

UNEMPLOYMENT INSURANCE FUND

MEDIUM TERM EXPENDITURE FRAMEWORK

Revised- 2011/12
Projection- 2012/13 to 2014/15





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- **Investment Revenue**
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PFMA Section 53:

Annual budgets for non-business Schedule 3 public entities

- ❑ The accounting authority for the public entity listed in Schedule 3 which is not a government business enterprise must submit to the executive authority responsible for that public entity, **at least six months before the start of the financial year** of the departments designated in terms of subsection (2) or another period agreed to between the executive authority and the public entity, a budget of estimated revenue and expenditure for the financial year for approval by the executive authority
- ❑ This presentation highlights the budget as consolidated. The budget for the Fund has been compiled from inputs from the Provincial offices, UIF Head office as well as the report from the Fund's actuaries



Contribution Revenue

- ❑ Contributions were revised down based on a revenue indicator model that is linked to a number of economic variables in the setting of assumptions for revenue on an annual basis.
- ❑ Contribution revenue for budget purposes is based on the relationship between actual past revenue, CPI and GDP.
- ❑ The current collection trend is an indication of a marginal growth against the prior year of between 5%-6%.
- ❑ The estimate for the years 2011/12 (revised) to 2014/15 is based on assumption that the contribution rate of 2% will continue; salary ceiling is R12,478; the revenue indicator projection measure used is the Base Model which is based on future CPI and GDP projections .

Description	<i>Actuals 2010/11 R'000</i>	<i>Original Budget 2011/12 R'000</i>	<i>Revised Budget 2011/12 R'000</i>	<i>Proposed Budget 2012/13 R'000</i>	<i>MTEF Budget 2013/14 R'000</i>	<i>MTEF Budget 2014/15 R'000</i>
UIF Contributions	11,204,252	12,202,871	12,007,714	12,828,531	13,509,395	14,226,838
Revenue	11,204,252	12,202,871	12,007,714	12,828,531	13,509,395	14,226,838
% increase/(decrease)			-1.60%	6.84%	5.31%	5.31%



Investment Income

The annual Actuarial valuation report includes a 10 year projection on the Income and expenditure of the Fund that is utilized for budget purposes with regard to Investment Income that is further reviewed and benchmarked against:

- Investment Income experience patterns
- Investment Mandate
- Investment report from PIC
- UIF expenditure patterns and projected investment
- The income budget is always done on conservative assumptions

Investment income was budgeted based on the maturity pattern of current instruments and taking into consideration the current trends, expected growth of the Fund's investment portfolio with the estimated surplus.

The outer years were budgeted with marginal growth at a declining rate.

Description	<i>Actuals 2010/11 R'000</i>	<i>Original Budget 2011/12 R'000</i>	<i>Revised Budget 2011/12 R'000</i>	<i>Proposed Budget 2012/13 R'000</i>	<i>MTEF Budget 2013/14 R'000</i>	<i>MTEF Budget 2014/15 R'000</i>
Interest from Investments	3,149,939	2,966,358	3,232,529	3,630,540	3,998,901	4,320,521
Dividends- Listed shares	127,410	49,509	130,751	146,850	161,749	174,758
Discount from investments	255,242	169,550	261,934	294,185	324,034	350,095
Fair value adjustments	601,783	0	0	0	0	0
Investment Income	4,134,374	3,185,417	3,625,214	4,071,575	4,484,684	4,845,374
% increase/(decrease)			13.80%	12.30%	10.40%	8.05%



Benefit Payments

The annual Actuarial valuation report includes a 10 year projection on the Income and expenditure of the Fund that is utilized for budget purposes. With regard to Benefit Payments this is further reviewed and benchmarked against:

- ☐ Claims experience patterns and improved awareness
- ☐ Expected wage inflation (limited to UIF ceiling)
- ☐ GDP growth and Inflation (Economic conditions – expected retrenchments taking into account the expectations of marginal recovery in the economic conditions)

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
Unemployment	4,173,188	5,243,998	4,784,386	5,473,337	6,261,497	7,163,152
Illness	232,663	473,718	266,511	304,888	348,792	399,018
Maternity	658,295	1,101,458	753,977	862,549	986,757	1,128,850
Adoption	731	1,862	837	957	1,095	1,252
Dependents	317,520	651,829	363,315	415,633	475,484	543,954
Benefit Payments	5,382,397	7,472,866	6,169,026	7,057,364	8,073,625	9,236,226
Variance			-17.45%	14.40%	14.40%	14.40%



Schemes to alleviate Unemployment

Powers and duties of Unemployment Insurance Board

UI Act Section 48.

