**2. Report of the Select Committee on Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour on ADJUSTED Budget Vote 31: Employment and Labour, and the 2020/21 REVISED Annual Performance Plan of the Department OF EMPLOYMENT AND LABOUR, dated 21 July 2020**

**1. Background**

The Select Committee on *Trade and Industry, Economic Development, Small Business Development, Tourism, Employment and Labour (Committee)*, having considered the *Supplementary Adjustments Budget of Vote 31: Employment and Labour*, and the 2020/21 revised *Annual Performance Plan of the Department of Employment and Labour*, reports as follows:

**2. Introduction**

The Committee considered the *2020/21 Supplementary Adjustments Budget*, and revised *2020/21 Annual Performance Plan of the Department of Employment and Labour:* Vote 31. The Committee engaged the Department on the 9 July 2020. This engagement follows the tabling of the *Supplementary Adjustments Budget* tabled by the Minister of Finance on the 24 June 2020.

When the Committee adopted the *2020/21 Main Budget Report* it noted the impact of *COVID-19* on the national economies, global economy and jobs, and which industries would be significantly ravaged. Further, the Committee noted the resultant effect of the pandemic to the South Africa’s economic growth, and the fiscal health of the country. As noted by various government strategy policy documents including reports by global institutions such as IMF, OECD, including South Africa’s Central Bank, the country entered the *COVID-19* phase with pre-existing economic and social risk, such as low economic growth, widening budget deficit (current projected to reach close to 15 per cent to GDP). The debt-to-GDP ratio is currently projected to exceed 80 per cent, and the country debt-service-costs will reach 6 per cent of GDP. Further, the country is experiencing low investment confidence, downgraded to low investment grade, huge hole on balance sheet of critical economic state entities such as ESKOM, with SAA facing liquidation. The overall economy is expected to decline by 7 per cent in 2020/21 reporting period.

Unemployment, Inequality and poverty remains a serious risk for government. Young people, and women including people with disabilities are the highest group at risk. The Unemployment Insurance Fund (UIF) over the short term (three months) ending June 2020 has set aside R40 billion for COVID-TERS relief funding, which has so far assisted over six million workers. This is in addition to the funds normally distributed to UIF beneficiaries. *COVID-19* given its uncertainty would present a potential risk to the sustainability of the UIF.

The current health and economic situation has restricted economic activity and that has exacerbated unemployment crisis. Going forward, South Africa would face a little chance to increase employment unless drastic economic reforms are implemented, suggested the *World Bank, South Africa Reserve Bank and National Treasury*.

Further the Committee noted in the 2020/21 Main Budget Report that the strategic plan and spending plans of the Department would need to be revised to accommodate the policy response to the COVID-19 pandemic, and the effect of COVID-19 to the departmental spending plan priorities. According to the 2020/21 *Supplementary Budget Review*, the overall adjustments to the spending plans was guided by:

* + Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments;
	+ Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later;
	+ Suspending allocations to programmes with a history of poor performance and/or slow spending;
	+ Redirecting funds towards the COVID-19 response within functions, or towards government’s fiscal relief package.

The *Supplementary Adjustments Budget* tabled by the Minister of Finance has resulted in the suspension of R261 million in funds initially appropriated to the Department. Initial in the 2020 Main Budget the Department was appropriated an amount of R3.6 billion. The Committee noted that the projected increase in unemployment as a result of COVID-19 and resultant national lockdown will greatly increase the demand of the services offered by the Department. It was reported by the Department that there are signs indicating an increase in the number of retrenchment applications and dispute resolutions, and thus signaling an increase to the unemployment.

