1. **REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE HUMAN SETTLEMENTS DEVELOPMENT GRANT EXPENDITURE AS AT FOURTH QUARTER 2017/18 FINANCIAL YEAR, DATED 22 AUGUST 2018**

 **1. Introduction**

The Committee invited the national Department of Human Settlements, National Treasury and the provincial departments of human settlements of Gauteng, Limpopo and Western Cape to make submissions on the Human Settlements Development Grant’s fourth term performance (financial and non-financial) for the 2017/18 financial year, at a meeting on 06 June 2018.

The Human Settlements Development Grant (HSDG) is a schedule 5 grant of which the objective is the creation of sustainable and integrated human settlements that enable improved quality of household life and access to basic services. The HSDG supplements provincial equitable share allocations. However, over the past few years, provincial contributions have been dwindling, with some provinces relying almost entirely on grant funding to provide integrated human settlements services.

The outcomes of the HSDG are to ensure –

* The facilitation and provision of adequate housing opportunities and an improved quality living environment;
* A functionally equitable and integrated residential property market; and
* Enhanced institutional capabilities for effective coordination of spatial investment decisions.

The outputs of the HSDG as provided in the Division of Revenue Act 4 of 2017 are as follows:

* Number of housing opportunities created, that is the number of residential units delivered in all housing programmes and the number of serviced sites delivered in all housing programmes.
* Number of households in informal settlements provided with access to basic services - at upgrading of informal settlements programme level 2 standard.
* Number of households in backyards provided with access to services/upgraded services.
* Number of title deeds issued (pre 1994, post 1994 and post 2014).
* Hectares of well-located land acquired and zoned to create housing opportunities.
* Number of work opportunities created through related programmes.
* Number of informal settlements upgraded on site and/or relocated.
* Percentage of project value procured from women and youth service providers.
* Number of socio-economic amenities delivered in human settlements.
* Number of catalytic projects planned, approved and implemented for integrated human settlement developments.

**2. Terms of reference**

The hearing formed part of the Committee’s ongoing interaction with departments to monitor their spending patterns on conditional grants allocated to them. A framework for the grant sets out its purpose, measurable objectives, conditions, allocation criteria, and past performance, among other things. The three provincial departments were selected on the basis of their third quarter grant performance and the national Department of Human Settlements invited as the transferring department.

**3. Submission by National Treasury**

With regard to spending on the HSDG in the 2017/18 financial year, National Treasury reported that only Gauteng (at 97.8 percent), Northern Cape (at 93.6 percent) and North West (at 98.7 percent) spent less than 100 percent of their total allocations on the Human Settlements Development Grant. The overall allocation of the HSDG to the Department of Human Settlements was R20.3 billion and the provinces spent R20.1 billion (99.1 percent) of the transferred funds.

Furthermore, the National Treasury reported that in March 2018, key transfers of funds were made by some provinces to metropolitan municipalities (R682 billion) and the Housing Development Agency (HDA) (R1.9 billion). These funds are reported as spent by the provinces, whereas in real terms they have not been spent as at the time of reporting. During the 2017/18 financial year, the National Treasury reported that R600 million was stopped from three provinces due to under-expenditure - Gauteng (R150 million), Limpopo (R150 million) and North West (R300 million) - and reallocated to other performing provinces.

The National Treasury submitted to the Committee that poor alignment between cash flow projections and allocations in the business plans resulted, in some instances, in huge cash amounts transferred by the provinces to the implementing agencies (HDA and the municipalities). Another matter the National Treasury highlighted was that provinces spent funds on unplanned programmes, while they under-performed on planned programmes. The National Treasury stated that this showed a planning deficiency on the part of provinces.

Added to that, the National Treasury reported that labour unrest and late payment of contractors by departments may have contributed to stalling of projects and some contractors abandoning project sites before completion. Moreover, poor contractor workmanship also contributed to projects being delayed. This necessitated some provinces spending funds on rectification of faulty housing units.

