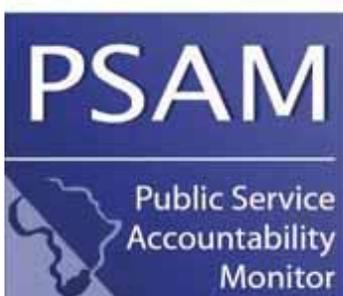


 **department of housing**  
eastern cape, south africa



**budget analysis 2010/2011**

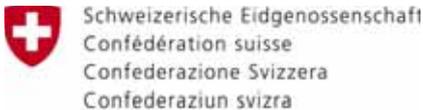


**yeukai mukorombindo**

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Swiss Agency for Development  
and Cooperation SDC



*"We must promote democracy at every level of society. The best and most effective means of ensuring human rights and to promote the eradication of racism and sexism is to enable the full and unqualified participation of all races, sexes and classes in all aspects of society ... Democracy and human rights are inseparable. We cannot have the one without the other."*

Nelson Mandela 1993

# Eastern Cape Department of Housing

## Budget Analysis

2010/11

Yeukai Mukorombindo

June 2010

Monitoring and Research Programme, Public Service Accountability Monitor

For more information contact the PSAM, [psam-admin@ru.ac.za](mailto:psam-admin@ru.ac.za)

Tel: (046) 603 8358, Fax: (046) 622 7215

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### **Key Findings and Recommendations**

#### **Finding**

For the 2010/11 financial year the Eastern Cape Department of Housing has received a total budget allocation of R1.82 billion. This represents a nominal increase of R294.3 million or 19.22% from the 2009/10 adjusted appropriation of R1.53 billion. Once inflation is taken into account, this represents a budget increase of 12.47% in real terms. This increase is a major improvement compared to the nominal increase of 2% in the 2009/10 financial year.

#### **Finding**

The 2010/11 budget for the Integrated Housing and Human Settlement Development Conditional Grant (IHSDG) experiences a nominal increase of 21.76% which translates into a 14.87% increase in real terms from the 2009/10 financial year. This is a major boost to the budget taking into account that the 2009/10 conditional grant allocation experienced a nominal increase of 4.98% which translated into a small real increase of 0.49% from the 2008/09 financial year. The 14.87% increase in real terms for the 2010/11 budget will most likely sustain the Department's planned activities for this year. It is also encouraging to see that the Department plans to take inflation into account by projecting to increase the conditional grant budget by 17.01% over the MTEF.

#### **Recommendation**

The IHSDG has taken inflation into account this financial year and it appears as if the grant will be adequate to fund the Department's targets this financial year and over the MTEF. Improved expenditure of the grant has been key to increases in allocation and the Department is urged to maintain improved expenditure this year and over the MTEF in order to ensure progressive conditional grant allocations in the future.

## **Finding**

The Department's total allocation is comprised of the conditional grant allocation and the equitable share. The conditional grant experiences a real increase of 14.27% and a real average growth of 17% over the MTEF and yet the Department receives a 2% increase in the 2010/11 equitable share, but once inflation has been taken into account, the 2010/11 equitable share budget experiences a decline of 2.29% and experiences negligible growth of 0.16% in real terms over the MTEF.

## **Recommendation**

Conditional grant activities are supported by operational activities funded by the equitable share. An inadequate equitable share allocation negatively affects operational activities. Operational activities affected include capacity development of municipalities, accurate planning processes for current and future housing development projects, filling of critical vacancies amongst other activities. In order to avoid further adverse effects on housing delivery as a result of insufficient funds for personnel and other operational activities, the Department is strongly encouraged to take proactive steps to motivate for additional funds over the MTEF. The Department is also encouraged to support the MEC for Finance's call for the review of equitable share formula by National Treasury.

## **Finding**

The 2010/11 budget for compensation of employees is R158 million. This is a nominal budget increase of 12.08% from the 2009/10 adjusted allocation. Once inflation is taken into account, this amounts to a 5.74% increase. Over the MTEF, the budget for compensation of employees experiences a decline of 0.01%. These factors are likely to detract from the attainment of various Departmental priorities.

## **Recommendation**

"Limited capacity" is often identified as one of the primary reasons tied to the Department's inability to meet its performance targets. In 2009/10, the Housing Portfolio Committee also found that the Department did not have enough funds to fill in critical vacant posts because of an insufficient budget.<sup>1</sup> It appears as if an inadequate budget is the main obstacle to the Department filling in its critical vacant posts. The Department is urged to increase its compensation of employees budget over the MTEF in order to partly solve the problem of inadequate human resource capacity. The Department also needs to develop a detailed, costed and time bound recruitment strategy.

## **Finding**

In 2010/11 Programme 2 experiences a nominal increase of 11.45% from the 2009/10 allocation, which translates into a real increase of 5.15% once inflation is taken into account. Over the MTEF the budget decreases on average in real terms by 0.72%. The 'Planning' sub-programme in Programme 2 experiences a real budget increase of 11.24% from the previous financial year and experiences a real average growth of 0.04%. It is encouraging to note that the Department has not only recognised the need to offer assistance to municipalities but have also provided an adequate budget to provide hands on support to municipalities this financial year. Nevertheless, it is disappointing to note that the 'Planning'

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<sup>1</sup> No.22 First Session, Fourth Legislature of the Province of the Eastern Cape, Report of the Portfolio Committee on Housing dated 19 November 2009, p.471

sub-programme experiences a budget decline of 0.04% over the MTEF. The Department does not plan to accredit any municipalities this financial year or over the MTEF.

### **Recommendation**

It is recommended that both the Housing Department and Co-operative Governance Department make it a strategic objective to work together on a national, provincial and local level to increase the number of accredited municipalities and expand municipal capacity building programmes. The Housing Department is unlikely to achieve its target of delivering 22 000 units and implementing its BNG housing projects if both the DPCG and Department of Housing fail to meaningfully capacitate municipalities this financial year and accredit them over the MTEF.

### **Finding**

Programme 3 receives the largest increase in budget allocation this financial year, increasing from R83.6 million in 2009/10 to R1.7 billion in 2010/11. This is a real increase of 1 826.52% and the Programme experiences a real average growth of 12.3% over the MTEF. This substantial increase is a result of the shifting of the Conditional grant from Programme 1 to Programme 3. Due to this change, a new sub-programme, Grant Management, has been introduced to Programme 3 to manage the Housing Development grant.

### **Recommendation**

Programme 3 needs to increase its number of technical experts such as town planners and engineers, improve monitoring of housing projects as well as deal decisively with fraud and corruption by contractors and housing officials. Unless this is done, poor quality houses, rectification and blocked projects will continue to plague the Department despite the Programme's massive budget increase. Whilst it is pleasing to note that the Project Management and Quality Assurance sub-programme budget increases by 24.95% in real terms from the 2009/10 financial year, it suffers a budget decline of 0.04% over the MTEF.

## Introduction

The South African Constitution commits government departments to the progressive realisation of socio-economic rights within available resources. These rights include the right to education, healthcare, housing and social welfare.<sup>2</sup> The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services. In order to effectively realise these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery systems. These include: planning and resource allocation systems; expenditure management systems; performance monitoring systems; integrity systems; and, oversight systems. The effectiveness of these systems can be established by monitoring their information outputs. To evaluate these systems, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each system.

Government seeks to ensure that it addresses the most pressing social and economic needs of those that they serve through the prioritisation of public resources within the annual budget.

This report analyses the impact of policy priorities (national, provincial, sectoral and departmental) on the Eastern Cape Department of Housing's 2010/11 budget and on its ability to implement effective and efficient service delivery and accountability systems in the up-coming financial year. In addition, assumptions informing both policy priorities and budget allocation trade-offs are analysed in terms of the Department's external and internal service delivery environment. In producing this report, the PSAM wishes to acknowledge the Centre on Budget and Policy Priorities (CBPP) who have provided support via a grant from the International Budget Partnership of the CBPP.

## I. Policy Priorities

In this section, key policy priorities for the 2010/11 financial year will be highlighted and discussed. They are drawn from the 2010/11 Eastern Cape Overview and Estimates of Provincial Expenditure,<sup>3</sup> the Eastern Cape Human Settlements' most recently available Strategic Plan,<sup>4</sup> the Provincial Growth and Development Plan (PGDP),<sup>5</sup> the President's State of the Nation Address,<sup>6</sup> the Minister of Human Settlements 2010 Budget Speech,<sup>7</sup> the 2010/11 Housing Policy and Budget speech delivered by Eastern Cape MEC N. Mabandla<sup>8</sup> and the 2010 State of the Province Addresses delivered by Premier Noxolo Kiviet<sup>9</sup> among others.

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<sup>2</sup> Constitution of the Republic of South Africa, sections 26, 27 and 29.

<sup>3</sup> Province of the Eastern Cape Provincial Treasury, Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11

<sup>4</sup> Eastern Cape Department of Human Settlements, Strategic Plan (2010/11-2014/15).

<sup>5</sup> The Eastern Cape Provincial Growth and Development Plan (2004-2014) covers the overarching national and provincial strategic frameworks.

<sup>6</sup> Delivered on 11 February 2010

<sup>7</sup> Delivered on 21 April 2010

<sup>8</sup> Delivered on 24 March 2010

<sup>9</sup> Delivered on 1 March 2010

Whilst the national and provincial focus was on increasing the availability of housing for the most vulnerable in the previous financial year,<sup>10</sup> the broad overarching policy priority for this financial year is “sustainable human settlement development” which according to President Jacob Zuma is a “responsibility quite bigger than Housing the nation.”<sup>11</sup> This priority is cemented by the finalisation of the name change from the Department of Housing to the Department of Human Settlement. MEC N. Mabandla stated that this name change brings with it an “extended mandate”<sup>12</sup> and vision for the Department. According to MEC Mabandla the creation of human settlements is about “ensuring that in spaces where we build homes we also provide other critical socio-economic amenities that will be contributed by other sector departments and relevant stakeholders.”<sup>13</sup> The 5 year strategic plan outlines the new demands and expected changes in the services and resources that come with this extended mandate. Both the strategic plan and Minister outline the elements that make up human settlements to include:<sup>14</sup>

- Shelter/Infrastructure – structures of different size, type and material, erected for security, privacy, protection from the elements, energy or information.
- Services – covers aspects required by the community for the fulfilment of its functions as a social body such as education, health, culture and welfare, recreation and nutrition.

