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ANALYSIS OF EXPENDITURE PATTERNS AND PERFORMANCE RELATED INFORMATION TO ASSIST THE PORTFOLIO COMMITTEE ON LABOUR DURING THE BUDGET REVIEW AND RECOMMENDATION PROCESS.

1. Introduction

An assessment of the South African labour market cannot ignore the racial and gender dimensions inherited from apartheid. They remain intact and, arguably, much of the marginal gains that have been made since 2003 have been eroded by the brief recession of 2009. While transformation of the South African labour market remains a top challenge, but low productivity and sluggish economic growth, especially in labour-intensive industries make it difficult to fight unemployment and restructure apartheid employment patterns. As such, when compared with other emerging markets, South Africa's unemployment rates are far higher. In South Africa, too few people work. Only 41 per cent of adults between the ages of 18 and 60 years do work of any kind, whether full-time, part-time or informal. In comparable developing countries like Brazil and Malaysia, the rate of participation in the economy by working-age adults is around 66 per cent. In developed economies, such as the US and UK, it is 70 per cent.¹

The purpose of this paper is to provide the Portfolio Committee on Labour with expenditure and performance related information of the Department of Labour (DoL). Therefore, the assessment of the performance of the Department of Labour during the three-year period from 2009 until 2011 will be within the context of global and national challenges such as the crisis, poverty, inequality and unemployment.

2. Analysis of Expenditure Trends

Compared with the previous financial years, i.e. 2007/08 and 2008/09, the Department's expenditure improved considerably from 2009/10, 2010/11 and 2011/12 periods. However, for the purpose of this analysis, the assessment will be confined to the 2009/10 to 2011/12 financial years.

The Department of Labour has successively incurred under-expenditure over the three financial year period reviewed. In 2011/12, the Department spent 99.5 percent (i.e. R2.007 billion) against an available budget of R2.17 billion), thus incurring under-expenditure of R10.3 million, i.e. 0.5 per cent. Under-spending on Payment for Capital Assets and Goods and Services has been mainly attributed to less than anticipated orders being processed for the procurement of new office furniture and equipment. In addition, under-spending on transfers and subsidies has been attributed to less than anticipated expenditure by the National Councils for the Blind, Physical Disabled and the Deaf Federation of South Africa. Finally, the Department expected to pay certain services such as SAPS VIP Police, NIA and Emergency Medical Services during the 12th International Labour Organisation (ILO) African

¹ Patel, S.(2012)



Regional Meeting. However, when stakeholders submitted their claims in terms of services rendered the final amounts were much lower than what was initially projected.²

In 2009/10 current payments were slightly higher due to claims by DPW for regional office accommodation exceeding the budget provided by DPW. In 2011/12, almost half of this expenditure was incurred in the last quarter due to delays in the submission of invoices by the National Department of Public Works (NDPW) for leases of office buildings that did not occur as anticipated during the months of April, July and October.

Table 1: DoL's Expenditure Trends

Department of Labour	Expenditure Performance for the Five-Year Review Period				
	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
	95.28%	94.65%	98.5%	99.2%	99.5%
	R99.2m	93.5m	31.3m	13.8m	10.3m

Source: Auditor General (2006/07-2010/11)

Firstly during 2009/10 financial year, there was a lot of under-spending in crucial service delivery programmes of the Department. These include Programme 2, i.e. **Service Delivery** had an under expenditure of 0.3 per cent in its budget, as a result of the R74.3 million that was not used to buy Hilux bakkies for inspectors. Of note is that an amount of R72.3 million was shifted from compensation of employees to other programmes due to high vacancies, i.e. 13.8 per cent in 2009/10 and 11 per cent in 2010/11, which were not filled in the 2009/10 financial year.

