pace higher than labour productivity gains threaten the labour market’s recovery and are a key impediment to growth throughout the economy.</i></p>
	<p>Government should promote lower-paying positions, which have the highest potential for the most job gains, including those found in the informal service sector (which can help undo the losses felt by groups hardest hit by the recession of 2008–2009)</p> <p><i>Government Response:</i> <i>No formal response from Government as it was seen as unrelated to the DOR</i></p>

Submission	FFC Recommendation
Submission for the 2013/4 DoR	<p>Develop and implement credible job plans for each sphere of government. To unblock prisoner's dilemma scenarios and work towards amicable social compacts:</p> <ul style="list-style-type: none"> • Provide clarity on permitted and non-permitted economic activity through the job plans • Ensure coherence and coordination of the plans across boundaries • Ensure collaboration across a broad set of actors – not only employers, but also unions, economic development agencies, Sector Education and Training Authorities (SETAs), secondary schools, colleges, universities, vocational training centres and business support providers and • Ensure the plans are used in the budget process <p><i>Government Response: No formal response from Government as it was seen as unrelated to the DOR</i></p>
	<p>Encourage, particularly through the Departments of Labour and Performance Monitoring and Evaluation, those companies that are yielding the highest employment levels both directly and indirectly. This would entail:</p> <ul style="list-style-type: none"> • Setting up an employment performance-reward scheme for enterprises that excel in job creation • Publishing the scheme widely and giving it a high profile <p><i>Government Response: No formal response from Government as it was seen as unrelated to the DOR</i></p>

Submission	FFC Recommendations
<p data-bbox="241 628 495 863">Submission for the 2013/14 DoR</p>	<p data-bbox="533 355 1962 451">Government should reduce unemployment by addressing factors other than the weak demand for goods and services. This should be done by:</p> <ul data-bbox="533 464 2020 1050" style="list-style-type: none"> <li data-bbox="533 464 2020 890">• Re-designing the state procurement framework to incorporate and grow the informal economy and formal micro-enterprises, e.g. requiring recipients of large government contracts to include an informal sector partner in their tender submissions. In addition, the Department of Performance Monitoring and Evaluation should stringently monitor the outcomes of these contracts. Earmarking government procurement contracts for low-technology or service-oriented contracts (e.g. catering) for informal sector companies or micro-enterprises. <li data-bbox="533 903 1962 1050">• Better targeting of supply-side interventions for re-skilling, mobility. These policies could be implemented using mechanisms such as block grants (e.g. transport subsidy for unemployed vulnerable groups) <p data-bbox="533 1062 1977 1158">Government Response: <i>No formal response from Government as it was seen as unrelated to the DOR</i></p>

FFC'S WEBSITE: WWW.FFC.CO.ZA



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