

Eastern Cape Department of Housing, Local Government and Traditional Affairs

## Performance Monitoring Report

2006/07

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### **Key Findings and Recommendations**

#### *Finding*

The internal controls of the Department are weak and continue to hamper the financial management of the Department. Particularly, control over assets, transfer payments to local government and conditional grant's has been inadequate. This has resulted in a qualified audit for the 2006/07 financial year, despite an improvement in the quality assurance processes pertaining to the delivery of houses.

#### *Recommendation*

The PSAM acknowledges the efforts being made by the Department to improve control over the conditional grant, in particular. It is important, however, that the Department develops appropriate policies and procedures regarding internal controls, particularly over the conditional grant and other transfers. In addition, the Department must ensure that staff are aware of these procedures. If officials are found to have failed to comply with internal monitoring processes, the Department must take the appropriate corrective steps which may include disciplinary action so as to minimise fruitless and wasteful expenditure, and other kinds of financial mismanagement.

#### *Finding*

The quality of reporting of this Department, particularly in the Annual Report, was inadequate. The Annual Report failed to provide detailed, specific and coherent information on policy, performance, challenges and finances. Furthermore, the Auditor-General raised concerns about the financial records of the Department.

### *Recommendation*

It is essential that the Department provides accurate and detailed information. Oversight bodies and civil society can only hold the Department fully accountable if it provides specific information on spending performance (including reasons for over or under spending) and the achievement of targets (including reasons for deviations). Furthermore, it is essential that the Department reflects fully on the challenges that it faces, such as the lack of skilled staff and rural to urban migration, instead of mentioning them in a piecemeal way.

### *Finding*

The internal audit function did not provide sufficient and effective oversight. While the Audit Committee noted that it was satisfied that the internal audit function operated effectively and efficiently, the Auditor-General determined that no reliance could be placed on their work during the year under review.

### *Recommendation*

The Internal Audit Unit needs to work with the Office of the Premier (where it is currently housed) to solve its internal weakness, such as a lack of skills and instability in its leadership. The Audit Committee needs to improve the quality of its reporting, and should provide additional insight into the performance of the Department. At the moment, it appears to be reporting on the same problems that have plagued this Department for years, adding little value and providing almost no meaningful assistance to the Department in the way of valuable recommendations or insight.

### *Finding*

The Auditor-General and the Portfolio Committees for Housing and Local Government have highlighted the failure of the Department to manage its human resources. The persistent capacity constraints facing the Department indicate that it is failing to adequately address the issue. By the end of 2006/07, the Department had a 65 percent overall vacancy rate and an 80 percent critical vacancy rate. Such capacity constraints have a negative impact on the Department's ability to maintain effective control over its finances (including spending adequately), achieve its targets, address the numerous challenges it faces and monitor the quality of its service delivery.

### *Recommendation*

It is not clear from the Department's Annual Report if it has developed a detailed, costed and time-bound recruitment plan, as well as a staff retention strategy. If not, the Department needs to develop such plans as a matter of urgency and commit itself to effective implementation. In addition, the National Department of Housing does not appear to be providing meaningful and sustainable assistance in this regard. It is clear that the Eastern Cape Department will need assistance from other government bodies in order to address its severe capacity constraints which continue to have a negative impact on its performance.

### *Finding*

The monitoring of housing quality has improved since the implementation of a quality assurance system in November 2006. The efficacy of this new system is being undermined by the high vacancy rates and by the generally weak internal control mechanisms. In addition, the poor quality of planning, such as the vagueness of targets, makes it difficult for the Department to evaluate its own performance.

### *Recommendation*

The Department needs to improve its planning and its reporting on its service delivery. Detailed plans and targets assist the Department identify service delivery challenges as they occur so that remedial action can be implemented. In addition, oversight bodies can provide meaningful and effective support if they are able to evaluate performance in relation to specific plans.

*Finding*

The service delivery of the Department has improved in terms of the quality of homes. There are still shortcomings, however, particularly in relation to the monitoring of the conditional grant and other transfer payments. In addition, the quality of support and assistance to municipalities is poor and sometimes non-existent. The Portfolio Committees for Housing and Local Government repeatedly highlighted the failure by the Department to fulfil its mandate in terms of providing support to local government. As a result, some municipalities are virtually non-functional, with little or no service delivery occurring.

*Recommendation*

As stated above, the Department needs address its internal control weakness, especially in relation to the conditional grant. In addition, it needs to develop clear and detailed plans on how it will assist weak municipalities which are not delivering on their service delivery obligations. Local Government is also responsible for assisting with housing development, including planning for housing, identifying beneficiaries and monitoring the progress of projects and the quality of houses. The Department will only improve its own housing performance when it addresses the weakness at the local level, whether it is in the way of building human resource capacity or providing ongoing assistance with housing planning.

## **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 security.<sup>1</sup> The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services. In order to realise these rights, the PSAM maintains that effective accountability systems must be established and implemented by government departments. These systems include: planning and resource allocation; expenditure management; performance management; integrity; and, oversight. To evaluate the effectiveness of these systems, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each system.

This Report reviews the performance management system of the Department of Housing, Local Government and Traditional Affairs. It provides an account of the performance of the Department's internal audit function and the implementation of effective financial management and internal control systems necessary for the efficient use of public funds and delivery of public services. It also provides an analysis of key service delivery challenges faced and the quality of the Department's service delivery.

### **1. Internal Controls**

The Auditor-General, and the Housing and Local Government Portfolio Committees have repeatedly found that the internal controls<sup>2</sup> of the Department are ineffective or even non-existent. The Auditor-General stated that “[a]ppropriate policies, procedures, techniques, and control mechanisms have not been developed and implemented to ensure adherence to established directives, with respect to the management of housing assets, debtors and revenue”.<sup>3</sup> He added that the Department had failed to ensure that staff were aware of and understood their responsibilities in terms of internal controls and monitoring.<sup>4</sup>

#### *Debt and Asset Management*

The Auditor-General noted that he was unable to “obtain appropriate evidence” regarding the “completeness, existence and valuation of departmental revenue, housing debtors and housing assets”.<sup>5</sup> Under “Housing Debtors” in the Annual Financial Statements, the Department includes an amount of R18.5 million. According to the Auditor-General, the “recoverability of this amount is doubtful as it contains significant arrear balances”.<sup>6</sup>

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<sup>1</sup> Constitution of the Republic of South Africa, Act 108 of 1996, Chapter 2, sections 27(1)(c), 27(2) and (3).

