

Eastern Cape Department of Human Settlements

Budget Analysis

2011/12

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Key Findings and Recommendations

Finding

For the 2011/12 financial year the Eastern Cape Department of Human Settlements has received a total budget of R2.42 billion. This represents a nominal increase of R556.4 million or 29.78% from the 2010/11 adjusted budget of R1.82 billion. Once inflation is taken into account, this represents a budget increase of 23.96% in real terms. However the budget experiences a disappointing decline of 0.02% over the MTEF.

Recommendation

This increase is a major improvement compared to the real increases of 12.47% in 2010/11 and 2% in 2009/10 and will hopefully enable the Department to make greater in-roads towards addressing the housing backlog in the province as well as accommodating new priorities such as rural housing development. However substantial increases in the budget need to be sustained over the MTEF if the Department is to see any meaningful reduction in its housing backlog. The PGDP goal of eradicating informal settlements by 2014 will not be achieved against an overall decline of 0.02% over the MTEF.

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 32.57% for 2011/12 but experiences a decline of -0.04% over the MTEF. The equitable share budget experiences a 4.89% nominal decrease in 2011/12 which is a 9.16% real average decrease from the 2010/11 adjusted allocation (in 2010/11 the equitable share budget also suffered a decline of 2.29% in real terms). The equitable share budget will experience negligible growth of 0.24% 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 Equitable share funds over the MTEF. The Department is also encouraged to support the MEC for Finance's 2010/11 call for the review of equitable share formula by National Treasury. Provincial Treasury and the Department must also explain why there is a decline in the IHSDG allocation over the MTEF once inflation is taken into account.

Finding

The 2011/12 budget for compensation of employees has increased by 5.93% in nominal terms. This is a real budget increase of 1.18% from the 2010/11 adjusted allocation. Over the MTEF, the budget for compensation of employees experiences minimal growth of 0.21%.

Recommendation

In the 2010/11 policy speech the MEC labelled the high vacancy rate as a pressing challenge for the Department. Over the last five years, "high vacancy rates" and "limited capacity" have often been identified by the Department, Auditor General and Portfolio Committee as key challenges. It appears from the finding above and previous findings that an inadequate budget is the main obstacle faced by the Department in filling vacant posts. The Department is urged to increase its compensation of employees budget over the MTEF in order to retain and recruit much needed staff. Additional staff are required in order to support the Department's expanding activities and avoid possible over-spending on the personnel budget; another one of the major challenges the Province is facing according to the Finance MEC.

Finding

In 2010/11 Programme 2 experienced a real increase of 5.15%. For the 2011/12, Programme 2 experiences a nominal increase of 3.66% which translates into a real decrease of 0.99% once inflation is taken into account. Over the MTEF the budget increases on average in real terms by 0.09%. 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

disappointing to note that the 'Planning' sub-programme experiences a budget decline of 0.04% over the MTEF. In addition, the Department did not announce any plans to accredit municipalities this financial year or over the MTEF. It is also disappointing that the Department did not announce nor draw on Programme 2's recently completed HSRC study on housing demand in the province to explain and justify its budgeting and target priorities for this financial year and over the MTEF.

Recommendation

The insignificant increases in budget allocation for Programme 2 planning and research this financial year and in previous financial years is a reflection of how human settlement research is not considered a pressing priority. However the research programme plays a significant role in informing and guiding key targets and activities within the Department. The programme also plays a vital function of supporting municipalities through accreditation and providing hands on support which is now crucial with the introduction of the Urban Settlements Grant. It is unfortunate that such a key Programme continues to receive a small budget. A significant increase in human and financial resources for this Programme can contribute to strengthening municipal performance and providing accurate and useful information that would assist the Department in executing its mandate. The Department is urged to draw upon the recently completed Human Sciences Research Council study entitled "Verification study on the informal settlements and backyard shacks backlog and trends within the Eastern Cape" as it has yielded useful information for effective budgeting and setting of targets. One such finding is that provincial housing demand far outweighs the Department's ability to supply.

Finding

Programme 3 receives the largest allocation to implement the bulk of the Department's activities. In 2011/12 Programme 3 receives a budget of R2.29 billion which is an appreciable increase from the R1.74 billion received in 2010/11. This is a nominal increase of 31% which translates into a real increase of 25% from the previous financial year. However there appears to be a worrying trend emerging which is explored further in this document. Although the Human Settlements budget has been steadily increasing since 2005/06, housing targets and outputs have been slowly declining. For this financial year, the MEC announced that the Department has set a housing target of building 15 419 units. This is 6 581 units less than the 2010/11 target. Other targets that have been reduced from the previous financial year include the rectification target and the social and rental housing targets.

Recommendation

The Department's reduced housing target of 15 419 could be justified by the need to channel the majority of conditional grant funds to alternative housing options that are more popular, less expensive, easier and faster to deliver. If this is the case, it must be explained and the Department needs to step up its targets and funding for alternative solutions which is not reflected in this year's budget and 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.¹ 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 Human Settlements' s 2011/12 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.²

I. Policy Priorities

In this section, key policy priorities for the 2011/12 financial year will be highlighted and discussed. They are drawn from the following:

- the 2011/12 Eastern Cape Overview and Estimates of Provincial Expenditure,³
- the Eastern Cape Human Settlements' most recently available Strategic Plan,⁴
- the Provincial Growth and Development Plan (PGDP),⁵
- the President's State of the Nation Address (SONA),⁶
- the Minister of Human Settlements 2011 Budget Speech,⁷

¹ Constitution of the Republic of South Africa, sections 26, 27 and 29.

² 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

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

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

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

⁶ Delivered on 10 February 2011

⁷ Delivered on 19 April 2011

- the 2010/11 Housing Policy and Budget speech delivered by Eastern Cape Human Settlements MEC H. Sauls-August⁸
- the 2011 State of the Province Addresses delivered by Premier Noxolo Kiviet⁹,
- the 2011 Budget Speech for the MEC for Finance MEC.P. Masualle¹⁰ among others.

Job Creation and Rural Development

This financial year, the national and provincial focus is on job creation, with President Jacob Zuma declaring in his SONA that the 2011/12 financial year is “the year of job creation.”¹¹ This has also been echoed by the Eastern Cape Premier and the MEC for Finance in their respective policy speeches. It is encouraging to see that infrastructure development and construction are both identified as key drivers of job creation. It is also encouraging to note that job creation will not be pursued at the expense of one of South Africa’s most pressing needs - housing delivery. According to President Zuma, part of government’s broad range of measures to accelerate employment creation this year and over the MTEF will be to increase investment in housing and infrastructure services.¹² According to MEC. H. Sauls-August, the priority of job creation will be steered in such a way that will increase the availability of housing for the most vulnerable.¹³

The majority of this housing investment will be poured into rural housing development. At the start of the Zuma presidency in 2009, rural development was identified as one of the 5 key priorities over the next 5 years.¹⁴ Rural development and rural job creation have also been identified as key drivers of the new growth path.¹⁵ In line with this vision, Premier N. Kiviet announced that as of this financial year, rural development will be taking priority in the province and that a new rural development agency will be established in April of this year.¹⁶ According to the Minister of Finance, P. Gordhan, rural development entails more than just agricultural development and as a result the budget has expanded not only on agricultural development but on housing, water, and electricity in order to improve the lives of those living in rural areas.¹⁷

Upgrading of Informal Settlements and Municipal Accreditation

The human settlements budget has been increased this financial year on a national aggregate level in order to address the rise of informal settlements which are particularly prevalent in urban areas.¹⁸ President Zuma highlighted in his SONA that 1.2 million households were living in approximately 2 700 informal settlements nationwide.¹⁹ According to President Zuma 400 000 of

⁸ Delivered on 24 March 2011 and accessible at: <http://echousing.ecprov.gov.za/>

⁹ Delivered on 18 February 2011

¹⁰ Delivered on 11 March 2011

¹¹ State of the Nation address delivered by President J. Zuma on 10 February 2011

¹² Ibid

¹³ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC for Human Settlements, H. Sauls-August on the 24th of March 2011.