(1)The Board must— (a) advise the Minister on:

(iii) policies for minimizing unemployment; and

(iv) the creation of schemes to alleviate the effects of unemployment

- ☐ Training Layoff Scheme R1.2 Billion ringfenced and spread over 4 years – Expenditure over next 3 years (Incl. 2011/12)
- ☐ Training of the Unemployed Schemes – Reintegrate the unemployed in to the workplace - Mining Quality Agency, SETA projects, Training pilot project in cooperation with DoL Public Employment Services R 200 Million budget over MTEF period increasing marginally with National Treasury CPI

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
Lay-off schemes	41,630	400,000	400,000	400,000	200,000	0
Training and Social Plan Funding	6,599	210,200	210,200	210,000	250,000	200,000
Unemployment alleviating Schemes	48,229	610,200	610,200	610,000	450,000	200,000

Employee Expenses

Budgeting for Employee Costs include:

- ☐ UIF: Head Office 100% Costs
- ☐ DoL: Head Office, Provincial and Labour Centre percentage Costs

UIF Head Office

- ☐ A revised Organisational Structure was approved by the Minister in the current financial year and will be implemented in due course. The new structure will require an additional R49 million over and above the current structure.
- ☐ Current UIF Head Office structure (Approved 456) (Filled 435) (Vacant 21)
- ☐ The new structure will bring the total number of posts in UIF HQ to 561.

Employee costs increased with R47.2 million based on new approved organisation structure. This also takes into account 6.8% increase as approved by DPSA and 1.5% provision for notch increases.

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
Salaries and Wages	432,248	555,873	592,841	629,446	664,066	697,269
Employer Contributions	80,416	101,570	111,835	117,514	123,977	130,176
Employee Costs	512,664	657,443	704,676	746,960	788,043	827,445
Percentage Change			7%	6%	5.50%	5%



Main budget line items that drive total Admin Expenditure:

- ☐ The revised budget show an increase of R 36% against prior year actual based on budget for Employee Cots, Advertising, Bank Charges, Communication, Computer Services, Operating Leases, Consulting costs, Projects, Commission, and Travel and subsistence.
- ☐ These expenditure items when combined make up:-
 - 95.69% of actual expenditure for the 2010/11 financial year
 - 91.44% of the original budget for the 2011/12 financial year
 - 93.01% of the revised budget for the 2011/12 financial year
 - 90.21% of the proposed budget for the 2012/13 financial year
 - 93.81% of the MTEF budget for the 2013/14 financial year
 - 93.96% of the MTEF budget for the 2014/15 financial year
- ☐ The outer years show a marginal growth in the budget figures

Admin Expenditure (Continued)

Main budget line items that drive total Admin Expenditure:

- ☐ The revised budget show an increase of R 36% against prior year actual based on budget for Employee Cots, Advertising, SARS Commission, Projects, Consulting costs and Travel
- ☐ The outer years show a decline in growth

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
SALARIES AND WAGES	432,248	555,873	592,841	629,446	664,066	697,269
EMPLOYER CONTRIBUTIONS	80,416	101,570	111,835	117,514	123,977	130,176
ADVERTISING	5,839	26,389	21,559	21,769	22,966	24,115
BANK CHARGES	42,004	44,060	45,887	50,226	52,989	55,638
COMMUNICATION	25,613	33,297	31,610	33,591	35,438	37,210
COMPUTER SERVICES	28,609	34,476	34,762	37,765	39,842	41,834
OPERATING LEASES	73,954	86,806	112,737	126,607	133,570	140,249
CONSULTING, CONTRACT & SPECIAL SERVICES	11,691	24,602	23,050	51,323	51,793	53,947



Admin Expenditure (Continued)

Main budget line items that drive total Admin Expenditure (Continued):

