

Housing

Reference: 4/4/1/1

The Chairperson  
Joint Budget Committee  
P O Box 15  
Cape Town  
8000

Dear Ms Mabe

**REPORT ON THE BUDGET EXPENDITURE IN RESPECT OF THE FIRST  
QUARTER OF THE 2007/08 FINANCIAL YEAR**

Thank you for your letter dated 10 August 2007. In response to the Joint Budget Committee's request, the Department would like to provide the following detailed information regarding its funding expenditure for the first quarter of the 2007/08 financial year.

The Department's total allocation for the 2007/08 financial year amounts to R8,9 billion of which 96,01% is appropriated to Programme 4 where the Integrated Housing and Human Settlement Development Grant is located. This programme also houses the operational budgets for the public entities. The remaining 3,99% represents the Department's operational budget. The Department's spending performance as at 30 June 2007 amounts to R1,5 billion of the allocated R8,9 billion or 17%.

Detail performance breakdown by programme as well as economic classification are as follows:

<b>Programme 1: Administration</b>	<b>Budget 2007/08 R'000</b>	<b>Expenditure as at 30 June 2007 R'000</b>	<b>% Spent</b>
<b>Current payments</b>			
Compensation of employees	45,039	12,292	27%
Goods and services	69,683	10,368	15%
<b>Total current payments</b>	<b>114,719</b>	<b>22,660</b>	<b>20%</b>
<b>Payments for capital assets</b>			
Machinery and equipment	1,697	520	31%
Software and other intangible assets			
<b>Total payments for capital assets</b>	<b>1,697</b>	<b>520</b>	<b>31%</b>
<b>TOTAL EXPENDITURE</b>	<b>116,419</b>	<b>23,181</b>	<b>20%</b>

The spending performance of Programme 1: Administration is 20% of allocated funds or 91% of the total amount of R25,4 million drawn for the period. This percentage translates to an amount of R2 257 000 unspent. The under spending in this programme is attributed to the ordering of goods and services of which delivery and for invoices are being awaited. It is anticipated that expenditure will start to increase as the year progresses.

<b>Programme 2: Housing Policy Research and Planning</b>	<b>Budget 2007/08 R'000</b>	<b>Expenditure as at 30 June 2007 R'000</b>	<b>% Spent</b>
<b>Current payments</b>			
Compensation of employees	28,069	2,209	8%
Goods and services	58,248	1,945	3%
<b>Total current payments</b>	<b>86,317</b>	<b>4,154</b>	<b>5%</b>
<b>Transfers and subsidies to:</b>			
<b>Current transfers</b>			
Foreign governments & international organizations	79		0%
<b>Total Transfers and Subsidies</b>	<b>79</b>	<b>-</b>	<b>0%</b>
<b>Payments for capital assets</b>			
Machinery and equipment	3,583	268	7%
Software and other intangible assets			
<b>Total payments for capital assets</b>	<b>3,583</b>	<b>268</b>	<b>7%</b>
<b>TOTAL EXPENDITURE</b>	<b>89,979</b>	<b>4,422</b>	<b>5%</b>

The spending performance of this programme is 5% of allocated funds or 24% of the total amount of R18,2 million drawn for the period. This percentage translates to an amount of R13 877 000 under spent. The under spending can be attributed to a delay in the payment of invoices on the information management systems. The service level agreements with SITA were delayed due to the rigorous reviewing process that were followed and are in the process of approval. As soon as the service level agreements are approved the expenditure will start to increase.

<b>Programme 3: Housing Implementation Support</b>	<b>Budget 2007/08 R'000</b>	<b>Expenditure as at 30 June 2007 R'000</b>	<b>% Spent</b>
<b>Current payments</b>			
Compensation of employees	17,569	2,217	13%
Goods and services	129,932	13,191	10%
<b>Total current payments</b>	<b>147,501</b>	<b>15,408</b>	<b>10%</b>
<b>Payments for capital assets</b>			
Machinery and equipment	425	113	26%
Software and other intangible assets			
<b>Total payments for capital assets</b>	<b>425</b>	<b>113</b>	<b>26%</b>
<b>TOTAL EXPENDITURE</b>	<b>147,926</b>	<b>15,520</b>	<b>10%</b>

The spending performance of the programme is 10% of allocated funds or 57% of the total amount of R27,4 million drawn for the period. This percentage translates to an amount of R13,8 million, under spent. The under spending on this programme is as a result of the Accreditation of Municipalities project which was slow. The process entails that provincial and local authorities must provide the Department with business plans on the accreditation which includes capacity building within municipalities. The business plans were received, reviewed and approved during this period. Expenditure is expected to improve in the next quarter as invoices from the authorities are received.