The Department has indicated that there has been an increase in demand for services for the labour inspectorate since the start of lockdown. Whilst the Department has made savings in respect of subsistence allowances, travel and accommodation, these cost savings need to be measured against costs associated with the new way of working with greater reliance on technology and associated devices to enable people to work from home. In addition, the Department has noted major expenditure in respect of the provision of Personal Protective Equipment (PPE) for officials, sanitizing labour centres and enhancing social distancing protocols. The downgrade of budgetary provision has resulted in the Department to work smarter with fewer resources. Over the medium term, the Department will implement the Sexual Harassment Policy. This is one of the crucial policy priorities.

The Labour Activation Programmes would remain pivotal. Government with the support of the private sector and other development partners should establish integrated employment support programme to limit the damage that the pandemic would cause to jobs, and income of households.

**3. Impact of COVID-19 on Departmental Spending**

The aim of the Department is to play a significant role in reducing unemployment, poverty and inequality by pursuing the objectives of decent work for all through employment creation and enterprise development. Further, it aims to set the standards and the protection of rights at work, including the facilitation of equal opportunities and social dialogue, and the provision of social protection.

The core functional policy priorities are constituted around crucial policy functional areas namely; *Programme 2: Inspection and Enforcement Services; Programme 3: Public Employment Services and Programme 4: Labour and Industrial Relations. Programme 1: Administration* providing overall core administrative support to enable the three functional policy areas to realise their legislative and policy functional requirements.

Table 1 shows how the funds have been shifted within the department, and further resources allocated to respond to the *COVID-19 pandemic*. Further, resources were also shifted towards government policy objective to stabilise public finances.

**Table 1: Summary of Revised 2020 Budget: Employment and Labour**



**Source: National Treasury, Supplementary Budget, 2020**

Further, Table 1 indicates that as the result of effect of the COVID-19 pandemic, the Department is expected to forgo approximately R264 million. The expected budget cuts are part of the government wide downward revision exercise on spending plans caused by the lockdown effects to the departmental operations budget. The Department is now expected to spend in R3,37 billion in 2020/21 financial year, registering a decline from R3,63 billion. This represents a 7.2 per cent decrease in budget allocations. The departmental spending cuts were across all four functional policy programmes. However, the functional policy area that was most affected is *Public Employment Services* with a reduction of 7.8 per cent. In terms of Compensation for Employees spending item, *Labour Policy and Industrial Relations was most affected recording* 11.4 per cent.

In terms of economic composition, the Department is anticipated to forgo R96,639 million on Compensation of Employees, R95,428 million on Goods and Services, R63,511 million on Transfer and Subsidies. Then with regards on Payments on Capital Assets the Department is expected to forgo R6,342 million.

With regard to *Functional Policy Programmes, Programme 1: Administration* is expected to forgo R72,838 million, of which R5 million is on *Compensation of Employees*, R64,860 million on *Goods and Services*, and R2,97 million is on *Payments on Capital Assets.* The Department reported that the only changes for APP outcomes for Programme 1: Administration will be the addition of one output focussing on outreach initiatives to change behaviour in relation to gender based violence. This will be done by awareness campaigns and the amendment of the departmental Sexual Harassment Policy by 31 March 2021.

*Functional Policy Programme 2: Inspection and Enforcement services* is anticipated to forgo R48,44 million, which is composed of R40,72 million on *Compensation of Employees* and R7,72 million on *Goods and Services*. The purpose of functional policy area is to realise decent work by regulating non-employment and employment conditions through inspection and enforcement, to achieve compliance with all labour market policies.

The lockdown effect has restricted economic, business and social activities. To this end, the Department submitted that it had to revise downwards service delivery targets. During the first phase of the lockdown many workplaces were either completely closed or operating partially. Further, Labour Courts were also affected as result of COVID-19 restrictions. These factors have necessitated the *Inspection and Enforcement services* to re-focus its priorities in terms of the 2020/21 APP and associated spending items. As the result, the Department has reduced two service delivery targets, namely:

* The number of employers inspected per year to determine compliance with employment law decreases from 220 692 to 188 323;
* Percentage of non-compliant employers received by Statutory Services referred for prosecution within 30 calendar days, decreases from 65 per cent to 50 per cent.