To support the physical components of human settlements, the new strategy demands a fundamental shift from traditional RDP housing delivery to bigger, better quality and well located houses. The Department explains that this year it will cater for internal and external plastering and provision of ceiling as a new and permanent feature for all subsidised houses. In addition to the internal and external plastering and ceiling, the norms and standards of a typical Eastern Cape home is 40 square metres as opposed to the national norm of 30 square metres.<sup>15</sup> This financial year, the Department intends to install services at 8 000 sites.<sup>16</sup> As part of providing adequate services for the creation of sustainable human settlements, the Department explains that this financial year it will be increasing co-operation and co-ordination with other sector departments and relevant stakeholders such as banks and community members.<sup>17</sup> Issues such as the greening of communities and the use of alternative technology such as environmentally friendly technologies will be part of the new approach aimed at the creation of sustainable human settlements.<sup>18</sup>

In her housing policy speech and strategic plan foreword, the MEC identified the following priorities that will help support the overarching policy priority of creating sustainable human settlements:<sup>19</sup>

### **Procurement of strategically located land for housing**

<sup>10</sup> State of the Province address delivered by Premier M. Sogoni on 12 February 2009

<sup>11</sup> State of the Nation address delivered by President J.Zuma on 11 February 2010

<sup>12</sup> Human Settlements Policy and Budget Speech 2010 delivered by MEC Mabandla on 24 March 2010, p.26

<sup>13</sup> Ibid

<sup>14</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.25, Human Settlement 2010/11 Budget Speech delivered by Minister Tokyo Sexwale on 21 April 2010

<sup>15</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11,p.483, Eastern Cape Department of Housing 2009/10-2011/12 Annual Performance Plan, p.77

<sup>16</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.496

<sup>17</sup> State of the Province address delivered by MEC Mabandla on 24 March 2010, Eastern Cape Provincial Treasury Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.485.

<sup>18</sup> Ibid

<sup>19</sup> Human Settlements Policy and Budget speech 2010 delivered by MEC Mabandla on 24 March 2010, p.20, Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.7

The national and provincial government's explain that they are committed to breaking down the spatial segregation of human settlements in South Africa. The Department seeks to assist in the breakdown of this spatial divide by building quality houses in quality environments close to social and economic amenities is meant to be part of government strategy to alleviate poverty through creating "asset wealth."<sup>20</sup> The acquisition and development of suitably located land is an essential part of the Department's strategy to develop and replace informal settlements, develop rental stock and promote mixed income groupings covering low and middle income households.<sup>21</sup> According to President Zuma's government has set aside over 6 000 ha of well located public land for low income and affordable housing.<sup>22</sup> Last year the provincial Department acquired 3 land parcels out of a target of 7, and is in the process of acquiring the remaining 4 parcels.<sup>23</sup> Partnering with local government, the Department intends to acquire 4 land parcels in suitable areas by the end of this financial year.<sup>24</sup> Minister Sexwale identified "more efficient land utilisation" as one of the four priority areas between now and 2014.<sup>25</sup>

### **Accelerating housing delivery through increasing housing opportunities**

President Zuma noted in his 2010 State of the Nation Address that government is committed to eradicating the housing backlog. He also acknowledged that the country will need to undertake a number of key activities in order to achieve this outcome as "the housing backlog facing the country will require no less than one response and that other alternative solutions for the housing problem should be found."<sup>26</sup> Minister Sexwale also identified "accelerated delivery of housing opportunities" as one of the four Human Settlement priority areas till 2014.<sup>27</sup> MEC Mabandla also acknowledges the need for more than one response to housing people in the province. The Department has identified expanding social and rental housing opportunities as an alternative solution to the housing problem.<sup>28</sup> This financial year, the Department targets to provide 970 social housing units for rental stock.<sup>29</sup> In addition the MEC announced the introduction of a new rental housing programme called the Community Residential Unit programme (CRU) which will provide rental tenure for persons with an income of between R800 and R 3 500 per month.<sup>30</sup>

In addition President Jacob Zuma and Minister Sexwale announced a new initiative by government which will accommodate people whose salaries are too high to get government subsidies but who earn too little to qualify for a normal bank mortgage.<sup>31</sup> Minister Sexwale

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<sup>20</sup> Breaking New Ground: A Comprehensive Plan for the Development of Sustainable Human Settlements, Part B, Section 1, September 2004; State of the Province address delivered by MEC Mabandla on 24 March 2010

<sup>21</sup> Human Settlements Policy and Budget speech 2010 delivered by MEC Mabandla on 24 March 2010, p.26

<sup>22</sup> State of the Nation address delivered by President Jacob Zuma on 11 February 2010.

<sup>23</sup> Ibid

<sup>24</sup> Ibid

<sup>25</sup> Human Settlement 2010/11 Budget Speech delivered by Minister Tokyo Sexwale on 21 April 2010

<sup>26</sup> State of the Nation address delivered by President J.Zuma on 11 February 2010

<sup>27</sup> Human Settlement 2010/11 Budget Speech delivered by Minister Tokyo Sexwale on 21 April 2010

<sup>28</sup> Human Settlements Policy and Budget speech 2010 delivered by MEC Mabandla on 24 March 2010

<sup>29</sup> Eastern Cape Department of Human Settlements Annual Performance Plan 2010/11 to 2012/13

<sup>30</sup> Human Settlement Policy Speech delivered by MEC Mabandla on 24 March 2010, p.24

<sup>31</sup> State of the Nation address delivered by President J. Zuma on 11 February 2010. Human Settlement 2010/11 Budget Speech delivered by Minister Tokyo Sexwale on 21 April 2010

refers to this as “the gap market”. A guarantee fund of R1 billion will be set aside to assist those in the “gap market” this financial year.<sup>32</sup>

### **Alternative building methods and the eradication of informal settlements**

The increase in social housing options through a multi-faceted approach to the housing problem in the province is also targeted at assisting the Department in eradicating informal settlements. Mixed mode development projects in Ngalelizwe in KSD Municipality, Thornhill in Ndlambe Municipality, Duncan village in Buffalo city Municipality, Siyanda in Mnquma Municipality will emphasise low and middle income integration as well as urban and inner city regeneration.<sup>33</sup> These 6 BNG projects are also informal upgrading projects. They are expected to yield a total of 69 200 units upon completion. For the 2010/11 financial year, the Department intends to complete 5 685 of the 69 200 units.<sup>34</sup> Bulk infrastructure challenges and municipal institutional challenges have been identified as major impediments to the upgrading of informal settlements programme. As a result the utilisation of innovative construction methods and alternative building technologies has become a priority. “It has since dawned to the Department and its strategic partners that the vision to eradicate homelessness and clear the housing backlog cannot be realised if the Department continues to rely on one construction solution.”<sup>35</sup> The Department has since committed to explore alternative technologies in projects this financial year.<sup>36</sup>

### **Delivery of 22 000 houses**

The Department has estimated a backlog figure of 750 506 housing units in the Eastern Cape.<sup>37</sup> The Department has also calculated that in order to reduce the backlog in the next 5 years, it needs to plan and budget to build at “an incremental rate of 19 000 to 27 000 housing output per year using available resources and service sites...”<sup>38</sup>

For this financial year, the Department aims to construct 22 000 housing units and this according to the MEC “will translate to 88 000 people having access to adequate shelter”.<sup>39</sup> This target of 22 000 is an increase of 3 000 units from the previous financial year. According to MEC Mabandla, the Department as at 28 February 2010 had completed 12 689 housing units, which is 66.7% of the 2009/10 target. The estimated backlog figure of 750 506 units has been used to inform housing annual targets over the next 5 years.<sup>40</sup>

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<sup>32</sup> Ibid

<sup>33</sup> Ibid

<sup>34</sup> Human settlements budget and policy speech 2010 delivered by MEC Mabandla on 24 March 2010, p.17

<sup>35</sup> Ibid, p.13

<sup>36</sup> Ibid, p.12

<sup>37</sup> Eastern Cape Department of Human Settlements Annual Performance Plan 2010/11 to 2012/13, p.11

<sup>38</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.21

<sup>39</sup> Human settlement policy speech delivered by MEC N. Mabandla on 24 March 2010.

<sup>40</sup> Eastern Cape Department of Human Settlements Annual Performance Plan 2010/11 to 2012/13, p.21

## Rural settlement development

President Jacob Zuma announced recently that rural development is amongst government's top 5 priorities.<sup>41</sup> Premier Kiviet informed the people of the Eastern Cape that provincial government would focus on rural development and building cohesive, caring and sustainable communities as part of implementing the Provincial Strategic Framework.<sup>42</sup> In order for the successful implementation of rural development, the provincial government will this year adopt a 'Rural Development Strategy'.<sup>43</sup> This strategy is about 'robust interventions' and 'integrated development' effort of various Departments to bring about successful rural development. This will include revitalising agriculture, land reform, rural infrastructure such as housing, roads, health facilities, eradicating mud schools and the general transfer and redirection of resources by all sectors towards the rural poor.<sup>44</sup> MEC Mabandla further explains the role that the Department of Human Settlements is going to play in rural development. The Department will prioritise up-scaling rural housing development and collaborate with municipalities and other Departments to boost delivery of other services in rural areas. 29 rural housing projects will begin in 2010/11 with the aim of building 10 000 shelters by the end of the MTEF.<sup>45</sup> However, for this financial year, the Department plans to deliver 2 114 units within OR Tambo and Alfred Nzo district municipalities with a budget of R117 million<sup>46</sup>

As part of rural housing, the Department is reviving the People's Housing Process (PHP) to be included in rural housing development projects. Human Settlements MINMEC approved, and will introduce this year, the 'Rural Housing Individual Voucher Programme'. The programme will work on a voucher system which will enable beneficiaries to claim the housing subsidy to acquire building materials. Beneficiaries will then use these materials to build their own homes. This voucher programme will be first tested in Umzimvubu and Intsika Yethu municipalities.<sup>47</sup> Outcomes of these projects will inform the national Department on how to proceed with the further roll out of the 'voucher' programme.

