



housing

Department:
Housing
REPUBLIC OF SOUTH AFRICA

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Reference: 4/4/1/1

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

Dear Ms L L Mabe

JOINT BUDGET COMMITTEE: REQUEST FOR BRIEFING ON THE 2007 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

Thank you for your letter dated 27 September 2007. In response to the Joint Budget Committee's request, the Department would like to provide the following detailed information on the matters listed in your letter.

1 Expenditure trends and audit outcomes for 2006/07

1.1 Expenditure as 31 March 2007

Table 1: Expenditure as at 31 March 2007

| PROGRAMME R thousands | INFORMATION INCLUDING THE GRANT & TRANSFER PAYMENTS | | | |
|--|--|---------------------------|----------------|------------|
| | Adjusted Allocation | Exp. as at 31 Mar 2007 | Unspent | % Spent |
| Programme 1: Administration | 117,391 | 111,837 | 5,554 | 95% |
| Programme 2: Policy Planning and Research | 24,112 | 15,175 | 8,937 | 63% |
| Programme 3: Programme Management | 69,893 | 67,411 | 2,482 | 96% |
| Programme 4: Housing Sector Performance and Equity | 292,964 | 288,370 | 4,594 | 98% |
| Programme 5: Housing Development Funding | 6,829,366 | 6,683,169 | 146,197 | 98% |
| TOTAL | 7,333,726 | 7,165,962 | 167,764 | 98% |

Out of the unspent funds, of R144 363 000 was saved on the Conditional Grant. The Provincial Housing Departments of Eastern Cape and Mpumalanga declared savings and as such funds were not transferred to these Provinces. The saving was as a result of the incapacity factor and financial constraints of emerging contractors and material shortages, such as cement and bricks.

The remaining R23 401 000 is under expenditure on the operational side of the department's budget which is mainly linked to factors such as:

- savings on personnel and personnel related cost due to vacancies;
- delay in the Residential Development Bill because there is no policy dealing with inclusionary housing, which is being developed and is still under negotiations; and
- delay in the Review of legislation impacting on the Comprehensive Plan project.

1.2 Audit Outcome

- The department received an unqualified audit report with the following matter of emphasis: This relates to the classification of assets costing less than R5 000 as capital assets.
- Other matters raised by the Auditor-General were as follows:
 - Material corrections;

- Human resources plan;
- Internal control issues on asset management and information systems;
- South African Housing Trust investigation by the SIU; and
- Special audit into the N2 Gateway Project.

2 Mandate and medium-term policy priorities

2.1 Mandate

SA CONSTITUTION

- Section 26: Access to adequate housing a basic human right; Govt. to ensure environment conducive to the progressive realisation of the right;
- Schedule 4: National and Provincial Governments have concurrent legislative competence;
- Botshabelo Housing Accord (1994) Signed by all housing stakeholders and subsequent white paper of 1994; and
- Reconstruction and Development Programme (RDP) – set out framework and principles for sustainable development

2.2 Medium-term policy priorities

The strategic priorities in the comprehensive plan are to:

- accelerate housing delivery;
- improve the quality of housing products and environments to ensure asset creation;
- ensure a single, efficient formal housing market;
- restructure and integrate human settlements;
- utilize provision of housing as a job creation strategy; and
- access property as an asset for wealth creation and empowerment.

3 Significant allocations, planning assumptions and risk assessment

For the current 2007 MTEF period, the housing budget increased from R8,2 billion in 2007/08 to R11,5 billion in 2009/10. This represents a growth of R3,3 billion or an average annual increase of 18,3%.

The total available funds amounted to R6,8 billion, i.e. the grant allocation for the 2006/07 financial year was R6,3 billion, plus adjustment allocation of R472,200 million and rollovers from 2005/06 amounted to R119,897 million. The provinces managed to spend R6,5 billion which represents a spending rate of 95 percent. The main reasons for the difference being the withholding of funds in respect of the Eastern Cape Provinces of R85,3 million and Mpumalanga Province of R59,1 million, which was due to the shortage of building material and capacity and financial constraints of emerging contractors. The underspending of R229,9 million on the N2 Gateway project can be attributed to the fact that the additional funds made available in the 2006/07 adjustments budget did not allow adequate time to utilize it optimally.