¹⁴ State of the Nation address delivered by President J. Zuma on 10 February 2011

¹⁵ State of the Nation address delivered by President J. Zuma on 10 February 2011

¹⁶ State of the Province address delivered by Premier N. Kiviet on 18 February 2011

¹⁷ 2011 Budget Speech delivered by Minister of Finance P. Gordhan on 23 February 2011

¹⁸ Urban Settlement Development Grant, Rural Household Infrastructure Development And Accreditation for Cities: Briefing by National Treasury to the National Portfolio Committee on Human Settlements on 23 March 2011, p.3

¹⁹ State of the Nation address delivered by President J. Zuma on 10 February 2011, p.17

these households should have security of tenure and access to basic services²⁰ and that this will be possible by expanding on infrastructure development.²¹ Starting this financial year, Human Settlements will receive additional allocations under a new Urban Settlements Development Grant (USDG) valued at R21.8 billion over the MTEF.²² This conditional grant is aimed at equipping municipalities located in urban areas to upgrade informal settlements as well as increase access to basic services where the majority of informal settlements lie.²³ The USDG is to be directly transferred to accredited metropolitan municipalities by National Treasury to effectively and efficiently address housing backlog in the urban areas. Another intervention aimed at addressing the housing backlog at a rapid pace is by providing rental accommodation.²⁴ Human Settlements Minister Sexwale announced the national target of creating 800 000 rental opportunities by 2014.²⁵

In addition to this year's priorities, Minister Sexwale will be focusing on the accreditation of municipalities to allow municipalities to implement housing projects in order to increase the pace of tackling the housing backlogs.²⁶ Additional allocations have been awarded to Minister Sexwale's vote for human settlements upgrading and municipal services amounting to R4.9 billion over the MTEF.²⁷ There has been acknowledgement in President Zuma's SONA that municipalities are failing in their capacities and abilities to deliver.²⁸ As a result the government will focus on a turnaround strategy for local government.²⁹ The strengthening and equipping of municipalities in order to address informal settlements backlogs and meet the demand for rental accommodation in urban areas is a crucial priority for the Department. In response the Department will prioritise providing planning support to 39 municipalities as well as integrating Departmental planning with municipal plans.³⁰

²⁰ State of the Nation address delivered by President J. Zuma on 10 February 2011, p.1

²¹ Ibid

²² 2011/12 Budget Speech delivered by Minister of Finance P. Gordhan on 23 February 2011

²³ State of the Nation address delivered by President J. Zuma on 10 February 2011, Urban Settlement Development Grant, Rural Household Infrastructure Development And Accreditation for Cities: Briefing by National Treasury to the National Portfolio Committee on Human Settlements on 23 March 2011.

²⁴ State of the Nation address delivered by President J. Zuma on 10 February 2011, Urban Settlement Development Grant, Rural Household Infrastructure Development And Accreditation for Cities: Briefing by National Treasury to the National Portfolio Committee

²⁵ 2011 Human Settlement Budget Speech delivered by Minister of Human Settlements T. Sexwale on 19 April 2011

²⁶ Budget Speech delivered by Minister of Finance, P. Gordhan on 23 February 2011

²⁷ Ibid

²⁸ State of the Nation address delivered by President J. Zuma on 10 February 2011

²⁹ Ibid

³⁰ Policy and Budget speech delivered by MEC for Human Settlements, H. Sauls- August delivered on the 24th of March 2011.

Building a performance orientated, performance monitoring and evaluation department

In her housing policy speech the MEC for Human Settlements identified the following priorities in support of the Department's overarching policy priority of creating sustainable human settlements:³¹

- Filling of vacant funded posts particularly technical positions
- Capacitating and strengthening district offices
- Strengthening monitoring and evaluation systems capacity at project level
- To maintain the improved state of financial management
- Capacitating the department to deal with fraud and corruption

All these priorities support the call by the President to improve the effectiveness and capacity of government departments. All government Departments have been urged to prioritise filling all funded vacant posts, fight corruption and recover funds from public servants who illegally benefited from housing subsidies.³² There has also been a call to all Departments by both the Premier and the MEC for Finance to improve financial management by strengthening human resource management and public service training.³³

Accelerating housing delivery of housing opportunities

Outcome 8 which is otherwise known as the 'Sustainable Human Settlements and Improved Quality of Household Life', encompasses accelerated delivery of housing opportunities and access to basic services.³⁴ This financial year the Department will accelerate housing delivery by delivering 15 419 housing units. In addition the Duncan Village Redevelopment Initiative (DVRI) human settlements programme has been escalated into a Presidential Project. The Department has also received R926 million from the National Department through the Urban Settlement Development Grant (USDG). The funds have in turn been awarded to Nelson Mandela Metro and Buffalo City Municipality. These additional funds will speed up the completion of six active breaking new ground projects which had been put on hold due to bulk infrastructure challenges.³⁵ The Department is looking to improve rental accommodation by developing housing units for middle income groups in Walmer, Port Elizabeth. 347 units will be reserved for rental units and 432 units will be put out for sale.³⁶ Furthermore the Department will be piloting social housing programmes in King Sabatha Daindyebo, Lukhanji, Matatiele, Makana and Camdeebo local municipalities.³⁷

³¹ Policy and Budget speech delivered by MEC for Human Settlements, H. Sauls- August delivered on the 24th of March 2011

³² State of the Nation address delivered by President J. Zuma 10 February 2011

³³ State of the Province address delivered by Premier N. Kiviet 18 February 2011, Budget speech delivered by MEC for Finance P. Masualle 11 March 2011

³⁴ 2011 Human Settlement Budge Speech delivered by Minister of Human Settlements T. Sexwale on 19 April 2011

³⁵ 2011/12 Policy and Budget speech delivered by MEC H. Sauls-August 24 March 2011

³⁶ Ibid

³⁷ Ibid

II. Budget Analysis

Table 1: Eastern Cape Department of Human Settlement by Economic Classification, 2007/08 to 2013/14.³⁸

(R' 000)	Outcome			Main Budget Adjusted budget Revised estimate 2010/11 2010/11 2010/11			Medium-term estimate				Real Change between 2010/11 and 2011/12	Real Average Growth over MTEF
	Audited 2007/08	Audited 2008/09	Audited 2009/10				% change from Adjusted Appropriation		2011/12	2010/11		
Current payments	59,463	153,573	203,867	228,025	226,384	225,591	243,188	7.42	256,635	270,605	2.60	0.25
Compensation of employees	45,304	98,904	142,268	160,727	160,923	159,491	170,468	5.93	179,605	189,484	1.18	0.21
Goods and Services	14,159	54,669	61,581	67,298	65,461	66,100	72,701	11.06	77,030	81,121	6.07	0.34
Interest and rent on land												
Transfers and Subsidies to	337,423	1,060,842	1,316,535	1,599,261	1,638,625	1,569,929	2,178,954	32.97	2,274,820	2,403,688	27.01	-0.04
Provinces and municipalities		20,000										
Households	337,423	1,040,842	1,316,535	1,599,261	1,638,625	1,569,929	2,178,954	32.97	2,274,820	2,403,688	27.01	-0.04
Payments for capital assets		16,490	12,399	1,589	3,479	3,287	2,800	-19.52	2,625	2,864	-23.13	-2.53
Buildings and other fixed structures												
Machinery and equipment		16,490	12,399	1,589	3,479	3,287	2,800	-19.52	2,625	2,864	-23.13	-2.53
Total economic classification	396,886	1,230,905	1,532,801	1,828,875	1,868,488	1,798,807	2,424,942	29.78	2,534,080	2,677,157	23.96	-0.02