## Organisational Development

Building a developmental state that improves public services and strengthens democratic institutions is one of the main priorities for this term of government. Recently President Zuma declared that that this would be a year of action and for this to happen, public service administration not only need to work "faster, harder and smarter" but would also need "a new way of doing things".<sup>48</sup> This will include changes in planning, monitoring and evaluation systems as well as the measurement of the work of the departments by outcomes.<sup>49</sup> Premier Kiviet announced that this financial year, all Departments will develop a Public Service Transformation Strategy which aims to "create a developmental, caring, accountable and responsive government."<sup>50</sup> This strategy will look at various methods to improve the way in which human resources in the various departments are functioning through the introduction of a 'Human Resource Development' model.<sup>51</sup> In his policy speech, MEC for

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<sup>41</sup> State of the Nation Address delivered by President J. Zuma on 11 February 2010

<sup>42</sup> State of the Province Address delivered by Premier N. Kiviet on 19 February 2010

<sup>43</sup> Ibid

<sup>44</sup> Ibid

<sup>45</sup> Human Settlement policy speech delivered by MEC N. Mabandla on 24 March 2010, p.27

<sup>46</sup> Ibid

<sup>47</sup> Ibid, p.27

<sup>48</sup> State of the Nation Address delivered by President J. Zuma on 11 February 2010

<sup>49</sup> State of the Nation Address delivered by President J. Zuma on 11 February 2010

<sup>50</sup> State of the Province address by Premier N. Kiviet delivered on 19 February 2010

<sup>51</sup> State of the Province address by Premier N. Kiviet delivered on 19 February 2010

Finance, Mr. M. Jonas emphasised a “tightening” and “upgrading of Human Resources management and to improve oversight thereof”<sup>52</sup> in all departments. According to MEC Mabandla, the Department has committed to build the capacity of the organisation through its “Institutional Building” programme this financial year,<sup>53</sup> which will focus on the following areas:

- Deployment of the right personnel in correct positions;
- Training and professional development of employees by enhancing knowledge, skills and right attributes which also include capacity development for municipalities;
- Retention and recruitment of high quality staff including filling critical vacancies;
- Improving organisational mechanisms for planning, evaluation and reporting for current and future development projects
- A more coherent and integrated approach to service delivery
- Promotion of sound good corporate governance.

As part of the Department’s “Institution building” programme, the Department has finalized its Service Delivery Model which deals with the above. Implementation of this model is going to require “a complete reorganization of the Department”.<sup>54</sup>

### **Fraud and corruption**

Finance Minister Pravin Gordhan noted in his 2010 Budget Speech that as a result of corrupt practices combined with inefficient procurement and poor planning, “we are not getting value for our purchases.”<sup>55</sup> Minister Gordhan identified inefficiency in the procurement system as a major site for fraud and corruption.<sup>56</sup>

Provincial resolutions include decisive action by politicians and senior officials in dealing with corruption.<sup>57</sup> Another response to fighting fraud and corruption in the province provided by the MEC for Finance, is the establishment of an independent verification unit to check major procurement transactions (past, present and future) and to develop a procurement price index “to ensure that departments get value for money.”<sup>58</sup> On a national level, the National Audit aimed at investigating poor workmanship by contractors has recently been established.

At a provincial level, the Department has committed to strengthen its partnership with the Special Investigations Unit (SIU) in dealing with fraud and corruption cases.<sup>59</sup> This partnership according to the MEC, will be extended to include the transfer of skills to Department personnel in order to enhance investigative and fraud prevention competencies.<sup>60</sup> The Department has also established an internal audit task team to look into poor workmanship of contractors and committed to act against fraudulent officials and

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<sup>52</sup> Budget speech 2010/11 delivered by MEC. M. Jonas on 3 March 2010, p.6-9

<sup>53</sup> Human settlements policy speech 2010/11 delivered by MEC N. Mabandla on 24 March 2010, p.29

<sup>54</sup> Human settlements policy speech 2010/11 by MEC N. Mabandla on 24 March 2010

<sup>55</sup> Budget speech 2010/11 delivered by Minister Pravin Gordhan on 3 March 2010

<sup>56</sup> Ibid, p.21

<sup>57</sup> State of the province address delivered by Premier Kiviet on 19 February 2010.

<sup>58</sup> Budget speech 2010/11 delivered by MEC for Finance, Mr. M. Jonas on 3 March 2010, p.7

<sup>59</sup> Human settlements 2010/11 speech delivered by MEC N. Mabandla on 24 March 2010, p.15.

<sup>60</sup> Human settlements 2010/11 speech delivered by MEC N. Mabandla on 24 March 2010, p.15.

contractors this financial year.<sup>61</sup> In 2009/10, the Department finalised 196 fraud and corruption cases and an additional 127 cases are currently in court processes.<sup>62</sup>

## II. Budget Analysis

**Table 1: Eastern Cape Department of Human Settlement by Economic Classification, 2006/07 to 2012/13.**<sup>63</sup>

(R' 000)	Outcome			Main Budget 2009/10	Adjusted budget 2009/10	Revised estimate 2009/10	Medium-term estimate			Real Change between 2009/10 and 2010/11	Real Average Growth over MTEF	
	Audited 2006/07	Audited 2007/08	Audited 2008/09				% change from Adjusted Appropriation on 2009/10	2011/12	2012/13			2010/11
<b>Current payments</b>	<b>59,113</b>	<b>57,917</b>	<b>151,741</b>	<b>153,291</b>	<b>204,513</b>	<b>201,843</b>	<b>225,199</b>	<b>10.11</b>	<b>238,264</b>	<b>250,125</b>	<b>3.88</b>	<b>0.06</b>
Compensation of employees	37,688	44,110	97,446	106,413	141,171	141,530	158,229	12.08	166,778	175,385	5.74	-0.01
Goods and Services	21,425	13,807	54,295	46,878	63,343	60,313	66,970	5.73	71,486	74,740	-0.26	0.22
Interest and rent on land												
<b>Transfers and Subsidies to</b>	<b>636,722</b>	<b>337,423</b>	<b>1,060,842</b>	<b>1,313,378</b>	<b>1,315,665</b>	<b>1,261,656</b>	<b>1,599,261</b>	<b>21.56</b>	<b>1,802,873</b>	<b>2,561,647</b>	<b>14.67</b>	<b>13.04</b>
Provinces and municipalities	23		20,000									
Households	636,699	337,423	1,040,842	1,313,378	1,315,665	1,261,656	1,599,261	21.56	1,802,873	2,561,647	14.67	13.04
<b>Payments for capital assets</b>			<b>16,490</b>	<b>8,120</b>	<b>11,537</b>	<b>12,357</b>	<b>1,589</b>	<b>-86.23</b>	<b>2,256</b>	<b>2,771</b>	<b>-87.01</b>	<b>16.29</b>
Buidlings and other fixed structures												
Machinery and equipment			16,490	8,120	11,537	12,357	1,589	-86.23	2,256	2,771	-87.01	16.29
<b>Total economic classification</b>	<b>695,835</b>	<b>395,340</b>	<b>1,229,073</b>	<b>1,474,789</b>	<b>1,531,715</b>	<b>1,475,856</b>	<b>1,826,049</b>	<b>19.22</b>	<b>2,043,393</b>	<b>2,814,543</b>	<b>12.47</b>	<b>11.60</b>

### Total Allocation

For the 2010/11 financial year the Eastern Cape Department of Housing has received a total budget allocation of R1.82 billion. This represents a nominal increase of R294.3 million or 19.22% from the 2009/10 adjusted appropriation of R1.53 billion.<sup>64</sup> Once inflation is taken into account, this represents a budget increase of 12.47% in real terms (see Table 1). This is a significant improvement from the 2009/10 allocation which only received a 2.4% increase which translated into a budget decrease of 2.9% once inflation was taken into account from the 2008/09 financial year.<sup>65</sup>

<sup>61</sup> Ibid.

<sup>62</sup> Ibid, p.14

<sup>63</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491. In all tables, the figures for 2006/07, 2007/08 and 2008/09 are audited expenditure. The Main Appropriation figures for 2009/10 represent the initial allocations for that financial year while the Adjusted Appropriation figures are the revised allocations subsequent to the tabling of the Adjusted Appropriation Act. The Revised Estimates are a combination of un-audited *incurred expenditure* and *projected expenditure* (what the Department thinks it will spend by the end of the 2009/10 financial year). The outer years are MTEF projections (*projected allocations*). All figures (R'000) are nominal (they do not factor in the effect of inflation on buying power). The percentages in the last two columns were calculated using real figures. CPIX figures were used to calculate what the real buying power would be for each of the budget allocations in the budget horizon (2006/07-2012/13). These figures were then used to calculate the real growth percentages shown in the last two columns

<sup>64</sup> The PSAM uses the adjusted appropriation when comparing allocations between the previous financial year (2009/10) and the year under review (2010/11).

<sup>65</sup> Eastern Cape Provincial Treasury Budget Statement II 2009/10, p.467.

The Department has projected it will spend R1.47 billion, or 96% of its 2009/10 adjusted appropriation. The Department has projected that it will under spend in 2009/10, by R54 million or 3.64%.<sup>66</sup>

### **Broad overview of Expenditure**

**Table 2: Expenditure over the last five years<sup>67</sup>**

Financial Year	Total Budget (R'000)	Expenditure (R'000)	Variance: (over)/ Under expenditure (R'000)	Percentage of (over)/under expenditure
2004/05	696,946	660,648	36,298	5.2
2005/06	666,327	666,327	0	0
2006/07	821,136	695,835	125,301	15.2
2007/08	616,082	395,340	220,742	35.8
2008/09	1,168,801	1,228,255	(59,454)	(5.1)
Total	3,969,292	3,646,405	441,795	11.1

As Table 2 illustrates, in the last 5 years, the Department has on three occasions under-spent its budget in ranges of between 5 and 35%. Compared to the massive under expenditure of the 2007/08 adjusted allocation, 5.1% over expenditure of the 2009/10 allocation is commendable.<sup>68</sup> This shows an improvement in the management and expenditure of funds, an area in which the Department has been struggling with in previous financial years as indicated above.

