



An Analysis of the Department of Labour's 2007/08 Annual Report

A. Introduction

The purpose of this paper is to analyse the programmatic, human resources and financial performance of the Department of Labour (DoL), during the 2007/08 financial year. The performance evaluation of Departments and their entities is part of an oversight function by Parliament in order to guarantee that they deliver on their constitutional obligation to deliver high quality service, economically, efficiently and effectively in line with the legislative mandate, strategic plan and budget and if it is contributing meaningfully too the realisation of government's overall objectives.¹

The analysis will be based on the strategic objectives, as set by the State of the Nation Address in 2007 and the Department's Strategic Plan for 2007-2010, as tabled in Parliament.

B. The Legislative Mandate of the DoL

When the new democratic government took reigns in 1994, the labour market was characterised by a fragmented system that was both unfair and unsystematic. Some of the challenges that government had to address included:

- Large pool of unskilled labour
- Short supply of skilled labour
- Race and gender inequality
- Structural unemployment and underemployment
- Adversarialism in labour relations
- Poverty amongst low wage earners
- Inadequate protection of vulnerable workers

Therefore, policy and legislative framework had to directly address the challenges, as reflected through institutionalised racial segregation of the labour market. In this regard, through consultation with the social partners at NEDLAC, the following pieces of legislation were formulated and guide the Department's exertion:

- The Constitution of South Africa, No. 108 of 1996.
- Public Finance Management Act, No. 1 of 1999, and amendments.
- Basic Conditions of Employment Act (BCEA), No. 75 of 1997, and amendments.
- Compensation for Occupational Injuries and Diseases Act, No. 130 of 1993, and amendments.
- Employment Equity Act, No. 55 of 1998, and amendments.
- Labour Relations Act (LRA), No. 66 of 1995, and amendments.

¹ National Treasury (2005)



- Manpower Training Act, No. 56 of 1981, and amendments²
- Occupational Health and Safety Act, No. 85 of 1993, and amendments.
- Skills Development Act, No. 97 of 1998, and amendments.
- Unemployment Insurance Act, No. 63 of 2001³

C. Mission Statement

South Africa's economic policy formulation is informed by the Millennium Development Goals, of halving unemployment by 2014. Therefore, the government's drive for greater expansion of the First Economy through the 6 per cent economic growth target, is but one of numerous objectives in the fight against poverty and underdevelopment in the Second Economy. The mission statement of the DoL, therefore strives to address these challenges, as posed by the inequalities, unemployment and poverty in the labour market. The statement aims to

- Improve economic efficiency and productivity
- Skills development and employment creation
- Sound labour relations
- Eliminating inequality and discrimination in the workplace
- Alleviating poverty in employment
- Enhancing occupational health and safety awareness and compliance in the workplace
- Nurturing the culture of acceptance that worker rights are human rights⁴

D. Institutions Reporting to the DoL

The Department of Labour relates with the following institutions:

- The Advisory Council for Occupational Health and Safety (ACOHS)
- Commission for Conciliation, Mediation and Arbitration (CCMA)
- Commission for Employment Equity (CEE)
- Compensation Board
- Employment Conditions Commission (ECC)
- National Economic Development and Labour Council (NEDLAC)
- National Skills Authority (NSA)
- Productivity South Africa
- Sector Education and Training Authorities (SETAs)
- Umsobomvu Youth Fund (UYF)
- Unemployment Insurance Fund (UIF)

² The Manpower Training Act, No. 56 of 1981, has since been repealed under the Skills Development Act Amendment Bill 2008. Only the section on artisan development has been retained.