Secondly, the **Employment and Skills Development Services / Human Resources Development**: Programme 3 was allocated a total amount of R406 million for the 2009/10 financial year. The programme only spent about R390.6 million or 96 per cent at the end of the financial year. This level of under expenditure was due to the R16.3 million unspent funds, as a result of a decision to shift the skills development functions from the Department of Labour to the newly established Department of Higher Education and Training (DHET). Furthermore these unspent funds were mainly related to the Quality Council for Trade and Occupation (QCTO). The Department indicated that the unspent funds would be rolled over to the Department of Higher Education and Training for the establishment of the QCTO and once off filling of vacancies. Of note is that an amount of R74.2 million was shifted from this programme to other programmes during the adjustment period of 2009/10 financial year.³

² Department of Labour (2012)

³ Mkhize, S. (2010)



Thirdly, the under expenditure in the **Labour Policy and Labour Market Programme** was attributed to an unspent R5.3 million due to the delays in the tender process for the Research Monitoring and Evaluation Agenda. The Department has applied for roll-overs in this regard. Part of this under expenditure, was the slower than expected expenditure on Membership fees for International Organisations which was budgeted R9.2 million and the Department only spent R8.6 million at the end of the financial year. To this end it was noted that an amount of R40.7 million was also shifted from other programmes towards this programme as an additional budget in the same period in this programme.⁴

Fourthly, the **Social insurance programme** spent 67 per cent of the entire budget of this programme with no adjustment or additional budget. Under expenditure was due to the slower than expected expenditure on administration costs for claims by civil servants injured on duty. This level of under expenditure in this programme remains a cause for concern hence this programme was meant to compensate people who are injured on duty.⁵

Areas of qualification and findings on predetermined objectives

The Department has struggled to achieve clean audits over the years. However, in 2010/11 and 2011/12 financial years, it improved its performance in this area as it received an unqualified audit respectively.

Table 2: Areas of Qualification from 2009-2011/12

Labour	2009/10	2010/11	2011/12
	Capital assets	Predetermined objectives	
	Non-compliance with laws and regulations	Non-compliance with laws and regulations	Non-compliance with laws and regulations
	Reported information not useful	Reported information not useful	Qualified Audit opinion regarding Reported information

Source: 2009/10-2011/12 Auditor General

Irregular, fruitless, wasteful and unauthorised expenditure

The Department incurred irregular expenditure of R 3.392 000 million in 2009/10 financial year and R9.522 634 million during the 2010/11 financial year and no unauthorised

⁴ Ibid

⁵ Ibid



expenditure over the period. This largest amount when compared with the previous 2006/07 - 2008/09 financial years.

Table: Irregular, fruitless, wasteful and unauthorised expenditure

Year Incurred	Irregular Expenditure
2009/10	R 3 392 000
2010/11	R 9 522 634

Source: Auditor-General (2006/07-2010/11)

3. Programme Structure Trends

Following the 2009 elections, the President signed a proclamation transferring the Skills Development programme from the Department of Labour to the Department of Higher Education and Training with effect from the 1st of November 2009. This led to the reorganisation of the Department Labour, as the focus shifted from skills development to employment services and inspection and enforcement services. In doing so, the Department got assistance from the ILO in order to restructure and align the Department's structure with its vision of a focus on employment services and the inspection and enforcement services. The former Service Delivery programme was re-established and divided into two programmes, i.e. the Inspectorate and Enforcement Services (IES) and the Public Employment Services (PES).

Inspection and Enforcement Services (IES) Programme: the IES monitors and enforces compliance with labour legislation. Following the 2009 restructuring, the Department has focused on the professionalization of the IES by recruiting educated and well trained inspectors that would commit to life-long learning and development so as to contribute to creating a conducive environment for improved compliance at enterprise level. One of the major challenges within this programme has been the lack of resources (inadequate tools of the trade) and a high turnover rate due to low salary scales for inspectors when compared with other Departments such as Health and Mineral resources. Compared with the previous financial years, there has been a relative decrease in the number of vacancies in this programme. However, a lot more investment, to resource inspectors, is needed.

Public Employment Services Programme: this programmes' aim is to facilitate the entry and re-entry of jobseekers into the labour market by finding the most suitable employees to meet employers' needs. The Department has drafted and submitted the Public Employment Services Bill to the National Economic Development and Labour Council (NEDLAC) that will establish public employment services, regulate private employment agencies, to advise on available skills in the labour market and on the employment of non-citizens. Following its establishment in 2009, this programme has registered 600 000 jobseekers in all provinces. However, due to challenges unique to the country's labour market and those experienced globally, the absorption rate has been very slow. Off the 600 000 registered work-seekers, only 96 505 were placed. This is even lower than the set target in 2011/12 of 450 000. Part of a unique challenge in South Africa is the large number



of unskilled jobseekers against the demand of highly skilled workers by companies. Part of the challenge facing the success of this programme has been the low registration rate of vacancies by employers. This could be attributed to perceptions of non-efficiency to deliver services by government.

