

Eastern Cape Department of Human Settlements

Budget Analysis

2012/13

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Key Findings and Recommendations

Finding

For the 2012/13 financial year the Eastern Cape Department of Human Settlements has received a total budget of R2.57 billion. This represents a nominal decrease of R171.9 million or 1.57% from the 2011/12 adjusted budget of R2.61 billion. Once inflation is taken into account, this represents a further budget decrease of 4.97% in real terms. In addition the budget experiences a disappointing nominal growth of 3.92% over the MTEF.

Recommendation

This decrease is a major setback when one takes into account the real increases of 28% in 2011/12 and 12.47% in 2010/11. The Department plans to accelerate housing delivery, with a particular focus on beginning new housing projects in rural areas. These new BNG projects might suffer setbacks due to an inadequate budget. The implications of a budget decrease is further worsened by further deterioration in the global economic recession as well as global price increases.

Finding

The equitable share budget experiences a significant 14.31% nominal increase in 2012/13 which is a 10.36% real average increase from the 2011/12 adjusted allocation. The equitable share budget is projected to grow at reasonable growth of 7.57% in nominal terms over the MTEF.

Recommendation

The last two years have seen the equitable share budget suffering a decline of 9.16% and 2.29% in real terms respectively. Unfortunately the equitable share budget growth is not sustained over the MTEF. The increase in equitable share budget will boost the Department's ability to improve quality of houses and accelerate housing delivery. It is important that this budget increase be sustained over the MTEF. The Department is encouraged to support the MEC for Finance's 2010/11 call for the review of equitable share formula by National Treasury for sustained equitable share budget increases.

Finding

The 2012/13 conditional grant budget decreases from the 2011/12 adjusted allocation of R2.31 billion to R2.20 billion. This is a nominal decrease of 4.82% which translates into a real percentage decrease of 8.11% when inflation is taken into account. The conditional grant budget is expected to grow at rate of 4.89% over the MTEF without taking inflation into account.

Recommendation

The conditional grant suffers its first budget decrease in 3 financial years. It will require sustained increases in both the equitable share budget and conditional grant budget to avoid further adverse effects and obstacles to housing delivery. Provincial Treasury and the Department must also explain why there is a decline in the IHSDG allocation this financial year and over the MTEF. The Department is also urged to clarify roles and responsibilities with other Departments as well as improve conditional grant spending for increased allocations over the MTEF.

Finding

The personnel budget is set to increase from R170 million in 2011/12 to R210 million in the 2012/13 budget which represents a nominal budget increase of 23.21% and real budget increase of 18.96%. Over the MTEF, the budget for compensation of employees experiences minimal growth of 6% in nominal terms.

Recommendation

From previous findings an inadequate budget has been identified as one of the major obstacle faced by the Department in filling vacant posts. The Department is applauded for increasing its compensation of employees budget over the MTEF in order to retain and recruit much needed staff. Although additional staff will go a long way in supporting the Department's expanding activities and achieve its targets, the Department's success is also dependent on sound human resource management and training.

Finding

The Department's housing target for this financial year is 16 190 units. This is an increase of 1 141 units from the previous financial year. There appears to be a lack of clarity with regards to achievements of the 2011/12 housing target. The Department also anticipates to miss the rectification targets as well as the basic services targets. The Department has been struggling to meet its targets for the past two financial years in particular the targets of six BNG projects which were implemented as early as 2009/10. This is mostly due to 'bulk infrastructure challenges'.

Recommendation

Housing projects are taking too long to be completed. The targets of new BNG projects are either too low or unknown. Budgets work on time frames – BNG projects need to be allocated proper time frames and to be completed within those time frames to avoid backlogs straining the budget and to allow for new projects to be implemented. Where there are bulk infrastructure challenges, the Department needs to start looking into alternative housing options and typologies which deal with issue of bulk infrastructure challenges. 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.

Finding

The Goods and Services budget experiences a nominal decrease of 5.22% (a decrease of 8.49% in real terms) from the 2011/12 adjusted budget of R72 million to R68 million in the 2012/13 financial year. This is mainly because of reprioritisation and saving mechanisms considerations within the budget.

Recommendation

The reduction in budget allocation for things such as catering, accommodation and the use of external providers and services is welcomed, however, there is still room for improvement particularly on line items such as advertising, stationery, printing, entertainment and fleet services which experience some large budget increases. The Department is also encouraged to maintain this resourcefulness when budgeting beyond this financial year.

Finding

This financial year, Programme 2 has received a budget increase from R18.13 million of the 2011/12 adjusted allocation to R19.66 million in 2012/13. This is an increase of 8.44% which translates to a real increase of 4.89%. The budget for the "Administration" sub-programme in Programme 2 which has been mandated this financial year with capacity building decreases from R10 million in the 2011/12 adjusted allocation to R9.85 million in the 2012/13 financial year. This is a budget decrease of 1.52% or 4.92% when inflation is taken into account.

Recommendation

Given the poor service delivery of housing and basic services by municipalities, the huge backlog of basic services and housing in the province and the call by Minister of Human Settlements, Honourable Tokyo Sexwale and MEC of Finance to increase local government capacity, this year's budget allocation for this vital function is clearly insufficient. Due to the critical importance of building capacity of Eastern Cape municipalities, the Department is urged to consider introducing a separate well-resourced sub-programme under Programme 2 which deals exclusively with capacity building.

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' 2012/13 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 2012/13 financial year will be highlighted and discussed. They are drawn from the following:

- the 2012/13 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 2012 Budget Speech by Minister of Finance Pravin Gordhan⁷

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), Eastern Cape Department of Human Settlements Annual Performance Plan (2011/12-2013/14)

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

⁶ Delivered on 9 February 2012

⁷ Delivered 22 February 2012

- the Minister of Human Settlements 2012 Budget Speech,⁸
- the 2012/13 Housing Policy and Budget speech delivered by Eastern Cape Human Settlements MEC H. Sauls-August⁹
- the 2012 State of the Province Addresses delivered by Premier Noxolo Kiviet¹⁰, the 2012 Budget Speech for the MEC for Finance MEC.P. Masualle¹¹ among others

National and provincial priorities

This financial year, the national and provincial focus has not changed from the previous financial year. The focus as outlined by President Jacob Zuma and the Minister of Finance as well as the Eastern Cape Premier and the MEC for Finance in their respective policy speeches; still remains on the following:¹²

- Job Creation
- Rural Development
- Infrastructure Development
- Improving service delivery

Similarly for the Eastern Cape Department of Human Settlements, the priorities will mostly remain unchanged. According to MEC Sauls - August this financial year the focus will largely remain on the following:¹³

- Accelerate delivery of housing opportunities
- More efficient utilization of state land
- Improved property market
- Rural settlement development
- Access to basic services
- Delivery of 16 726 housing units

A critical analysis of the 'Accelerate delivery of housing opportunities' priority

Over the last three financial years, the Department has been lowering its housing targets and what is even more worrisome is that the Department has also been struggling to meet its targets.