³ Herling, M. (2007)

⁴ Annual Report of the Department of Labour (2007/08)



E. Strategic Objectives for 2007/08

According to the 2007 State of the Nation Address (SONA), poverty eradication through economic empowerment is the key in addressing social and economic challenges. In this regard, the SONA highlighted areas such as employment creation, further education and training, youth development, small medium and micro enterprises and social security potential sources for impetus to address economic challenges. In relation to the objectives, as outlined by the SONA and the Ministerial Programme of Action for 2004-2009, the DoL outlined the following areas of focus:

- Contribution to employment
- Enhancing skills development
- Promoting equity in the labour market
- Protecting vulnerable workers
- Strengthening multilateral and bilateral relations
- Strengthening social protection
- Promoting sound labour relations
- Strengthening the capacity of labour market institutions
- Monitoring the impact of legislation
- Strengthening the institutional capacity of the Department⁵

While these are broad and long-term guidelines for the Department, the strategic priorities for the period 2007-2010 are more measurable, which include:

- Decentralising functions and delegating authority
- Skills development will prioritise artisan development and scarce and critical skills in alignment with ASGISA and JIPSA
- Restructuring the Compensation Fund – Phase 2
- Employment Services
- Integration of occupational health and safety and competencies across government
- Decent work country programme⁶

F. Programmatic Performance

This section focuses on the non-financial performance of the Department, which is based on programme performance. It deals with the extent to which the Department had delivered on its strategic plan and budget. In this regard, the focus will be on achievement of planned outputs against

⁵ Strategic Plan 2007-2010

⁶ Ibid



the State of the Nation's and Budget strategic objectives in 2007. A set of questions will then be formulated for each section which will focus on specific service delivery responsibilities.⁷

I. Administration

Administration programme performs the overall management of the Department and provides centralised support services.⁸ On the programme, the Department reported on its communication, human resources management, financial management, information technology, internal audit and security services.

II. Service Delivery

Service Delivery ensures proper implementation and compliance of the Department's policies and programmes through proper evaluation, monitoring and inspections.⁹ It has six sub-programmes, namely:

- **Management Support Services:** is responsible for management and other related support of the provincial offices, labour centres and visiting points
- **Beneficiary Services:** provides services to the unemployed and those injured on duty. These services are administered through the Unemployment Insurance Act and the Compensation for Occupational Injuries and Diseases Act
- **Employment Services:** facilitates access to employment opportunities through income-generating opportunities
- **Inspection and Enforcement Services:** ensures that employers and employees comply with labour legislation
- **Labour Market Information and Statistics:** through thorough research and monitoring of the labour market, analysis of the impact of labour legislation and performance of job-creation programmes and assessment of internal capacity is made.
- **Occupational Health and Safety:** regulate the use of plant and machinery and dangerous activities, in order to promote health and safety in the workplace¹⁰

The Department reported on the decentralisation of functions to Provincial offices. It reported that phase 2 of the process was not yet achieved.

According to the Government's Development Indicators, Black representation in the top management positions has grown, and the public sector has largely become representative of the population. Black people filled 22.2% of all top management positions and 26.9% of all senior management positions in 2006. Black representation in all senior management positions increased by 1.2% from 25.7% in 2004 to 26.9% in 2006

⁷ National Treasury (2005)

⁸ Jawooden, E. (2006)

⁹ National Treasury (2008)

¹⁰ Annual report (2007)



and increased by 8.4% from 18.5% in 2000 to 26.9% in 2006, indicating a slow but steady growth performance. According to the Employment Equity Report for 2006/07, males constitute 78.4% of top management and females 21.6%. At senior management level males represent 72.4% of the work force and females 27.4%. Although progress is being made both in terms of gender and race, the country particularly the private sector has not made sufficient progress; and there seems to be a leveling off in respect of black representation.¹¹

1. What have been the delays in finalising on the decentralisation of functions to provincial offices?
2. Given efforts from the DoL, what progress has been made with regards to the private sector on employment equity policy?
3. What is the sector analysis (breakdown) on compliance? i.e. which sectors are more compliant?
4. Given that the Expanded Public Works Programme (EPWP) is largely made up of four sectors which are: infrastructure, social, environment and culture and economic. Which sectors have capacity to absorb large numbers of trainees from learnerships?