**4. Submission by the Department of Human Settlements**

The national Department of Human Settlements (DHS) reported that the total allocation for the HSDG was R19.9 billion in the 2017/18 financial year. The HSDG funds were allocated to provinces based on a formula approved by the Human Settlements MinMec (an intergovernmental structure formed as per section 10 of the Intergovernmental Relations Framework Act 13 of 2005) and the National Treasury. The formula was based on the share of inadequate housing in each province but also accounted for population size and extent of poverty in each province. As part of the process of allocating funds as stipulated in the Division of Revenue Act, all provinces submitted their business plans before funds were transferred. The submitted business plans were considered, reviewed and approved by the Accounting Officer of the DHS.

The DHS submitted that the performance of the HSDG, as per reports of implementation by the provinces, was monitored throughout the year. The monitoring process included visits to projects, quarterly review sessions, Technical MinMec and MinMec meetings. Where there was under-performance in the provinces, the DHS reported that technical support was provided. Overall, the DHS reported that the actual expenditure performance of the HSDG was 99 percent as at the end of the 2017/18 financial year. The table below shows the allocations of the HSDG per province.

**Table 1: Human Settlement Development Grant allocation to Provinces**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Province** | **Voted funds** | **Stopped/ realloca-ted funds** | **Roll-over from 2016/17**  | **Total available funds** | **Funds spent by Province** | **Unspent against total available** | **% spent against total available** |
| **R’000** | **R’000** | **R’000** | **R’000** | **R’000** | **R’000** |  |
| Eastern Cape | 2 239 316 | 100 000 | - | 2 339 316 | 2 339 315 | 1 | 100 |
| Free State | 1 193 038 | - | - | 1 193 038 | 1 192 715 | 323 | 100 |
| Gauteng | 5 528 050 | -150 00 | 43 705 | 5 421 755 | 5 302 694 | 119 061 | 98 |
| KwaZulu-Natal | 3 477 567 | 200 000 | 1 372 | 3 678 939 | 3 678 939 | - | 100 |
| Limpopo | 1 319 493 | -150 000 | 84 968 | 1 254 461 | 1 253 839 | 622 | 100 |
| Mpuma-langa | 1 395 774 | 100 000 | 11 888 | 1 507 662 | 1 507 662 | - | 100 |
| Northern Cape | 402 668 | 100 000 | 8 973 | 511 641 | 479 239 | 32 402 | 94 |
| North West | 2 186 679 | -300 00 | 192 109 | 2 078 788 | 2 051 947 | 26 841 | 99 |
| Western Cape | 2 226 758 | 100 000 | - | 2 326 758 | 2 326 758 | - | 100 |
| **Total** | **19 969 343** |  | **343 015** | **20 312 358** | **20 133 109** | **179 250** | **99** |

The above table shows that the allocation to provinces, including the approved roll-over funds, was R20.3 billion. After the reallocations, only three provinces failed to spent 100 percent of the allocated funds. These provinces are Gauteng (98 percent), Northern Cape (94 percent), and North West (99 percent). The allocations above also benefited some mining towns where 11 150 serviced sites were delivered and 5 718 housing units were built.

The breakdown, as reported by the DHS, of benefiting mining towns per provinces are: Free State 1 315 serviced sites and 472 housing units were delivered (Matjhabeng: 1 300 serviced sites and 279 housing units, Moqhaka: 15 serviced sites and 193 housing units). In Gauteng 2 982 serviced sites and 4 975 housing units were delivered (Merafong City: 300 sites and 1 253 housing units, Rand West City: 2 282 housing units and 1 235 serviced sites, Mogale City: 400 serviced sites and 2 491 housing units). In Limpopo, 16 112 serviced sites and 2 124 housing units were delivered (Thabazimbi: 412 serviced sites and 212 housing units, Elias Motsoaledi: 700 serviced sites and 507 housing units, Lephalale: 500 serviced sites and 805 housing units, and LIM 476: 600 housing units). In Mpumalanga, 1 745 serviced sites and 2 515 housing units were delivered (Emalahleni: 1 500 serviced sites and 1 140 housing units, Steve Tshwete: 245 sites and 565 housing units were delivered, and in Thaba-Chweu: 810 housing units were built).