⁸ Delivered on 9 May 2012

⁹ Delivered on 23 March 2012 and accessible at: <http://echousing.ecprov.gov.za/>

¹⁰ Delivered on 17 February 2012

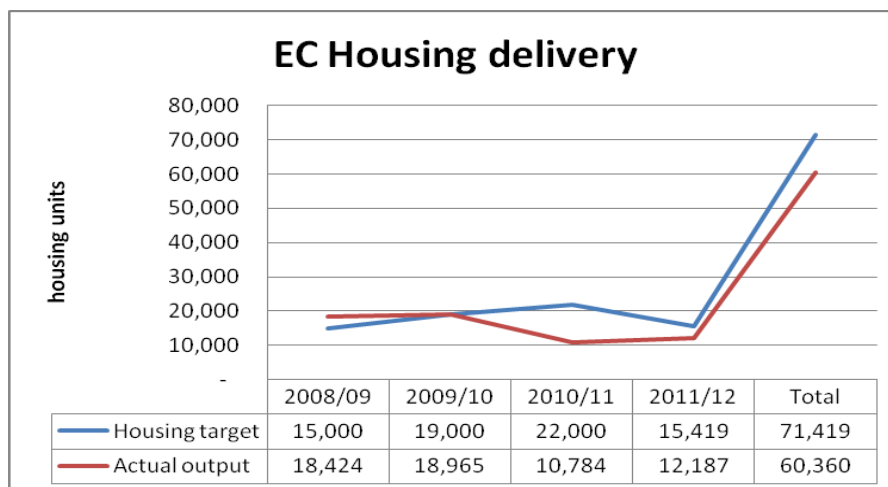
¹¹ Delivered on 6 March 2012

¹² Ibid

¹³ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. Sauls-August on the 23rd of March 2012.

*As at 29 February, the Department had completed 12 187 housing units, Ibid

Table 1: Diagram depicting housing delivery trends over the last four financial years¹⁴



The Department has set for itself a target of 71 419 housing units over the last four financial years but the table shows that are lagging behind by at least 10 000 units. Although the Department’s main priority has been to accelerate service delivery, with each passing year, the Department seems to be falling further behind. According to a 2010 HSRC report into housing demand in the province, the rate of service delivery is “simply too slow” for the current demand which is estimated at 680 000 individuals.¹⁵ This figure excludes future demand.¹⁶

There has been a massive improvement on meeting the housing output target in the previous financial year. The Department completed 10 784 units against a target of 22 000 in the 2010/11 financial year.¹⁷ For the 2011/12 financial year the Department is expecting to have completed a total of 20 078 housing units according to the MEC by the start of the 2012/13 financial year.¹⁸ The Premier is expecting a total of 16 000 units¹⁹ but according to the Estimates of Provincial Revenue and Expenditure, the Department anticipates completing a total of 22 000 housing units by the end of the 2011/12 financial year.²⁰ There seems to be a lack of clarity about the total number of housing outputs for the 2011/12 financial year. Although the Department can be applauded for expecting to surpass the 2011/12 target, the targets continually set by the Department still remain too low. The target set for this financial year, 16 726 units, is merely an increase of 1 307 units from the previous financial year. It is clear that the Department is failing to accelerate or step up the rate of delivery. It is currently not clear how

¹⁴ All housing delivery figures have been audited with the exception of the 2011/12 financial year. The 2011/12 housing output figure include completed houses as of 29 February 2012. The other housing output figures are taken from Eastern Cape Department of Human Settlements Annual Report 2008/09, 2009/10 and 2010/11.

¹⁵ “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 in April 2010, p.105

¹⁶ Ibid

¹⁷ Eastern Cape Department of Human Settlements 2010/11 Annual Report, p.14

¹⁸ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. Sauls-August on the 23rd of March 2012, p.4

¹⁹ 2012/13 State of the Province address delivered by the Hon Premier N.Kiviet on the 17th of February 2012, p.11

²⁰ Eastern Cape Estimates of Provincial Revenue and Expenditure 2012/13, p.491

targets are set by the Department. The Department needs to provide explanations and justifications for continuously setting low targets. If it is because of budgetary or capacity constraints, these need to be highlighted and addressed accordingly.

“Bulk challenges” do seem to be responsible for the current slow pace of delivery. Speaking in parliament, Minister of Human Settlements, Mr.T.Sexwale stated that bulk infrastructure problems are slowing down housing delivery programmes.²¹ The current housing model or typology being delivered by the Department is not suitable for the acceleration of housing delivery. Alternative options in the form of 6 BNG projects and informal settlement programme were launched in the 2010/11 financial year.²² At the launch of these projects in 2010/11, the BNG projects were expected to yield 69 200 units upon completion.²³ Of the 6 BNG projects, only one, the *Zanemvula* BNG housing project has been completed and handed 4 695 housing units over to beneficiaries.²⁴ The MEC admitted facing “challenges” with BNG projects. Some of these challenges include “bulk infrastructure, land disputes, lack of integration with other social amenities.” It appears that the alternative BNG options still pose challenges. Bulk infrastructure challenges continue to be highlighted as major obstacles of the informal settlements upgrading year.²⁵

In addition to the Department taking considerable amounts of time in achieving targets, the Department is struggling to meet its sanitation and basic services targets. The MEC stated in her policy and budget speech that for the 2011/12 financial year Department had completed a total of 5 111 basic services (866 rural and 4 245 urban services) out of the 2011/12 set target of 15 660 target.²⁶ She also announced that the Department had also rectified a total of 2 909 units out of the 2011/12 set target of 3 526 units.²⁷ This is unacceptable performance especially given that the Department anticipates under spending its budget by R176 million and the Eastern Cape province is lagging behind in the delivery of basic services particularly water and sanitation nationwide.²⁸ Unfortunately no explanation is provided for the Department’s failure to meet these targets other than “bulk challenges.” The 2012/13 basic service target of 16 726 services and rectifying a total 5 700 units²⁹ will most likely not be achieved with a 4.97% real budget decrease in this year’s Eastern Cape Human Settlements budget and considering last year’s underperformance.