Total Allocation

For the 2011/12 financial year the Eastern Cape Department of Human Settlements has received a total budget allocation of R2.42 billion. This represents a nominal increase of R556.4 million or 29.78% from the 2010/11 adjusted appropriation.³⁹ Once inflation is taken into account, this represents a budget increase of 23.96% in real terms (see Table 1) which is a continuation of significant improvements in budget allocations. In the last financial year the Department received a 19.22% real increase from the 2009/10 financial year.⁴⁰

³⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.589. In all tables, the figures for 2007/08, 2008/09 and 2009/10 are audited expenditure. The Main Appropriation figures for 2010/11 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 2010/11 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 (2007/08-2013/14). These figures were then used to calculate the real growth percentages shown in the last two columns

³⁹ The PSAM uses the adjusted appropriation when comparing allocations between the previous financial year (2010/11) and the year under review (2011/12). Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.589

⁴⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491.

The Department has projected it will spend R1.79 billion, or 96% of its 2010/11 adjusted appropriation.⁴¹ This reflects the Department's efforts of maintaining encouraging levels of expenditure over recent years.⁴² The Department is urged to maintain its track record of expenditure in order to continue receiving progressively increased budget allocations over the MTEF.

Compensation of Employees

The 2011/12 budget for compensation of employees is R170 million. This is a budget increase of 5.93% from the 2010/11 adjusted allocation but once inflation is taken into account, it also represents a real increase of 1.18%.⁴³ The budget for compensation of employees also experiences a minute average growth of 0.21% over the MTEF.⁴⁴ In the previous financial year, the compensation of employees budget also received a small real increase of 5.78% from the 2009/10 financial year.⁴⁵

Erstwhile MEC Mabandla highlighted human resource capacity challenges within the Department in both her 2009/10 and 2010/11 housing policy speeches.⁴⁶ Current MEC Sauls-August has again pointed out capacity challenges, highlighting the Department's inability to reduce the vacancy rate and build organisational capacity in the previous financial year.⁴⁷ According to the 2010/11 policy speech, the Department still had a vacancy rate of 54% at the start of the financial year.⁴⁸ This means that the Department has been functioning at 46% of its required human capacity for the past two financial years.

Human capacity constraints have continuously been labelled as one of the major obstacles affecting the Department's ability to address the backlog and achieve its targets. Programme performance reports in both the 2008/09 and 2009/10 Annual Reports cite "limited capacity" as one of the primary reasons given by programmes for failing to achieve targets.⁴⁹ Programme 3's 'Service delivery achievements' under the Project Management and Quality Assurance sub-programme in 2009/10 set a target to properly close out 79 completed projects but the Department only managed to get 5 projects closed. The narrative detail given for failure to achieve this target is as follows:

*Insufficient budget resulted in the inability to fill the vacant posts,
Translating in a shortage of resources to perform the dual function
of closing out of completed projects and ensuring proper implementation*

⁴¹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12 p.589

⁴² Eastern Cape Department of Human Settlements, Annual Report 2009/10 p.33.

⁴³ Eastern Cape Provincial Treasury Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491. See also Table 1 of this document.

⁴⁴ 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.

⁴⁵ Eastern Cape Provincial Treasury Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491.

⁴⁶ 2009 Housing Policy Speech delivered by MEC N. Mabandla on 18 June 2009.

⁴⁷ 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2011

⁴⁸ Human Settlement 2010/11 Policy Speech delivered by MEC Mabandla on 24 March 2010, p.13

⁴⁹ Eastern Cape Department of Housing, Annual Report 2008/09, p.162, Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.51

*of units currently under construction.*⁵⁰

This is just one of the many examples of measurable objectives and targets which have not been met due to limited capacity as explained in 2008/09 and 2009/10 Annual Reports. The Department's inability to meet its targets is clearly affected by high vacancies and capacity in critical posts. In his 2011 Budget Vote speech, the Human Settlements Minister identified 'capacity problems' as one of the "impediments and risks affecting human settlements development strategy."⁵¹ As a result, MEC Sauls-August announced that for the 2011/12 financial year, the Department will prioritise the filling of technical posts.⁵² According to the Department's Human Resource Oversight in the 2008/09 Annual Report, the highest vacancies lie in levels 7 to 10 which are the highly skilled production and highly skilled supervision posts.⁵³ The information provided in the 2009/10 Human Resource report shows high vacancy rates of between 48 and 68% for the following posts: quality coordinators, assistant project managers and control work inspectors.⁵⁴ This information shows that there is still a large need for highly skilled and critical posts within the Department. It is unfortunate that neither the 2009/10 Annual Human Resource report nor the 2011/12 Human Settlements Estimates of Provincial Revenue and Expenditure Report provide a breakdown of all vacancies according to posts.⁵⁵ The latter Report should in the future, provide such data for effective oversight to occur.

It is also evident that an inadequate budget has affected the Department's ability to fill vacant posts. Erstwhile MEC Mabandla announced in her 2010/11 policy speech that the Department was unable to recruit required personnel due to budget constraints. Current MEC Sauls-August also points out a lack of funds as a result of budget constraints.⁵⁶ In the past, the Housing Portfolio Committee has also found that the Department did not have enough funds to fill critical vacant posts because it did not have an adequate budget.⁵⁷ It is unfortunate that despite acknowledgement from both MECs Mabandla and Sauls-August concerning an insufficient equitable share budget⁵⁸, once again this financial year's budget increase and projected growth of the Equitable share and the Compensation of Employees line item does not match the Premier's call for all Eastern Cape Department's to fill all vacant funded posts which accords with the President's national priorities.⁵⁹

⁵⁰ Eastern Cape Department of Human Settlements, Annual Report 2009/10,p.85

⁵¹ 2011 Human Settlement Budget Speech delivered by Minister of Human Settlements T. Sexwale on 19 April 2011

⁵² Human Settlements 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2011

⁵³ Eastern Cape Department of Housing Annual Report 2008/09, p.162

⁵⁴ Eastern Cape Department of Human Settlements, Annual Report 2009/10,p.30

⁵⁵ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12 p.598

⁵⁶ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2011

⁵⁷ 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

⁵⁸ 2009 Housing Policy Speech delivered by MEC N. Mabandla on 18 June 2009, 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2011

⁵⁹ State of the Province address delivered by Premier N. Kiviet 18 February 2011, State of the Nation address delivered by President J. Zuma 10 February 2011

In the 2010/11 financial year, the Department's equitable share experienced a real budget decrease of 2.29% from the 2009/10 financial year.⁶⁰ The 2011/12 equitable share budget is R243 million which is a decrease of 4.89% in nominal terms from the previous financial year. When inflation is taken into account, this translates into a real decrease of 9.16% from the 2010/11 adjusted allocation (See Table 3).⁶¹ Over the MTEF, the equitable sShare budget will only grow at an average of 0.24% per year.⁶²

The decline in the equitable share budget this financial year and minimal increase over the MTEF is extremely worrying considering that this will mean the Department will continue to face significant constraints with the recruitment of staff and their retention. The growth of staff in the Department is essential considering the Department's expanding mandate with new activities such as the rural development People's Housing Process (PHP) and the new approach to monitoring as part of the Outcomes Based Approach.⁶³ The slow growth in Equitable share budget will also impact negatively on other essential operational activities that have a direct bearing on Conditional Grant activities and housing delivery in the province. MEC Sauls- August agrees with this assessment by stating in her policy speech that:

"This House will recall that the Department has on numerous occasions indicated the misalignment of the Equitable share Budget with the Conditional Grant Allocation. This 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."⁶⁴

While noting the Department's continued frustration with an "inadequate Equitable share budget", it is difficult to understand why the Department has nevertheless under-spent its Equitable share budget over the last three financial years (See Table 2).