In the Northern Cape Province, 600 serviced sites were delivered and 102 housing units were built (Ga-Segonyana: 300 serviced sites and 102 housing units and Gamagara: 300 serviced sites). In the North West Province, 2 896 serviced sites were delivered and 526 housing units were built (Rustenburg: 1 433 serviced sites and 1 584 housing units, Madibeng: 167 serviced sites and 721 housing units, Kgetleng:414 housing units, Moses Kotane: 875 housing units, and City of Matlosana: 1 296 serviced sites and 932 housing units).

**5. Submission by the Limpopo Department of Human Settlements**

The Limpopo Department of Human Settlements (LDHS) confirmed the accuracy of the financial reports and outputs as submitted by the National Treasury and the DHS, respectively. Under the Military Veterans programme, the LDHS submitted that there was a backlog of 411 housing units, but in the 2017/18 financial year only 13 housing units were delivered, out of a target of 200.

The province reported that gross under-performance and attempts to revise the building specifications from 50 square metres, a national norm, to 75 square metres contributed to poor delivery of targets. The attempt to revise the national norm was not approved by the Minister and a directive was issued to all provinces informing them to comply with the national policy norms and standards. To address this housing backlog for Military Veterans, the LDHS reported that the Housing Development Agency (HDA) was requested to assist and the HDA has since appointed five contractors to deliver 235 units. These should be delivered before the end of the 2018/19 financial year.

On the challenges that were experienced in the 2017/18 financial year, the LDHS reported the following:

* Contractor database with no bias towards built industry prescripts.
* Late appointment of service providers.
* Late approval of developmental areas.
* Contractor to contractor cessions leading to poor performance.
* Non-application of consequence management for non-performing contractors.
* Inadequate contract and beneficiary management, and geotechnical planning led to delay of project implementation.

To address the above challenges an intervention and recovery plan has been put together by the LDHS, including –

* Increasing HSDG expenditure through the appointment of the HDA to contract high capacity contractors;
* Improving contract management through Integrated Sustainable Human Settlements plans that are used to assess poor performing contractors and help by addressing the causes, like lack of capacity and resource mobilisation challenges;
* Improving contractor performance and applying consequence management;
* Provision of additional capacity and support to specific directorates;
* Accelerating Supply Chain processes;
* Arranging meetings with affected municipalities and making follow-ups to get the signed clearance certificates on title deeds;
* Consulting Ward Councillors and Committees with a view to assist with tracing approved beneficiaries of the Military Veterans programmes and using radio stations to call for beneficiaries to come forward;
* Arranging meetings with affected municipalities to confirm the status of signing of transfer documents before they are submitted to the State Attorney’s Office;
* Closely assessing contractor performance and arranging one-on-one meetings where under-performance is detected; and
* Approaching the Housing Development Agency (HDA) to assist with additional capacity to assist the Department with planning and project pipelining. (This includes a town planner, a land legal person and a civil engineer.) The Service Level Agreement with the HDA on appointment of high performance contractors was finalised by January 2018.

The LDHS reported that phase 2 of the strategic intervention plan included establishment of a new multi-layered database of contractors, incorporating the Construction Industry Development Board (CIDB) for grading and the National Home Builders Registration Council (NHBRC) for registration. The LDHS also reported that it planned to terminate non-performing contractors and introduce a performance reduction matrix which would be a standard addendum.

Moreover, the LDHS reported that a contract management committee, which would evaluate performance of contractors and make necessary recommendations, would be formed this financial year. Other internal arrangements to be undertaken, included moving officials from provincial head office to the district offices; reconstituting supply chain committees and ensuring that appointment of service providers is linked with the financial year. The LDHS added that the roll-out of the Electronic Payment Management System (EPMS) for effective and efficient project management, would be done by 01 July 2018.