The allocation for the current financial year is R8,2 billion and the majority of the grant funding will be utilized to finalize/complete current multi-year projects as far as practically possible in terms of existing contracts.

Although the grant funding allocation has increased, the Department's projections indicate that if it could eradicate the backlog by 2014, a funding shortfall of R102,5 billion would exist, while if the backlog is to be eradicated by 2016 the funding shortfall would increase to R253 billion. In view of this position the housing backlog must be eradicated within the shortest time possible as the cost projections indicate a doubling of costs for every two years delayed.

4 Personnel establishment and vacancy ratios

The Department has implemented a new structure of 692 posts. The expenditure for the entire structure will be budgeted for in a phase-in approach over the MTEF cycle. Currently, 105 critical posts have been identified for prioritization in terms of filling. The current vacancy rate of funded positions is 24%. However, the recruitment process has commenced.

5 Skills development and training programmes

Service Standards for all the Human Resource processes are being developed. A Selection, Recruitment and Retentions Policy was developed to ensure skill retention.

Various types of skills development initiatives ranging from courses, seminars and conferences have been coordinated. The Department has also invested on the human resource by granting 56 bursaries for part-time studies to employees across all levels.

Systems have been put in place to ensure that training attended is commensurate to the performance agreements of officials. The skills audit was conducted by the Research Unit and the recommendations will be factored into the development plans of managers. Newly appointed managers are also subjected to a competency assessment which will inform their development plans.

6 Infrastructure and maintenance budgets

The bulk infrastructure to the housing development areas is provided by the local authority from the MIG Grant, administered by the Department of Provincial and Local Government, and the internal reticulation is provided from the subsidy amount.

The National Department of Housing (NDoH) is striving towards a goal that all non-top structure development be financed by other national departments. If the total subsidy amount could be utilized for the top structure the quality of living conditions of the beneficiaries would be improved.

The NDoH does not directly contribute to the maintenance of the new subsidy housing development as the ownership vests in the beneficiaries. However, at provincial level in respect of the old pre-1994 housing stock, not yet devolved to local authorities, the rental payable contains a component for maintenance, but in many instances the occupants are not able to make rental payments and consequently that cost is paid from the equitable share or as last resort from the Grant.

7 Transfer and grant management

Funding in respect of the Housing Sector is appropriated through the prescribed budgeting processes and a specific amount is allocated to the Grant. These amounts are reflected in DORA in order for the province to plan their budgets over a multi-year period, currently over a three year MTEF period in respect of housing delivery.

In broad terms the annual DORA legislation contains specific clauses to regulate, inclusive of punitive measures, the funding provided to provinces to finance national housing programmes through the Integrated Housing and Human Settlement Development Grant (IHAHSDG) in terms of the prescripts of DORA.

Funding is transferred on a monthly basis to the provinces according to a National Treasury approved payment schedule and in terms of Section 33 of the Act. The compilation of the payment schedule is a joint exercise between the National and Provincial Housing Departments. Any amendments to the payment schedule, which can *inter alia* be attributed to altered cash flow projections/persistent under spending, non-compliance or re-allocation, should be arrived at after an agreement had been reached between the National Housing

Department, Provincial Housing Department, Provincial Treasury where after the approval by the National Treasury is sought.

The Act requires the National Department as a transferring department to receive monthly expenditure reports from provinces, which would be used to evaluate the performance of provinces.

In terms of Section 24 of the 2007 DORA, which was enacted at the commencement of the 2007/08 financial year, a Schedule 5 allocation may only be utilised for the purpose stated in the Schedule concerned and in accordance with the published framework.