III. Employment and Skills Development Services/Human Resources Development

The Employment and Skills Development Services/Human Resources Development programme focuses on the implementation and monitoring of employment creation and skills development through the National Skills Development Strategy (NSDS) and the National Human Resources Development Strategy. This programme has nine sub-programmes, including:

- National Skills Fund Admin and Transfers
- SETA Co-ordination
- INDLELA
- Training of Staff
- Programme Management Support¹²
- NSA Secretariat
- Quality Development and promotion
- Productivity SA
- Umsobomvu Youth Fund

The Department reported success in implantation alignment of the National Skills Development Strategy (NSDS) with the provincial growth and development strategies/ASGI-SA. The programme also reported increase in training of co-ops in different provinces, together an increase in non-levy paying organisations that receive skills development support, e.g. NGOs, SMMEs, and Co-ops et al. Furthermore, the DoL also reported success in the number of unemployed youths that have received training in scarce and critical skills programmes. It also reports on the Skills Development Amendment

¹¹ Government Development Indicators (2008)

¹² Annual Report (2008)



Bill (2008), which shifts the role of INDLELA to support apprenticeship moderation, assessment and specialised training.

1. The Department has reported that various provincial growth and development strategies have been aligned to ASGISA targets. What kinds of projects have been promoted under these strategies?
2. Do these projects address the need of scarce and critical skills, as promoted under ASGISA?
3. Which sectors have been targeted to absorb the youths that have completed training?
4. As an additional area of focus, JIPSA has included agricultural and rural development skills. How has funding promoted agricultural and rural development skills?

IV. Labour Policy and Labour Market Programmes

This programme is responsible for the promotion equitable and sound labour relations environment, both in South Africa and internationally. It has the following sub-programmes:

- Strengthening Civil Society
- Collective Bargaining
- Commission for Conciliation, Mediation and Arbitration
- Employment Equity and Standards
- Research, Policy and Planning
- Labour Market Information and Statistics
- International Labour Matters
- National Economic Development and Labour Council (NEDLAC)
- Sheltered Employment Factories¹³

The Department has reported achievements with regards to support given to community organisations in support of vulnerable workers in rural areas. Furthermore, success has been registered on the implementation of Employment Equity reporting, through the DG Review system. To further strengthen the work of employment equity commission, the Department has decentralised the Employment Equity System to the provinces. Previously, Employment Equity reporting was a national competency and now provinces, through labour inspectors will have an added responsibility to monitor this.

The Department has also reported progress on issues of sectoral determinations, including various sectors that have been targeted such as the hospitality, taxi, welfare et al. Moreover, the Department has met with various departments such as Social Department, Water Affairs and Forestry so as to mainstream activities performed through the programme Towards the Elimination of worst forms of Child Labour (TECL) into their work plans.

¹³ Annual Report (2008)



1. How has the Child Labour programme objectives influenced the legislative framework which affects children's rights and protection?
2. Does the Department have the research capacity or is research work commissioned to academic institutions or research institutions?
3. the Department has reported on research reports, which are competencies of entities such as NEDLAC, e.g. quarterly reports on GDS. What specific measures does the Department take in order not take over competencies of entities?

V. the National Skills Fund (NSF)

The Department has recorded success with regards to various skills training projects, including those that promote co-operatives, Adult Basic Education and Training (ABET) et al.

1. Where the Department underestimates on the number of learners in various projects, how does it affect the quality and budget of various projects?
2. How does the Department plan for unexpected additional numbers of learners?
3. What kinds of co-ops have received support from the Department?
4. What is incentivised training, as stated in page 44 (2.6)?
5. What are new investments and expansion initiatives?
6. If 28% of training provided was accredited, what happens to the rest that is not accredited?
7. Does the Department intend reviewing the current New Venture Creation training programme, given that there is a high rate (of 2 653 unsuccessful candidates)
8. What measures are there to support young entrepreneurs who enter into the new venture creations?
9. How are these initiatives different from those that are led by Umsobomvu Youth Fund?

VI. Tabling of the Report.

The annual report was tabled within the required time frame, as stipulated by the Public Finance Management Act (PFMA).

VII. Technical Quality

There are new sections added in the annual report, for example, the section on the Ministry of Labour. Technically, the 2007/08 report has been improved in colour, although the layout is still similar to the 2006/07 annual report. The continued weakness with the annual report layout is that it is too clustered i.e. too much information makes it incomprehensible.