Table 2: Broad overview of Equitable share budget expenditure over the last three years⁶⁵

Financial Year	Total Budget	Expenditure	Variance (over)/under expenditure	Percentage of (over)/under expenditure
	R'000	R'000	R'000	
2008/09	177 629	176 820	809	0.45%
2009/10	206 195	203 167	3 029	1.46%
2010/11	256 845	225 809	31 036	12.00%
Total	640 669	605 796	34 873	5.44%

⁶⁰ 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.

⁶¹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12 p.589

⁶² CPIX figures were used to calculate what the real buying power would be for each of the budget allocations in the budget horizon (2007/08-2013/14). These figures were then used to calculate the real growth. See table 3 on page of this document

⁶³ 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2011

⁶⁴ Ibid

⁶⁵ Eastern Cape Provincial Treasury Budget Statement II 2009/10, p.465, Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.489. Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12 p.589. All the figures for the 2008/09 and 2009/10 financial year are audited except for the 2010/11 figures.

The Department's under-expenditure in the 2008/09 and 2009/10 financial year is within the acceptable range of below 2% but for the 2010/11 financial year, the Department expects to under-spend its Equitable share budget by 12%. The Department has on average under-spent the equitable share by almost 6% over the last three years. The Department needs to thoroughly explain what has caused this under-expenditure in a crucial line item.

In order to avoid further adverse effects on housing delivery as a result of an insufficient Equitable share budget, the Department is urged to take proactive steps to improve its expenditure of this line item so that it can motivate for increased allocations from National Treasury over the MTEF. A recent example of the Department's proactive steps include a submission to the National Department for more capital totalling R2.9 billion to address the bulk challenges facing the province. The National Department granted the request with an amount of R926 million.⁶⁶ Both the legislature and the Department are encouraged to support the MEC for Finance's 2010/11 call for the review of the Equitable share formula by National Treasury.⁶⁷

Goods and Services

The Goods and Services budget is funded by the equitable share and supports the Conditional Grant operational activities. The budget for this line item receives a nominal increase of 11% which translates into a real increase of 6.07%.⁶⁸ This is a significant improvement in allocation taking into account that the 2010/11 budget for Goods and Services experienced a real budget decline of 0.26% from the 2009/10 financial year. However the 2011/12 budget experiences a real average growth of less than 1% over the MTEF.⁶⁹ The Department anticipates to over spend its 2010/11 budget by 0.97%.⁷⁰ This is an improvement from the previous two financial years when the Department under spent its Goods and Services budget by 17% and 1.53% respectively.⁷¹ Although a possible expenditure of the 2010/11 budget of 0.97% is within the acceptable range of over-expenditure of below 2%, due to a tight equitable share budget and other economic pressures such as the recession, over-expenditures can easily occur. The Department is urged to be cautious with expenditure on this line item and to avoid any over-expenditure.

The Department is therefore urged to cut down expenditure on non-core items such as travel, accommodation and catering.⁷² The Department can be commended for continuing to cut expenditure on non-core items such as 'Catering'. The Catering budget has been decreased by 50% in nominal terms from R974 000 in the 2010/11 financial year to R493 000 this financial year.⁷³ The Department is however urged not to over spend on this line item taking into account that the Department is expected to over spend the 2010/11 Catering budget by 5%.⁷⁴

⁶⁶ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011

⁶⁷ 2010 Budget Speech by MEC for Finance, M. Jonas delivered on 3 March 2010, p.10

⁶⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12 p.589

⁶⁹ Ibid. See also Table 1 on page 9 of this document

⁷⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12 p.589

⁷¹ Eastern Cape Department of Housing, Annual Report 2008/09, p. 34, Eastern Cape Department of Human Settlement, Annual Report 2009/10, p. 33

⁷² State of the Nation Address delivered by President J.Zuma on 10 February 2011, State of the Nation Address delivered by Premier N. Kiviet on 18 February 2011

⁷³ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.604, Table 11: B2A

⁷⁴ Ibid

It is also encouraging that the Department boosted expenditure on critical items such as 'Training and Development' which receives a 48.45% real budget increase from the 2010/11 adjusted allocation.⁷⁵ This budget line item has been projected to grow on average by 3.28% over the MTEF. The Department over-spent its 2010/11 'Training and Development' adjusted allocation budget by 36%.⁷⁶ This therefore means that the 48% increase will probably be sufficient for this year. A significant real budget increase of 117% from the previous financial year has also been awarded to the 'Bursaries for employees' line item.⁷⁷ This line item is expected to grow on average by 29.74% over the MTEF. The large budget increases for the 'Training and Development' and 'Bursaries for employees' line items will assist the Provincial Department to strengthen its internal capacity, during this financial year and over the MTEF.⁷⁸

It is also concerning that the 2011/12 budget for Fleet services (including government motor transport) experiences a real budget decrease of 10% from the 2010/11 adjusted allocation and receives a large allocation of R7.5 million. The Department is expecting to under-spend this line item by 93%.⁷⁹ Where funds are clearly not needed, they should be re-directed to vital line items such as 'Housing Needs', Housing Planning or 'Training and Development' line items which could benefit from improved funding.⁸⁰

Table 3: Eastern Cape Department of Human Settlements by Programme, 2007/08 to 2013/14⁸¹

Programme (R'000)	Outcome						Medium-term estimate			Real Change between 2010/11 and 2011/12	Real Average Growth over MTEF	
	Audited 2007/08	Audited 2008/09	Audited 2009/10	Main budget 2010/11	Adjusted budget 2010/11	Revised estimate 2010/11	% change from Adjusted Appropriation					
							2011/12	2010/11	2012/13			2013/14
1. Administration	14,784	1,113,188	1,425,708	96,236	96,399	95,480	104,548	8.45	110,153	116,161	3.58	0.20
2. Housing Planning and Research	4,588	15,066	15,436	17,067	17,445	17,052	18,084	3.66	18,968	20,032	-0.99	0.09
3. Housing Development	370,214	93,302	82,846	1,708,369	1,747,361	1,679,096	2,295,071	31.34	2,397,337	2,532,943	25.45	-0.03
4. Housing Asset Management	7,300	9,349	8,811	7,203	7,283	7,176	7,240	-0.59	7,602	8,020	-5.05	0.09
Total payments and estimates	396,886	1,230,905	1,532,801	1,828,875	1,868,488	1,798,806	2,424,942	29.78	2,534,081	2,677,157	23.96	-0.02

Programme 1 – Administration

This programme is required to provide essential services relating to finance, supply chain management, strategic management, monitoring and evaluation, communication and

⁷⁵ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.604, Table 11: B2A, 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.

⁷⁶ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, Table 11.B2, p.604

⁷⁷ 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.

⁷⁸ State of the Nation Address delivered by President J.Zuma on 10 February 2011, State of the Nation Address delivered by Premier N. Kiviet on 18 February 2011

⁷⁹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.604, Table 11: B2A

⁸⁰ Ibid, p.592

⁸¹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.592, CPI figures of an inflation rate of 4.4% for the 2010/11 financial year and of 5% and 5.2% over the MTEF respectively provided by National Treasury have been applied

information services.⁸² This programme ensures that the various programmes and sub-programmes of the Department are supported and functioning smoothly.

On the whole, Programme 1 receives R104 million which is a 8.45% increase from the previous financial year which translates into 3.58% increase when inflation is taken into account.⁸³ The budget is projected to grow on average below 1% over the MTEF.⁸⁴ In the 2010/11 financial year, the Integrated Human Settlements Development Grant (IHHSDG) was removed from Programme 1 and relocated to Programme 3. As a result of this administrative change, the budget for Programme 1 experienced a 93.81% decrease in real terms.⁸⁵

The 2011/12 8% nominal budget increase for Programme 1 “is due to the incorporation of the Shared Internal Audit Services (SIAS) function within the Head of Department’s office...”⁸⁶ Prior to this financial year, the province shared an internal audit services unit (SIAS), an external audit committee which was administered by the Provincial Treasury Department for all the 9 Departments.⁸⁷ SIAS played a critical role in assisting the Department’s internal audit function, ensuring the effectiveness of the Department’s internal controls as well as maintain an overall high quality of in-year management monthly/quarterly reports.⁸⁸ However the SIAS has in previous financial years battled to provide this service due to personnel challenges. The Department’s 2009/10 Annual report indicated how the limited human resource capacity of the SIAS negatively affects the performance of its internal audit function.⁸⁹ As a result, Programme 1 has been allocated additional funds to incorporate the SIAS function into its own programme and capacitate their own internal audit system.

A strong internal audit function is critical for the effectiveness of the Department’s internal controls. All government departments are required by law to have an adequate Internal Audit Unit and an Audit Committee.⁹⁰ For the 2009/10 financial year, the Auditor General (AG) concluded that “there was no evidence that the Audit committee and internal audit had fulfilled all of their responsibilities contained in Treasury Regulation 3” as well as sections 76 and 77 of the PFMA.⁹¹ The Department was advised to strengthen and improve its internal auditing functions by fulfilling all of its roles and responsibilities contained in Treasury Regulation 3. It is therefore pleasing to note that a further break down of Programme 1’s Goods and Services

⁸² Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.587

⁸³ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.592, See Table 3 on p.14 of this document

⁸⁴ Ibid

⁸⁵ Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.492

⁸⁶ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.591

⁸⁷ Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.94

⁸⁸ Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.94

⁸⁹ Ibid, Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.95

⁹⁰ In terms of South African Finance regulations, all government departments are required to have an Internal Audit Unit and an Audit Committee. Internal Audit Units are required to continually evaluate the adequacy and effectiveness of a Department’s internal controls, particularly in relation to the management of financial risk. An Audit Committee must review the effectiveness of the Internal Audit Unit and monitor management’s response to weaknesses identified by this unit. Both play crucial internal monitoring functions designed to ensure the efficient use of public funds. See the Public Finance Management Act No.1 of 1999 read with the various Treasury Regulations.

⁹¹ Eastern Cape Department of Human Settlements, Annual Report 2009/10p.107

budget shows a nominal increase of 258% for its 'Audit cost: External' budget. This translates into a real increase of 235% and a real average growth of 1.75% over the MTEF.⁹²

Although it is pleasing to note that the Department's internal audit function will receive a budget boost as a result of the hefty increase of the 'Audit cost: External' budget line item, the Department still needs to engage an external service provider to provide the office of the Chief Financial Officer (CFO) with support to enhance the Department's internal controls. It appears as if the Department does not have adequate internal audit capacity to perform this function.

According to the 2009/10 Annual Report, Programme 1 under the 'Supply Chain Management' sub-programme, verification of the authenticity of suppliers was hampered by "gross staff shortages within the component."⁹³ It appears from the "External Audit cost" budget that the Department has opted for outsourcing the audit capacity. It is strongly recommended that the Department makes use of less service providers as this results in very little transfer of or development of skills within the Department. The Department needs to re-channel the money spent on outsourcing to recruiting and retaining skilled staff to perform this vital function.

There has been a national call from President Jacob Zuma and the Minister of Finance Pravin Gordhan Department to improve procurement systems and internal controls to ensure better value for money, fight corruption and improve service delivery and oversight.⁹⁴ The MEC noted blockages in Supply Chain Management and Contracts Management, alongside the inability of contractors to meet construction targets in the 2011/12 Human Settlements policy speech.⁹⁵

In the previous financial year it was found that a large number of contractors and suppliers were going for long periods without payment.⁹⁶ A verification study on informal settlements and backyard shacks in the province conducted and completed by the HSRC in April 2010 also found that contractors in the province were not being paid on time by the Department; hence affecting the service delivery chain and outcome.⁹⁷ The Nelson Mandela Bay housing delivery director Mr M. Mapu admitted to a backlog of 500 units in his first quarterly report of the 2010/11 financial year. In the report, he traced the reason for the backlog to the majority of contractors on site refusing to work because of delayed payments.⁹⁸ The Nelson Mandela Bay quarterly report also disclosed that suppliers were also refusing to provide contractors with material due to delayed payments.⁹⁹ Although the Department must withhold payment until the Department is satisfied with the housing projects, the PFMA also requires that service providers be paid within 30 days.

⁹² Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.608, Table 11.B2.A1, CPI figures of an inflation rate of 4.4% for the 2010/11 financial year and of 5% and 5.2% over the MTEF respectively provided by National Treasury have been applied

⁹³ Eastern Cape Department of Human Settlements , Annual Report 2009/10, p.29

⁹⁴ State of the Province address delivered by Premier N. Kiviet on 18 February 2011

⁹⁴ Budget Speech delivered by Minister of Finance P. Gordhan on 23 February 2011

⁹⁵ 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011, p.29

⁹⁶ "Housing Debts Fiasco: Cash flow 'disaster' leaves companies on the brink of collapse as jobs are lost" Weekend Post article written by Y. Stander published 13 November 2010, p.1

⁹⁷ "A rapid verification study on the Informal Settlements and Backyard Shacks Backlog and Trends within the Eastern Cape" study conducted by the HSRC and completed April 2010, p.104

⁹⁸ "Metro plan to build 7 900 houses already faces 500 unit backlog" The Herald article written by L. Shaw published 15 November 2010

⁹⁹ "Metro plan to build 7 900 houses already faces 500 unit backlog" The Herald article written by L. Shaw published 15 November 2010

Contractors must be paid on time, failure to do so will create blocked projects and more backlogs. Programme 1 needs greater support from Programme 3 in the form of improved monitoring and evaluation of housing projects. Programme 1 also needs to strengthen its basic administrative systems, financial management and customer care to ensure that contractors are paid on time and that projects can also be completed on time. The 3.58% real budget increase in 2011/12 and 0.20% MTEF average growth of Programme 1's budget does not provide any significant monetary support to achieve this purpose but finances do not represent the only solution to a longstanding problem. Performance improvement in Programmes 1 and 3 will also be key to avoiding further setbacks. According to Human Settlements Minister Sexwale there is a need for a "stronger focus and drive on project management abilities."¹⁰⁰

Programme 2 – Housing Planning and 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. Programme 2 receives a nominal increase of 3.66% which translates into a real budget decrease of 0.99% when inflation is taken into account.¹⁰¹ The Programme's budget is projected to grow on average at 0.09% over the MTEF. Programme 2 has received a small budget allocation in previous financial years. In 2009/10 Programme 2 received a disappointing increase of 0.39% from the 2008/09 financial year. Due to a lack of adequate and reliable information on housing demand in the province, in the previous financial year Programme 2 received a real increase of 5.15%.¹⁰²

With these additional funds, Programme 2 has made considerable effort to investigate the provincial backlog. Programme 2 has commissioned a number of research studies to set out the Department's targets and budgets over the next 5 years.¹⁰³ In 2009, Programme 2 commissioned a research study to provide up-to date reliable data on the number of informal settlements and backyard shacks in the province. This study was undertaken by the Human Sciences Research Council (HSRC) and was completed in April 2010.¹⁰⁴ This research study yielded a lot of crucial information such as :¹⁰⁵

- The current number of informal and backyard shacks in the Eastern Cape stands at approximately 224 319
- Approximately 680 000 individuals need to be housed
- Eastern Cape needs to deliver 56 000 units a year to meet this target

¹⁰⁰ 2011 Human Settlement Budget Speech delivered by Minister of Human Settlements T. Sexwale on 19 April 2011

¹⁰¹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.589, See also Table 3 on p.14 of this document.

¹⁰² Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.490,

¹⁰³ Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.17

Furthermore the Department commissioned a research study (which was completed in February 2009) to gather reliable data for planning and policy processes, which estimated the backlog to be at 1.14 million dwellings

¹⁰⁴ Sunday Times, 21 June 2009, p.10.

¹⁰⁵ "A rapid verification study on the Informal Settlements and Backyard Shacks Backlog and Trends within the Eastern Cape" study conducted by the HSRC and completed April 2010, p.105

This information is current, useful and therefore extremely essential for planning and budgeting purposes for this financial year and over the MTEF. It is strange that the MEC did not use the statistics and results of this study to inform her policy speech opting instead to use the 2007 Statistics SA results.¹⁰⁶ The Department is urged to use the results of the study that it commissioned to inform their plans. Although the Department now has adequate up to date information that they require for planning, the Programme still needs significant financial and human resources to be able to execute its mandate.

Programme 2 is also mandated to render support to municipalities by assisting in planning provincial and municipal housing multi-year plans.¹⁰⁷ This municipal support will be required this financial year and over the MTEF as the National Department is moving towards increasing housing responsibilities at the municipal level.¹⁰⁸ National Treasury have explained that the new Urban Settlement Development Grants (USDG) will be allocated to metropolitan areas in 27 cities and municipalities where the housing backlogs are largely concentrated.¹⁰⁹ The provincial Departments will be required to increase their assistance to municipalities to manage the grant and housing projects.

It is disappointing to see that the Department has not recognised the need to improve Programme 2's budget. Based on the 0.99% real budget decrease from 2010/11,¹¹⁰ Programme 2's is not adequately equipped on a financial or human resource level to offer meaningful assistance to municipalities such Buffalo City Municipality (BCM) which has recently been awarded metropolitan status¹¹¹. BCM will be undertaking more housing responsibilities starting this financial year.¹¹² The Department of Human Settlements will also be required to increase the number of accredited municipalities in line with the National Department's strategy for more municipalities to take over the developer role from the Provincial Departments.¹¹³ Currently the majority of Eastern Cape municipalities are not self sufficient and are largely dependent on the Province to develop municipal housing year plans, housing business plans as well as financially supporting municipal housing units.

In 2007/08, accreditation of municipalities by the Housing Department was a priority but at the end of 2008/09 the Department had managed to accredit only one municipality out of a total of

¹⁰⁶ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011, p.6

¹⁰⁷ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.592 p.468.

¹⁰⁸ Urban Settlements Development Grant Rural Household Infrastructure Grant and Accreditation for Cities: Briefing by National Treasury to National Human Settlements Portfolio Committee on 25 March 2011, p.2

¹⁰⁹ Ibid

¹¹⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.589, See also Table 3 on p.14 of this document.

¹¹¹ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011, p.1

¹¹² Ibid, p.2

¹¹³ Urban Settlements Development Grant Rural Household Infrastructure Grant and Accreditation for Cities: Briefing by National Treasury to National Human Settlements Portfolio Committee on 25 March 2011

45.¹¹⁴ In 2009/10 the Department had targeted to accredit 6 municipalities at level 1¹¹⁵ but only accredited 2 municipalities out of a target of 6.¹¹⁶ In 2010/11 and now in this financial year, the Department has not announced any targets for accrediting municipalities but the MEC did announce the target to support 39 municipalities in the reviewing their Housing Chapters of the Integrated Development Plans.¹¹⁷ It appears likely that the underfunding of Programme 2 for this financial year and over the MTEF will inhibit its ability to respond to the National Department's call to reduce the housing backlog by empowering municipalities to take on the role of developer.

Programme 3: Housing Programmes Facilitation and Administration

The Programme is responsible for managing the conditional grant, implementing conditional grant activities such as the facilitation, coordination and management of all housing projects, informal settlement upgrading, providing support services to emerging contractors and vulnerable groups, emergency housing among other activities.¹¹⁸ As a result, Programme 3 always receives the largest allocation to implement the bulk of the Department's activities. Programme 3 receives a large slice of the 2011/12 Human Settlements budget with a budget allocation of R2.29 billion increasing from R1.74 billion in 2010/11. This is a nominal increase of 31% which translates to real increase of 25% from the previous financial year. A substantial portion of Programme 3's budget allocation is a result of the Integrated Housing and Human Settlement Development Grant (IHSDG) Conditional grant. In the previous financial year the Grant Management sub-programme, has been introduced to Programme 3 to manage the Housing Development grant. 95% of Programme 3's 2011/12 budget allocation is comprised of the IHSDG.¹¹⁹

Table 4: Eastern Cape Department of Human Settlement, Conditional Grant allocations, 2006/07 to 2012/13¹²⁰

Conditional Grant Allocation (R'000)	Outcome			Main Appropriation 2010/2011	Adjusted Appropriation 2010/11	Revised Estimate 2010/11	Medium-term estimate			Real Change between 2010/11 and 2011/12	Real Average Growth over MTEF	
	Audited 2007/08	Audited 2008/09	Audited 2009/10				% change from Adjusted Appropriation					
							2011/12	2010/11	2012/13			2013/14
Equitable Share	50,311	238,476	203,167	216,872	256,485	225,808	243,945	-4.89	256,774	271,392	-9.16	0.24
[IHSDG]	337,423	981,018	1,313,379	1,598,646	1,569,427	1,569,427	2,178,387	38.80	2,274,820	2,403,688	32.57	-0.04
Departmental receipts	9,152	11,411	16,255	13,357	13,357	3,570	2,610	-80.46	2,487	2,077	-81.34	-10.35
Total payments and estimates	396,886	1,230,905	1,532,801	1,828,875	1,868,488	1,798,806	2,424,942	29.78	2,534,081	2,677,157	23.96	-0.02

¹¹⁴ Eastern Cape Department of Housing, Local Government and Traditional Affairs, 2007/08 Policy Speech, delivered by MEC Kwelita on 14 March 2007; Eastern Cape Budget 2009/10 Statement II, p. 469. 2009/10 Housing Policy and Budget speech delivered by MEC N. Mabandla on 18 June 2009.