Decent Work Country Programme: the Department has been collaborating with the ILO and NEDLAC social partners to develop a Decent Work Country Programme for South Africa. The main goal of the programme is to facilitate opportunities for people to obtain decent and productive work in conditions of freedom, equity, security and human dignity. The four pillars of the Decent Work agenda are: fundamental principle and rights at work and international labour standards; employment and income opportunities; social dialogue and tripartism (collaboration between government, trade unions and employers) and social protection and social security. The Decent Country Programme for South Africa was finalised and launched on the 29th of September 2010. It will be implemented from 2010-2014.⁶

In order to achieve Decent Work, the Department has focused on the government's service delivery outcome 4: decent employment through inclusive growth. Key outputs are: growth that is more labour absorbing, reducing youth unemployment, raising the country's international competitiveness, analysing the cost structure of the country's economy, reviewing support for small business and expanding Public Works Programmes.⁷

4. Report on Performance Indicators

The aim of the Department of Labour is to play a significant role in reducing unemployment, poverty and inequality through pursuing the objectives of full and productive employment and decent work for all including: employment creation and enterprise development; standards and rights at work including equality of opportunities; social protection, and social dialogue.⁸

The Department's strategic objectives are:

- Strengthening the institutional capacity of the Department
- Contribute to employment creation
- Promote equity in the labour market
- Protecting vulnerable workers
- Strengthening multilateral and bilateral relations
- Strengthening social protection
- Promoting sound labour relations
- Monitoring the impact of legislation

The Department's objectives are well representative of the challenges that the country's labour market is faced with. Performance targets relatively measure the delivery of outputs and

⁶ NEDLAC (2010)

⁷ *ibid*

⁸ National Treasury (2012)



achievement of outcomes. However, some programmes such as the IES and the PES still struggle to qualitatively report on performance measures. In addition, the Department's role in employment is broader and has been cumbersome when reporting on issues such as facilitating entry into employment, maintaining employment levels, job creation, saving jobs and increasing employment levels. As a result, employment creation resulting from DoL activities and its entities' procurement process is very difficult to quantify. Due to poor IT systems of both the Department and its entities, it is difficult to measure performance and targets. However, given the Department's newly proposed IT strategy and the end of the Siemens contract, there is a great chance that the quality of reporting will improve.

In order to achieve the objective of supporting institutional capacity of the Department, it has set;

- To submit annual reports on time,
- To review service delivery norms,
- To implement security vetting of the Department's staff,
- To provide integrated communication support to promote campaigns and products of the Department. During the 2010/11 financial year, the main campaign has been to inform and educate stakeholders about legislative amendments
- To effectively and efficiently manage assets: in the past years the department has had qualified audit reports due to poor management of the asset register. However, the Department has put in a lot of effort to address this challenge

To promote equity in the labour market, the department set targets;

- To inspect workplaces and JSE listed companies
- To amend the Employment Equity Act
- To amend the Code and Technical Assistance Guidelines (TAG)

To protect vulnerable workers, the department set targets;

- To conduct blitz inspections in targeted sectors such as agriculture, construction, domestic, etc.

To strengthen multilateral and bilateral relations, the Department set;

- To conduct workshops on Conventions with the department's staff

To strengthen social protection, the department set;

- To conduct blitz, audits and seminars in high risk sectors

To contribute to employment creation, the department set;

- To finalise Employment Services Policy



- To register 600 000 job-seekers on the Public employment Services system
- To place job-seekers or refer them to opportunities
- To increase the number of employers that register vacancies in ESSA
- To process migrant workers' work permit applications
- To process applications for companies in distress
- To finalise the legal status of Sheltered Employment Factories (SEFs)
- To increase sales of goods from SEFs to increase intake of people with disabilities into factories
- To implement productivity awareness campaigns
- To assist SMME managers to manage matters related to intellectual property
- To develop worker cooperative strategy

To promote sound labour relations, the department has set;

- To amend the Labour relation Act
- To monitor the performance of the CCMA against its strategic objectives
- To monitor the performance of NEDLAC against its strategic objectives

To monitor the impact of legislation, the department has set;

- To develop annual Labour Market Review reports

5. Programme Performance: Successes and Challenges

The Department has four programmes, namely: administration, Inspection and Enforcement Services (IES), Public Employment Services (PES) and Labour Policy and Labour Market Programmes. In terms of performance targets, the Department has not been consistent in its achievement of targets.