VIII. The Sheltered Employment Factories

During the 2006/07 financial year, the SEFs received a qualified audit report and a number of matters highlighted that included internal controls, non-compliance with the legislation et al. in the current annual report, the entity has received an unqualified audit report with emphasis of matter. This kind of opinion is least severe audit opinion, as the financial statements may be regarded as fairly representing the financial status of the entity, but with a number of issues that are cause for concern which are raised in the emphasis of matter. In the emphasis of matter the Auditor-General has raised the following issues:

- The SEF has incurred irregular expenditure of R9, 5 million during the financial year of 2007/08 (the year under review)
- An amount of R570 209 which related to cheques that were cashed by unknown parties (the matter has been referred to the SAPS and parties involved were reported).

Overall, the SEF has considerably improved on matters of governance and has implemented recommendations from the external audit.

The SEF is currently implementing the turnaround strategy to restructure the entity with assistance from National Treasury.

IX. The National Skills Fund (NSF)

The NSF received a qualified audit opinion based on a number of factors, including:

- Insufficient evidence to confirm the existence, valuation and completeness of commitments amounting to R1. 544 billion (2007: R745 million)
- An amount of R10. 714 million could not be verified due to lack of supporting documentation

The NSF has implemented some of SCOPA resolutions, such as the listing of NSF as a public entity under the Skills Development Amendment Bill of (2008). However the AG has raised concerns that the entity has not sufficiently implemented all the SCOPA resolutions and the prior year's external audit recommendations.¹⁴

1. What have been the delays in implementing recommendations from the external auditors and SCOPA?
2. Which recommendations have not yet been implemented? And why have been not implemented?

¹⁴ Annual Report (2008)



FINANCIAL INFORMATION OF THE DEPARTMENT OF LABOUR FOR THE 2007/08 FINANCIAL YEAR

1. BUDGET INFORMATION

The Department of Labour was allocated R8 billion in the 2007/08 financial year for both programme appropriation and the direct charge against the national revenue fund (statutory appropriation)^{15, 16}. This amount was adjusted to R8.3 billion during the year, mainly due to a R5 million rolled over from the 2006/07 financial year for promotional items and a generic advertising campaign in the Administration programme, and an R800 million adjustment for the statutory appropriation.¹⁷ The department carries out its mandate through five programmes and the programme budgeting reflects that the Service Delivery and Employment and Skills Development Services programmes received the highest share of the budget, amounting to R655.4 million and R585 million respectively. The Administration programme was allocated R365.7 million while the Labour Policy and Labour Market programme received R421.8 million from the departmental budget. The Social Insurance programme received the smallest appropriation of R10 million during the period under review.

The department allocated R1.2 billion of its budget to current assets, R824.7 million to transfers and subsidies, and R31.7 million to payments for capital assets.¹⁸ Furthermore, Sector Education and Training Authorities received R5.4 billion of the statutory appropriation, while R1.6 billion was allocated to the National Skill Fund.

2. BUDGET PERFORMANCE

2.1 Programme Expenditure

The overall expenditure of the department amounted to R8.2 billion during the period under review. One hundred per cent of the statutory funds were transferred to the respective agencies. The department spent R1.9 billion or 95.62 per cent of the R2 billion budgeted for programmes. The department under-spent by **R89.2 million or 4.38 per cent**, mainly on programme budgeting. Table 1 below illustrates actual programme expenditure for the period under review.

¹⁵ Sector Education and Training Authorities, and National Skills Fund

¹⁶ Estimate of National Expenditure, 2007.

¹⁷ Adjusted Estimate of National Expenditure, 2007.