The following were also reported to be included in phase 2:

* Non-approval of contractor to contractor cessions, except for material supply.
* The tendency of contractors to prioritise building foundations and leaving incomplete housing units would be stopped, or mitigated against, through the LDHS only releasing a 50 percent geotechnical allowance at foundation phase, with the balance to be paid on completion of units.
* Ensuring that there is enough time to develop credible business plans, a project planning cycle to commence in April and be completed in August every year. This will ensure that planning for the 2019/20 financial year is commenced now.

**6. Submission by the Gauteng Department of Human Settlements**

Regarding the financial performance, the Gauteng Department of Human Settlements (GDHS) reported that R5.5 billion had been allocated for the HSDG in the 2017/18 financial year and from that amount, R150 million was taken away due to under-expenditure. For the period under review, the GDHS reported that a roll-over of R44 million was approved by the National Treasury. The overall expenditure for the 2017/18 financial year was R5.3 billion (98 percent), with a variance of R119 million.

The GDHS further reported that R1.9 billion was transferred to implementing agents. The implementing agents that received transfers are Gauteng Partnership Fund (R296.6 million), the HDA (R858.4 million) and Gauteng municipalities (R843.6 million). Of the transferred funds, only R570 million was spent and R1.4 billion had not been spent as at the end of the 2017/18 financial year. The breakdown of transfers to Gauteng municipalities is indicated in the table 2 below.

**Table 2: Human Settlements Development Grant transfers to Gauteng Municipalities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Municipality** | **Gazetted funds****R’000** | **Amount transferred****R’000** | **Expenditure** **R’000** | **Unspent funds****R’000** |
| City of Johannesburg Metropolitan  | 292 415 | 292 315 | 144 956 | 147 359 |
| City of Tshwane Metropolitan | 185 741 | 1184 102 | 72 574 | 111 528 |
| City of Ekurhuleni Metropolitan | 51 203 | 51 203 | 9 460 | 41 743 |
| Mogale City | 105 269 | 105 269 | 8 068 | 97 201 |
| Merafong City | 139 702 | 139 701 | 39 715 | 99 986 |
| Rand West City | 71 100 | 71 100 | 36 633 | 34 467 |
| **Total** | **845 229** | **843 690** | **311 406** | **532 284** |

With respect to non-financial performance, the GDHS reported that 16 965 stands/sites and 32 064 housing units were targeted to be delivered in the 2017/18 financial year. Of those targets, the GDHS delivered 7 910 stands/sites and 17 558 housing units, with a variance of 9 055 stands and 14 506 housing units. In total, the housing opportunities delivered during the 2017/18 financial year were 25 468.

With regard to title deeds delivery analysis, the GDHS reported that 55 552 title deeds were targeted to be delivered in the 2017/18 financial year and only 22 334 were processed and delivered to beneficiaries. Against the backdrop of 54 423 registered title deeds since the 2014/15 financial year, the GDHS reported that at the beginning of the 2018/19 financial year there was a backlog of 244 779 title deeds. For the 2018/19 financial year, the GDHS reported that it targeted to deliver 31 164 title deeds to the beneficiaries.

With regard to the action plan to address the departmental challenges, the GDHS reported that even though there was no progress thus far, actions to be taken to address planning for project implementation included budget realignment to move funds from under-performing to performing projects. Secondly, the GDHS intended to review the 2017/18 HSDG Business Plan. Thirdly, the GDHS intended to ensure better planning for the 2018/19 financial year. Fourthly, the GDHS intended to seek assistance from the NHBRC on project enrolment. Lastly, the GDHS planned to align the HSDG and the Urban Settlements Development Grant and spatial integration programme so as to achieve the grants’ transformation objectives.