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
PROJECTS	1,050	40,370	39,370	2,000	-	-
COMMISSION	167,237	163,875	181,991	194,303	204,619	215,480
TRAVEL AND SUBSISTENCE	37,794	47,040	53,777	61,432	64,812	68,052
BAD DEBTS	67,740	13,239	25,351	20,272	21,387	22,456
WRITE OFF	-165	22,000	21,746	19,152	20,206	21,216
SUB-TOTAL	974,030	1,193,597	1,296,516	1,365,400	1,435,665	1,507,642
% of Total Admin Expenditure	95.69%	91.44%	93.01%	90.21%	93.81%	93.96%
TOTAL ADMINISTRATIVE EXPENDITURE (MTEF)	1,017,898	1,305,404	1,394,022	1,513,625	1,530,366	1,604,589
% Increase/(decrease)		28.25%	6.79%	8.58%	1.11%	4.85%



Administration Expenditure (Continued)

- SARS Commission (which is calculated as 1.5% of contribution revenue) increased with R18.1 million in line with the revised contribution revenue budget.
- Expected bad debt has increased with R12.1 million based on the age analysis of the UIF's debtors.
- The Fund had to budget an additional R36 million under operating leases for future rent that will be paid to the Department of Labour for office space from 2012.
- Through reprioritisation, there were mainly downward amendments made in various other expenditure line items.

Strategic Priorities for MTEF 2011/12 to 2013/14

- ☐ **Fund Poverty Alleviation Schemes**
- ☐ **Improve Governance**
- ☐ **Strengthen Institutional Capacity of the Fund**
- ☐ **Encourage Compliance through enhanced Service Delivery**
- ☐ **Improve Stakeholders relations**

These Strategic Priorities are linked to the following strategic objectives of the Department of Labour:

- ☐ **Contribution to Job Creation**
- ☐ **Strengthening Social Protection**
- ☐ **Strengthening the Institutional Capacity of the Department**



Strategic Priorities (Continued)

Projects to support the Strategic objectives:

- ☐ U-filing enhancements
- ☐ Financial System implementation
- ☐ Call Centre upgrade
- ☐ Virtual Office
- ☐ Data Cleansing

Unit/section	Original Head Office 2011/12 Budget	Revised Head Office 2011/12 Budget	Proposed Head Office 2012/13 Budget	Proposed Head Office 2013/14 Budget	Proposed Head Office 2014/15 Budget	Description
Accounts Receivable	100,000	100,000	-	-	-	U-filing Enhancements
Subtotal	100,000	100,000				
Reporting	15,000,000	15,000,000	10,000,000	-	-	Financial System implementation
Reporting	270,237	270,237	-	-	-	Objectivitii
Subtotal	15,270,237	15,270,237	10,000,000			



Strategic Priorities (Continued)

Unit/Section	Original Head Office 2011/12 Budget	Revised Head Office 2011/12 Budget	Proposed Head Office 2012/13 Budget	Proposed Head Office 2013/14 Budget	Proposed Head Office 2014/15 Budget	Description
Declarations	5,000,000	5,000,000	-	-	-	Data cleansing phase 2
Declarations	5,000,000	5,000,000	-	-	-	Scanning project (Regions)
Subtotal	10,000,000	10,000,000				
Support Services	2,000,000	2,000,000	2,000,000	-	-	Performance Information Management
Support Services	1,000,000	-	-	-	-	Record Management System
Subtotal	3,000,000	2,000,000	2,000,000			
Call Centre	5,000,000	5,000,000	-	-	-	Virtual Office Second phase
Call Centre	5,000,000	5,000,000	-	-	-	Claims tracking system
Call Centre	2,000,000	2,000,000	-	-	-	Siyaya Enhancements
Subtotal	12,000,000	12,000,000				
TOTAL	40,370,237	39,370,237	12,000,000	-	-	Projects total



Net Surplus & Expenditure Percentage

Net Surplus:

The Net Surplus show a constant decline due to:

- ☐ Revenue budgeted to grow at 4% and Claims to increase with 14.4%.
- ☐ Budgeted expenditure for Schemes to alleviate unemployment.
- ☐ Required Reserves based on Actuarial valuation report.