With regard to the *Functional Policy Programme 3*: *Public Employment Services*, which aims to assist companies and workers to adjust to changing labour market conditions. The Department is expected to forgo R50,5 million, of which R40 million is on *Compensation of Employees*, R7,18 million on *Goods and Services*, and R3,32 million is on *Payments on Capital Assets.*

In reviewing of the service delivery targets in relation to the *Public Employment Services*, the Department submitted that it has considered various factors ranging from lack of new employment opportunities due to a depressed economy. The current health and economic crisis is expected to ravage the economy, and erode employment opportunities, many businesses would close down resulting to increase number of retrenchment. Further the Reserve Bank anticipate a contraction in the economy by 7 per cent by the end of 2020/21 reporting year. Further, Statistics South Africa figures show that the economy has shrunk by 2 per cent in in the 1st Quarter of 2020 prior to the impact of COVID-19. In cognisance of these challenges the APP for Programme 3 has reduced the following indicators:

* Number of work and learning opportunities registered decreases from 95 000 to 50 000;
* Number of registered work and learning opportunities filled by registered work seekers per year decreases from 47 500 to 15 000;
* Number of partnerships agreements concluded with various stakeholders’ decreases from 30 to 15.

The Committee is concerned with the impact of the COVID-19 to the economy, and jobs. The Committee emphasis that the Department has a responsibility to coordinate government efforts to preserving existing jobs in the short term, working in partnership with industry players, and other development partners such as development finance institutions. Further, COVID-19 effects may require significant reallocation of resources, as industries and firms may not be affected with the same rate. In the long term, government should work tirelessly with the private sector to lessen the impact of COVID-19 to the economy and jobs.

Further, the Committee recorded that COVID-19 presents uncertainty to the economy, extended social relief packages to protect workers’ incomes would be required. Training and development would need to be integrated, and the job seekers programme should be scaled-up. Young people, women and people with disabilities should be prioritised. Greater focus on linking job-seekers programme with industries, including identifying regions that are fast recovery, and putting measures to regions that are under severe economic stress. Given the essential role of the *Public Employment Services*, over the medium term additional resource would be needed.

In relation to the *Functional Policy Programme 4: Labour Policy and Industrial Relations’ spending is expected to decline by* R90,13 million, of which R10,91 million is on C*ompensation of Employees*, R15,66 million on *Goods and Services*, R63,51 million on *Transfer and Subsidies*, and R37 thousand on *Payments on Capital Assets.*

The functional policy area is contributing to the efforts to realise Government *Priority 2: Economic Transformation and Job Creation* by ensuring that policy environment supported through policy instruments developed and promoted to enhance the implementation of the Employment Equity Act, and other transformative policies.

The spending decline of R63,51 million on *Transfer and Subsidies is composed of R55,45* million which directed for operations of the *Commission for Conciliation, Mediation and Arbitration*. Further, R5 million which was directed for the operations budget of the *National Economic Development and Labour Council,* and include further R5 million which was directed for various civil and labour organisations.

However, it should be indicated that the *Commission for Conciliation, Mediation and Arbitration* was re-allocated R149,743 million. The funds would assist the CCMA to manage an increased caseload due to salary disputes, and increased requests for assistance through the *TERS programme* by companies in distress due to the restrictions on economic activity. The CCMA will also procure personal protective equipment and sanitiser for all its offices. Further, NEDLAC is also expected to be re-allocated R7,4 million to continue to play the essential role in dealing with the issues arising from COVID-19 in terms of social partner engagements. The Non-profit institutions are expected to receive R1,67 million to support their operations.