<sup>2</sup> In terms of public finance regulations, all South African government departments are required to produce monthly and quarterly financial and performance reports to account for their in-year expenditure and performance in all programmes and sub-programmes. For examples see further section 32 (2) and (3) and section 40 of the Public Finance Management Act of 1999.

<sup>3</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 127.

<sup>4</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07 p. 127.

<sup>5</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 125.

<sup>6</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 125.

In 2001, the houses which had previously fallen under the Provincial Housing Board (which had been disbanded in that year<sup>7</sup>) were transferred to the Department. By the end of 2006/07, however, the Department was still verifying how many houses they had assumed responsibility for and their value. As such, these houses were not included under the Disclosure Note which deals with tangible capital assets.<sup>8</sup>

#### *Conditional grant management and transfer payments*

In 2006/07, the conditional grant made up 60.43 percent of the Department's total budget (R761.99 million out of R1.26 billion). The mismanagement of this grant has been the primary reason for the Department's previous audit disclaimers (2002/03 to 2005/06). Transfers of this grant to municipalities for the purposes of housing development make up 85.28 percent of all transfers to local government (R637.38 million out of R747.36 million).<sup>9</sup>

Adequate financial control over the conditional grant is only possible when an effective quality assurance system is in place.<sup>10</sup> The payment of contractors and other service providers should only occur when the quality of the services and the housing products has been confirmed. This requires sufficient personnel with the necessary technical and project management skills, as well as well-functioning municipalities who act as the developers on housing projects and therefore assist with quality control. A quality assurance system of this kind was only implemented in November 2006.<sup>11</sup> The human resource constraints of this Department, however, are having a negative impact on the Department's monitoring capabilities (this is discussed further under subsequent sections).

Included in the expenditure of the conditional grant money between April and October 2007 is an amount of R111.5 million, paid out for the construction of homes. The Auditor-General, however, stated that:

Adequate documentation in support of these payments... could not be provided. As a result it is not possible to verify whether the amounts transferred to households was in fact for value created to houses constructed and whether these houses met the quality standards as required by section 3.1 of the Housing Code.<sup>12</sup>

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<sup>7</sup> Housing Act, No. 107 of 1997, as amended in 2001.

<sup>8</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 125 and 159.

<sup>9</sup> The Auditor-General rounds figures off to one decimal point, while the PSAM rounds off to two decimal points which is why the figures in the audit report are sometimes slightly different to the figures the PSAM uses.

<sup>10</sup> The importance of a quality assurance system is only touched on briefly here. For a more lengthy discussion, see the PSAM's report on housing quality: "The challenge of delivering quality housing in the Eastern Cape: A Case Study into government-subsidised housing at the Ngqushwa Local Municipality", which can be accessed at [www.psam.org.za](http://www.psam.org.za).

<sup>11</sup> De Nobrega, Chantelle, "The challenge of delivering quality housing in the Eastern Cape: A Case Study into government-subsidised housing at the Ngqushwa Local Municipality", which can be accessed at [www.psam.org.za](http://www.psam.org.za).

<sup>12</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 126. Conditional grant payments are recorded as "transfers to households" in the Department's financial reporting documents. The Housing Code sets out the overall vision for housing in South Africa and is based on the White Paper on Housing (1994) and the Housing Act (Act no. 7 of 1997). It elucidates the purpose, mandate and responsibilities of different national housing programmes as well as the different spheres of government. It also contains information on the minimum norms and standards for state-subsidised housing.

The Auditor-General highlighted one particular example of weak management of the conditional grant. Advance payments of R64 million were made to Thubelisha Homes<sup>13</sup> in March 2007, following a decision by the Department, in consultation with the Eastern Cape Cabinet, to meet its expenditure targets. In terms of the service level agreement entered into between Thubelisha and the Department, 1293 houses would be built by July 2007. Site inspections performed in July 2007, however, revealed that no construction had started.<sup>14</sup> Nevertheless, the Auditor-General noted that the project management and quality assurance system instituted in November 2006 “is working as intended” and has improved the management of the grant.<sup>15</sup>

With regard to all non-conditional grant transfers (R109.98 million), the Auditor-General found that the Department had not complied with the requirements of section 38(1)(j) of the PFMA before transferring these funds. This section of the act states that

before transferring any funds (other than grants in terms of the annual Division of Revenue Act or to a constitutional institution) to an entity within or outside government, [the Accounting Officer] must obtain a written assurance from the entity that that entity implements effective, efficient and transparent financial management and internal control systems, or, if such written assurance is not or cannot be given, render the transfer of the funds subject to conditions and remedial measures requiring the entity to establish and implement effective, efficient and transparent financial management and internal control systems

The requirements of this section are reinforced by the Department’s responsibility to capacitate, support and assist local government, from the viewpoint of both housing delivery and the mandate of the local government programmes.<sup>16</sup>

The Portfolio Committee for Housing has also highlighted the poor monitoring of transfer payments to municipalities, noting, *inter alia*, that:

- ❖ “...[T]he Department does not seem to have an effective and efficient strategy to monitor and evaluate transfers made to municipalities for housing delivery”<sup>17</sup>
- ❖ “The Department has transferred funds to municipalities for the rationalization and promulgation of by-laws without putting in place mechanisms to monitor these funds”<sup>18</sup>

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<sup>13</sup> Thubelisha Homes is a Section 21 company and was established in June 1998. It was intended to serve as a special-purpose financial vehicle, in partnership with private financial institutions, but its mandate has been reviewed in line with the objectives of Breaking New Ground. It assists with unblocking stalled housing projects and emergency housing, and is the government’s lead developer for mega-projects.

<sup>14</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 128.

<sup>15</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 126.