¹⁸ *ibid*



Table1: Programme Expenditure for the 2007/08 Financial Year

Programme R' 000	2007/08 Financial Year			
	Adjusted Appropriation	Actual Expenditure	Variance in R	Variance in Percentage
Administration	365 653	328 384	37 269	10.19 per cent
Service Delivery	665 409	656 753	8 656	1.30 per cent
Employment & Skills Development Services	575 039	540 119	34 920	6.07 per cent
Labour Policy & Labour Market	421 763	417 467	4 296	1.02 per cent
Social Insurance	10 001	5 898	4 103	41.03 per cent
Total	2 037 865	1 948 621	89 244	4.38 per cent

Source: Annual Report 2008

As reflected in table 1, the department under-spent in all of its programmes. The Social Insurance programme, which is responsible for providing administrative support to the Unemployment Insurance Fund and the Compensation Fund, reported a deviation of R4.1 million or 41.03 per cent from the expenditure estimate, being the least spending programme. Even though the Employment and Skills Services programme under-spent by 6.07 per cent, its actual expenditure is **R34.9 million less than the budgeted amount**. The Administration programme under-spent by R37.3 million or 10.19 per cent, while the Service Delivery and Labour Policy and Labour market programmes under-spent by R8.7 million or 1.30 per cent and 4.3 million or 1.02 per cent, respectively.

The department spent R1.1 billion or 93.83 per cent on current expenditure, R828.4 million or 100.45 per cent on transfers and subsidies, while also spending R11.7 million or 36.80 per cent on capital expenditure.

2.2 Virements

The department made a virement amounting to R5.6 million during the 2007/08 financial year. This amount was vired from the capital budget category of the Administration programme to the transfers and subsidies budget category of the Labour Policy and Labour Market programme. However, the Labour Policy and Labour Market programme reflects an under-spending by 1.02 per cent from its original budget, **which raises concerns on the necessity of the virement to this programme and the planning within the department**. If this amount had not been vired to the Labour Policy and Labour Market programme, the department would have under-spent by R6.7 million or 90.31 per cent on capital expenditure for the Administration programme.



2.3 Irregular Expenditure

The department incurred irregular expenditure amounting to R2 thousand during the period under review. This was due to the amount not being approved by the sub tender committee. An investigation is still in progress, regarding this expenditure. The departmental records reflect a total amount of R1 million for irregular expenditure, emanating from the previous years. The cases for these expenditures are still investigated by the department.

2.4 Auditor-General's Opinion

The department received a qualified audit opinion for the period under review. This qualified opinion was based on capital assets, regarding the shortcomings identified in the management and controls of assets and asset register. The Auditor-General raised concerns on the following issues:¹⁹

- Incorrect valuations of assets in the asset register.
- The asset register was not adequately maintained as per the requirements of the National Treasury.
- Duplicated barcodes in assets.
- The reconciliation of the prior years balance, amounting to R123.3 million with the asset register submitted to the period ending 31 March 2007 is still outstanding.
- The valuation, existence and completeness of assets amount 103.3 million and the assets amounting to R124.8 belonging to Public-Private Partnership could not be adequately ascertained, due to the discrepancies noted.

However, the AG has also noted the extensive processes undertaken by the department to implement and maintain an asset register.

3. Issues for Committee Consideration

- The Committee should note the actions taken by the department to implement and maintain the asset register. However, the Committee might be interested to know how and when the department is planning to address the issues raised by the AG. The Committee should assist the in addressing these issues and monitor the progress made over time, through is ongoing oversight.
- The department under-spent in all of its programmes, which might have impacted on the service delivery. The Committee should ascertain from the department the way in which this under-spending affected the service delivery and the achievement of the departmental objectives. The Committee should also ascertain whether the department has any early warning system that is used by the department to monitor its spending, and alarm whenever there are indicators of under or over spending.

¹⁹ Annual Report, 2008



- The Department vired some funds from Administration to the Labour Policy and Labour Market programme. However, the expenditure trends of the department reflect that the department under-spent by 1.02 per cent from the original budget allocated to this programme. The Committee should ask the purpose for this virement, in consideration that the Labour Policy and Labour Market could not spend R4.3 million or 1.02 per cent of the funds originally allocated to it.

List of References

Annual Report, Department of Labour, 2008.

Adjusted Estimate of National Expenditure, National Treasury, 2007.

Estimate of National Expenditure, National Treasury, 2007.