²¹ “Bulk infrastructure problems slowing down housing delivery” ,

<http://www.info.gov.za/speech/DynamicAction?pageid=461&sid=14984&tid=25235>, 24 Nov 2010

²² Human Settlements 2010/11 Policy and Budget delivered by MEC N. Mabandla on 24 March 2010

²³ Ibid

²⁴ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. August - Sauls on 24 of March 2012, p.7

²⁵ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. August - Sauls on 24 of March 2012, p.7

²⁶ Ibid, p.7, Human Settlements 2011/12 Policy and Budget Speech delivered by MEC Human Settlements, H. August - Sauls on 24 of March 2011

²⁷ Ibid, p.5

²⁸ Eastern Cape Estimates of Provincial Revenue and Expenditure 2012/13, p.4

²⁹ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. August - Sauls on 24 of March 2012. The Department needs to clarify the 2012/13 rectification target as the 2012/13 Eastern Cape Estimates of Provincial Revenue and Expenditure (p.492) cite another figure 3 701 units

It is clear that the Department needs to dramatically increase the rate of delivery to meet current and ever increasing demand for housing and basic services, particularly in the urban areas.³⁰ Since the Department's commitment to explore alternative technologies in the 2010/11 financial year,³¹ the pursuit of alternative and less cumbersome building technology needs to take centre stage again.

The Department needs to find bigger, better creative solutions than the current BNG projects. Faster, cheaper as well as sustainable housing solutions are needed to benefit more people. In addition, this alternative should not only serve to increase the rate of service delivery but it must also empower people to construct their own homes, create jobs and provide skills.

A Port Elizabeth housing construction company, *Moladi Housing Technology*, has reached the finals of a prestigious international competition concerning creating secure and affordable shelter for the poor.³² *Moladi* construction company were selected out of 100 other global contenders. The judges of the competition selected this construction because of its unique construction methods were able to cheap but quality housing at a fast rate. *Moladi* construction method was also nominated for job creation as well as training and equipping ordinary community members with valuable housing construction skills. The Department is strongly urged to look into *Moladi's* unique, faster, cheaper also quality construction method.³³ Adopting this method will contribute immensely to accelerating housing delivery, reducing housing demand, creating employment as well as empowerment. The vision to eradicate informal settlements by 2014 cannot be realised unless the Department finds easier and faster alternative construction methods.

A critical review of the 'Rural development' priority

Rural development is a national and provincial priority. This financial year, the Department maintains that it "will intensify its commitment and contribution to the rural development priority" by contributing a comprehensive rural housing policy and committing to a total of 4 853 housing units in OR Tambo and Alfred Nzo at a total cost of R431 million.³⁴ Significant amounts of the Departmental and provincial funds have been going towards rural development projects over the last two financial years starting with the establishment of a rural households infrastructure grant (RHIG) in 2010/11 to eradicate water and sanitation households backlog by 2014³⁵. For the 2012/13 financial year, the RHIG allocation to the province amounts to R136,5 million which is administered by the National Department. Premier N. Kiviet announced last financial year that a new rural development agency will be established in April 2011.³⁶ Unfortunately no feedback on its progress was provided by either the Premier or the MEC in this financial year's budget and policy speeches.

The significant amounts of national, provincial and Departmental funds which have been spent on and are still going towards rural development projects is increasingly becoming worrisome considering that according to the latest provincial population figures "the province displays high

³⁰ 2012/13 Budget Vote Speech delivered by Minister T. Sexwale on 9 May 2012

³¹ Ibid

³² "PE invention for global honours." The Herald article written by G. Rogers published 20 March 2012.

³³ www.moladi.net

³⁴ Ibid, p.17

³⁵ Ibid, p.23

³⁶ State of the Province address delivered by Premier N. Kiviet on 18 February 2011

population density in the urban districts while rural regions show a decreasing trend in their populations. Three regions namely, Amathole, OR Tambo and Nelson Mandela Bay account for more than 70 percent of the total population of the province. These are the regions which are predominantly urban and serve as the main economic engines of the province.”³⁷ The province is increasingly becoming more and more urban with major districts such as Chris Hani and Joe Gabi showing a decline in population due to rural – urban migration.³⁸ The effect of the urbanisation of the Eastern Cape province is reflected by increases in informal settlements which currently stands at approximately 224 319.³⁹ In 2001, this figure stood at 170 000 households living in backyard shacks.⁴⁰ According to the Human Sciences and Research Council (HSRC) the Department needs to deliver at least 56 000 units a year to simply meet the demand in urban areas alone.⁴¹ Similar research revealing increasing rural-urban migration patterns beyond the province and into the main metropolitan areas in the Eastern Cape has been conducted by The Fort Hare Institute for Social and Economic Research in 2006.⁴² Findings of a ‘Rural Housing Demand Study’ have been widely disseminated and presented at various forums in 2008/09.⁴³ Key findings of the study revealed rural- urban migration trends which impact negatively on the capacity to develop rural areas.⁴⁴ Effects of the rural–urban migration have also been reflected by the water and sanitation problems currently being experienced in urban areas particularly in the Nelson Mandela Metro. According to a recently released 2009 report, the province scores the lowest nationwide when it comes to residents accessing basic services such as water, electricity, sanitation and housing.⁴⁵

Demographic patterns as well as the needs of the people are changing at a rapid pace in the Eastern Cape as a result of rural to urban migration. There is an urgency by both the Department and the province to understand and respond accordingly to migration patterns and emerging urban settlement demands through policy, budgeting and planning processes. Budgeting and planning on rural development policy and projects should be based on accurate reflection of current demographic patterns, needs and demands. Based on the evidence and research into current migration patterns, there is an increase of informal settlements in the province in the urban areas particularly in the Nelson Mandela Metro and Buffalo City areas.⁴⁶ The Department is urged to strongly consider the increasing number of informal settlements and dwindling rural population when budgeting and planning. Rural development should not occur at the cost of failing to meet increasing needs for housing and basic services in the urban areas.