<sup>16</sup> The Housing Act requires provincial Departments to “take all reasonable and necessary steps to support and strengthen the capacity of municipalities to effectively exercise their powers and perform their duties in respect of housing development” and to “take all reasonable and necessary steps to support municipalities in the exercise of their powers and the performance of their duties in respect of housing development” (Housing Act, No. 107 of 1997, Part 3, Section 7, subsection 2 (c) and (e)). In addition, the Local Government and Development and Planning Programmes are both required to provide general financial and administrative support to local government, as well as assist municipalities develop good financial management systems and improve integrated planning.

<sup>17</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 31 May 2006, and repeated again almost word-for-word in 30 November 2006.

- ❖ “The Department has transferred the full amount of R20.453, for eradication of [the] bucket system to municipalities in order to meet the national deadline” but there was no indication that the money was being monitored to ensure that it is used for its intended purpose.<sup>19</sup>

## 2. Reporting

In terms of the contents of the 2006/07 Annual Report, the quality of reporting<sup>20</sup> of this Department is inadequate. It is generally vague, with insufficient information to ensure that civil society and oversight bodies, such as Portfolio Committees, can hold the Department accountable for its performance, or lack thereof.

### *Policy*

The activities of the Department should occur within a policy framework, as set by the national Department of Housing, as well as Eastern Cape housing policy. The information in the Department’s Annual Report on its policy framework, however, is scant and no clear connections are made between policy, activities and performance. It is imperative that the policy framework within which the Department operates is made clear. The performance of the Department is not merely about reaching targets, but about how those targets and activities form part of its strategic direction.

In its Annual Report, the Department includes a section entitled: “Strategic Overview and Key Policy Developments for the 2006/07 financial year”.<sup>21</sup> There is one four-line paragraph on housing and two lines on traditional affairs – the rest of the information is about local government.

In 1999, the Department resolved to use emerging contractors<sup>22</sup> as a way to encourage skills development and the growth of small to medium enterprises. A number of problems ensued, however, such as poor quality, mismanagement of the housing subsidy and stalled projects. As a result, in November 2006, the Department launched Operation Thunderstorm, which heralded a shift in policy with regard to emerging contractors. The Department decided to make the low-cost housing sector more attractive to established contractors by “re-packaging” housing projects.<sup>23</sup> This is a significant change in policy that affects the activities of the Department, such as its procurement process, the planning of housing projects and the Department’s

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<sup>18</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 30 November 2006.

<sup>19</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 30 November 2006.

<sup>20</sup> In order to make effective and economical use of scarce public resources, all South African government departments are required to establish an effective internal control environment which includes, inter alia, mechanisms to safeguard departmental assets, a reliable human resource management and performance system, and a cost-effective procurement and provisioning systems.

<sup>21</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 12-13.

<sup>22</sup> De Nobrega, Chantelle, “The challenge of delivering quality housing in the Eastern Cape: A Case Study into government-subsidised housing at the Ngqushwa Local Municipality”, which can be accessed at [www.psam.org.za](http://www.psam.org.za).

<sup>23</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Housing Circular No. 3 of 2006, Appointment of Established Contractors for Rapid Housing Delivery, signed 23 November 2006 by the Superintendent-General.

relationship to local government. It is of concern that this is not addressed in this section of the Annual Report.<sup>24</sup>

In addition, the important policy developments regarding local government are only discussed in a piecemeal way. For example, the Department mentions the Local Government Summit held in August 2006, stating that 54 resolutions were taken around four key themes. While these four key themes are listed, there is no discussion concerning the implications of these resolutions, such as how they impact the Department's activities and budget, and what this may mean for human resource needs, for example. It is also not clear how binding these resolutions are and if the Department made any attempt to integrate them into its work.<sup>25</sup>

The same is true of the information provided concerning traditional affairs. The Department mentions that the rules for the nomination of members for the House of Traditional Leaders changed but says absolutely nothing about what these changes entail or what this may mean for that particular programme.<sup>26</sup>

The Annual Report includes a section entitled "Report of the Accounting Officer for the year ended 31 March 2007".<sup>27</sup> This section provides a more detailed discussion surrounding policies such as the eradication of informal settlements and the delineation of housing from the traditional affairs and local government functions. While this is encouraging, this fragmented discussion on policy makes it difficult for oversight bodies and civil society to gain an integrated understanding of policy. In addition, even in this section, policy is not always clearly linked to objectives and targets.

#### *Internal and external challenges*

Reflecting on internal and external service delivery challenges is an important part of performance reporting. The Annual Report should include meaningful discussions on what kinds of challenges the Department and specific programmes encountered, how they were addressed, and the general impact on the performance of the Department. A good place to provide this kind of analysis is in explanations of deviations with regard to spending and performance targets (explanations for deviations will be discussed in more detail below).

Near the beginning of the Annual Report, the Department provides a list of "external factors" which impact housing delivery, municipal governance and traditional affairs.<sup>28</sup> This information however, is not only vague and insubstantial, but almost all of the sentences are cut off half-way and one is left to speculate as to what each point was intended to say (see Annexure A of this report). Programme 1 (Administration) is not included despite the importance of its functions,

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<sup>24</sup> In the "Report of the Accounting Officer for the year ended 31 March 2007" (pp. 112-122), there are two sentences on the decision to use established contractors for the purposes of ensuring that houses are delivered and to encourage skills transfer to emerging contractors (p. 112). Firstly, this is an important policy development and should therefore be discussed under the "Strategic Overview and Key Policy Developments". This ensures clarity, and prevents the policy discussion from being fragmented with specific policy issues being discussed in isolation. Secondly, more information should be provided here on the efficacy of this policy adjustment (if it has had the intended impact) and if the transition from more established contractors has been a smooth one or has resulted in additional challenges.

<sup>25</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 12.

<sup>26</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 13.

<sup>27</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 112.

<sup>28</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 10-11.

such as human resource management, financial management and controls, and strategic leadership.

Each programme has a section dedicated to it in the Annual Report. At the end of these sections, a table is included which has one column entitled “analysis of challenges” with an accompanying column intended to detail “measures undertaken to overcome these challenges”.<sup>29</sup> This information, however, is usually vague and repetitive when compared to information in previous Annual Reports. In addition, Programme 5 (Traditional Affairs) failed to include a section on its challenges and how these were addressed.<sup>30</sup>

In these tables, there is no real “analysis of challenges” – they are merely listed, with little or no discussion of how each challenge affects spending performance and service delivery, as well as how challenges intersect and exacerbate one another. It is essential that this latter issue (the interrelatedness of challenges) is understood if measures to address them are to be relevant and effective. For example, under Programme 2 (Housing), one of the challenges listed is “Lack of internal controls”,<sup>31</sup> but there is no mention of what is meant by internal controls, how this impacted the performance of the programme, including the actual delivery of quality houses, and how a lack of technical expertise and general staff vacancies contributed to this.