### **Compensation of Employees**

The 2010/11 budget for compensation of employees is R158 million. This is a budget increase of 12.08% from the 2008/09 adjusted allocation but once inflation is taken into account, it represents a real increase of 5.74%.<sup>69</sup> The budget for compensation of employees also experiences a negative average growth of 0.01% over the MTEF.<sup>70</sup> The Department's human resource challenges have been continually identified as one of the Department's largest setbacks to housing delivery.<sup>71</sup> For the last six financial years the Department has been operating at a general and critical vacancy rate of between 60% to 80%.<sup>72</sup> In both her 2009/10 and 2010/11 housing policy speech MEC Mabandla highlighted human resource capacity challenges within the Department.<sup>73</sup> Premier Noxolo Kiviet also announced government's commitment to strengthening human resource capacity in the 2009/10 and 2010/11 financial year as part of building a developmental state and improving

<sup>66</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491.

<sup>67</sup> Eastern Cape Department of Housing Annual Reports, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09.

<sup>68</sup> Eastern Cape Provincial Treasury Budget Statement II 2009/10, p. 467. In the 2008/09 financial year R270 million of the R1.2 billion conditional grant allocation was returned to National Treasury and re-allocated to other provinces due to 'slow expenditure' in the Eastern Cape. See Government Gazette 31872 dated 6 February 2009.

<sup>69</sup> Eastern Cape Provincial Treasury Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491. See also Table 1 of this document.

<sup>70</sup> See Table 1 of this document. CPI figures of 6% for the 2010/11 financial year and of 5.6% and 5% over the latter two years of MTEF have been applied.

<sup>71</sup> Eastern Cape Department of Housing, Annual Performance Plan 2008/09 to 2010/11, pp. 25, 42, 51 and 55.

<sup>72</sup> Public Service Accountability Monitor, Eastern Cape Department of Housing Budget Analysis 2008/09, p. 8 and 2007/08 Budget Analysis p. 7.

<sup>73</sup> 2009 Housing Policy Speech delivered by MEC N. Mabandla on 18 June 2009.

public services.<sup>74</sup> The realisation of this commitment and priority has been hindered by insufficient funds in the last two financial years. The 2008/09 Annual Report highlights that by the end of the 2008/09 financial year only 430 posts out of a total of 894 vacant posts have been filled.<sup>75</sup> According to the Accounting Officer (AO), “with the available funding it was only possible to activate to the maximum of 430 posts”.<sup>76</sup> The increase in the compensation of employee’s budget will not be sufficient to deal with the vacancy rate of 54%.<sup>77</sup>

MEC Mabandla announced in her 2010/11 policy speech that the Department was unable to recruit required personnel because of budget constraints. The MEC also pointed out that this was partly because the 2009/10 equitable share budget, was not adequate to support Conditional grant activities such as funding for critical vacancies.<sup>78</sup> The Department has received a 2% increase in the 2010/11 equitable share,<sup>79</sup> but once inflation has been taken into account, the 2010/11 equitable share budget experiences a decrease of 2.29% and experiences a real average growth of 0.16% over the MTEF.<sup>80</sup> Until the equitable share allocation increases appreciably, the Department will continue to face significant constraints within this line item thus negatively affecting the recruitment of staff and their retention.

**Diagram 1: Growth of Equitable Share and Conditional Grant in real terms between 2006/07 and 2012/13 financial year**

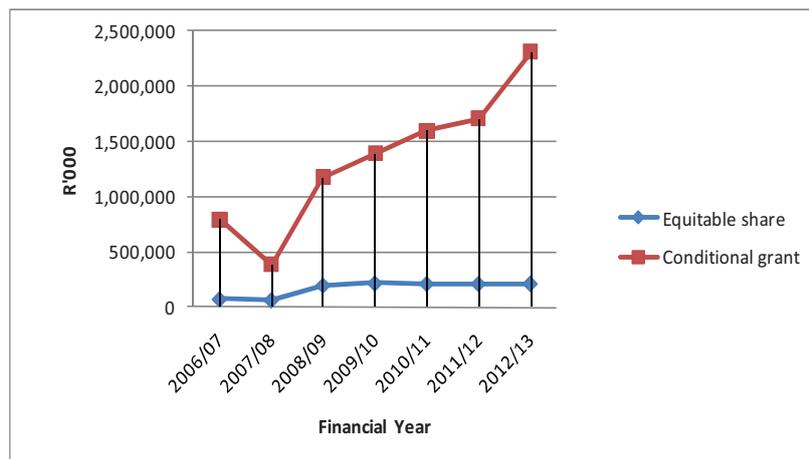


Diagram 1 shows that although there have been substantial yearly increases in the Conditional grant funding, the equitable share allocation has not grown commensurately in comparison. In the 2010/11 policy speech MEC Mabandla indicates that “the misalignment of the Equitable Share budget with the Conditional grant...remains an area of serious concern to the Department as it impacts negatively on essential operational activities that have a direct bearing on the Conditional Grant.”<sup>81</sup> Operational activities affected include

<sup>74</sup> State of the Province Address delivered by Eastern Cape Premier N. Kiviet on 12 June 2009;

<sup>75</sup> Eastern Cape Department of Housing 2009/10 Operational Plan, p.7

<sup>76</sup> Ibid, p.101

<sup>77</sup> Human Settlement 2010/11 Policy Speech delivered by MEC Mabandla on 24 March 2010, p.13

<sup>78</sup> Ibid, p.30-31

<sup>79</sup> Ibid

<sup>80</sup> CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied.

<sup>81</sup> Human Settlement 2010/11 Policy Speech delivered by MEC Mabandla on 24 March 2010, p.30-31

capacity development of municipalities, accurate planning processes for current and future housing development projects, filling of critical vacancies amongst other activities.<sup>82</sup> The AO highlighted the consequences of serious limitations in personnel have on service delivery as follows: “This limitation affected negatively the effectiveness of our district services and some of the head services...”<sup>83</sup> The MEC also announced in the 2010/11 policy speech that the technical capacity in the Department remains inadequate and this in turn “affects negatively our quality assurance program.”<sup>84</sup>

Given these factors, the insignificant 5% real increase in the 2010/11 compensation of employees budget and the meagre 0.06% budget growth over the MTEF, the Department’s priorities, particularly the organizational development priority will be severely compromised due to an insufficient equitable share allocation which affects personnel recruitment and retention.

The PSAM acknowledges however that the provincial budget is under pressure due to the provincial share of the national raised revenue declining from 15.6% to 15.2% from 2009/10.<sup>85</sup> The major reason given for this decline is migration of people from the Eastern Cape to other provinces.<sup>86</sup> In order to avoid further adverse effects on housing delivery as a result of insufficient funds for personnel and other operational activities funded by the equitable share budget, the Department and Legislature is strongly encouraged to take proactive steps to motivate for additional funds and secure significantly increased allocations over the MTEF from National Treasury. The Department is also encouraged to support the MEC for Finance’s call for the review of equitable share formula by National Treasury.<sup>87</sup>

Other proactive measures include partnering with Provincial Treasury and the Office of the Premier to manage the budget they have been allocated more efficiently and effectively by “tightening up procurement and human resources planning and practises”<sup>88</sup> and cutting expenditure on non-core goods and services.<sup>89</sup>

### Goods and Services

This line item supports operational activities and is funded by the equitable share. The budget for Goods and Services receives the third largest slice with 3.6% of the total Departmental budget amounting to R66.9 million.<sup>90</sup> This is a decline of 0.26% in real terms from the 2009/10 financial year.<sup>91</sup> The Goods and Services budget also experiences a real average growth of less than 1% over the MTEF. In 2008/09, the Department under spent its Goods and Services budget by 17%.<sup>92</sup> There has been an improvement in 2009/10 as the Department anticipates to under spend the Goods and Services budget by 4.78%.<sup>93</sup> This financial year, due to a tight equitable share budget and other economic pressures such as the recession, national and provincial government are calling for Departments to cut down

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<sup>82</sup> Ibid

<sup>83</sup> Eastern Cape Department of Housing, Annual Report 2008/09, p.101

<sup>84</sup> Human Settlement 2010/11 Policy Speech delivered by MEC Mabandla on 24 March 2010, p.13

<sup>85</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.26

<sup>86</sup> Ibid

<sup>87</sup> 2010 Budget Speech by MEC for Finance, M. Jonas delivered on 3 March 2010, p.10

<sup>88</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.V

<sup>89</sup> 2010 Budget Speech by MEC for Finance, M. Jonasi delivered on 3 March 2010, p.10

<sup>90</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491

<sup>91</sup> Ibid, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied.

<sup>92</sup> Eastern Cape Department of Housing, Annual Report 2008/09, p. 34

<sup>93</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11,p491

expenditure on non-core items such as travel, accommodation and catering.<sup>94</sup> It is encouraging to see that the Department has cut expenditure on non-core items such as 'Catering' and boosted expenditure on core items. The budget for catering has decreased from the R1.19 million 2009/10 adjusted allocation to R 576 000 in the 2010/11 which is a 54% decrease in real terms from the 2009/10 financial year. The budget for catering also experiences a small growth of 0.53% over the MTEF in real terms.<sup>95</sup>

The budget for 'Travel and Subsistence' experiences a real increase of 32.72% from the 2009/10 financial year but it is pleasing to note an average growth of less than 1% over the MTEF on this item. It is encouraging that the budget for 'Training and Staff' experiences an increase of 112% in nominal terms and a 59% increase in real terms from the 2009/10 financial year.<sup>96</sup> This increase is in line with the Department's priority of strengthening internal capacity. It is also encouraging to note that the budget for another core item, 'Bursaries', increases from an adjusted allocation of R84 million to R100 million in 2010/11. This is a 12% increase in real terms from the 2009/10 financial year. However the "Training and Staff" budget experiences a decline of 0.30% over the MTEF in real terms and the "Bursaries for employees" budget experiences a decline of 0.26% over the MTEF in real terms.<sup>97</sup> Additional funds need to be placed in the core services such as "Training and staff" in order to support the Department's priority of Institutional building and capacitation over the MTEF.