8 Monitoring and evaluation systems

The mandate for monitoring and evaluation of the Housing Sector emanates from the Housing Act, Act 107 of 1997, the Government Wide Monitoring and Evaluation System, the Presidents' State of the Nation Address and the Comprehensive Plan for the Development of Sustainable Human Settlements. In terms of this mandate, the National Minister of Housing through the NDoH is responsible to:

- i. monitor and evaluate the planning, implementation and performance of national housing policies and programmes against set targets and approved guidelines and the tracking of construction processes;
- ii. assess the impact of national housing policies and programmes and developing and coordinating the implementation of an evaluation strategy;
- iii. monitor occupancy audits;
- iv. manage and coordinate the implementation and maintenance of the Monitoring and Evaluation system;
- v. align the housing sector monitoring and evaluation processes to the Government-Wide Monitoring and Evaluation System;

- vi. prepare a Monitoring and Evaluation Policy and Implementation Guidelines for the Housing Sector;
- vii. finalize the Monitoring and Evaluation Impact Assessment (MEIA) application systems;
- viii. prepare a Monitoring and Evaluation Policy and Implementation Guidelines for Service Delivery in the Housing Sector; and
- ix. develop processes to capacitate national and provincial officials.

The Monitoring and Evaluation Policy for the Housing Sector (M&E Policy) will set the basis for the development and implementation of the MEIA system. The purpose of this policy would be:

- i. To monitor and evaluate results and impacts of the Comprehensive Plan Strategies;
- ii. To provide a basis for decision-making on amendments and improvements of policies, strategies, program management, procedures, and projects;
- iii. To promote accountability for resource use against objectives by national and provincial departments and municipalities; and
- iv. To ensure documentation of feedback and the dissemination of results and lessons learned.

The M&E Policy will form the basis for all monitoring, evaluation and impact assessment studies. It will, inter alia, outline the broad activities, processes and procedures to be carried out in order to allow the Housing Sector to report on meaningful qualitative and quantitative information on the implementation, progress, outcome and impact of all national housing policies and programmes. It will also focus on outlining the methodology to be adhered to when conducting monitoring and evaluation and determine what data should be regulated to maintain confidentiality without compromising transparency. In addition, it will define the roles and the responsibilities of the different stakeholders and the consultative processes to be entered into.

The M & E Policy will contain a set of indicators which were developed to enable the sector to measure the various results of national housing policies, programmes and interventions. Each indicator is linked to a specific level of result, namely input, output, outcome and impact level. The indicators indicated in the M & E Framework, represents the appropriate indicators to measure the relevant levels of results in a practical, reliable, direct and adequate manner. The Indicator Protocol document contains detailed information on each indicator, namely definition, unit of measure, measurement tool, data source, baseline and target. The relevant indicators have been work shopped intensively with national and provincial stakeholders and further refinements will be made.

The first draft of the M & E Policy and Implementation Guidelines has been discussed by the M & E Task Team which comprises representatives from the National and Provincial Housing Departments as well as major Local Governments and will be submitted to the Committees of Technical MINMEC and Housing MINMEC as soon as consensus has been reached.

In addition to the above, an electronic MEIA System application is currently being developed in order to allow all stakeholders, including Provincial Housing Departments, other National Departments such as the President's Office and National Treasury, to have direct electronic access to a set of standard reports on performance of the Housing Sector on the various levels of results.

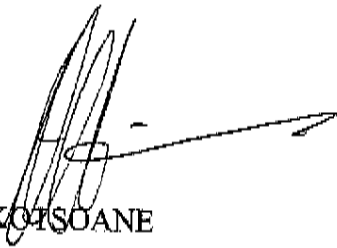
It is anticipated that the Monitoring, Evaluation and Impact Assessment Policy as well as the MEIA System will be fully implemented and operational in the 2008/09 financial year.

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

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke extending to the right.

I W KOTSOANE

DIRECTOR-GENERAL

DATE: 24/10/2007.