Another example is the stated challenge of “Insufficient resources”. This is rather meaningless as the Department fails to indicate what kind resources are being referred to (such as financial, human or equipment for example). It is not surprising, therefore, that the accompanying measure is also vague: “Provisioning of resources”.<sup>32</sup> Again, this tells the reader nothing about what was done to address resource constraints.

This last example shows how vague the reporting is with regard to the measures introduced to address the challenges. This hinders the extent to which oversight bodies and civil society can provide meaningful recommendations. For example, the measure undertaken to address the challenge of poor internal controls was “Beefing-up our Internal Controls (especially over payments)”.<sup>33</sup> This provides no information on what specific steps were taken or the impact they had, and it also prevents oversight bodies from providing suggestions and commentary on the steps the Department has taken.

In addition, the information provided covers only a small number of the most pressing challenges. For example, under Programme 2 (Housing), the Department makes no mention of the policy of building of 40m<sup>2</sup> houses (the provincial norm) with a budget intended to fund 30m<sup>2</sup> houses (the national norm), despite this being one of the biggest causes of poor quality homes.<sup>34</sup>

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<sup>29</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 42, 50, 75 and 98.

<sup>30</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report 2006/07, p. 105.

<sup>31</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report 2006/07, p. 50.

<sup>32</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report 2006/07, p. 50.

<sup>33</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report 2006/07, p. 50.

<sup>34</sup> The national norm for state-subsidised housing has been a floor area of 30m<sup>2</sup>, but the Eastern Cape changes this to 40m<sup>2</sup>, but was still only given funding for 30m<sup>2</sup>. The provincial officials interviews by the PSAM all highlighted this as being one of the key challenges that has negatively affected the quality of houses. The National Housing Code, which has recently been revised, has changed the national norm for state-subsidised housing to 40m<sup>2</sup>, starting 1 April 2007. For a more detailed discussion of this issue, see de Nobrega, “The challenge of delivering quality housing in the Eastern Cape: A Case Study into

It is also of particular concern that the Department failed to provide any information on external challenges in its Annual Report, such as the high levels of poverty in the province, or rural to urban migration. This latter trend changes the landscape of the housing need in the province, affecting area-specific planning and funding.<sup>35</sup>

Detailed information regarding the internal and external challenges facing the Department is essential to ensure accountability and transparency. It also assists oversight bodies, civil society and the Department itself in identifying where the key areas of concern are which is important if appropriate and effective strategies are to be developed.

### *Finances*

In the Annual Report, the Department provides budget tables and notes, including information on specific programmes and line items (such as compensation of employees or capital assets).<sup>36</sup> Where there has been under or over spending, the Department should provide detailed explanations and justifications for this.

With regard to the budget tables, there is some inconsistency between this section (known as the Appropriation Statement) and the Accounting Officer's report. In this latter section, it is reported that the Department received R10.25 million as a roll-over.<sup>37</sup> According to the report, this was split between Programmes 4 (Development and Planning) and 5 (Traditional Affairs). In the Appropriation Statement, however, in the tables dedicated to these two programmes, there is no column for roll-overs and this is therefore not reported on.<sup>38</sup>

It is important that the Department provide detailed reasons for over or under expenditure, including information on how this impacts on service delivery performance. The Accounting Officer's report includes a section entitled "Spending trends",<sup>39</sup> which should provide this kind of information. This is also provided in the Notes to the Appropriation Statement.<sup>40</sup> Unfortunately, in both sections, this information is very vague and one is still left wondering why exactly the Department under spent and the impact of this.

For example, with regard to the under spending on compensation of employees,<sup>41</sup> the Report of the Accounting Officer notes that "[d]espite attempts to ensure that vacant posts are filled, there

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government-subsidised housing at the Ngqushwa Local Municipality", which can be accessed at [www.psam.org.za](http://www.psam.org.za).

<sup>35</sup> The Report of the Accounting Officer for the year ended 31 March 2007 mentions rural-to-urban migration once, saying only that it should be reversed by "clear programmes" (p. 113). Nothing more is said about this issue, such as how it impacts housing need and the Department's planning.

<sup>36</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report 2006/07, pp. 138-165.

<sup>37</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report 2006/07, p. 116. A roll-over is an amount of money unspent in previous financial years which has been given to the Department to use in the year under review.

<sup>38</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 143 and 144. These tables should include a column entitled "Roll-overs". It is not clear why this was not done.

<sup>39</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 116-118.

<sup>40</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 145-148.

<sup>41</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 139. The Department under spent on this budget by 7.32 percent.

were delays in that process”.<sup>42</sup> Nothing more is said about this issue in the report. The Notes to the Appropriation Statement repeats this line word for word, and then adds that there “have been delays in filling critical posts, with the process only picking up pace towards the end of the year”.<sup>43</sup> There is no information on why there were “delays” in the recruitment process.

The reason offered for under spending on the conditional grant (transfers to households) is also inadequate.<sup>44</sup> The Department states that “capacity” was the primary reasons for the slow delivery rate and that this was improved when the Department started using established contractors for housing construction.<sup>45</sup> The Notes to the Appropriation Statement are far less helpful, saying only that the “surplus is attributable to an under spending of housing development for transfers”, which is akin to saying that the unspent money is attributable to under spending on housing development.<sup>46</sup> Considering that the conditional grant is only used for housing development (which includes the drafting of plans, paying salaries and providing services such as water), this is not a particularly insightful explanation.

Some further general financial reporting deficiencies:

- ❖ After the section dedicated to Programme 5 (Traditional Affairs), there is a section called “Transfer payments” which consists of a long table listing municipalities, the amounts transferred to them and how much was spent.<sup>47</sup> It is not stated which programmes in the Department were responsible for transferring these funds, but based on the Appropriation Statement, one can only deduce that Programmes 3 and 4 collectively transferred this amount of R109.98 million to municipalities.<sup>48</sup> There is no mention of what these funds were used for or why there was such considerable under spending on the part of municipalities.<sup>49</sup>
- ❖ The sections in the Annual Report dedicated to each programme use tables to report on performance regarding activities and targets (excluding Programme 1). While these tables include a column entitled “Budget”, which represents the budget for that particular objective or activity, there are few occurrences of reporting on the spending performance of these amounts.<sup>50</sup>

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<sup>42</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 117.

<sup>43</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 147.

<sup>44</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 139. The Department under spent on this budget by 16.35 percent.

<sup>45</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 117.

<sup>46</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 148.

<sup>47</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 106.

<sup>48</sup> Programme 3 (Local Government) transferred R58.73 million, while Programme 4 (Development and Planning) transferred R51.13 which comes to R109.86 (see pp. 142-143 of the 2006/07 Annual Report).

<sup>49</sup> According to the same table, only R64.61 million was spent. This constitutes 58.74 percent of the total funds transferred by these two programmes.

<sup>50</sup> See for example pp. 44-46, 52-64 and 77-79 of the 2006/07 Annual Report. Programme 1 tables sometimes include budget and spending figures under the columns entitled “Performance targets” and “Actual performance”.

- ❖ The audit report indicates that the Auditor-General needed to make three significant or “material” corrections to the financial statements of the Department, even though the Accounting Officer had approved these statements.<sup>51</sup>
- ❖ The Auditor-General found that the Department's financial records indicated that an amount of R10 million had been spent on legal fees, but that it was unable to provide any supporting documentation for this expenditure.<sup>52</sup>

#### *Activities and service delivery*<sup>53</sup>

As mentioned above, each programme has its own section which includes performance-related information on activities and targets. The primary problem with this reporting is the poor reasons provided for deviations in relations to targets. While the individual activities and targets may not always be attached to large budgets or form part of the core functions of the Department, the regularity with which the Department provides either weak or no justifications for deviations erodes accountability. It also indicates a possible unwillingness on the part of the Department to provide a full account of its performance. Below are some examples of where specific deviations have not been adequately justified, or where there is a claim to “no deviation” despite evidence to the contrary:<sup>54</sup>

- ❖ One of the objectives of Programme 1 (Administration) was to ensure that the Department’s website was regularly maintained and updated. Under the “Actual performance” column, the programme reported: “Maintenance and regularly updating of website provided by OTP [Office of the Premier] until February 2007 when it became unusable. New up to date web site being developed”. It then adds that this meant that there was “No deviation”.<sup>55</sup> It is not clear how this constitutes “No deviation” when there was no up-to-date housing website being maintained by the Department for 2006/07, which was the target.
- ❖ The first half of the performance tables for Programme 2 (Housing) include reasons for deviation. The rest of the tables, however, include the targets and the actual outputs, but fail to provide any reasons why there were deviations.<sup>56</sup>
- ❖ Programme 4 (Development and Planning) was aiming to have 45 municipalities with “credible” IDPs (Integrated Development Plans).<sup>57</sup> The performance was 42 IDPs adopted. The stated reason for the deviation was that “3 municipalities did not develop/submit IDPs” and the name of those municipalities are provided. That is not an adequate justification for the deviation, as it is quite obvious that the failure to reach the full target must mean that three municipalities did not develop plans. What is needed is an indication of why these three IDPs were not developed and what impact this may have had on service delivery. In

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<sup>51</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 127.

<sup>52</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 126.

<sup>53</sup> It should be noted that the programme objectives and targets as listed in the Annual Report do not match what is contained in the 2006-2009 Annual Performance Plan of the Department. In this report, the evaluation of the performance is based on what is contained in the Annual Report.

<sup>54</sup> Only a few examples of inadequate justification have been provided here and should not be taken as representing the full extent of the problem.

<sup>55</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 39.

<sup>56</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 47-49.

<sup>57</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 79.

addition, while 42 IDPs were adopted, it is not at all clear that these were “credible”. The quality of IDPs in the Eastern Cape has generally been poor and it is not clear if the programme was successful in improving these plans.

- ❖ For Programmes 3 (Local Government) and 4 (Development and Planning), virtually every reason for deviation cited a problem at the local government level (such as lack of staff or skills, or political instability) without any mention of how that specific programme failed to effectively support and assist municipalities, and promote good governance as they are mandated to do.<sup>58</sup>
- ❖ For Programme 5 (Traditional Affairs), almost all reasons for deviation are presented as “capacity constraints”.<sup>59</sup> There should be more information on what kinds of capacity constraints are involved (for example, what posts are empty, what skills are lacking) and what was done to improve the situation. It is not good enough for the Department to blame capacity without providing detailed and clear reasons as to why capacity problems persisted.

One particularly problematic performance reporting failure relates to the number of houses built in 2006/07. The section devoted to Programme 2 (Housing) does not provide a clear account of how many houses have been built. According to the National Department of Housing, the Eastern Cape built 16 526 houses in 2006/07.<sup>60</sup> There are no definite delivery figures in the Eastern Cape Annual Report, however. There is one table which provides lists of figures on the number of sites “serviced”, the number of projects approved and how many subsidies were approved, as well as other similar information, but it is virtually impossible to determine how many actual houses this translates into.<sup>61</sup>

Another problem with the reporting on targets is that sometimes the performance is presented as the amount of money transferred or spent, as opposed to the achievement of the actual target. This occurred primarily in Programme 4. For example, one target was that four Spatial Development Frameworks would be developed for municipalities. Under “Actual Performance”, it is stated that “[f]unds transferred to assist 4 municipalities” and these are then named. The programme states that this means there was “No Deviation”. The target, however, was the *development* of these frameworks, and it is not at all clear whether this was actually achieved, or that the money transferred was monitored by the Department to ensure that it was used for its intended purpose as required by section 38(1)(j) of the PFMA (see the above section on internal controls). In this programme, most of the information on target achievements area was reported in this way.

### 3. Internal Audit Function

<sup>58</sup> See, for example, Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 54, 66, 74, 79 and 85.

<sup>59</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 100-104.

<sup>60</sup> See [www.housing.gov.za](http://www.housing.gov.za). This includes complete houses as well as houses under construction.