<b>Programme 4: Housing Development Finance</b>	<b>Budget 2007/08</b>	<b>Expenditure as at 30 June 2007</b>	<b>% Spent</b>
	<b>R'000</b>	<b>R'000</b>	
<b>Current payments</b>			
Compensation of employees	17,296	4,373	25%
Goods and services	27,760	3,721	13%
<b>Total current payments</b>	<b>45,056</b>	<b>8,094</b>	<b>18%</b>
<b>Transfers and subsidies to:</b>			
<b>Current transfers</b>			
Departmental agencies and accounts	239,416	12,000	5%
Foreign governments & international organizations			
<b>Subtotal current transfers and subsidies</b>	<b>239,416</b>	<b>12,000</b>	<b>5%</b>
<b>Transfers and subsidies to:</b>			
<b>Capital transfers</b>			
Provinces and municipalities	8,237,946	1,439,633	17%
<b>Subtotal capital transfers and subsidies</b>	<b>8,237,946</b>	<b>1,439,633</b>	<b>17%</b>
<b>Total Transfers and Subsidies</b>	<b>8,477,362</b>	<b>1,451,633</b>	<b>17%</b>
<b>Payments for capital assets</b>			
Machinery and equipment	753		0%
Software and other intangible assets	113		0%
<b>Total payments for capital assets</b>	<b>866</b>	<b>-</b>	<b>0%</b>
<b>TOTAL EXPENDITURE</b>	<b>8,523,284</b>	<b>1,459,727</b>	<b>17%</b>

This programme consists mainly of Conditional Grants to Provinces and transfer payments to public entities under control of the Department. The spending performance of the programme is 17% of allocated funds or 99,7% of the total amount of R1,4 billion drawn for the period. The transfer of funds to provinces is based on inputs received from the different provincial governments and is based on project life cycles where expenditure peak toward the completion of a project. Overall the underspending amounts to R3 291 000 against the drawings received for this period which can be attributed to the ordering of goods and services of which the invoices are still awaited.

Regarding the monitoring of transferred funds, the Department receives monthly reports on financial and non-financial information that is reviewed and follow-up with provinces. Letters are written to Provincial Heads of Departments cautioning them on their

expenditure trends in terms of the Division of Revenue Act, 2007. Provincial Housing Departments are furthermore visited to review their expenditure performance as well as to revise their monthly cash flows, when required. Business plans are adjusted if necessary and advice is provided on financial related matters. A Chief Financial Officer Forum has been re-established where issues of non-spending in relation to business plans are debated.

It is trusted that the information meets with your approval.

Kind regards

I W KOTSOANE  
**DIRECTOR-GENERAL**  
DATE:

The Secretary  
Joint Budget Committee  
Parliament

For attention: P Hahndiek/ A Ganief

**JBC queries regarding expenditure and budget implementation during the first financial quarter 2007/08**

With reference to the questions raised in your letter dated 10 August 2007, herewith the following response:

**Payment of Transfers and Subsidies**

It should be noted that 95,41% of the Department's budget constitute transfer payments which are mainly to the public higher education institutions, public entities and transfers to provinces for the conditional grants managed by the Department. The transfer payments to higher education institutions alone are 74,1% of the total budget. In this respect, the Department has a standing approval from National Treasury to transfer 50% of the total allocated block grant to these institutions during April and May of each year and one twelve of the grant for every month thereafter up to November. This is done to assist the institutions with cash flow management, since their financial years are from January to December in order to be in line with the academic year. As a result, 55,22% (R6 595,667 billion) of the total block grants to the institutions for the 2007/08 financial year were already transferred for the first quarter.

In respect of conditional grants, the Department is responsible for transfers to provinces for the HIV and Aids Life Skills grant, the National School Nutrition Programme (NSNP) and the FET Colleges Recapitalisation grant. Transfer payments for these grants are made in accordance with the approved payment schedule in terms of the Division of Revenue Act. Therefore, 25% of the allocation for the HIV and Aids grant as well as for the NSNP were transferred by 30 June 2007, totalling an amount of R982,968 million. In respect of the FET Colleges Recapitalisation grant, 50% (R297,496 million) was transferred in accordance with the payment schedule.

The Department's public entities receive their subsidies on a quarterly basis which amounted to R889,004 million for the reporting period.

The systems used by the Department to monitor how transferred funds are spent are as follows:

- Higher Education Institutions: These institutions submit monthly reports to the Department as well as annual reports, which include annual audited financial statements.
- Conditional Grants are monitored in accordance with the Division of Revenue Act through receiving monthly financial reports and quarterly narrative reports. These reports are checked against the approved business plans for each province. The Department also conducts provincial visits, holds inter-provincial meetings and performs an annual evaluation on each grant for the previous financial year.
- Public Entities are monitored through receiving quarterly reports which include financial and performance information based on the approved strategic plans of the public entities.

#### **Breakdown of Current Expenditure**

The current payments for the first quarter consist of the following:

<b>Item</b>	<b>Amount R'000</b>
Compensation of employees	44 285
Remuneration of Moderators and Examiners	6 608
Leases: Office Buildings and Parking	4 206
Travel and subsistence	14 601
Computer services	3 744
Consultant and special services	1 126
Stationery and printing	1 598
Printing and publications	2 309
Communication	1 520
Advertisements	1 081
Other	6 222
<b>Total</b>	<b>87 300</b>

I trust that the above information meets your needs. Please feel free to contact the Department should you require any additional information.

Kind regards

Mr D Hindle  
 Director-General  
 Date: