



**PLANNING AND BUDGETING IN TIMES OF AUSTERITY AND POOR GOVERNANCE:
PERSPECTIVES ON HOUSING**

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Background

The 2019 Medium Term Budget Policy Statement (MTBPS) and Adjusted Appropriations will be the first of the 6th administration. Finance Minister Tito Mboweni will deliver his MTBPS speech in an administrative term preceded by budget cuts and adjustments to key programmes, poor planning in relation to the delivery of social services at the provincial and municipal levels, underspending in some departments, high levels of unemployment, debt and highly compromised governance of state-owned entities. While an analysis of South Africa's macroeconomic policy environment is not within the ambit of this roundtable - a critical focus will be on the impact of such policy decisions and related budget execution on social programmes.

To date - many have raised alarm at South Africa's current economic trajectory, which can be described as one of austerity. This is defined as "difficult economic conditions created by government measures to reduce public expenditure."¹ Such measures are usually implemented to allow the state to prioritise debt repayments in order to reduce government borrowing and debt exposure. The United Nations Committee on Economic, Social and Cultural Rights (UN Committee) addressed the rising concern of the effects of austerity on human rights in October 2018. The representatives of South African civil society and state travelled to Geneva to report on progress in the implementation of the International Covenant and a review of the country's laws and practices against the rights and duties enshrined by the Covenant. The UN Committee made various observations and recommendations² which are relevant to this engagement. One such observation was that the austerity measures being introduced in South Africa risk further exacerbating inequality and potentially undoing progress achieved particularly in sectors such as health and education.

Given this background, the National Treasury's 2020 MTEF technical guidelines for provinces is important to take note of in our discussions³. The aim of these technical guidelines is to ensure that the documentation prepared by provincial departments and entities provide all the

¹ Available via Oxford Dictionary online at <https://en.oxforddictionaries.com/definition/austerity>

² Mark Heywood UN committee finds austerity measures implemented in SA 'may further worsen inequalities' Daily Maverick January 2019 (accessed at <https://www.dailymaverick.co.za/article/2019-02-19-un-committee-finds-austerity-measures-implemented-in-sa-may-further-worsen-inequalities/> in September 2019.

³ National Treasury 2020 Medium Term Expenditure Framework (MTEF) technical guidelines for Provinces P. 5 (emphasis added)

relevant information in respect of the budget. The 2020 MTEF notably states that “There are NO additional resources, with budget reductions likely to be implemented. Any additional allocations proposed to a programme must be funded by reductions in funding by another programme.”

Human Settlements

The National Department of Human Settlements is under-funded. The national budget has been cut by R85 billion over the Medium Term Expenditure Framework (MTEF) and this affects the budget for human settlements.⁴ Budget cuts are retarding delivery on human settlements and the Department cannot meet its goal of creating sustainable integrated human settlements in well-located areas close to economic opportunities and social amenities. The budget is inadequate to address massive backlog on housing delivery currently estimated at R2.3 billion⁵ and will not meet the Freedom Charter’s goal of access to housing with security and comfort.⁶ The housing target is a moving one and a historical one too. The Estimates of National Expenditure 2019, indicates the targets for human settlements of 261 917 subsidy housing units, 27 500 self-build subsidies, 891 401 title deeds of which 412 340 form part of historical backlog and 479 061 for new developments. The backlog on human settlements is growing perpetually and cannot be cleared with a shrinking budget particularly on Human Settlements Development Grant, which is set to reduce by R3.4 billion in 2019/20.

The bailing out of State Owned Enterprises has been detrimental to the delivery of services across all social sectors.⁷ Bailing out SOEs mean public resources used to bail out SOEs could be useful for service provision. Poor management and the misuse of funds by State Owned Enterprises if unabated will continue to have negative impact on service delivery and on any prospects of economic recovery for the country. SOEs like ESKOM (electricity), Passenger Rail Agency of South Africa (PRASA) and South African Airways provide services directly to citizens and should be useful in driving the economy of the country. Madumi argues that in their current state, SOEs are negating economic growth due to mis-governance and are affecting public finances negatively.⁸

William Gumede⁹ states that:

“ the accumulated annual costs of South Africa’s dysfunctional SOEs, in terms of jobs losses, deterring investments and reducing economic growth, are now so huge, that they are now a threat to the country’s economic sustainability. Without drastic reforms SOEs debt is likely to force the country to seek a bailout from the World Bank and the International Monetary Fund”

The impact of dysfunctional SOEs on economic growth and job creation directly affect the extent to which citizens are cushioned from poverty and therefore affects their capacity to individually access their socio-economic rights independent of state assistance. Yet, the capacity of the state to provide social assistance in an environment of slow economic growth

⁴ Budget Vote speech by Minister of Human Settlements, Water and Sanitation, Lindiwe Sisulu. Online http://www.dhs.gov.za/sites/default/files/speeches/NCOP_0.pdf

⁵ Budget Vote Speech by Minister of Human Settlements, Water and Sanitation Lindiwe Sisulu. Online <http://www.dhs.gov.za/sites/default/files/speeches/Speech%20by%20Minster%20Lindiwe%20Sisulu%20MP.pdf>

⁶ Freedom Charter, 1955

⁷ Gumede, W. The cost of dysfunctional State Owned Enterprises. Democracy Works Foundation. Online <https://democracyworks.org.za/the-cost-of-dysfunctional-state-owned-enterprises/>

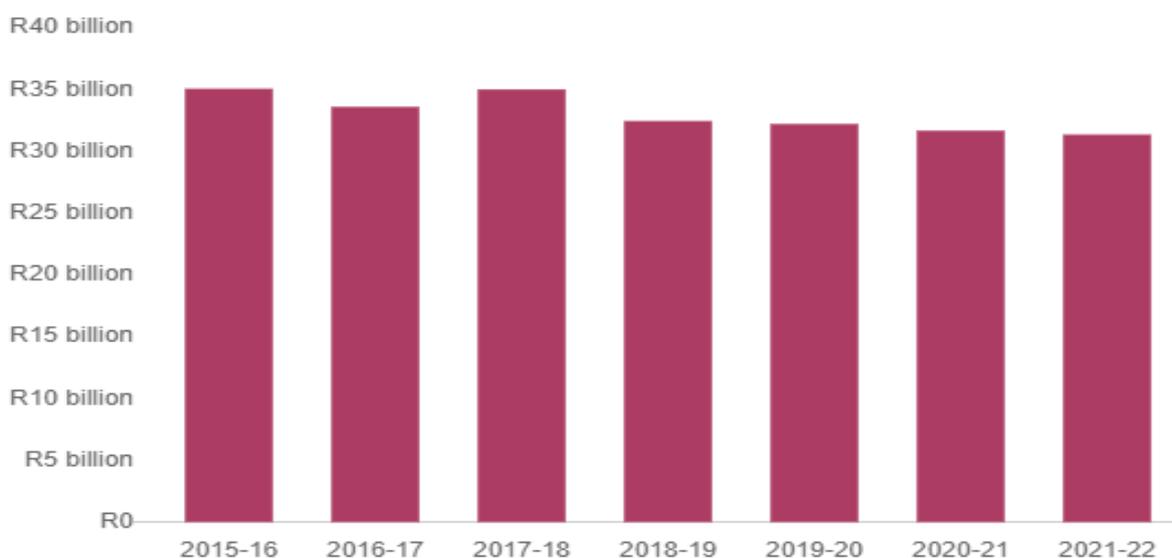
⁸ Madumi, P. 2018. Are state owned Enterprises (SOEs) catalyst for or inhibitors of South Africa economic growth. Paper presented on the the 3rd annual international Conference on Public Administration and Development Alternatives. Stellenbosch University.

⁹ Gumede, W. The cost of dysfunctional State Owned Enterprises. Democracy Works Foundation. Online <https://democracyworks.org.za/the-cost-of-dysfunctional-state-owned-enterprises/>

is limited and the state fails to meet the needs of its citizens. The lack of adequate resources from the state is reflected in sectorial budgets that are continually shrinking, especially with regards to allocations to the Human Settlements Department.

The Department of Human Settlements spends its shrinking budget fully, and expenditure is distributed unevenly across provinces and across programmes. The Estimates of National Expenditure (ENE) 2019 show expenditure trends of 99% between the 2015/16 to 2018/19 financial years.¹⁰ Figure 1 below is an indication of expenditure for the Department of Human Settlements, which shows an increase in 2015/16 and 2017/18 and a decrease since 2018/19 through the medium term in real terms. The drop in expenditure reflects the drop in the initial budget allocated to the Department. The reduced budget means the Department is forced to reprioritise spending between programmes through shifting funds from one programme to the other and creating conditional grants from the existing ones. For example, the approved reduction of R3.4 billion to the Human Settlements Development Grant and R200 million to the Urban Settlements Development Grant will be a reprioritisation of funds for the Informal Settlements Upgrading Partnership Grant.¹¹ Reprioritising of funds is a clear indicator that with no additional funds, the Department simply shift funds from programme to programme. The implication is that where funds are shifted from, the objectives for that programme are placed on hold and are subsequently not achieved. Full expenditure on the budget does not in any way reflect the meeting of all human settlements objectives. It is an attempt by the Department to ensure spending on the limited resources available even as they neglect spending on other essential programmes.

Figure 1: Planned and historical expenditure for the Department of Human Settlements.



The Rand values in this chart are adjusted for CPI inflation and are the effective value in 2018 Rands. CPI is used as the deflator, with the 2018-19 financial year as the base.

Source: <https://vulekamali.gov.za/2019-20/national/departments/human-settlements>

¹⁰ Estimates of National Expenditure, 2019 Pg 4. Online <http://www.treasury.gov.za/documents/National%20Budget/2019/enebooklets/Vote%2038%20Human%20Settlements.pdf>

¹¹ Estimates of National Expenditure, 2019. National Treasury

In its 2019 Budget Review, the Department of Human Settlements projects baseline reductions on the Human Settlements Development Grant of R1 billion, R2 billion and 3 billion over the Medium Term Expenditure Framework.¹² The Human Settlements Development Grant is the main funding instrument for human settlements delivery programmes, which include the construction of residential units, and the provision of serviced sites, basic services, housing for military veterans, finance linked subsidies and title deeds.¹³ The major baseline reductions according to National Treasury are due to a response to weak economic performance, revenue outcomes as well as the configuration of ESKOM.¹⁴ As stated earlier, the SOEs performance has negatively impacted on resources that could be channelled towards service delivery. The Human Settlements Development Grant will also be reprioritised from 2020/21 to fund new grants for the upgrading of informal settlements.¹⁵ The lack of adequate resources requires that the Department makes effective use of available resources in order to achieve its objectives. Therefore, the Department must plan effectively based on the needs of the most vulnerable community members such as the elderly, child headed households, women and the disabled. By doing so, the Department ensures that it uses its limited resources where they are needed most.

Effective planning in this regard includes the setting of objectives, goals and targets that are Specific, Manageable, Attainable, and Reliable with clear Timelines (SMART). It is important for the Department to ensure that specific human settlements areas of delivery that are key in addressing the critical challenges of human settlements in poor communities and are highlighted by service delivery protests are addressed. These include access to housing, water, electricity, proper sanitation and employment. One of the key areas to improve the welfare of poor communities is the upgrading of informal settlements, which has seen slow progress over the years. When resources are limited, the Department is required to budget for key programmes directed at improving settlements for the most vulnerable community members.

The Department must avoid wasteful and fruitless expenditure in order to efficiently and effectively use the limited resources. An incident of fruitless and wasteful expenditure was recorded in the National Department of Human Settlements Annual Report for 2017/18 where a vehicle was leased for the Minister while one had already been procured. R284 000 of wasteful expenditure was recorded.¹⁶ On record in the previous financial year too, was fruitless and wasteful expenditure of R2.6 million where no effective steps were taken to prevent it.¹⁷ Although there was a reduction in the value of fruitless and wasteful expenditure in financial year 2017/18 relative to 2016/17, fruitful and wasteful expenditure cannot be tolerated. The lack of disciplinary measures instituted to the individuals responsible for wasteful expenditure contravenes the Public Finance Management Act, Section 38 (1) (h) (iii). The Act requires that the accounting officer must take effective and appropriate disciplinary steps against an official who makes or permits an unauthorised expenditure, irregular expenditure or fruitless and wasteful expenditure.¹⁸

The construction of substandard houses continues to be a problem within the Department and equally continues to contribute to wasteful expenditure. The Eastern Cape Province in particular continues to have a growing backlog on rectification of sub-standard houses for both

¹² Budget Review, 2019 Online

<http://www.treasury.gov.za/documents/national%20budget/2019/review/Chapter%205.pdf>

¹³ National Treasury. Estimates of National Expenditure 2018

¹⁴ Budget Review, 2019 Online

<http://www.treasury.gov.za/documents/national%20budget/2019/review/Chapter%205.pdf>

¹⁵ Budget Review, 2019 Online

<http://www.treasury.gov.za/documents/national%20budget/2019/review/Chapter%205.pdf>

¹⁶ Department of Human Settlements 2017/18 annual Report

¹⁷ Department of Human Settlements 2017/18 Annual Report.

¹⁸ Public Finance Management Act and Regulations Act 1 of 1999

pre and post 1994. The rectification programme was introduced initially to deal with the pre-1994 backlog, yet the construction of sub-standard houses remains a perpetual challenge for the Department of Human Settlements.¹⁹ In order to make use of funds effectively, the Department of Human Settlements must appoint contractors that have the skills and the capacity to deliver durable houses. The Department has a programme to uplift upcoming contractors, especially women. Although the intention is to empower these contractors, the Department of Human Settlements must ensure that these contractors have the necessary skills and equipment required to build durable houses. A lack of track record of the performance of new contractors means that further training must be provided by the Department to contractors in order to ensure the construction of quality houses. The challenges of construction companies abandoning sites and leaving houses unfinished is a sign of poor resource management as these contractors abandon sites sometimes due to lack of payment from the Department. This results in slow progress on housing delivery.

MTBPS 2019 and Budget 2020 Expectations

In conclusion, with austerity measures in place and the unlikelihood of budget increase for departments, there is need for ongoing conversation amongst civil society organisations, budget practitioners and government to ensure budget allocation in key social sectors in a manner that does not compromise the socio-economic rights of poor citizens. The Departments must ensure effective planning, resource allocation and spending to meet the needs of the people. Reprioritisation of funds by the Department of Human Settlements should be targeting key human settlements delivery areas for poor communities, which include the upgrading of informal settlements, building of top structures for the vulnerable and title deeds registration.

¹⁹ Human Settlements Budget Brief Online <http://psam.org.za/wp-content/uploads/2016/11/Human-Settlements-Budget-Brief-May-2018-1.pdf>

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ABOUT THE PUBLIC SERVICE ACCOUNTABILITY MONITOR (PSAM)

The PSAM was founded in 1999 as a research project in the Rhodes University Department of Sociology. Its initial aim was to monitor incidents of corruption within the Eastern Cape government. From 2005, recognising the systemic nature of poor governance and corruption in the province, the PSAM began a concerted advocacy effort to systematically strengthen public resource management by key Eastern Cape government departments.

In 2007, PSAM introduced a training and academic component. The training component has developed to be what is known as the Regional Learning Programme and the academic component has changed to become what is known as the Advocacy Impact Programme. The various activities and interventions by PSAM over the years have emphasised the on-going need for greater and improved accountability interventions by civil society organisations across the region. Through our work we seek to achieve improved networking and advocacy to leverage impact and enhanced learning so that achievements are shared, evaluated and used to bolster social accountability interventions in sub-Saharan Africa.

Visit www.psam.org.za or follow us on Twitter: @PSAM_AFRICA

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