<sup>61</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 47-49.

The Department of Housing, Local Government and Traditional Affairs shares an Internal Audit Unit with most of the other Eastern Cape departments.<sup>62</sup> For a number of reasons, the Auditor-General decided “not to place any reliance on the work” of the internal audit unit for the 2006/07 year. These reasons include weak capacity and a lack of skills within in the unit, high staff turnover at the senior level of the unit, including the head, and “pervasive” weaknesses in the internal controls in the various departments.<sup>63</sup>

An examination of the report of the Audit Committee for the 2006/07 financial year indicates that this oversight body did not function effectively. The Committee’s commentary is vague, weak and generally unhelpful. For example, with regard to human resources, the committee stated that the “department is experiencing some capacity constraints in terms of filling vacancies, and as a result the internal control environment is compromised”.<sup>64</sup> The Committee failed to adequately explain what steps it had taken to rectify deficiencies within the internal audit function and to ensure that the latter account to it.

#### **4. Human Resource Management**

Human resource management is an essential part of effective public administration<sup>65</sup> Departments need sufficient numbers of appropriately-skilled staff to ensure that all facets of public administration are successfully carried out, including planning, financial management, monitoring of performance, research and service delivery.

The above sections have demonstrated that the internal controls of the Department, as well as the quality of reporting, are both poor. This is not surprising given the high staff vacancy rates. The Department had a 65 percent overall staff vacancy rate and an 80 percent critical staff vacancy rate by the end of 2006/07 .<sup>66</sup> It should be noted that the number of posts increased from 1296 to 3763 between 2005/06 and 2006/07.<sup>67</sup> It is not clear why the number of posts increased so significantly in the 2006/07 financial year, but is possibly the result of the delineation and the recent creation of the Project Management and Quality Assurance Chief Directorate.

While this increase in posts mostly accounts for the rise in the vacancy rates in 2006/07, the diagram below indicates that weak capacity has been a long-running problem. The persistence of this challenge indicates that it has not been adequately addressed.

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<sup>62</sup> 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.

<sup>63</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 128.

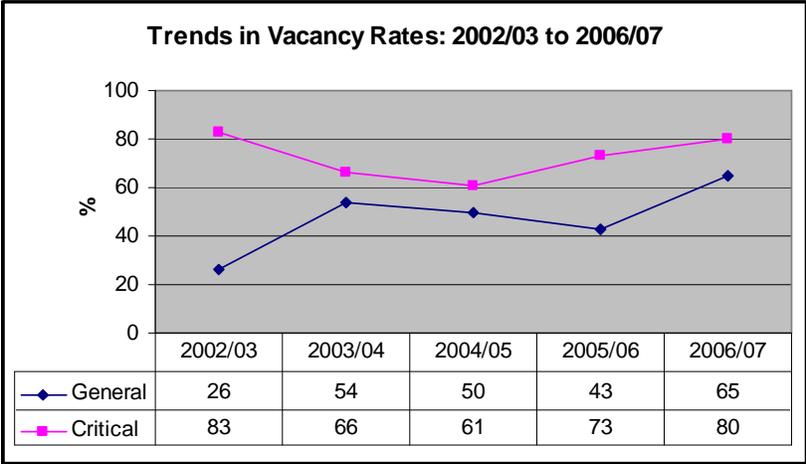
<sup>64</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 110.

<sup>65</sup> In order for a department to fulfil its mandate, it requires a full staff complement and a performance management system to monitor the performance of its personnel versus its personnel expenditure.

<sup>66</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 170.

<sup>67</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 170; and Annual Report, 2005/06, p. 139.

**Diagram 1: General and Critical Vacancy Rate trends in the Department of Housing, Local Government and Traditional Affairs, 2002/03 to 2006/07**



Poor capacity has a clear impact on the performance of the Department and this was sometimes cited as a reason for under performance with regard to specific targets.<sup>68</sup> In addition, the problem of human resource constraints was mentioned by all programmes in their “Challenges” tables (excluding Traditional Affairs which did not provide this table but continually cited “Capacity constraints” as a reason for deviations from targets).<sup>69</sup> While lack of capacity is perhaps used as a way to deflect attention away from other issues, such as lack of political will or financial mismanagement, there can be no doubt that such high vacancy rates are likely to have a negative impact on the Department’s performance.

For example, an 80 percent critical vacancy rates translates into poor project management and quality assurance, and therefore possible fruitless and wasteful expenditure. By the end of 2006/07, the Department had only 20 percent of its engineers,<sup>70</sup> less than 2 percent of its town planners and 28 percent of its control technicians.<sup>71</sup> These positions, together with project managers, are an essential part of the quality assurance process, which requires sufficient numbers of skilled staff to review and approve housing business plans to ensure that they comply with the minimum norms and standards, to visit housing sites, to monitor progress and inspect houses to ensure that they are not of substandard quality before payment is made. A lack of capacity in this regard will obviously have a negative impact on housing quality and could indicate that funds which are paid out for substandard housing constitute fruitless and wasteful expenditure. This has been the primary reason for the Department’s repeated audit disclaimers.

The Portfolio Committees for Housing and Local Government have raised these same concerns for many years. Their findings during the 2006/07 year indicate that human resource challenges (including the financial and performance management of personnel) have not been effectively managed, despite being highlighted repeatedly as a barrier to effective service delivery and the general performance of the Department:

<sup>68</sup> See, for example, pp. 35, 37, 45 and 100-104, Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07.

<sup>69</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 42, 50, 75 and 98.

<sup>70</sup> This includes both chief and deputy chief engineers.

<sup>71</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 170. These are all considered critical posts.

- ❖ “The Department faces huge outstanding debts by its officials due to salary overpayments, staff not taken out of the salary payment system upon resignation and incorrect notches. The Department does not have in place preventative measures to avoid recurrences and accumulation of staff debts. There is no effective debt recovery mechanism”<sup>72</sup>
- ❖ “Due to the shortage of Project Managers the Department is unable to administer housing projects in the Province”<sup>73</sup>
- ❖ “There is under-expenditure in this programme [Administration] due to laxity in advertising and filling of vacant posts and there is a big challenge in retaining skilled, experienced and qualified personnel”.<sup>74</sup>

## 5. Monitoring of Service Delivery

The effective monitoring of service delivery is a useful way for the Department to improve performance during a financial year to ensure that resources are being used as efficiently as possible. It is therefore an essential part of ensuring that the rights guaranteed under the Constitution are progressively realised.

### *Quality assurance*

One of the main issues with regard to the monitoring of service delivery for this Department is the monitoring of the quality of houses. As mentioned in the previous section, the quality assurance system is a lengthy one which starts from the initial planning stages and requires extensive inspections and discussion, as well as collaborations with a number of role players, including provincial and local officials, the National Home Builders Registration Council (NHBRC)<sup>75</sup> and private service providers, such as contractors.

As stated earlier, the primary reason for the repeated audit disclaimers has been the Auditor-General's finding that a lack of monitoring of conditional grant transfers means that payments for substandard housing are possibly fruitless and wasteful expenditure. In November 2006, the Department implemented a quality monitoring system and created a Project Management and Quality Assurance Chief Directorate in an effort to improve its poor record with regard to the quality of housing. As stated above, the Auditor-General noted that the “new system and additional processes... implemented in November 2006 [is] working as intended”.<sup>76</sup> This includes a variety of steps and processes intended to ensure that houses comply with the minimum standards.<sup>77</sup>

<sup>72</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 30 November 2006.

<sup>73</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 30 November 2006.

<sup>74</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 30 November 2006.

<sup>75</sup> The NHBRC is a Section 21 company established in terms of the Housing Consumer Protection Measures Act, 1998 (Act No. 95 of 1998). Its purpose is to protect housing consumers against poor quality and against any failure of builders to comply with their obligations in terms of the Act. All state-subsidised housing projects must be enrolled with the NHBRC (since 2002). The NHBRC issues a certificate for each unit that meets the minimum quality standards.

<sup>76</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 126.

<sup>77</sup> See the PSAM report on housing quality for additional information.

- ❖ The Department is participating in the formulation of housing designs to ensure that they are conducive to quality assurance (for example, that they suit the particular ground or soil conditions), and that they can be translated into a quality product (for example, that they are cost-effective given the limits of the housing subsidy).
- ❖ The Department appoints a project manager for all projects so that every aspect of each unit is checked. Payment should be withheld if project managers or inspectorates find work that is defective. Written instructions are issued and payments are then made when the problem has been rectified.
- ❖ The Department enrolls every project with the NHBRC, which carries out inspections and issues certificates for each unit that complies with the minimum standards.

### *Poor planning*

Poor planning can have a negative effect on the Department's ability to monitor its own performance. The lack of a plan for a specific objective or the vagueness of targets can make it difficult to determine if an objective or target has been met.

The Portfolio Committees for Housing and Local Government highlighted the poor planning of the Department, especially with regard to supporting municipalities: "The Department does not have a clear plan of supporting municipalities in the development of their Integrated Development Plans (IDPs)" and "The Department does not have a plan to support municipalities to research and develop policies on land use. It does not have a support and monitoring mechanism in this regard either".<sup>78</sup>

Efficient housing development which meets people's needs requires that municipalities are fully supported and assisted, because they act as the default developers.<sup>79</sup> In addition, the two local government programmes (Programmes 3 and 4) need to have clear plans in place so that their mandate of building the capacity of municipalities, assisting with research and planning, and promoting good governance is achieved. Furthermore, the budgeting for objectives can only be effectively undertaken if the Department is clear on what activities it will undertake, as well as what the specific targets are.

The vagueness of performance targets can hinder the monitoring of service delivery from the viewpoint of the Department, oversight bodies and civil society. For example, one of the targets for Programme 2 (Housing) was to hold ten workshops, as a measure intended to enhance capacity and provide support to municipalities and "housing stakeholders", the latter of which is too vague.<sup>80</sup> There is no mention, however, of what kinds of workshops will be held or for whom (municipal officials or other housing service providers, for example), or by whom (such as the Department or consultants). Therefore, while the Department states that ten workshops were attended, it is impossible to determine the extent to which these really assisted the Department fulfil the stated objective (whether these workshops really enhanced the capacity of municipalities and provided support to housing stakeholders), and whether this was money well-spent.

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<sup>78</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 31 May 2006.

<sup>79</sup> A developer is the direct implementer of housing projects and, in theory, can be the Department, the municipality, a parastatal or a private entity. The developer usually assists in drafting a housing project plan, appoints the contractor, monitors the quality of the units and the progress of the projects, pays contractors and liaises with the relevant stakeholders (such as the Department, the community and the municipality).

<sup>80</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 44.

Another example of a vague target is under Programme 3 (Local Government). The Department planned to “[r]ender support to 17 Project Consolidate municipalities”.<sup>81</sup> There is no indication, however, of what this “support” entails and it is therefore difficult to assess if the listed activities under “Actual Performance” (such as the appointment of planning and engineering specialists) constitutes adequate “support”.

## 6. Quality of Service Delivery Outcomes

For this Department the primary indicators of service delivery are the number of houses built, the quality of those houses, and the extent to which municipalities were supported and capacitated.

Previous sections of this report have highlighted that the poor quality of homes has been the primary reason for repeated audit disclaimers. The Department, however, received a qualified audit opinion this financial year, due to the improvements in its monitoring system. This system was only introduced half-way through 2006/07, which may mean that the houses built prior to November 2006 are of a poor quality and unfit for human habitation.

Under the reporting section of this report, it was noted that the Department had built 16 526 houses in 2006/07. It is not clear from either the 2006-2009 Annual Performance Plan or the 2006/07 Annual Report what the target was, and it is therefore difficult to evaluate the Department’s performance in terms of the number of houses built. This highlights how poor planning and reporting can prevent oversight bodies and civil society from holding government accountable for its performance.