³⁷ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.3

³⁸ Ibid

³⁹ “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

⁴⁰ Eastern Cape Department of Housing Annual Report 2008/09, p.28

⁴¹ “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

⁴² University of Fort Hare, Volume One, Rapid Assessment of Service Delivery and Socio-Economic Survey in the Eastern Cape, Prepared by The Fort Hare Institute of Social and Economic Research (FHISER), University of Fort Hare, June 2006, p.81 - 135

⁴³ Eastern Cape Department of Housing Annual Report 2008/09, p.28

⁴⁴ Eastern Cape Department of Housing 2008/09 Annual Report, p.73

⁴⁵ “Empty promises plague E Cape” The Herald article written by Z. Mbabela, Lynn Williams, Neo Bodumela and Stephen Vegeline published 20 March 2012

⁴⁶ Eastern Cape Department of Housing Annual Report 2008/09,p.28

Furthermore rural municipalities particularly under the Alfred Nzo District do not seem equipped capacity and skill wise to implement the planned rural housing projects.⁴⁷

II. Budget Analysis

Table 1: Eastern Cape Department of Human Settlement by Economic Classification, 2008/09 to 2014/15.⁴⁸

(R' 000)	Outcome			Main Budget Adjusted budget Revised estimate			Medium-term estimate				Real Change between 2011/12 and 2012/13	Nominal Average Growth over MTEF
	Audited 2008/09	Audited 2009/10	Audited 2010/11				% change from Adjusted Appropriation		2012/13	2013/14		
				2011/12	2011/12	2011/12	2011/12	2011/12				
Current payments	59,463	153,573	203,867	228,025	226,384	225,591	243,188	7.42	256,635	270,605	3.71	3.63
Compensation of employees	98,904	142,268	158,175	170,486	170,486	170,092	210,064	23.21	227,451	250,198	18.96	6.00
Goods and Services	54,669	61,581	61,316	72,702	72,008	72,532	68,251	-5.22	83,500	96,345	-8.49	12.18
Interest and rent on land												
Transfers and Subsidies to	1,060,842	1,316,535	1,504,067	2,178,954	2,369,482	2,193,291	2,292,871	-3.23	2,472,919	2,538,910	-6.58	3.46
Provinces and municipalities	20,000											
Households	1,040,842	1,316,535	1,504,067	2,178,954	2,369,482	2,193,291	2,292,871	-3.23	2,472,919	2,538,910	-6.58	3.46
Payments for capital assets	16,490	12,399	4,187	2,800	3,494	3,494	3,350	-4.12	3,518	3,694	-7.44	3.31
Buildings and other fixed structures												
Machinery and equipment	16,490	12,399	4,187	2,800	3,494	3,494	3,350	-4.12	3,518	3,694	-7.44	3.31
Total economic classification	1,230,905	1,532,801	1,727,782	2,424,942	2,615,470	2,439,409	2,574,536	-1.57	2,787,388	2,889,147	-4.97	3.92

Total Allocation

For the 2012/13 financial year the Eastern Cape Department of Human Settlements has received a total budget allocation of R2.57 billion. This represents a nominal decrease of 40

⁴⁷ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. Sauls-August on the 23rd of March 2012, p.17

⁴⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.495. In all tables, the figures for 2008/09, 2009/10 and 2010/11 are audited expenditure. The Main Appropriation figures for 2011/12 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 2011/12 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), with the exception of the second to last "Real Change" column. The percentages in this column were calculated using real figures. CPIX figures were used to calculate what the real buying power will be for this financial year compared to last year (Real Change between-2011/12 and 2012/13). The last column calculates the growth of budget allocations over the MTEF in percentage term. The budget allocations used to calculate average growth over MTEF are nominal (excluding inflation).

million or 1.57% from the 2011/12 adjusted appropriation of R2.61million.⁴⁹ Once inflation is taken into account, this is actually a budget decrease of 4.97% (see Table 1). This is the first time the Department has experienced a budget decrease from the previous year's adjusted allocation since 2009/10. Over the previous two years, the Department experienced real budget increases of 19.22% and 23.96% respectively from adjusted allocations.⁵⁰

The Department has projected it will under spend its 2011/12 adjusted appropriation by R176 million, or by 7%.⁵¹ In the 2010/11 financial year, the Department spent 92% or R1.72 billion of its R1.86 billion adjusted allocation.⁵² This reflects the Department's failure to spend its entire adjusted allocations after receiving significant budget increases in the last two years. It is possible that the budget was reduced due to under-spending. The Department is urged to improve its expenditure of adjusted allocations in order to continue receiving progressively increased budget allocations over the MTEF. The 2012/13 budget decrease is disappointing taking into account the Department's expanding mandate as well as its PGDP 2014 goal of eradicating and upgrading informal settlements by 2014.⁵³ Furthermore, the Department projects to grow its budget by 3.92% in nominal terms. This means that the percentage average growth will most likely be lower when inflation and other economic factors are taken into account. Minister of Human Settlements, Honourable T. Sexwale in his 2012/13 Budget Vote speech identified price increases upon essential building materials as well as price increases in transportation and labour costs as a threat to the Department of Human Settlements. According to Sexwale "it will cost more to build the same size of a house today than it did a year ago."⁵⁴ This means that this year's Eastern Cape human settlements budget will come under pressure and will most likely not be enough this year and over the MTEF to achieve targets.

⁴⁹ The PSAM uses the adjusted appropriation when comparing allocations between the previous financial year (2011/12) and the year under review (2012/13). Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.495

⁵⁰ In the 2010/11, the Department received a budget allocation of R1.82 billion up from the 2009/10 adjusted allocation of R1.53 billion. The 2011/12 allocation was R2.42 billion up from and adjusted allocation of R1.86 from the 2010/11 financial year.

⁵¹ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.495

⁵² Eastern Cape Department of Human Settlements Annual Report 2010/11, p.19

⁵³ Eastern Cape Provincial Growth and Development Programme (PGDP) 2004-2014

⁵⁴ 2012/13 Human Settlements Budget Vote Speech delivered by Minister T. Sexwale on 9 May 2012

Equitable Share allocation

Table 2: Eastern Cape Department of Human Settlements Equitable Share and Conditional Grant allocations, 2008/09 to 2014/15⁵⁵