¹¹⁵ Ibid

¹¹⁶ Eastern Cape Department of Human Settlements 2009/10 Annual Report, p.77

¹¹⁷ 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011, p.10

¹¹⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.594

¹¹⁹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.588

¹²⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.588

Table 4 provides information on the Conditional Grant allocation as separate from Programme 3 allocation as a whole. The 2011/12 allocation for the IHSDG receives a 38.80% nominal increase which translates into a real increase of 32.57%. The Conditional Grant has for the second time since 2009/10 received another large increase to accommodate the Department's expanding mandate and activities.

MEC Sauls-August announced the following overall service delivery targets for this financial year:¹²¹

- Acquire 5 land parcels
- Construct 789 social and rental housing units
- Service 15 660 site
- Rectify 3 526
- Construct 15 419 housing units

It is pleasing to note that the Conditional grant has gone from experiencing a real budget decrease of less than 1% in 2009/10 to receiving substantial budget increases of 14% and 32% in the 2010/11 and 2011/12 financial years respectively.¹²² The conditional grant allocations have also increased due to improved expenditure of the grant since the Department under spent almost half (49.30%) of the conditional grant in 2007/08.¹²³ This financial year, the Department is expected to spend 98.17% of the conditional grant.¹²⁴ The Department is to be commended for its continued improved financial management and expenditure of the conditional grant. The Conditional Grant is expected to experience a 0.04% budget decrease over the MTEF in real terms. This decline in IHSDG allocation over the MTEF is surprising. The Department needs to justify and explain this projected significant budget cut back after much progress in expenditure on this line item. In addition, there appears to be a worrying trend emerging which is depicted by the graph below. Although the Human Settlements budget has been steadily increasing since 2005/06, housing targets and outputs have been slowly declining.

¹²¹ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011

¹²² Eastern Cape Provincial Treasury Budget Statement II 2009/10, p. 465, Eastern Cape Department of Housing Public Service Accountability Monitor 2009/10 Budget Analysis, p.24, Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.498, Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12,p.594

¹²³ The initial 2007/08 conditional grant allocation was R1.05 billion. R543 million was taken back by the National Department of Housing due to under spending. Eastern Cape Department of Housing, Local Government and Traditional Affairs 2007/08 Annual Report, p. 124.

¹²⁴ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12,p.588

Diagram 1: Housing delivery and conditional grant expenditure trends 2005/06 - 2009/10¹²⁵

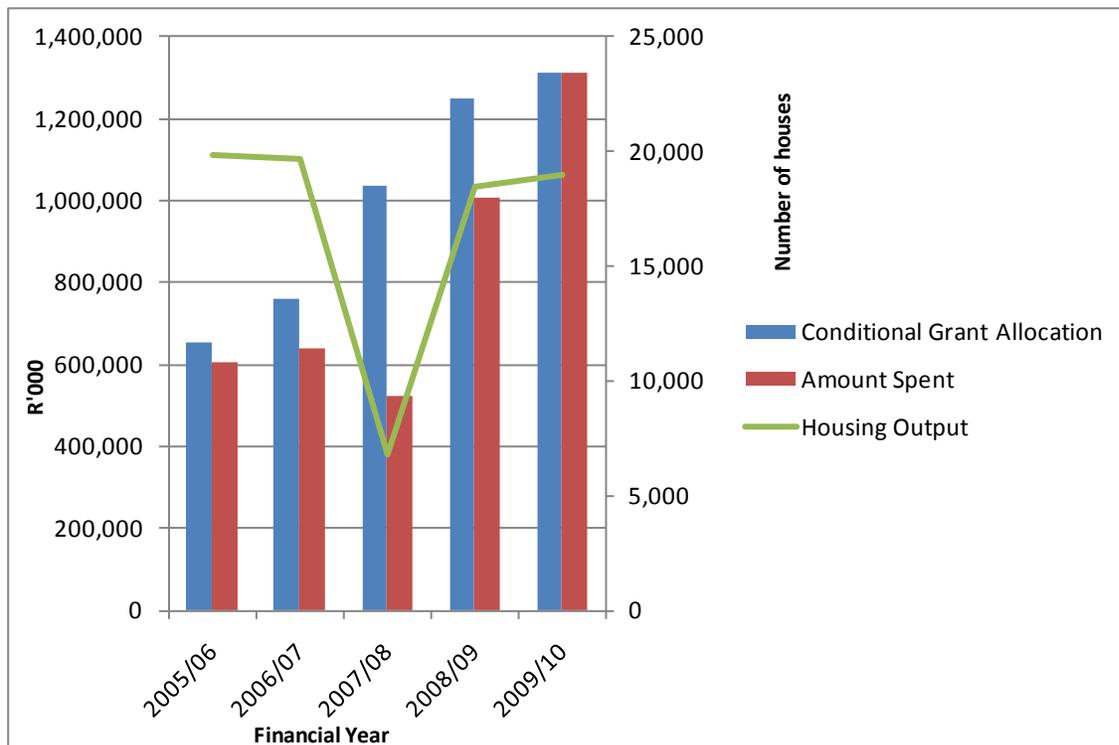


Table 5: Housing delivery and conditional grant expenditure trends 2005/06 - 2011/12¹²⁶

¹²⁵ All housing delivery figures have been audited. All conditional grant expenditure figures from 2004/05 to 2006/07 are taken from the *Budget Statements II 2008/09*, p. 388. Conditional grant expenditure figures from 2007/08 to 2009/10 are taken from the 2011/12 *Eastern Cape Overview and Estimate of Provincial Revenue and Expenditure*, p.588.

¹²⁶ All housing delivery figures have been audited except for the 2010/11 financial year. The 2010/11 housing delivery figures include houses which are still under construction. The 2011/12 housing output figure is the housing target for the financial year. All expenditure figures from 2004/05 to 2006/07 are taken from the *Budget Statements II 2008/09*, p. 388. Conditional grant expenditure figures from 2007/08

Financial Year	IHHSDG Allocation	Amount Spent	Housing Output
2005/06	654,913	607,693	19,825
2006/07	761,994	637,467	19,662
2007/08	1,036,171	525,386	6,812
2008/09	1,251,018	1,004,842	18,424
2009/10	1,313,378	1,313,378	18,965
2010/11	1,569,427	1,569,427	22,717*
2011/12	2,178,387	TBA	15,419

Although the Department must be commended for increasing housing output since the 2007/08 financial year, the recent decline in housing targets and output is cause for concern. In 2009/10 the Department set a housing target of 19 000 and managed to construct 18 965 units.¹²⁷ In the next financial year the Department set a target of 22 000 housing units¹²⁸ and as of March 2011, only 8 274 units, 37% of the original target, had been completed.¹²⁹ According to MEC Sauls August 14 443 units are still under construction.¹³⁰ For this financial year, the MEC announced that the Department has set a housing target of building 15 419 units. This is 6 581 units less than the 2010/11 target.

The housing target of 15 419 units is perplexing considering that the Department calculated that in order to reduce the backlog of 750 000 in the next 5 years, it needed 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...”¹³¹ In addition, the recently completed study by the HSRC concluded that the number of informal settlements and backyard shacks in the Eastern Cape is approximately 224 319, “this therefore means the Eastern Cape needs to deliver on average 56 000 units a year just to match current housing demands.”¹³² The study also concluded that the current delivery is “simply too slow”.¹³³ Based on this information, improved conditional grant expenditure as well as increased conditional grant allocations, the target of 15 419 units appears to be far too conservative and not adequately responsive to the needs established. The Department is called to justify and explain why it has set itself such a low target against such a large backlog and increased funding.