The Department reported that the service delivery outputs of the *Labour Policy and Industrial Relations* policy area, further contribute Government Priority 6: Social Cohesion and Safer Communities by promoting sound labour relations through extension of collective agreements and registration of labour organisation. The COVID-19 pandemic, has not just affected the economy, by extension has affected employment and labour relations. The Department submitted that the following targets relating to the *Labour Policy and Industrial Relations* policy area, were revised;

* The *2019/2020 Annual Employment Equity* report and *Public Register* would not be published by 30 June 2020, in this current financial year will be published by 30 September 2020;
* The *National Minimum Wage* investigation report, which was planned to be published by 30 June 2020, would now be published by 30 September 2020.

The *National Minimum Wage Commission* and secretariat established in 2019 will be responsible for reviewing, adjusting and monitoring the social and economic impact of the national minimum wage, which is set at R20 per hour.

Table 2 shows the effect of the revision of the budget in terms of provincial allocation. All the provinces show that the effect of COVID-19 on departmental operations budget affected all provinces.

**Table 2: Departmental re-allocation of spending per provincial allocation**



**Source: Department of Employment and Labour**

**4. Issues Arising from Engagement**

1. In anticipation of the vast retrenchments caused by *COVID-19* and the resultant high demand for employment and labour related services. Members raised concern in respect to the budget reduction of the *Functional Policy Programme: 3 Public Employment Services including Functional Policy Programme 4: Labour Policy and Industrial Relations.* The budget cuts also affected operations budget of key institutions such as National Economic Development and Labour Council (NEDLAC) and the Commission for Conciliation, Mediation and Arbitration (CCMA).
2. It was reported that though the budget for NEDLAC was reduced by R5 million, it is anticipated that this reduction will not have an impact on the operations as a result of the huge cash savings on spending items such as travelling and accommodation as meeting have migrated to virtual platforms.
3. A major concern that was submitted by the Department was in respect of the suspension of the budget directed to the CCMA, which recorded a 5.6 per cent budget reduction for the CCMA. According to the Department the suspension of the budget has the potential to affect service delivery given the large anticipated retrenchments. Further, a number of companies have already filed applications for retrenchments in terms of *Section 189 of the Labour Relations Act.*
4. The Department reported that it is of the view that the suspended funds related to spending plans of the affected programmes including the CCMA and NEDLAC are expected to be restored in the 2021/22 financial year.
5. The Department acknowledged the challenges experienced in the implementation of the Temporary Employer/employee Relief Scheme (Ters), which was established as a key part of the government’s R500 billion economic and social relief package to help firms and workers affected by the lockdown. The Department gave the undertaking that the payment system would be strengthened. Further, *COVID-19* has just disrupted the entire governance processes, and exposed weaknesses in many organisations both public and private. Also the Department submitted that it is working with law enforcement agencies to investigate any transgressions with legislation and policies in administering the Ters.
6. Further, the Department submitted that all the competent claims were paid, and any outstanding competent claims would be paid. Despite the challenges including criminal investigations that are underway, the Department re-affirmed its commitment to pay-out the R40 billion set aside to support firms and workers affected by the lock-down.
7. The Committee noted the challenges, and progress made in respect of Ters implementation, and further noted that funding of Ters remains a risk the duration of the pandemic remains uncertain, and going forward its impact to the economy and jobs appears to be huge.
8. The Committee noted that the capacity and capability of the Supported Employment Enterprises (SEE’s) should be prioritised in order that it can be able to maximise its revenue generation thus it should improve sales and expand to new markets. Financial sustainability of the SEE should be prioritised. Further, the Committee requested that SEEs should be given a preferential procurement status when government is in the process of acquiring goods. The Department submitted that more than 90 per cent of employees at SEE are people with disabilities. The growth and expansion of SEEs services would contribute to government’s strategic objective aimed to enhance support to vulnerable groups. The Department submitted that discussions are underway with National Treasury and other government departments in an effort to facilitate that government departments to procure goods from the SEEs, and this would also apply to the Department and its entities.
9. The Department reported that there are 214 vacant posts within the Department, and the suspension of appointments would not affect service delivery for the current financial year. Further, the Department submitted that critical posts will still be filled. During the current financial year, and over the medium term period the Department will continue to strengthen the capacity of the *Inspection and Enforcement Services, focusing on* training and development of new inspectors to be able to respond to the demand of services exacerbated by *COVID-19*.
10. The Department submitted that COVID-19 had an effect to its operations. Like many organisations it is in the process to reposition the organisational service delivery architecture to be able to respond to the ‘new normal’ of conducting business including public services. The Department reported that it would use every resources at its disposal to respond to the COVID-19 protocol requirements. Currently, the Department is using young people participating as learners in the *Labour Activation Programme* as *Service (Queue) Marshals* in the labour centres. This work opportunity does not only support enforcement of social distancing protocols in the labour centres, but also give workplace exposure to the learners to understand various services offered by the Department.
11. Further, The Department submitted that over the medium term it will continue to prioritise gender equity considerations in the workplace including tackling sexual harassment of women. The gender based violence regulations in the workplace would also be aligned to international conventions.