Conditional Grant Allocation (R '000)	Outcome			Main Appropriation	Adjusted Appropriation	Revised Estimate	Medium-term estimate				Real Change between 2011/12 and 2012/13	Nominal Average Growth over MTEF
	Audited 2008/09	Audited 2009/10	Audited 2010/11				2012/13	2011/12	2013/14	2014/15		
Equitable Share	178,652	203,168	213,726	243,945	243,945	241,745	278,855	14.31	311,506	347,126	10.36	7.57
Housing Disaster Relief Grant					56,700	56,700	92,853	63.76	94,712			-100.00
(IHSDG)	1,040,842	1,313,378	1,503,818	2,177,676	2,311,504	2,135,361	2,200,006	-4.82	2,378,207	2,538,910	-8.11	4.89
Expanded Public Works Programme Incentive Grant				711	711	711		-100.00				
Departmental receipts	11,411	16,255	10,238	2,610	2,610	4,892	2,822	8.12	2,963	3,111	4.39	3.30
Total payments and estimates	1,230,905	1,532,801	1,727,782	2,424,942	2,615,470	2,434,409	2,574,536	-1.57	2,787,388	2,889,147	-4.97	3.92

Table 2 shows the Department's Equitable Share budget is set to increase from the R243 million 2011/12 adjusted appropriation to R 278 million in 2012/13. This is an increase of 10.36% in real terms. The increase in this budget line item is particularly significant considering the long history of insufficient equitable share allocations which impacted negatively on the Department's ability to implement conditional grant activities and other essential operational activities. The most affected operational activity was recruitment and retainment of human resources. The Department has been battling capacity constraints as well as filling of critical activities for quite some time with serious consequences on service delivery.⁵⁶ The 10.83% real increase in this year's equitable allocation will be used "for beefing up project management and quality assurance capacity...supply chain, contract management and financial management capacity."⁵⁷

The 2012/13 budget for compensation of employees is R210 million. This is a budget increase of 23.21% from the 2011/12 adjusted allocation of R170 million⁵⁸ but once inflation is taken into account, it is an increase of 18.96%.⁵⁹ In the previous two financial years, the compensation of employees budget received a small real increase of 5.78% and 5.93% respectively.⁶⁰ This is the

⁵⁵ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.495

⁵⁶ Eastern Cape Department of Housing, Annual Report 2008/09, p.162, Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.51, Human Settlement 2010/11 Policy Speech delivered by MEC Mabandla on 24 March 2010,

⁵⁷ Human Settlements 2012/13 Policy and Budget Speech delivered by MEC for Human Settlements, H. Sauls-August on the 23rd of March 2012, p.13

⁵⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.495.

⁵⁹ Ibid. See also Table 1 of this document.

⁶⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.491, Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.589

largest increase this budget line item has experienced since 2009/10.⁶¹ The Department must be commended for securing and allocating the necessary funds to address critical vacancies in financial management and quality assurance. With these critical vacancies addressed, we anticipate that the Department will now be able to achieve most program targets as well as accelerate delivery.⁶²

Although, it is encouraging to see equitable share and compensation of employees experiencing historic budget increases, the Department has a very high vacancy rate of 54%.⁶³ The Eastern Cape has serious backlogs in housing and other basic services such as water and sanitation.⁶⁴ This year's increase in the equitable share budget is not enough to deal extensively with these challenges. It will require yearly increases in the equitable share and compensation of employees line items over time to see any significant changes taking effect. Over the MTEF, the equitable share budget is expected to grow at an nominal average growth of 7.57% per year, and the compensation of employees is projected to grow at a nominal average growth of 6% per year.⁶⁵ These figures however will be much lower when inflation is taken into account over the MTEF. It is important that the Department sustains significant budget increases in the equitable share and compensation of employees line item as planned by the Department. In response to the issue of the basic services backlog in the province, Local Government and Traditional Affairs MEC Mlibo Qhoboshiyane was quoted as saying:

As a poor province, we run the risk of getting a lesser share from national grants due to the current fiscal formula, where major metropolitans still receive the lion's share based on population numbers rather than poorer rural provinces and rural municipalities⁶⁶

The MEC acknowledges the fact that the provincial budget comes under pressure every year due to increases in migration of people from the Eastern Cape to other provinces.⁶⁷ In order to secure continuous significant budget increases for the Equitable Share budget, both the Department and the Legislature are urged to take a more pro-active step of motivating for the review of the equitable share formula by National Treasury and support the 2010/11 call by erstwhile MEC for Finance for the review of this formula.⁶⁸

⁶¹ In 2009/10, the compensation of employees line item received a budget increase of 23.64% and 17% in real terms from R86 million 2008/09 to 106 million in 2009/10. Eastern Cape Provincial Treasury Budget Statement II 2009/10, p.466

⁶² Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.85

⁶³ Human Settlement 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2011, Human Settlement 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2012, p.13

⁶⁴ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.4. "Empty promises plague E Cape" The Herald article written by Z. Mbabela, Lynn Williams, Neo Bodumela and Stephen Vegeline published 20 March 2012

⁶⁵ These percentages were calculated using nominal budget figures for the 2013/14 and 2014/15 financial years, therefore reflecting a nominal average growth over the MTEF. These figures do not calculate what the real buying power would be for each of the budget allocations in the budget horizon (2012/13-2014/15). See Table 2 of this document.

⁶⁶ "Empty promises plague E Cape" The Herald article written by Z. Mbabela, L. Williams, N. Bodumela and S. Vegeliën, 20 March 2012, p.1

⁶⁷ Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.26

⁶⁸ 2010/11 Budget Speech by MEC for Finance, M. Jonasi delivered on 3 March 2010, p.4

As long as the province continues to experience a decline in its population due to migration and as long as no changes are introduced to the equitable share formula; the Department will continue to be frustrated by an inadequate Equitable Share budget and the slow growth in Equitable Share budget will continue to impact negatively on other essential operational activities, basic services and housing delivery in the province.

Other proactive measures include strengthening of partnerships with other Departments such as the Department of Local Government, Department of Water Affairs, Department of Rural Development, Department of Water Affairs, National Department of Human Settlements and NUMSA. The Department needs strong and clear partnerships which enable the pulling of resources, clear delegation of mandates and responsibilities for streamlining and to prevent duplication. Currently, there is no clarity about roles and partnerships between the Department of Human Settlements and other Departments. Fortunately the MEC August-Sauls highlights in her speech the lack of integration and clarity of roles and responsibilities with other Departments particularly in the following areas: the role of Provinces in the planning and implementation of the Urban Settlement Development Grant, sanitation, land use management, urban renewal management, infrastructure, basic services and neighborhood partnership programme.⁶⁹ The Department is encouraged to form strong partnerships for they do not only bring much needed clarity of roles between various Departments but it also provide an opportunity for Departments to plan and budget collectively.

In order to successfully achieve targets, it is important that the Department does not budget and plan in a vacuum. An example would be the Department's 'Rural Development' and 'Basic Services' priorities. Among some of the major challenges these priorities will face is the Department of Rural Development's nearly 1847 unfilled posts or 60% vacancy rate,⁷⁰ the high vacancy rate of senior managers, technical and corporate service directors in Eastern Cape Municipalities.⁷¹ The MEC for Finances has called for less "top heavy" human resource composition in Departments.⁷² There must be a balanced improvement of human resources in the Province. Human resource recruitment should not focus only on financial management and administration but also recruit those who are responsible for implementation and rolling out planned housing projects. Without competent staff responsible for the on ground implementation in the Department of Rural Development and in Eastern Cape municipalities (in particular rural municipalities) will have a direct impact on the rural housing and basic service delivery projects planned and budgeted for by the Department. Where other Departments are lacking in financial and human resources, the Department of Human Settlements financial and human resources will most likely be strained too.

Goods and Services

One of the improvements in this year's budget is the reprioritisation and re-direction of funds in the Goods and Services budget. This line item is funded by the equitable share and supports the conditional grant operational activities. The budget for the Good and Services line item

⁶⁹ Human Settlement 2011/12 Policy and Budget Speech delivered by MEC H. Sauls-August on 24 March 2012,p.14,15 & 22.

⁷⁰ "Scopa orders department to fill vacancies" Daily Dispatch article written by A.Nini 15 March 2012, p.4, Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.373

⁷¹ "Municipalities face serious shortage of key managers" The Herald article written by D. Macgregor p.2-3

⁷² 2012/13 Budget Speech delivered by MEC for Finance P. Masualle on 6 March 2012

receives a nominal decrease of 5.22% which translates into a real decrease of 8.49% from the 2011/12 adjusted budget.⁷³ This is because the Department has cut down expenditure on non-core items such as travel and catering.⁷⁴

Table 3: Details of specific goods and services items under the Goods and Services line item in the EC Department of Human Settlements⁷⁵

Specific Goods and Services line item	2011/12 Adjusted Budget R'000	2012/13 Budget R'000	Variance: Budget increase/(decrease) R'000	Real % Change	Average growth over MTEF
Catering	657	535	(122)	-27.20	4.13
Bursaries:Employees	68	210	142	66.46	3.53
Entertainment	204	292	88	27.64	-0.23
Consultants&Professional Services	4,464	1,499	(2965)	-208.46	1.21
Stationery and Printing	1,435	1,883	448	21.06	2.64
Training & Staff Development	1,377	1,082	(295)	-31.82	3.80
Fleet Services (Incl. government motor services)	5,008	3,685	(1323)	-40.77	12.79
Travel and Subsistence	17,031	18,275	1244	6.81	18.01
Audit cost: External	6,259	6,500	241	3.71	3.75

The Department has continued to cut expenditure on non-core items such as 'Catering' and 'Transport' which experience 2012/13 budget decreases of 27.20% and 40.77% respectively from the previous financial year.⁷⁶ The Department has even cut down the budget for consultants by 208% which in previous years enjoyed budget increases as high as 200%.⁷⁷

⁷³ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.497 (See Table 1 of this document)

⁷⁴ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.512-513, State of the Nation Address delivered by Premier N. Kiviet on 18 February 2011

⁷⁵ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.512-513. This table reflects some of the specific goods and services under the Goods and Services line item. Real percentage change uses figures which factor inflation using Headline CPI figures. Average growth over the MTEF is calculated using nominal figures and does not factor inflation in.

⁷⁶ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.512/13, Table 11: B2A and B2B.

⁷⁷ The budget for consultants increased from R2.25 million in 2008/09 to R7.18 million in 2009/10. The budget increased again from R7.18 million in 2009/10 to R7.93 million in 2010/11 which the Department ended up over spending R1.7 million. Eastern Cape Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11. Table 11:B2 p.504, Eastern Cape Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11. Table 11:B1 p.603

Although the Department can be commended for cutting expenditure on non-core items, there is still more room for improvement. The Department can still make savings without compromising on service delivery by further cutting down on 'Entertainment', 'Statistics and Printing', 'Travel and Subsistence' line items. The Department can also look at ways of curbing travel expenses over the MTEF as the Department anticipates to grow 'Fleet Services' line items and Travel and Subsistence' line items over the MTEF by 12 and 18% respectively in nominal terms. The Department can cut on these non-core items and further boost expenditure on critical items such as 'Training & Staff Development' which experiences a 31.82% real budget decrease from the 2011/12 adjusted allocation⁷⁸ and has been projected to grow on average by 3.80% over the MTEF. This figure will most likely be lower when inflation is taken into account. 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.

Local-government capacity building

Table 4: Eastern Cape Department of Human Settlements by Programme, 2008/09 to 2012/13⁷⁹

Programme (R '000)	Outcome						Medium-term estimate			Real Change between 2011/12 and 2012/13	Average Growth over MTEF	
	Audited 2008/09	Audited 2009/10	Audited 2010/11	Main budget 2011/12	Adjusted budget 2011/12	Revised estimate 2011/12	% change from Adjusted Appropriation on 2011/12 2012/13	2013/14	2014/15			
1. Administration	113,188	1,425,708	93,726	104,547	105,529	104,093	112,435	6.54	126,204	139,165	2.86	7.37
2. Housing Planning and Research	15,066	15,436	15,980	18,084	18,130	18,601	19,660	8.44	21,310	22,274	4.69	4.25
3. Housing Development	93,302	82,846	1,611,457	2,295,071	2,484,044	2,309,194	2,432,210	-2.09	2,628,998	2,716,296	-5.47	3.75
4. Housing Asset Management	9,349	8,811	6,619	7,240	7,767	7,521	10,231	31.72	10,876	11,412	27.17	3.71
Total payments and estimates	1,230,905	1,532,801	1,727,782	2,424,942	2,615,470	2,439,409	2,574,536	-1.57	2,787,388	2,889,147	-4.97	3.92

The Eastern Cape Province has been facing serious backlogs particularly in the delivery of housing (estimated to be currently at 740 000) and basic services such as sanitation, water and electricity.⁸⁰ According to the MEC for Finance, this is mostly because municipalities are facing capacity constraints which result in failure by municipalities to implement massive infrastructure projects and spend conditional grants.⁸¹ As a result, the Province has committed to building capacity within local government. Provincial Treasury in conjunction with the Local Government Department will review municipalities and implement a 'hands-on' financial support programme.⁸² Given that the Department of Human Settlements is leading the mandate of delivering housing and basic services with the assistance of local government,⁸³ the success of building local government capacity and improving the delivery of housing and basic services is

⁷⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.512-513

⁷⁹ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.500

⁸⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.4

⁸¹ Ibid, 2012/13 Budget Speech delivered by MEC for Finance P. Masualle on 6 March 2012.