Other targets that have been reduced from the previous financial year include the rectification target of 3 526 units compared to the rectification target of 4 280 units.¹³⁴ The Department has

to 2009/10 are taken from the 2011/12 *Eastern Cape Overview and Estimate of Provincial Revenue and Expenditure*, p.588.

¹²⁷ Eastern Cape Department of Human Settlements Annual Report, 2009/10 p.11

¹²⁸ Human settlement policy speech delivered by MEC N. Mabandla on 24 March 2010

¹²⁹ Human Settlements 2011/12 Policy and Budget Speech delivered by MEC Sauls-August on 24 March 2011, p.2

¹³⁰ Ibid

¹³¹ Eastern Cape Department of Human Settlements Strategic Plan 2010/11 to 2014/15, p.21

¹³² “A rapid verification study on the Informal Settlements and Backyard Shacks Backlog and Trends within the Eastern Cape” study conducted by the HSRC and completed April 2010, p.105

¹³³ Ibid

¹³⁴ Human Settlements 2010/11 Policy and Budget speech delivered by MEC N. Mabandla on 24 March 2010, p.30

also reduced the target for social and rental housing from 970 units to 789 units.¹³⁵ The Department's reduced housing target of 15 419 could be justified by the need to channel the majority of conditional grant funds to alternative housing options that are more popular, less expensive, easier and faster to deliver. If this is the case, the Department needs to step up its targets and funding for alternative solutions which is not reflected in this year's budget and over the MTEF.

President Zuma noted in his 2010 State of the Nation Address that government needed to undertake a number of key activities 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."¹³⁶ These sentiments were again reiterated in the 2011 State of the Nation Address.¹³⁷ In addition, in the previous financial year, erstwhile MEC N. Mabandla identified expanding social and rental opportunities as an alternative solution to the housing problem.¹³⁸ The HSRC study also revealed that there is currently a market and high demand for rental in the province specifically in areas such as Mdanstane, Buffer Strip, Orange Grove and Katilumla.¹³⁹ These results also confirm other housing research conducted on a national scale which shows that most of the housing backlog is concentrated in the urban areas, "currently the [national housing] backlog in urban areas is about three million units."¹⁴⁰ When budgeting and setting targets, the Department needs to set targets that will meet the province's housing needs in the most efficient and effective way. Prioritising budget allocations to rural development programmes in light of research that shows that the housing backlogs are mostly concentrated in the urban areas becomes problematic and counter-productive.

Rental accommodation options need to be explored and followed through by stepping up targets as well as redirecting the majority of the conditional grant funds to more effective housing options such as providing rental accommodation at affordable rates. Another way the Department could 'step up' and improve this much needed housing option is by increasing the budget allocation to Programme 4. Programme 4 is tasked to facilitate, co-ordinate and mandate the implementation of the social housing programme, rental housing programmes and land acquisition.¹⁴¹ For this financial year, Programme 4 receives R7.2 million which is a nominal increase of 0.89% from the previous financial year which translates into a budget decrease of 6.93% when inflation has been taken into account.¹⁴² The Programme is projected to experience a budget decline of 2.32% over the MTEF.¹⁴³ Programme 4 requires increased allocations this financial year and over the MTEF to support the Department's strategy of expanding social and rental opportunities as an alternative solution to the housing problem. The

¹³⁵ Ibid, p.26, Human Settlements 2011/12 Policy and Budget speech delivered by MEC H.Sauls-August on 24 March 2011, p.11

¹³⁶ State of the Nation Address delivered by President J. Zuma on 11 February 2010.

¹³⁷ State of the Nation Address delivered by President J. Zuma on 10 February 2011

¹³⁸ Human Settlements 2010/11 Policy and Budget speech delivered by MEC N. Mabandla on 24 March 2010, p.30

¹³⁹ "A rapid verification study on the Informal Settlements and Backyard Shacks Backlog and Trends within the Eastern Cape" study conducted by the HSRC and completed April 2010, p.106

¹⁴⁰ Urban Settlements Development Grant Rural Household Infrastructure Grant and Accreditation for Cities: Briefing by National Treasury to National Human Settlements Portfolio Committee on 25 March 2011, p.2

¹⁴¹ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.597

¹⁴² Ibid, CPI figures of an inflation rate of 4.4% for the 2010/11 financial year and of 5% and 5.2% over the MTEF respectively provided by National Treasury have been applied

¹⁴³ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.597

Department must however be commended for increasing other targets such as the servicing of 15 560 sites up from 8 000 sites from the previous financial year.¹⁴⁴

III. Conclusion

The Department has shown definite improvements in its budget expenditure and delivery achievements over the last two financial years. The Department must be commended for its continued improved performance.

However the Department's main challenge is to establish a strong, well managed and well resourced organisation that can develop and implement new and effective strategies to reduce the housing backlog. According to the recently completed HSRC study showed approximately 224 319 informal settlements in the province, which means the Department needs to deliver 56 000 units a year just to match current housing demands. Over the years, although funding has increased, the housing output has dropped. This financial year has the lowest housing output target since 2007/08 financial year of 15 417 units. The current delivery targets are simply too low to effectively meet the huge demand. If the Department is to lower their housing output for traditional RDP units, then the Department needs to step up its funding and targets for alternative responses such as providing more rental accommodation, transitional and communal housing as alternative housing options. The Department needs to raise the budget for Programme 4 to allow the programme to expand and support this strategy. Currently this Programme suffers a budget decrease this financial year and over the MTEF when inflation has been taken into account. In addition the Human Settlements budget and the Conditional Grant budget is projected to decline over the MTEF.

In the past the Department has struggled as a result of a lack of adequate up to date data and research into current housing backlog. The Department can also be commended for commissioning the HSRC study on informal settlements and backyard shacks backlog in the province, which has been recently completed. The Department is urged to use this research to inform its planning over the MTEF to ensure that the Department effectively uses its limited resources to respond to the people's needs. Programme 2 however needs increased funding to support National Department's strategy to provide more housing responsibilities and funds to municipalities. Currently the budget for Programme 2 this financial year and over the MTEF will not be adequate to capacitate and accredit municipalities.

The Department's human resources challenges still remain unaddressed. The Department's vacancy rate of 54% still remains. Implications of this can be seen in the Department's continued outsourcing of auditing services, inadequate staff to monitor and evaluate housing projects hence causing significant delays in payments to contractors. Delayed payments to contractors have caused a number of blocked projects, with contractors and suppliers refusing to complete housing projects. The Department's inadequate numbers and skills, remains a challenge and as a result the Department to a certain extent is responsible for many of the

¹⁴⁴ Human Settlements 2011/12 Policy and Budget speech delivered by MEC H. Sauls-August on 24 March 2011, p.11, Human Settlements 2010/11 Policy and Budget speech delivered by MEC N. Mabandla on 24 March 2010, p.30

delays and blocked projects. The current funding for compensation of employees experiences a meagre 1% increase from 2010/11 in real terms as well as a real average growth of 0.21% over the MTEF. To avoid future setbacks in housing delivery, human resource and equitable share funding must be improved. The 2011/12 equitable share budget experiences a nominal budget decrease of 4.89% and a real decrease of 9.16% from the 2010/11 adjusted allocation. The Department is urged to improve its spending of the equitable share, considering that the Department is projected to under spend 12% of its 2010/11 equitable share adjusted allocation.