2009/2010:

- The Department's strategic plan did not form the basis for reporting on performance information in the 2009/10 annual report
- The performance targets and objectives did not fairly represent the Department's state of affairs
- The reported performance information for the Service Delivery programme (now called Inspection and Enforcement programme , i.e. IES) was not presented in a simple, accessible format, relevant and useful
- The Department did not report on all the predetermined objectives
- Service Delivery programme's measurable objectives/indicators were not consistent with the indicators as per the approved strategic plan⁹

⁹ Department of Labour (2010)



2010/2011:

- For the 2010/11 financial year, the Department continued to struggle to report on predetermined objectives as they were inconsistent and immeasurable
- 50 per cent of planned and reported targets and indicators were not measurable in identifying the required performance, time-bound in specifying the time period or deadline for delivery and indicators were not clear and easy to understand¹⁰

2011/12

Measurability of targets

- 25 per cent of strategic priorities relevant to Public Employment Services Programme were not specific in clearly identifying the nature and the required level of performance
- A total of 28 per cent of the targets related to the IES were not time bound in specifying a time period or deadline for delivery
- A total of 33 per cent reported indicators relevant to IES were not accurate when compared to source information. This was due to lack of monitoring, review, standard operating procedures and information systems for the recording of actual achievements by senior management.
- A total of 22 per cent and 47 per cent of the indicators relevant to IES and Public Employment Services respectively were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.¹¹

Reliability of Information

- A total of 47 per cent of the actual reported performance relevant to the selected programmes was not valid, accurate or complete when compared to the source information

Achievement of Planned Targets

- Of the total number of planned targets, only 82 were achieved during the year under review. This represents 59 per cent of total planned targets that were achieved during the year under review.

While the Department has improved in addressing numerous issues related to financial management, it has received an unqualified opinion, but it still struggles to improve on predetermined objectives (performance targets) as it received a qualified opinion in this area.

5.1. Successes

Administration: the outstanding success has been the ability to deliver a clean audit during 2010/11 and 2011/12, following a six-year successive negative performance due to qualified audit

¹⁰ Department of labour (2011)

¹¹ Department of Labour (2012)



opinions mostly as a result of poor asset management and the Public-Private Partnership (PPP) between the Department on Labour (DoL) and Siemens. In addressing these challenges, the Department has been successful in establishing the two key positions of the Chief Operations Officer (COO) and the Chief Information Officer (CIO). As a result, labour centres efficiency has improved as services continue being decentralised.

Inspection and Enforcement Services (IES): over the years, the Department has been successful in increasing inspections in high incident sectors and vulnerable sectors through blitz inspections.

Public Employment Services (PES): there has been a significant increase in the registration of jobseekers in the PES. To date there is a total of 600 000 people registered in the system.

Labour Policy and Labour Market Programmes: in transforming the labour market, the Department has been able to increase compliance levels of companies that submit employment equity reports to the Department. In addition, in promoting decent work for all, the Employment Conditions Commission (ECC) has reviewed a number of sectoral determinations during the past three financial years. The Department has also been successful in commissioning useful research regarding labour market issues.

5.2. Challenges

Some of the challenges include:

Administration: with regard to this programme, challenges include firstly; high vacancy rate exacerbated by delays in security clearance processes. Secondly, information technology challenges as a result of the Public Private Partnership between the Department and Siemens. However, the Department has formulated an IT strategy and the ICO was appointed. The 10-year contract with Siemens will finally end at the end of 2012. As a result of IT challenges, entities and labour centres have had difficulty achieving their targets and delivering much needed services as a result of delays and ill-equipped offices.