⁸² Ibid, p.17

⁸³ According to Housing Act, 107 of 1997, Part 4, Section 9 (1) (a), municipalities only have the mandate to assist the Department of Human Settlements in the delivery of houses at a local level.

heavily dependent on the Department of Human Settlements. Municipalities play a critical role in the delivery of services but at the same time concerns are being raised regarding municipalities poor performance and the need for major interventions. The MEC for Human Settlements stated that the Alfred Nzo District municipality is currently not performing and delivering according to expectations and is in dire need of assistance.⁸⁴ In his 2012/13 Budget Vote Speech, Minister Sexwale identified capacity building “as an area of weakness that will need focused attention”⁸⁵ from the Department.

The Department’s Programme 2 is responsible for a number of important activities such as housing planning, research, facilitates the development of housing policy and legislation. Programme 2 is also responsible for providing support to municipalities, building their capacity to develop housing multi-year plans as well as implement housing projects through accreditation. The Programme is usually divided into five sub-programmes which are:

- Administration which provides strategic leadership and management support to Directorates within the Programme
- Policy facilitates ongoing housing policy and legislation
- Planning facilitate the development of credible, integrated multi-year housing development plans
- Needs and Research which co-ordinates and manages province wide housing research programmes

In the 2010/11 financial year the Department listed the “Municipal Accreditation and Support” sub programme as one of Programme 2’s sub-programme. This sub-programme was listed as being responsible for “implementing capacity building programmes for municipalities and other stakeholders involved in housing delivery.”⁸⁶ However the Municipal accreditation sub-programme did not receive a budget as it was not listed as a budget line item under Programme 2’s budget breakdown by sub-programme.⁸⁷ In previous financial years, municipal support and capacity building has been allocated to different sub-programmes.⁸⁸ This financial year, the sub-programme responsible for municipal support and capacity building is the “Administration” sub-programme.⁸⁹

The Department needs to find a permanent sub-programme for the capacity building function. The continuous transfer of this vital function between various sub-programmes in Programme 2 makes it difficult to monitor and evaluate capacity building budget allocations and performance. The budget for the “Administration” sub-programme which has been mandated this financial year with capacity building decreases from R10 million in the 2011/12 adjusted allocation to R9.85 million in the 2012/13 financial year. This is a budget decrease of 1.52% or 4.92% when

⁸⁴ Human Settlements 2012/13 Policy and Budget Speech delivered on the 24 March 2012, p.17

⁸⁵ 2012/13 Budget Vote Speech delivered by Minister T. Sexwale on 9 May 2012

⁸⁶ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.592

⁸⁷ Ibid

⁸⁸ In the last financial year, this responsibility was allocated to the “municipal accreditation and support sub-programme”, in 2009/10 and 2010/11 the same responsibility was placed under the “Planning sub-programme”. Eastern Cape Provincial Budget Statement II 2009/10, p.469, Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.493, Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.592

⁸⁹ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.500

inflation is taken into account.⁹⁰ Given the poor service delivery of housing and basic services by municipalities, the huge backlog of basic services and housing and in the province and the call by MEC of Finance by province's commitment to build local government capacity⁹¹, this year's budget allocation for this vital function is disappointing.

In previous years, Programme 2 has received small budget allocations particularly the "Planning" sub programme which is mostly responsible for providing municipal support often experienced budget decreases as high as 24% in real terms.⁹² In the last financial year, Programme 2 received a budget increase of 3.66% or R639 000 from the 2010/11 financial year which translated into a budget decrease of 1% in real terms.⁹³ This financial year, the Programme has received a budget increase from R18.13 million of the 2011/12 adjusted allocation to R19.66 million in 2012/13.⁹⁴ This is an increase of 8.44% which translates to a real increase of 4.89% from the previous financial year which is an improvement. This year's "Planning" sub-programme has received a budget increase of 10% or R331 000 from the 2011/12 adjusted allocation.⁹⁵

The Department needs to increase the number of personnel and programmes within Programme 2 which deals only and specifically with assisting municipalities to increase their capacity so they can fulfil their own strategic planning for local housing delivery. The Department needs to enhance its role as 'supportive' in accordance to with Housing Act rather than taking over housing delivery from local authorities.⁹⁶ Insufficient funds and personnel in Programme 2 can be a stumbling block to capacity building for municipalities in the province. With the majority of Eastern Cape municipalities not self sufficient, largely dependent on the Province to develop municipal housing year plans and the allocation of the the new Urban Settlement Development Grants (USDG) increasing housing responsibilities at the municipal level,⁹⁷ the Department needs to recognise the need to increase their assistance to municipalities not only to manage the grant and housing projects but the delivery of basic services as well. This will require a separate sub-programme such as "the Municipal Accreditation and Support" sub –programme under Programme 2 alluded to in the previous financial year but unfortunately never materialised into an official sub-programme with its own budget.⁹⁸ The Department is strongly urged to pursue the addition of municipal accreditation as a separate sub-programme as well as an increase in Programme 2's budget allocation over the MTEF. Acquiring additional funding and creating a separate capacity building sub-programme would be in line with the National Department's strategy for providing attention to capacity

⁹⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.500

⁹¹ 2012/13 Budget Speech delivered by MEC for Finance P. Masualle on 6 March 2012

⁹² In 2009/10, The budget for Programme 2 experienced a 4.8% real decrease from R15.63 million in 2008/09 to R15.69 million in 2009/10. In 2010/11 Programme 2 experienced a real increase of 5% from R15.31 million to R17.06 million from the previous financial year, Eastern Cape Provincial Budget Statement II 2009/10 p.466. Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.490

⁹³ Programme 2 experienced a real decrease of 1% from R17.44 million in 2010/11 to R18.08 million in 2011/12, Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.592

⁹⁴ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.500

⁹⁵ Ibid

⁹⁶ Housing Act, 107 of 1997, Part 4, Section 9 (1)(a)

⁹⁷ 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

⁹⁸ Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12,p.592

building programmes for more municipalities to take over the developer role from the Provincial Departments.⁹⁹