**Table 2: Eastern Cape Department of Housing by Programme, 2006/07 to 2012/13<sup>98</sup>**

Programme (R'000)	Outcome							Medium-term estimate				Real Change between 2009/10 and 2010/11	Real Average Growth over MTEF
	Audited	Audited	Audited	Main budget	Adjusted budget	Revised estimate	% change from Adjusted Appropriation						
	2006/07	2007/08	2008/09	2009/10	2009/10	2009/10	2010/11	2009/10	2011/12	2012/13			
1. Administration	12,314	13,238	1,111,356	1,395,332	1,424,261	1,368,156	93,410	-93.44	99,812	105,419	-93.81	0.59	
2. Housing Planning and Research	6,828	4,588	15,066	15,697	15,313	15,248	17,067	11.45	17,633	18,516	5.15	-0.72	
3. Housing Programme Facilitation And Administration	669,267	370,214	93,302	51,362	83,657	83,481	1,708,369	1,942.11	1,918,348	2,682,630	1,826.52	12.30	
4. Housing Asset Management	7,426	7,300	9,349	12,398	8,484	8,971	7,203	-15.10	7,600	7,978	-19.90	-0.04	
<b>Total payments and estimates</b>	<b>695,835</b>	<b>395,340</b>	<b>1,229,073</b>	<b>1,474,789</b>	<b>1,531,715</b>	<b>1,475,856</b>	<b>1,826,049</b>	<b>19.22</b>	<b>2,043,393</b>	<b>2,814,543</b>	<b>12.47</b>	<b>11.60</b>	

### Programme 1 – Administration

This programme is required to provide essential services relating to finance and supply chain management, strategic management, monitoring and evaluation, communication and information services.<sup>99</sup> This programme ensures that the various programmes and sub-programmes that make up the Department are supported and functioning smoothly. Should

<sup>94</sup> Ibid, p.6

<sup>95</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, Table 11.B2, p.503

<sup>96</sup> Ibid, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied.

<sup>97</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, Table 11.B2, p.503, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

<sup>98</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.490, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

<sup>99</sup> Eastern Cape Provincial Treasury *Budget Statement II 2009/10*, p. 467

this programme perform poorly during the 2010/11 financial year, it will have a ripple and significant effect on the services required to the delivered by the Department.

In 2009/10, the Department introduced six new sub-programmes under Programme 1. These include: Office of the MEC, Office of the HOD, Office of the CFO, Office of the Chief Operations Officer, Strategic Management and Legal Contract Services.<sup>100</sup> Most of the new sub-programmes appear to be spending their 2009/10 allocations efficiently and effectively except for the Legal Contract Services sub-programme with the projected highest under-expenditure of 24.2% and the Office of the HOD sub-programme with an estimated highest over expenditure of 4.25%.<sup>101</sup> On the whole, Programme 1 is projected to under-spend its 2009/10 allocation by 3.94%.<sup>102</sup> In 2008/09 the administration of the Integrated Housing and Human Settlement Development conditional grant (IHSDG) was redirected to and administered under the Corporate Services sub-programme of Programme 1 - the Department managed to spend its entire 2008/09 adjusted conditional grant allocation of R981 million. However the adjusted conditional grant allocation was over-spent by 6%, beyond the acceptable range of over 2%.<sup>103</sup> In addition R270 million of the conditional grant was withheld by the National Department.<sup>104</sup>

In 2009/10 the office of the Chief Financial Officer administered the IHSDG.<sup>105</sup> Again, improved expenditure of the 2009/10 conditional grant is anticipated with a projected over-expenditure but within an acceptable range of 0.88% or R11.6 million.<sup>106</sup> This financial year more changes to Programme 1 have been introduced in that the office of the Chief Financial Officer will no longer be administering the IHSDG instead it will be relocated to Programme 3. As a result of this administrative change, the budget for Programme 1 experiences a 93.81% decrease in real terms.<sup>107</sup>

The relocation of the IHSDG to Programme 3 is of concern considering that the Office of the CFO seems to have performed satisfactorily in managing the expenditure of the grant, presumably as assisted by its financial management skills and responsibilities. The Department must explain what factors led to its decision to redirect and manage the IHSDG within Programme 3.

It is also disappointing to note that Programme 1 experiences a 0.59% real average growth over the MTEF despite its core function. More funds will need to be secured for Programme 1 over the MTEF to ensure the successful implementation of policy priorities and the improved performance of all programmes and sub-programmes which rely heavily upon resources provided by the former.

## Human Resources

Concerns surrounding human resources within Programme 1 were raised in the previous financial year by the Eastern Cape Legislature which stated: "The office of the Chief Operations Officer is not adequately staffed...the department must reprioritize its budget to ensure that the office of the Chief Operations Officer has an adequate budget."<sup>108</sup> The

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<sup>100</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11,491-2

<sup>101</sup> Ibid, p.492

<sup>102</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.492

<sup>103</sup> Eastern Cape Department of Housing, Annual Report 2008/09, p.149

<sup>104</sup> Ibid, p.96

<sup>105</sup> Eastern Cape 2009/10 Budget Statement II, p. 467.

<sup>106</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.489

<sup>107</sup> Ibid, p.492

<sup>108</sup> 4<sup>th</sup> Legislature of the province of the Eastern Cape No. 7, 21 July 2009, p.88, 89

2010/11 budget for the Chief Operations Office sub-programme receives a 4.85% increase in nominal terms from the 2009/10 financial year but it translates into a budget decrease of 1.85% in real terms. In addition, the sub-programme experiences a real average growth of only 0.08% over the MTEF.<sup>109</sup> On a larger scale, the budget for compensation of employees for the entire Programme (Programme 1) experiences a meagre increase of 1.47% in real terms from the 2009/10 financial year and a real average growth of 0.16% over the MTEF.

Judging from the above calculations, it appears that the office of the Chief Operations Officer may once again be inadequately resourced and staffed. The Department is urged to increase the budget for the Office of the Chief Operations Officer plus the compensation of employees budget for Programme 1 over the MTEF in order to solve the problem of inadequate human resource capacity within the Programme.

While the Department has prioritised fighting fraud and corruption by tightening procurement systems and internal controls, decreasing the budget of the Office of the Chief Financial Officer is likely to have an adverse effect on the realisation of this priority. The said Office's budget decreases by 97% in 2010/11 and only experiences a real average growth of 1.64% over the MTEF<sup>110</sup>. Greater resources need to be allocated to the Chief Financial Officer sub-programme in order to better tackle the problem of fraud and corruption.

## Programme 2 – Housing Planning and Research

### Housing research

Programme 2 (Housing Planning and Research) facilitates the development of housing policy and legislation. It also coordinates housing planning and undertakes research which will inform planning.

In the previous financial year, the issue of a lack of reliable data on housing demand in the province was raised. The only formal research into figures referring to the actual number of people needing houses in the Province place the provincial housing backlog at 797 932<sup>111</sup> while the Department places the housing backlog at 800 000.<sup>112</sup> This data was provided by municipalities after a formal survey process in 2006.<sup>113</sup> The 2010/11 annual performance plan and strategic plan states that informal data collected at the request of the Department places the current provincial backlog at 750 506 units.<sup>114</sup> Again, this data was provided after a formal survey process in 2006.<sup>115</sup> This figure is being used to set out the Department's targets and budgets over the next 5 years.<sup>116</sup> What is worrying is that a community survey conducted in 2007 records the shortage of dwellings in the province at 1.52 million.<sup>117</sup>

Furthermore the Department commissioned a research study (which was completed in February 2009) to gather reliable data for planning and policy processes, which estimated

<sup>109</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.492

<sup>110</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11. p.492

<sup>111</sup> Eastern Cape Department of Human Settlements 2010/11 to 2014/15 Strategic Plan, p.17

<sup>112</sup> Eastern Cape Department of Human Settlements 2010/11 to 2014/15 Strategic Plan, p.17

<sup>113</sup> Ibid. The above figures on the current state of housing delivery are the same figures used by the 2001 Census and in the Eastern Cape Department of Housing, Local Government and Traditional Affairs Annual Performance Plan, p.15. Eastern Cape Department of Housing, Local Government and Traditional Affairs Annual Performance Plan, Amended Strategic Plan 2005-2010

<sup>114</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.17, Eastern Cape Department of Human Settlements Annual Performance Plan 2010/11 to 2012/13, p.11

<sup>115</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.17

<sup>116</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.21

<sup>117</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.17

the backlog to be at 1.14 million dwellings.<sup>118</sup> Whilst the PSAM welcomes the Department's efforts to investigate the provincial housing backlog, it is somewhat concerning that after 3 research studies on housing demand in the province, one completed as recently as February 2009, the Department is still unable to provide clarity on housing demand in the province.

The PSAM request that the Department explain why it has opted to use the provincial backlog figure of 750 506 people taking into account two factors ; firstly that it is "informal data"<sup>119</sup>, secondly, two most recent studies into housing backlog estimates a backlog of over 1 million units.

It is vital that the Department determines an accurate number of people in the province currently in need of housing. The successful execution of the Department's policies and mandate over the next 5 years is largely dependent on accurate data which must be the result of a "rigorous and scientific process."<sup>120</sup> Plans informed by up-to-date and accurate statistics on Housing demand in the province will ensure that the Department allocates sufficient resources and set accurate targets to support the Department's mandate. Well researched information on the housing problem in the province will assist the Department to motivate for a revision of its budget allocations and additional funds for its equitable share.