Inspection and Enforcement Services: over the past years the Department has been losing experienced inspectors to the private sector. The challenge has not been sufficiently met with a strategy to address the key areas left by the vacuum created.¹² Additional challenges include insufficient resources that are a key in delivering inspectorate services such as laptops, cell-phones, cars, etc.

Public Employment Services (PES): as the number of jobseekers registering in the PES increase, a growing challenge is placing them with companies and individual employers given the sluggish economic performance. In addition, due to the Department's poor IT performance, as a

¹² Department of Labour (2009)



result of the PPP contract challenges, the programme has been severely affected since a large part of its functions are performed using IT.

Labour Policy and Industrial Relations Programme: this programme has some of the most critical functions in the labour market, i.e. to ensure sound labour relations and promote equity. However, while the Department is responsible for developing the overall policy formulation and developing regulations to address these challenges, external factors have a huge impact on whether there is successful implementation of targets towards sound labour relations and equity. But more importantly, success is largely dependent on policy alignment such as general government transformation policies and the Department's Inspectorate and Enforcement Services ability to monitor compliance. However, IES challenges have had a negative impact on the success of this programme.

6. Liaison with Entities

With the exception of the Compensation Fund, the Department's entities are relatively performing well. Given the critical role that the Compensation Fund has been entrusted with, i.e. strengthening social protection and providing a social safety net to South Africans, the Fund's weaknesses are of concern. Challenges such as fraud and corruption, non-submission of information and documents by employers, IT system challenges that affect the turnaround time in the processing of compensation claims and payments. As a result, injured people and families that desperately need money to receive treatment and other resources are negatively affected.

Moreover, there is clear lack of leadership in steering this entity clear of the current challenges. Both the Department and the Fund's accounting officers have not exercised oversight responsibility over the performance of the entity.

7. Outstanding Issues to be Considered by the Committee

- During the 2011 BRRR, the Committee recommended that the Compensation Fund must commission a study on the reasons for reduction in claims payments to determine whether this is due to an increase in compliance levels or poor reporting from employers. In addition, the study must be able to reflect on sector compliance and no-compliance in reporting workplace injuries. The Fund should therefore report to the Portfolio Committee whether this recommendation has been fulfilled.¹³
- The Committee recommended that due to an increasing demand for the CCMA services, the Department and the CCMA should speedily come up with a sustainable funding model for the entity. The CCMA and the Department should report back to the Committee if this was achieved.¹⁴

¹³ Portfolio Committee on Labour (2011)

¹⁴ Ibid



- The Committee recommended that the Department's Strategic Plan must have measurable objectives that are quantifiable and easy to evaluate. Therefore, the Department should report on how this has been implemented.¹⁵

8. Conclusion and Recommendations

- The Department of Labour has a critical role to play to stabilise the labour market through sound labour policies that not only ensure peaceful workplace relations but that also sustain employment creation. As such, the Department has the responsibility to ensure efficiency and effectiveness in delivering services to the people through proper oversight over its entities.
- The Department should take measures to improve on performance targets and performance indicators by ensuring that reported information is measurable and reliable. The Portfolio Committee's main focus should be on the Inspection and Enforcement Services, Public Employment Services and the Compensation Fund.
- The Committee should closely monitor the PPP contract of Siemens as it draws to the end and ensure that there is smooth handover from Siemens to the Department. Moreover, in ensuring that the Department builds internal IT capacity, the Committee should oversee that qualified and competent staff is recruited
- The Committee should ensure that the Department plays a closer role in overseeing the CF to turnaround its performance. The Department's accounting officer should play a closer role to influence and steer the Fund's leadership to achieve positive results. In addition, the Department's entities must share good practices in order to assist the Fund to improve on audit outcomes.
- The Committee should hold quarterly meeting with the Department to review and monitor high-risk areas such as procurement processes, Information Technology and Human Resources Management
- The Committee should closely monitor performance of NEDLAC as concerns have been raised
- The Committee should monitor the use of consultant by the Department and entities. Where consultants are used, there should be transfer of skills to permanent staff. Therefore, the Committee should ensure that there are comprehensive programmes to ensure transfer of skills.
- The Committee should invite the Department's internal audit committee to verify information presented before it.

¹⁵ Ibid



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