The findings of the Portfolio Committee on Local Government indicate that the Department has not been adequately fulfilling its role in relation to municipalities. One finding was that the “problems besetting these municipalities seem to be emanating from the failure of the department to perform its function of monitoring and giving support to municipalities”.<sup>82</sup> In November 2006, the Portfolio Committee discussed the situation at Nkonkobe Municipality, where there had been allegations of corruption and mismanagement, particularly with regard to housing. The Committee criticised the MEC for the lack of action in that particular municipality:

[quoting from the Municipal Systems Act] ‘If the MEC has reasons to believe... that maladministration, fraud, corruption or any other serious malpractice has occurred or is occurring in a municipality, the MEC must, if the MEC considers it necessary, designate a person or persons to investigate the matter.’ Based on what the hon MEC (sic) had in his possession, the Committee finds that he had ample information to alert him that fraud and corruption were involved in this case [...] The hon MEC’s (sic) failure to act may be perceived as both dereliction of duty and embracing corruption.<sup>83</sup>

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<sup>81</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, p. 56.

<sup>82</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committee for Local Government, 24 November 2006.

<sup>83</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committee for Local Government, 24 November 2006.

The Committee added that the “Department did not play any role in assisting this Council to investigate the fraud around the RDP houses” despite the fact that Nkonkobe had been “building houses on behalf of the Department”.<sup>84</sup>

The Committee also commented on the Mquma Municipality, stating that it was unable to meet its financial obligations and “is on the brink of collapse”.<sup>85</sup> Furthermore, the municipality was unable to pass its budget and has therefore been operating without one. The Committee concluded that there is rampant maladministration in this municipality and, as a result, “service delivery has collapsed”. The political infighting within the municipality has made matters worse. At the time that the Committee was sitting, the political leadership of the municipality and the Municipal Manager were entangled in criminal cases with the institution: the speaker had been charged with defrauding the municipality, while the executive mayor was undergoing disciplinary action for “defying his political mandate”. The Municipal Manager had a fraud case against him.<sup>86</sup>

With regard to general municipal performance in respect of housing provision, the Portfolio Committees for Housing and Local Government stated that the “main impediment” to housing delivery is poor capacity at the district municipality level.<sup>87</sup> Poor management at the local level, and the failure of the Department to provide adequate support and assistance is of concern, primarily because it indicates that service delivery is slow if not non-existent in such areas. In addition, millions of rands are transferred to municipalities in the province, but if there is poor financial management, a lack of accountability, as well as possible fraud and corruption, the likelihood that these funds are being used effectively and for their intended purpose is small. In 2006/07, the Department transferred R1.57 million to Nkonkobe Municipality (R840 000 of which came from the housing conditional grant).<sup>88</sup>

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<sup>84</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committee for Local Government, 24 November 2006.

<sup>85</sup> [Eastern Cape, Findings and Recommendations of the Portfolio Committee for Local Government, 24 November 2006.](#)

<sup>86</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committee for Local Government, 24 November 2006.

<sup>87</sup> Eastern Cape, Findings and Recommendations of the Portfolio Committees for Housing and Local Government, 30 November 2006, 31 May 2006.

<sup>88</sup> Eastern Cape Department of Housing, Local Government and Traditional Affairs, Annual Report, 2006/07, pp. 106 and 163. According to the Annual Report, Mquma Municipality did not receive any funds from the Department.

**Annexure A: pages 10 and 11 from the Eastern Cape Department of Housing, Local Government and Traditional Affairs' 2006/07 Annual Report**

**2.4 overview of the service delivery environment for 2006/07**

<b>2.4.1 Housing</b>	
<b>External factors impacting on Housing Delivery</b>	<b>Issues</b>
Policy changes and trends	<ul style="list-style-type: none"> <li>• New policy changes not aligned to</li> </ul>
Demographic profile of the province	<ul style="list-style-type: none"> <li>• Province predominantly rural with</li> </ul>
Socio-economic profile	<ul style="list-style-type: none"> <li>• Majority of the people fall below the</li> </ul>
	<ul style="list-style-type: none"> <li>• The Eastern Cape Province is</li> </ul>
	<ul style="list-style-type: none"> <li>• High demand of material supplies</li> </ul>
	<ul style="list-style-type: none"> <li>• Shortage of skills in the</li> </ul>
	<ul style="list-style-type: none"> <li>• Reluctance of contractors to</li> </ul>

<b>2.4.2 Local Government</b>	
<b>External factors impacting on Municipal Governance</b>	<b>Issues</b>
Local Government capacity	<ul style="list-style-type: none"> <li>• Lack of capacity in some m</li> </ul>
Disaster Management	<ul style="list-style-type: none"> <li>• Inadequate budgeting for Fire and</li> </ul>
Financial Management	<ul style="list-style-type: none"> <li>• Readiness of municipalities to im</li> </ul>
Legislation	<ul style="list-style-type: none"> <li>• Continuation of Provincial</li> </ul>
Financial expenditure trends in the local sphere	<ul style="list-style-type: none"> <li>• Inadequate capacity to spend in</li> </ul>
Public Participation	<ul style="list-style-type: none"> <li>• Inadequate community involvement</li> </ul>
Powers and Functions	<ul style="list-style-type: none"> <li>• Some municipalities have no</li> </ul>

<b>External factors impacting on traditional Affairs service delivery</b>	<b>Issues</b>
Implementation of the traditional Leadership and Governance Framework Act, 2003 (Act No. 41 of 2003)	<ul style="list-style-type: none"> <li>• Establishment of Local Houses</li> <li>•</li> <li>•</li> </ul>
Implementation of the Traditional Leadership and Governance Act, 2005 (Act No.6 of 2005)	<ul style="list-style-type: none"> <li>• Regulations supporting legislation and</li> <li>•</li> <li>•</li> </ul>
Institutional support and capacity building to traditional leadership institutions	<ul style="list-style-type: none"> <li>• Funding National Programme of</li> </ul>

## **2.5 overview of the organisational environment for 2006/07**

<b>Constraints</b>	<b>Remedial action taken</b>
High vacancy rate	<ul style="list-style-type: none"> <li>• Embarked on a recruitment drive</li> </ul>
Human Resource Development	<ul style="list-style-type: none"> <li>• Human Resource Development</li> </ul>
Gaps in departmental strategy	<ul style="list-style-type: none"> <li>• Ensure that gaps are identified and filled</li> </ul>
Inadequate financial resources to support traditional leadership institutions	<ul style="list-style-type: none"> <li>• Increase of budget allocation</li> </ul>
Policy gap on support to the traditional leadership institution	<ul style="list-style-type: none"> <li>• Development of policy frameworks</li> </ul>