Whilst the PSAM welcomed the Department's efforts to establish reliable and accurate data in this regard, by issuing a tender calling for proposals to establish a housing demand database, the PSAM raised concerns about outsourcing this vital function to a private service provider. The PSAM also recommended in the previous financial year that the Department take steps to build its own capacity to maintain the envisaged housing demand database by expanding financial and human resources within Programme 2.<sup>121</sup> In his 2010/11 budget speech, MEC for Finance Mcebisi Jonas stated that "all too often we find consultants hired to do the work of full time employees. Our response must be to reduce our dependency on consultants, improve management of contracts and increase our capacity to in source comprehensively."<sup>122</sup> It is pleasing to note that the Department appears to have taken steps to build its own capacity to maintain the envisaged housing demand database by expanding financial and human resources within Programme 2. Compared to Programme 2's disappointing increase of 0.39% in 2009/10, this financial year, Programme 2 receives a 11.45% nominal increase which translates to an increase of 5.15% when inflation is taken into account.<sup>123</sup> However, on the other hand, Programme 2 suffers a budget decline of 0.72% over the MTEF.<sup>124</sup>

The 'Needs' sub-programme, responsible for co-ordinating and managing province wide housing research programmes, suffered a 9.92% real decrease in its budget in 2009/10.<sup>125</sup> In 2010/11 the 'Needs' sub-programme experiences a 0.94% real decrease in its budget and suffers a 0.08% budget decline over the MTEF.<sup>126</sup> The Housing Research programme and sub-programmes are vital in providing strategic leadership and management support to other

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<sup>118</sup> Ibid

<sup>119</sup> Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.17

<sup>120</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.486

<sup>121</sup> Eastern Cape Department of Housing, Budget Analysis 2009/10, Monitoring and Research Programme, Public Service Accountability Monitor (PSAM), p.13

<sup>122</sup> Budget Speech 2010/11 delivered by MEC Jonas on 3 March 2010.

<sup>123</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.490,

<sup>124</sup> Ibid.

<sup>125</sup> The Eastern Cape Provincial Treasury Budget Statement II 2009/10, p. 469.

<sup>126</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11,p.493, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

Programme Directorates within the Department. If the Department is to achieve its strategic goal of “facilitating the existence of a legislative and policy environment that is informed by well-researched integrated planning”<sup>127</sup> and leading and informing an evidence based housing development agenda in the Province; it is crucial that the Department expand this programme’s resources over the upcoming MTEF in order to enable it to be in a position to provide much needed clarity on the extent of housing problem the in the province and how plans can be developed to overcome this.

### **Municipal support**

Programme 2 is also required to render support to municipalities by assisting in planning provincial and municipal housing multi-year plans.<sup>128</sup>

The ‘Planning’ sub-programme in Programme 2 which is meant to give hands-on support and build the capacity of municipalities through offering assistance to develop municipal housing year plans is usually under-resourced. In the last financial year, this sub-programme experienced a 20.2% nominal decrease and a 24.3% real decrease in its 2009/10 allocation.<sup>129</sup> This financial year, the sub-programme experiences a real budget increase of 11.24% from the previous financial year and experiences a real average growth of 0.04%.<sup>130</sup> It is encouraging to note that the Department has not only recognised the need to offer assistance to municipalities but has also provided an improved budget. Increasing co-operation and co-ordination with other sector Departments and relevant stakeholders is part of the new human settlements policy agenda.<sup>131</sup> As a policy priority, the Department aims to build strong inter-sectoral partnership this financial year particularly with the Department of Co-operative Governance (DPCG) in order to boost municipal capacity and performance. In 2010 the DPCG will seek to capacitate 60 municipal officials and 180 councillors.<sup>132</sup> It is disappointing to note the budget decreases as shown in Table 3, in the DPCG programmes and sub-programmes whose responsibility it is to support municipalities and assist the Department of Human Settlements in their mandate.<sup>133</sup>

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<sup>127</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.483

<sup>128</sup> *ibid*, p. 468.

<sup>129</sup> The Eastern Cape Provincial Treasury Budget Statement II 2009/10, p.469

<sup>130</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.493, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied.

<sup>131</sup> State of the Province address delivered by MEC Mabandla on 24 March 2010

<sup>132</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.341

<sup>133</sup> Housing Act, 107 of 1997, Part 4, Section 9 (1)(a)

**Table 3: 2010/11 budget analysis of the ‘Local governance’ and ‘Development and Planning’ programmes and sub-programmes within the Eastern Cape Department of Co-operative Governance.**<sup>134</sup>

<b>Programme/ (Sub- programme)</b>	<b>2009/10 Adjusted Budget (R'000)</b>	<b>2009/10 Revised Estimate (R'000)</b>	<b>% of projected (over)/under expenditure</b>	<b>2010/11 Real % budget increase/ (decrease)</b>
<b>2 Local Governance</b>	<b>180,765</b>	<b>206,406</b>	<b>(14.2)</b>	<b>2.80</b>
<b>2 (Capacity Development)</b>	<b>11,720</b>	<b>8,297</b>	<b>45.56</b>	<b>(48.64)</b>
<b>3 Development &amp; Planning</b>	<b>153,975</b>	<b>152,147</b>	<b>1.18</b>	<b>(41.61)</b>
<b>3 (Integrated Dev Planning)</b>	<b>10,561</b>	<b>10,787</b>	<b>(2.13)</b>	<b>(34.82)</b>

The Local Governance Programme, also known as Programme 2, in the DPCG is responsible for strengthening municipalities to enable them to perform their functions effectively and to respond to the needs of their communities. The budget for Programme 2 increased from an adjusted budget of R180 million in the 2009/10 financial year to R197 million in the 2010/11.<sup>135</sup> This increase of 9% in nominal terms is welcome. However Programme 2 is projected to over spend on its 2009/10 budget by 14.2% and the 9% budget increase translates into 2.80% in real terms. ‘The Capacity Development’ sub-programme in Programme 2 of the DPCG, responsible for providing capacity building support is projected to under spend its budget by 45.56% in 2009/10 and will experience a substantial real decrease of 48.64% in 2010/11. Such a substantial budget reduction for a vital function such as capacity building will most likely compromise housing service delivery for already vulnerable municipalities. No explanation for the reduction is provided by DPCG.<sup>136</sup> This massive budget reduction goes against both Departments’ call to boost their efforts in supporting municipalities to deliver services effectively.<sup>137</sup> The sub-programme on the other hand needs to improve its budget expenditure this financial year in order to receive budget increases in the future.

If the Department of Human Settlement is to achieve its target and policy priorities of providing basic services such as sanitation, water, and electricity to 8000 sites this year, providing hands on support to municipalities to help them provide an adequate level of quality services is essential. Municipalities are also essential for the Department’s strategy to locate and develop land for housing projects<sup>138</sup> and installing services as part of creating sustainable human settlements. Local government must be well equipped and resourced to

<sup>134</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.345

<sup>135</sup> Ibid, p.346

<sup>136</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.344-346

<sup>137</sup> Ibid, p.339

<sup>138</sup> Human settlements policy speech a delivered by MEC Mabandla on 24 March 2010

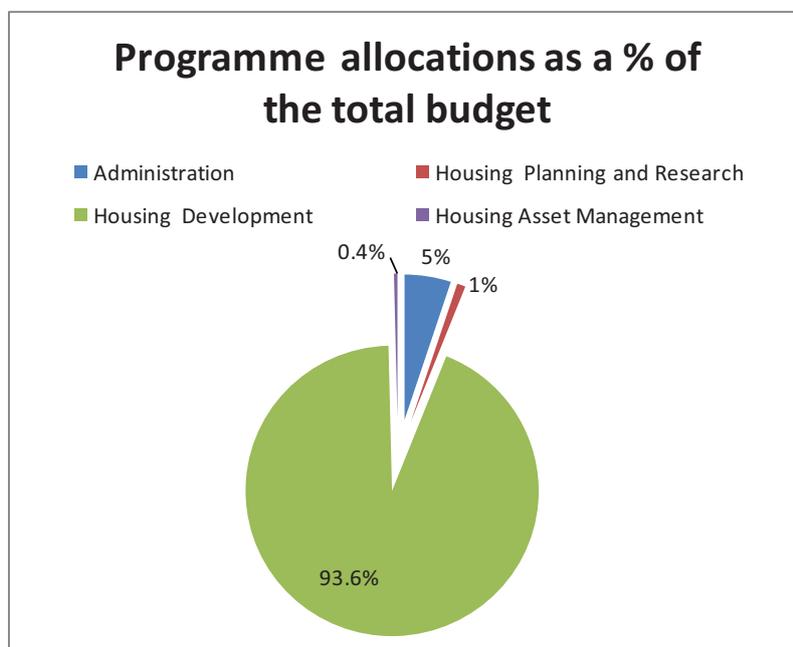
support the Department of Human Settlement priorities. The capacitation of municipal programme budgets must reflect this over the MTEF.

Programme 3's Development and Planning programme within DPCG is responsible for promoting sustainable development through spatial planning, land use management, building social infrastructure to support service delivery as well as facilitating and co-ordinating integrated planning. The budget for Programme 3 decreases from R153 million in the 2009/10 financial year to R95 million in 2010.<sup>139</sup> This is a budget decrease of 41.61% in real terms. The programme also experiences a real average growth of 0.20% over the MTEF. Local government plays a critical role in the successful implementation of the Department of Human Settlement's holistic and integrated Human Settlement agenda. The reduction is explained briefly and without further specificity, as follows "the decrease in the budget allocation for the programme is due to once off allocations in the 2009/10 main budget."<sup>140</sup>

It is recommended that both the Housing Department and Co-operative Governance Department make it a strategic objective to work together on a national, provincial and local level to expand municipal capacity building programmes. The Housing Department is unlikely to achieve their target of delivering 22 000 units, servicing 8 000 sites and buying land parcels if both the DPCG and Department of Housing fail to meaningfully capacitate municipalities this financial year and over the MTEF.

Programme 3: Housing Programmes Facilitation and Administration (within the Eastern Cape Department of Human Settlements)

**Diagram 2: Department of Human Settlement allocation of 2010/11 budget by programme<sup>141</sup>**



<sup>139</sup> Eastern Cape Overview and Estimates Provincial Expenditure 2010/11, p.348

<sup>140</sup> Ibid

<sup>141</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.490

As diagram 2 depicts, the bulk of the housing allocation is divided between Programmes 1 (Administration) and 3 (Housing Development) with the latter receiving the largest portion of the total allocation at 93.6% followed by Programme 1 which receives 5%. Programme 3 receives the largest allocation as the programme is responsible for implementing the bulk of the Department's activities. The programme is also responsible for the facilitation, coordination and management of social housing, informal settlement upgrading and providing support services to emerging contractors and vulnerable groups.<sup>142</sup> Programme 3 receives the largest increase in budget allocation this financial year, increasing from R83.6 million in 2009/10 to R1.7 billion in 2010/11. This is a real increase of 1 826.52% and the Programme experiences a real average growth of 12.3% over the MTEF.<sup>143</sup> This substantial increase is a result of the shifting of the Conditional grant from Programme 1 to Programme 3. Due to this change, a new sub-programme, Grant Management, has been introduced to Programme 3 to manage the Housing Development grant.