Conditional grant allocation

Programme 3 or the Housing Programmes Facilitation and Administration programme always receives the largest allocation of the Human Settlements budget. This is because the programme manages the conditional grant as well as implements the bulk of the Department's activities. This financial year the budget for Programme 3 is R2.43 billion. This is a budget decrease of R51.83 million or 5.47% when inflation is taken into account. This budget decrease is as a result of a budget decrease of the conditional grant allocation. The 2012/13 Human Settlements Development Grant (IHSDG) budget decreases from R2.31 billion in 2011/12 to R2.20 billion in 2012/13.¹⁰⁰ This is a nominal decrease of 4.82% which translates to real decrease. The Department projects to grow the conditional grant budget by 4.89% over the MTEF in nominal terms, however when inflation is taken into account, the projected growth will be much lower. This is the first time in the last three financial years that Programme 3 and the IHSDG conditional grant allocation have experienced budget cuts.¹⁰¹ In the previous financial year, the IHSDG allocation increased by 38%.¹⁰² This was mostly because the Department had successfully spent the entire 2010/11 adjusted allocation.¹⁰³ Another reason could be under-spending. A media statement released last year by the National Department of Human Settlements stated that there would be consequences for under spending such as re-directing of funds to better performing provinces.¹⁰⁴ In 2009/10, the Department managed to spend the entire conditional grant budget.¹⁰⁵ In 2010/11, the Department only managed to spend 91% of the conditional grant budget.¹⁰⁶ Table 5 below shows that the Department anticipates that it will under-spend its 2011/12 conditional grant allocation by R175 million or by 5%. The Department is urged to maintain its improved spending of the conditional grant to receive increased allocations over the MTEF.

⁹⁹ 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, 2012/13 Human Settlements Budget Vote Speech by Minister T. Sexwale on 9 May 2012

¹⁰⁰ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13 p.498

¹⁰¹ Eastern Cape Provincial Treasury Budget Statement II 2009/10, p.465, Eastern Cape Overview and Estimates of Provincial Expenditure 2010/11, p.498, Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.588

¹⁰² The 2011/12 IHSDG allocation was R2.17 billion up from R1.59 billion of the 2010/11 adjusted appropriation, Eastern Cape Overview and Estimates of Provincial Expenditure 2011/12, p.588

¹⁰³ Eastern Cape Department of Human Settlements 2010/11 Annual Report, p.141

¹⁰⁴ Ministry of Human Settlements, Media statement: "R463 million in low cost housing grants to be moved from under performing provinces", 18 Jan 2011,

<http://www.dhs.gov.za/Content/Media%20Desk/2011%20Media%20Statements/January%2018.htm>

¹⁰⁵ Eastern Cape Department of Human Settlements, Annual Report 2009/10, p.140

¹⁰⁶ Eastern Cape Department of Human Settlements, Annual Report 2010/11, p.157

Table 5: Eastern Cape Department of Human Settlement, Conditional Grant allocations, 2008/09 to 2014/15¹⁰⁷

Conditional Grant Allocation (R '000)	Outcome			Main Appropriation 2011/2012	Adjusted Appropriation 2011/12	Revised Estimate 2011/12	Medium-term estimate			Real Change between 2011/12 and 2012/13	Nominal Average Growth over MTEF	
	Audited 2008/09	Audited 2009/10	Audited 2010/11				2012/13	2011/12	2013/14			2014/15
Equitable Share	178,652	203,168	213,726	243,945	243,945	241,745	278,855	14.31	311,506	347,126	10.36	7.57
Housing Disaster Relief Grant (IHSDG)	1,040,842	1,313,378	1,503,818	2,177,676	2,311,504	2,135,361	2,200,006	-4.82	2,378,207	2,538,910	-8.11	4.89
Expanded Public Works Programme Incentive Grant				711	711	711		-100.00				
Departmental receipts	11,411	16,255	10,238	2,610	2,610	4,892	2,822	8.12	2,963	3,111	4.39	3.30
Total payments and estimates	1,230,905	1,532,801	1,727,782	2,424,942	2,615,470	2,434,409	2,574,536	-1.57	2,787,388	2,889,147	-4.97	3.92

It is disappointing that this year's conditional grant budget allocation is a budget decrease from the 2011/12 adjusted allocation. The decrease means that the 2012/13 conditional grant budget will not be able to respond effectively to increasing housing demand as well as an expanding mandate which has now includes the delivery of basic services. The conditional grant budget does not take inflation over the MTEF as the Department projects to grow the budget by only 4.89%.¹⁰⁸ This figure most likely be lower when inflation is factored in.

III. Conclusion

An insufficient equitable share budget has been a continual challenge for the provincial Department. The budget increase in this crucial line item this financial year will allow the Department to take numerous steps to solve some of the Departments long standing problems such as hiring an adequate number of skilled personnel particularly in project management and financial management. With the increase of compensation of employees line items for the recruitment of more project managers, improvement in the Department's performance in this financial year is anticipated. However the Department will require year on year increases on the equitable share budget to deal with its high vacancy rate and fill critical vacancies. A more sustainable solution such as the review of the equitable share formula is needed to avoid future insufficient allocations of the equitable share budget. The Department is cutting its Goods and Services budget due to reprioritisation of limited resources in a tough economic climate is commendable. The Department is encouraged to keep identifying areas where savings can be realised. Such areas should include fleet services, stationery and printing line items among others.

That said, the Department needs to strategically to allocate more financial resources towards Programme 2 as well as introduce a new sub-programme which addresses the problem of poor

¹⁰⁷ Eastern Cape Overview and Estimates of Provincial Expenditure 2012/13, p.498

¹⁰⁸ This budget growth has been calculated using nominal budget figures of the projected 2013/14 and 2014/15 conditional grant budget allocations. See Table 5 of this document.

municipal capacity separately as the current resources and movement of this vital function between different sub-programmes limits its effectiveness. The Department needs to streamline its planning and budgeting as well as clear up the confusion of roles created by the multi-dimensional mandate of building integrated human settlements with other sector departments.

Another major area of concern is directing a significant amount of the Human Settlements budget allocations to rural development programmes in light of research that shows rural to urban migration and the concentration of housing and basic services backlog are situated in the urban areas. The Department is urged to find alternative housing options to meet urban backlog as the current BNG projects have been slow and difficult to implement due to bulk challenges. It is concerning that the Department are failing to consider a cheaper, faster, easier, sustainable and internationally recognised *Moladi* low cost housing construction system located in the Eastern Cape.

This concern is further fuelled by the Department's continuous setting of low targets and a decrease in this year's entire Human Settlements budget allocation from the 2011/12 adjusted allocation.