Expenditure Percentage:

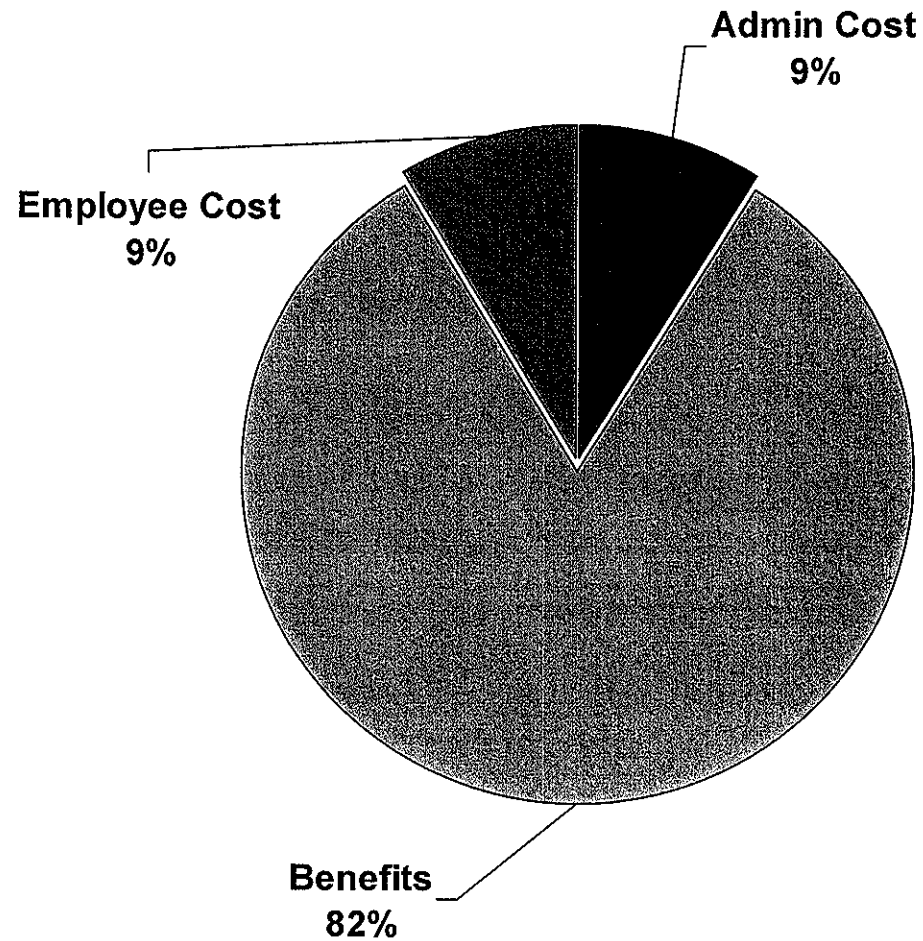
- ☐ The Fund strives to limit expenditure between 12% and 15% of contributions, the 2010/11 actual expenditure was 9.08% of contributions. The revised budget is 11.27% being reduced constantly over the outer years

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
Administrative Expenditure	1,017,898	1,305,404	1,394,022	1,513,625	1,530,366	1,604,589
Net Surplus	8,690,960	5,101,344	7,308,861	6,640,110	6,232,341	5,493,177
Variance			43.27%	-9.15%	-6.14%	-11.86%
Employee Cost/Contributions		5.39%	5.87%	5.82%	5.83%	5.82%
Admin Expenditure/Contributions		10.70%	11.61%	11.80%	11.33%	11.28%

Description	Actuals 2010/11 R'000	Original Budget 2011/12 R'000	Revised Budget 2011/12 R'000	Proposed Budget 2012/13 R'000	MTEF Budget 2013/14 R'000	MTEF Budget 2014/15 R'000
Change in Unearned Contribution Reserve	770,952	821,453	258,837	1,006,112	1,514,516	2,185,149
Change in Outstanding Claims Reserve	-413,090	245,263	64,709	251,528	378,629	546,288
Reserves	357,862	1,066,716	323,546	1,257,640	1,893,145	2,731,437



Expenditure Split



The Fund's policy is based on best practice which is between 0.25% and 1% of turnover or between 5% and 10% of the net surplus.

The materiality figure for the 2012/13 financial year is turnover based and the actuarial valuation turnover figure of R12 828 530 758 has been used

Lowest range is calculated as **R 32 071 327** ($R12\ 828\ 530\ 758 \times 0.25\%$)

Highest range is calculated as

R128 285 308 ($R\ 12\ 828\ 530\ 578 \times 1\%$)

A materiality framework figure is set on **R 60 000 000**

This is based on the:-

- financial statements inherent risk and improvements
- Implemented integrated financial systems in place since April 2005
- Financial Management and general capacity upgraded
- Siyaya Operational system seven years in full operation
- Clean audit report as a result of improved controls, sixth unqualified report for the sixth consecutive year
- Constant implementation of improved controls in Operations and Finance