MEC Mabandla announced that this financial year the Department intends to rectify 4280 units<sup>144</sup>, however the MEC for Finance announced a rectification target of 9 000 units.<sup>145</sup> The 2010/11 IHSDG Business Plan records that the Department intends to rectify 4 896 housing units constructed between 1994 and 2002<sup>146</sup>, plus rectify 411 housing units constructed pre 1994.<sup>147</sup> According to the IHSDG Business plan, the Department has budgeted to rectify a total of 5 307 units this financial year. However according to the Eastern Cape Overview and Estimates of Provincial Expenditure, the Department has budgeted to rectify 3 869 post 1994 defective houses and rectify 441 pre 1994 defective houses,<sup>148</sup> making a total of 4 310 units this financial year.

Clearly there is a need for the Department to update and clarify these target inconsistencies as well as clarify what the overall rectification backlog is in the Province. In 2006/07 a rectification assessment revealed a rectification backlog of 19 953 houses.<sup>149</sup> For accurate target setting and budgeting over the next 5 years, Programme 3 needs to update and clarify where the current rectification backlog stands overall. The Department needs to be able to justify and explain how it sets its rectification targets as well as why the Department chooses to focus on rectifying housing units built pre 1994 and between 1994 and 2002 only.<sup>150</sup> The 2009/10 and 2010/11 IHSDG Provincial Business Plans show that the rectification targets and budget are specifically for poorly constructed pre- 1994 and between 1994 and 2002 only.<sup>151</sup>

Programme 3 needs to enrol all its housing projects with the NHBRC, increase its number of technical experts, improve monitoring of housing projects as well as deal decisively with fraud and corruption by contractors and housing officials. Unless this is done, poor quality houses, rectification and blocked projects will continue to plague the Department despite the Programme's budget increase.<sup>152</sup> It is therefore pleasing to note that the Project

<sup>142</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.494

<sup>143</sup> Ibid, p495. See also Table 2 of this document for real figures.

<sup>144</sup> Human settlements 2010/11 speech delivered by MEC N. Mabandla on 24 March 2010, p.30.

<sup>145</sup> Budget Speech 2010/11 delivered by MEC M. Jonas on 3 March 2010, p.16

<sup>146</sup> Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2010/11

<sup>147</sup> Ibid.

<sup>148</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.496, 498

<sup>149</sup> Eastern Cape Department of Housing, Annual Performance Plan 2008/09- 2010/11, p.64

<sup>150</sup> Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2009/10, p.6, Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2010/11.

<sup>151</sup> Ibid

<sup>152</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.495

Management and Quality Assurance sub-programme increases by 24.95% in real terms from the 2009/10 financial year but disappointingly suffers a budget decline of 0.04% over the MTEF.

As stated earlier, Programme 3 will implement the bulk of the Department's priorities. The Department has increased its housing delivery target from 19 000 to 22 000 units. The Individual Housing sub-programme, responsible for providing housing subsidies to beneficiaries and constructing houses, experiences a 22.84% real budget decrease from 2009/10 and suffers a budget decline of 0.01% over the MTEF. This decrease is worrisome taking into account that this sub-programme under spent by 0.04% in 2009/10.<sup>153</sup> This sub-programme is therefore likely to come under pressure this financial year and over the MTEF due to a possible increase of middle class homeowners enlisting for social bonds as bonds are becoming more difficult to attain, considering the current economic crisis.<sup>154</sup> On the other hand, this pressure could be alleviated partly by the new guarantee fund of R 1 billion being set up to meet this demand by incentivising the private banking and housing sectors to assist the Department in meeting this new demand as announced by the president in his state of the nation address.<sup>155</sup>

In addition, while the Department plans this year to provide internal and external plastering and ceiling for all subsidised houses,<sup>156</sup> this will put additional pressure on the Individual Subsidies sub-programme budget mindful of it having decreased by 22% in real terms.<sup>157</sup>

In line with the Department's priority of focusing upon rural housing development, the Individual Subsidies and Rural Intervention sub-programme which is responsible for developing housing infrastructure in the rural areas receives a nominal increase of 10.43% which translates into a 4.46% real increase from the 2009/10 financial year but suffers a disappointing budget of 0.04% over the MTEF.<sup>158</sup> The Rural Intervention, (also known as the Emerging Contractor Development) sub-programme is responsible for supporting emerging contractors, experiences a small 4.46% real increase and a disappointing budget decline of 0.04% in real terms over the MTEF at a time where emerging contractors will be contracted for the first time to develop quality housing infrastructure. These emerging contractors will require a great deal of support which is not really reflected in the budget particularly over the MTEF.

The eradication of informal settlements was introduced as an official national policy focus with the establishment of the BNG policy in 2004 by the National Department<sup>159</sup> and continues to be a key priority. However no informal settlements in the province have been recorded as being successfully upgraded.<sup>160</sup> In 2009/10, the Department set a target to begin 6 active Informal Settlement Upgrading projects totalling 69 200 units, of which 4 268 housing were constructed in 2009/10.<sup>161</sup> The Informal Settlement Upgrading sub-programme

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<sup>153</sup> Ibid

<sup>154</sup> MEC for Housing Mr T. Mhlahlo speaking at the unveiling of the new multi-million rand Emerald Sky social Housing rental project in Amalinda, Daily Dispatch 18 March 2009.

<sup>155</sup> State of the Nation address delivered by President J. Zuma on 11 February 2010

<sup>156</sup> Eastern Cape Human Settlements 2010/11 policy speech delivered by MEC M. Mabandla on 24 March 2010, p.7

<sup>157</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.495.

<sup>158</sup> Ibid

<sup>159</sup> Breaking New Ground: A comprehensive plan for the development of sustainable human settlements. August 2004. Section 3.1.

<sup>160</sup> Eastern Cape Provincial Treasury Budget Statement II 2007/08, p.231, Eastern Cape Provincial Treasury Budget Statement II 2008/09, p. 396, Eastern Cape Provincial Treasury Budget Statement II 2009/10, p 472.

<sup>161</sup> Human Settlement 2010/11 policy speech delivered by MEC M. Mabandla on 24 March 2010

experiences a nominal increase of 9.19% from the previous financial year which translates into a 3.01% increase in real terms for 2010/11.<sup>162</sup> The sub-programme suffers a 0.02% negative real average decline in its budget when inflation is taken into account over the MTEF.<sup>163</sup>

The 3.01% real increase in 2010/11 is disappointing taking into account that the Informal Settlement Upgrading programme has been a Departmental priority since the introduction of the BNG in 2004. The Department's plans to successfully complete 69 000 units of the Informal Settlement Upgrading Programme and eradicate Informal Settlements by 2014,<sup>164</sup> are unlikely to be achieved by a 3% real increase from the previous financial year and a decline in the budget of 0.02% when inflation is taken into account over the MTEF. The budget for this sub-programme will need to increase substantially over the MTEF in order to give effect to the stated priority.

The 2010/11 conditional grant budget for the Informal settlement upgrading programme stands at R115.98 million<sup>165</sup> In contrast to the 2009/10 conditional grant budget which was R206 million.<sup>166</sup> This is a year-to-year decrease of 46.5% while the grant experiences a negative real average growth of 3.72% over the MTEF.<sup>167</sup>

It is pleasing however to see that the conditional grant budget for the servicing of sites in the Informal settlement upgrading programme increases from R70.63 million to R81.24 million in 2010/11.<sup>168</sup> This is an 8.5% real increase from the 2009/10 financial year and grows by 54.16% over the MTEF in real terms. In order to support the 6 active informal settlement upgrading projects over the course of this financial year and over the MTEF, this programme is going to need an increase in its programme allocation over the MTEF. In addition accurate and up to date information on the number of informal settlements in the province is needed. The MEC in her housing policy speech announces a figure of 205 informal settlements in accordance with statistics from Census 2001.<sup>169</sup> The MEC rightly states that "it is clear that these estimates have grown exponentially since 2001."<sup>170</sup> It is vital that the Department research the current number of informal settlements in the province for adequate planning and budgeting over the MTEF.

The PSAM also calls upon the Department to account meaningfully at year end for the informal settlement upgrading programme by providing a baseline in the 2010/11 conditional grant business plan. The baseline column in the 2010/11 conditional grant business plan is left vacant for all conditional grant funded activities, which makes it difficult to hold the Department accountable for conditional grant expenditure.

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<sup>162</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.495.

<sup>163</sup> Ibid

<sup>164</sup> Eastern Cape Provincial Growth and Development Plan, 2004- 2014, Section 3, Subsection 4.

<sup>165</sup> Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2010/11

<sup>166</sup> Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2009/10, p.9

<sup>167</sup> Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2010/11, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied.

<sup>168</sup> Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2009/10, p.9, Eastern Cape Department of Housing Integrated Housing and Human Settlement Development Conditional Grant Business Plan 2010/11.

<sup>169</sup> Human Settlement Policy speech delivered by MEC Mabandla on 24 March 2010, p.23

<sup>170</sup> Ibid

Among the Department's top priorities is providing alternative solutions to the housing problem by supporting and creating new social housing programmes. Programme 3 will financially support the new rental housing programme called the Community Residential Unit programme (CRU). The CRU will provide rental tenure for persons with an income of between R800 and R 3 500 per month.<sup>171</sup> The Social and Rental Intervention sub-programme will facilitate the implementation of the CRU programme as well as co-ordinate, develop and manage social housing rental stock. It is therefore pleasing to note that the sub-programme receives a real average increase of 24.75% from the 2009/10 financial year.<sup>172</sup> However the sub-programme's allocation over the MTEF experiences a decline of 0.02%.<sup>173</sup> The increase is enough to successfully start the programme but in order to establish this new programme, the budget will need to increase in real terms over the MTEF.