**5. Recommendations**

The Committee has observed that government will need to act in partnership with the private sector, and labour movement to restore the economy, and create jobs. Further it was quite clear that the job market was damaged during the lockdown. Further despite government’s fiscal, monetary and social relief measures to protect jobs and incomes, it appears that jobs will be lost, and the situation will deepen if economic recovery measures are not effectively implemented.

Further, the Committee noted that *COVID-19* has had an impact to the operations of the Department, and some of the funds suspended by government would likely be restored in the in the 2021 medium term. However, the 2021 medium term spending plans would certainly emphasize on how, and on what spending priorities would make an impact to contribute to government’s inclusive growth agenda. Rather than witnessing significant increase on public spending. Since the government is also aiming to balance public finances by reducing budget deficit, public debt to GDP, and accelerating efforts to eliminate public spending leakages. In addition, boosting efforts to reset the economy to create jobs.

The Committee guided by the main budget report adopted, and the new information originating from the Supplementary Adjustments Budget, and revised APP provided by the Department reiterates that the government will need to act fast to implement its spending plan priorities for jobs, and proposed the following recommendations to the Minister of Employment and Labour:

1. The Committee noted the reduction of planned spending in respect to the *Functional Policy Programme* 2: *Inspection and Enforcement services and the Functional Policy Programme: 3 Public Employment Services including Functional Policy Programme 4: Labour Policy and Industrial Relations’ spending.* For the record, these programmes constitute as the core policy priority of the Department. Over the 2021 medium term budget process, National Treasury taking into cognisance available resources should consider to restore the resources allocated in these programmes.
2. Further, the Committee reiterate that the organisational health and capacity including financial sustainability of the Supported Employment Enterprises (SEEs) should be prioritised. The Department working close with *National Treasury* in partnership with the *Department of Trade, Industry and Competition* should work on a mechanism that would ensure that business operations of the SEEs are sustainable. Further, over the medium term both *National Treasury* and the Department should explore alternative funding and financing sources to support growth and expansion of the SEEs.
3. The Committee noted low levels of productivity growth and sustained competitiveness in the South African economy. *Productivity South Africa*, over the 2021 medium term should be prioritised. Over the 2021 medium term *Productivity South Africa* should develop a business model that would ensure that it becomes financial sustainable, and scale up its operations to support growth and sustainability of businesses.
4. Further, the Committee emphasised that employment sustains growth of the economy, and therefore the Department should fast track and finalise the development of the *Employment Policy* by the end of the 2020/21 financial year.
5. *COVID-19* would certainly have a negative effect on the economy and jobs. *Public Employment Services* will be pivotal to support job seekers including retrenched workers. The Department should engage National Treasury to allocate *Earmarked Funds* dedicated to support job seekers, and scale up employment creation programme working in an integrated manner with industry players and *Post-Secondary Institutions*.

*Report to be considered.*