### Conditional grant

In 2007/08, the IHSDG was under spent by R543 million. In 2008/09, expenditure of the grant did improve. In 2008/09, the Department over spent its adjusted conditional grant budget of R981 million by 5%.<sup>174</sup> However R270 million of the main conditional grant allocation was withheld by National Department.<sup>175</sup> In 2009/10, the Department projects to over spend its conditional grant allocation by R11.6 million or 0.88%.<sup>176</sup> In 2010, the IHSDG has been shifted to Programme 3 under a new sub-programme, 'Grant Management'. The sub-programme is responsible for the administration and management of the grant.<sup>177</sup> This new sub-programme is welcome as the sub-programme will ensure that a repeat of the massive conditional grant under-expenditure under in 2007/08 will not occur again. The restructuring of the IHSDG from Programme 1 back to Programme 3 can be supported by the 24.82% real increase in the Administration sub-programme budget in Programme 3. The Administration sub-programme in Programme 3 is responsible for providing administrative support to directorates within the programme. It is however concerning that the budget for the Administration sub-programme experiences a real negative average growth of 0.08% over the MTEF and yet the Grant Management sub-programme budget grows by 13.20% over the MTEF.<sup>178</sup> In order to provide adequate support to the most active sub-programmes within the Department, the administrative ability to support directorates must be maintained over the MTEF.

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<sup>171</sup> Ibid, p.24

<sup>172</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.495. CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

<sup>173</sup> Ibid

<sup>174</sup> Eastern Cape Department of Housing, Annual Report 2008/09, p.149

<sup>175</sup> Ibid, p.35, Government Gazette No. 31708 of 18 December 2008

<sup>176</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.489

<sup>177</sup> Ibid, p.495

<sup>178</sup> Ibid, p.495. CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

**Table 4: Eastern Cape Department of Human Settlement, Conditional Grant allocations, 2006/07 to 2012/13**<sup>179</sup>

Conditional Grant Allocation (R ' 000)	Outcome			Main Appropriation 2009/2010	Adjusted Appropriation 2009/10	Rewsed Estimate 2009/10	Medium-term estimate			Real Change between 2009/10 and 2010/11	Real Average Growth over MTEF	
	Audited 2006/07	Audited 2007/08	Audited 2008/09				% change from Adjusted Appropriation					
	2010/11	2009/10	2011/12				2012/13					
1. [IHSDG]	636,705	337,423	1,040,842	1,313,378	1,313,378	1,325,026	1,599,146	21.76	1,802,873	2,561,647	14.87	17.01
<b>Total payments and estimates</b>	<b>636,705</b>	<b>337,423</b>	<b>1,040,842</b>	<b>1,313,378</b>	<b>1,313,378</b>	<b>1,325,026</b>	<b>1,599,146</b>	<b>21.76</b>	<b>1,802,873</b>	<b>2,561,647</b>	<b>14.87</b>	<b>17.01</b>

The 2010/11 budget for the conditional grant experiences a nominal increase of 21.76% which translates to a 14.87% increase in real terms from the 2009/10 financial year.<sup>180</sup> This is a major boost to the budget taking into account that the 2009/10 conditional experienced a nominal increase of 4.98% which translated into a 0.49% real increase from the 2008/09 financial year.<sup>181</sup>

The IHSDG amounts to 87.5%<sup>182</sup> of the entire budget allocation for 2010/11 funding the majority of projects, including:

- upgrading informal settlements;
- BNG mixed mode pilot projects;
- delivering 22 000 houses;
- acquiring suitable strategically located land;
- Installation of basic services at 8000 sites;
- funding housing subsidies; and
- rectifying 4 200 defective houses.<sup>183</sup>

The 14.87% increase in real terms for the 2010/11 budget will most likely sustain the above activities. It is also encouraging to see that the Department plans to take inflation into account by projecting to increase the conditional grant budget by 17.01% over the MTEF.<sup>184</sup> The introduction of new programmes such as the CRU, rural housing voucher along with the price hikes in building materials, will most likely apply pressure on the conditional grant budget.<sup>185</sup> The MEC also acknowledged in her budget speech that despite the budget increase, “ resources are scarce and therefore there is a need to work smarter.”<sup>186</sup>

In 2008/09, the Department over spent its adjusted conditional grant allocation of R981 million by 6%,<sup>187</sup> way beyond the acceptable range of 2%. Although there was more than 100% expenditure for 2008/09 adjusted conditional grant budget, R270 million of the R1.2

<sup>179</sup> Ibid, p.489, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

<sup>180</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.498

<sup>181</sup> Eastern Cape Provincial Treasury Budget Statement I, p.14.

<sup>182</sup> The 2009/10 Housing grant is set to receive R1.31 billion out of an entire budget allocation of R1.47 billion.

<sup>183</sup> Eastern Cape Provincial Treasury Budget Statement II 2009/10, p. 464.

<sup>184</sup> State of the Province address delivered by MEC Mabandla on 24 March 2010, CPI figures of an inflation rate of 6% for the 2010/11 financial year and of 5.6% and 5% over the MTEF respectively provided by National Treasury have been applied

<sup>185</sup> Housing Policy and Budget Speech delivered by MEC N. Mabandla on 18 June 2009.

<sup>186</sup> Human Settlement Policy and Budget Speech 2010 delivered by MEC.N. Mabandla on 24 March 2010

<sup>187</sup> Eastern Cape Department of Housing, Annual Report 2008/09, p.149

billion main conditional grant allocation was subsequently withheld by the National Department.<sup>188</sup> Taking into account the R270 million that was withheld, the Department spent 78.4% of its 2008/09 conditional grant main allocation of R1.25 billion.<sup>189</sup> The withholding of the R270 million resulted in 'major setbacks' such as not being able to pay contractors for claims of more than R66 million.<sup>190</sup> This had serious implications on the Department's plans of achieving more than 15,000 units in the province.<sup>191</sup> The Department projects it will over spend the 2009/10 conditional grant by R11.6 million or 0.88%. This is a projected expenditure of 100.88%, which is a major improvement in expenditure from 2008/09 and the highest percentage expenditure of the conditional grant since its introduction in 2005/06.

The Department must be applauded for its efforts which are reflected in the much improved conditional grant expenditure in the 2009/10 financial year. The Department is urged to maintain this improvement by spending their 2010/11 conditional grant allocation without over-spending its allocation over the acceptable range of 2%. Over-expenditure puts a strain on the next conditional grant allocation due to pre-payments. Pre-payments are delayed payments which are deferred to the next financial year and thus deduct from future budgets; as a result over-expenditures must be avoided at all costs.

#### **Programme 4 – Housing Asset Management**

This Programme facilitates, co-ordinates and manages the implementation of the Social Housing Programme, the Rental Housing Programmes and land acquisition for housing development purposes.<sup>192</sup> Programme 4 experiences a real budget decrease of 19.90% from the 2009/10 financial year and experiences a negative real average growth of 0.04% over the MTEF. This decrease in the budget for Programme 4 in the 2010/11 financial year and over the MTEF is not in line with policy priorities of promoting home ownership, increasing housing options, particularly social housing and acquisition of more land. What is of even more concern is that this Programme experiences a budget decrease despite over spending its adjusted allocation by 5.42% in the 2009/10 financial year. The concern is whether the budget for this programme will be able to support the Department's social housing projects this year considering that Programme 4 over spent its adjusted allocation by 5.42% in the previous financial year. There is also reason to believe, that more funds will be needed for Programme 4 in the 2010/11 financial year since the ANC, during the Polokwane Conference have identified social and rental housing programme as an alternative solution and response to the housing problem.<sup>193</sup>

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<sup>188</sup> Government Gazette No. 31708 of 18 December 2008. Eastern Cape Department of Housing, Local Government and Traditional Affairs 2007/08 Annual Report p. 124; Eastern Cape 2009/10 Budget Statement II, p. 466

<sup>189</sup> Eastern Cape Department of Housing, Annual Report 2008/09, p.96, Government Gazette No. 31708 of 18 December 2008.

<sup>190</sup> Ibid, p.35

<sup>191</sup> Ibid

<sup>192</sup> Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p497.

<sup>193</sup> Human Settlements 2010/11 policy speech delivered by MEC. N. Mabandla

### III. Conclusion

The Department's name change and policy priorities reflect the need for a new approach to dealing with the housing problem. Changes in the economic and political environment compel the Department to develop and implement new and effective strategies to reduce the housing backlog. The Department must be commended for seeking multiple responses and other alternative solutions to the housing backlog in the province.

However the Department's main challenge is to establish a strong, well managed and well resourced organisation in order to see these new strategies implemented. The Department's human resources, both in numbers and skills, remain inadequate and yet central to the Department's new mandate. Policy priorities rely on an adequately staffed and well-trained workforce, and that is why increases in the compensation of employees budget is vital. To avoid future setbacks in housing delivery, human resource and equitable share funding must be improved. The Department is urged to motivate for increased allocations and a review of the equitable share formula.

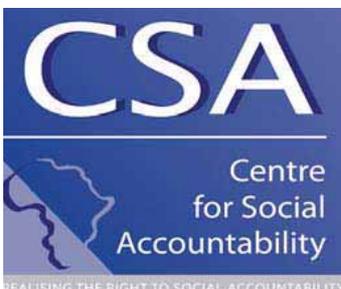
Up to date data and research into the current housing backlog, the number of informal settlements, the number of units in need of rectification in the province is also central to meeting policy targets and for effective planning and adequate budgeting going forward. Allocation of targets and budgets must be explained and justified by up to date information on current housing needs, which the Department has failed to clarify.

The role of the Department is also central to capacitating and supporting local government to play their part in housing delivery. Increase in municipal support and increasing the number of accredited municipalities will assist in providing basic services and installing services at sites.

Although the Department has experienced an increase of 12.47% in the budget in real terms from the 2009/10 financial year, it will take more than an increased budget allocation for the Department to achieve its priorities. Adequate human resource capacity, accurate data on housing in the province, improved monitoring and evaluation of housing projects and good financial management and expenditure of the conditional grant will be needed for the successful implementation of the Department's policies, goals and mandate.



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