On supply chain management challenges, the GDHS reported that all outstanding supply chain management bids are to be concluded on time, and contracts and service level agreements are to be prepared while awaiting the conclusion of the supply chain management process. For the 2018/19 financial year projects, procurement would be concluded in the 2017/18 financial year. Moreover, the GDHS said all outstanding contracts would be concluded speedily, and they would be enforced. Contractors and consultants not adhering to their contracts would be identified and necessary action would be taken.

With regard to the payment of contractors, the GDHS informed the Committee that an internal report on the status of all outstanding invoices would be compiled. This report would help to identify challenges and causes of delays in payment of service providers. The GDHS further reported that an invoice tracking system, encompassing the entire value chain from the contractors submitting their invoices until payments are effected, would be implemented. This would ensure that a 14-day payment system, from the day an invoice has been approved, was in place.

Due to the above indicated challenges and action plans, the GDHS would beef-up its in-house project management capacity. This action, according to the GDHS, would guarantee compilation of weekly performance reports per project and per contractor. These weekly reports would ensure that all service providers adhere to contracts and service level agreements, and they would be submitted to the Head of Department for consideration.

In response to the service delivery protests, the GDHS reported that it resolved to ensure that effective public participation was conducted during the planning phase of each project. This would guarantee effective and clear communication of delivery targets and achieve community ownership of projects. Furthermore, the GDHS reported that proper and effective project monitoring and evaluation systems would be put in place. This system would ensure the compilation of weekly reports on the performance of each region on projects and contractors of all HSDG projects

**7. Submission by the Western Cape Department of Human Settlements**

The Western Cape Department of Human Settlements (WCDHS) reported that it had spent 100 percent of its HSDG allocation of R2.3 billion in the 2017/18 financial year. The WCDHS further reported that it had delivered 9 693 (123 percent) sites against a business plan target of 7 860; and 10 265 (93 percent) houses against a target of 11 094. This amounted to a total of 19 958 housing opportunities (105 percent) against a target of 18 954.

With regard to financial performance in 2017/18, the WCDHS reported under-spending of R3.8 million out of a budget of R1.4 billion on new houses delivered. During the same period the WCDHS had over-spent R4.3 million on its R5.5 million budget for sites delivered, bringing the expenditure on sites to R9.8 million. With regard to specific programmes, the WCDHS had under-spent R15 million out of a budget of R47 million on title deeds for new developments; while at the same time over-spending R2.8 million on its R20 million budget for military veterans.

The WCDHS reported challenges in the following areas, including what remedial action the Province had taken and what action was required from the national Department of Human Settlements:

* Institutional housing: The WCDHS had submitted a policy amendment request in this regard, asking the DHS to amend the qualification criteria to R7 000 per month and to merge the Social and Community Residential Units.
* Bulk infrastructure for catalytic projects: The Province is assisting non-metro municipalities from its own resources and has applied to the City of Cape Town for Urban Settlements Development Grant (USDG) funding. The DHS is requested to make additional funding available for bulk infrastructure and to issue an instruction that the USDG is not available for Breaking New Ground projects, but for all programmes covered by the Housing Code.
* Accounting for title deeds issued: The Province has purchased datasets to determine outstanding title deeds, and requested the DHS to provide provinces with the title deeds update reports as had been done in previous years.

**8. Observations**

After having received the submissions from all invited departments, the Select Committee on Appropriations observed the following:

8.1 On financial expenditure, 99 percent of the R20.3 billion appropriated HSDG funds transferred to the provinces were reported to have been spent.

8.2 The provincial departments of Human Settlements transferred significant amounts of the HSDG funds to implementing agencies like the Housing Development Agency (HDA), Gauteng Partnership Fund and municipalities; and the provinces reported the funds as spent whereas in real terms these funds were being held in the accounts of these agencies.

8.3 In March 2018 only, the last month of the 2017/18 financial year, provinces transferred R1.9 billion to the HDA. There is no proof that the HDA had spent these funds, through delivering of sites and housing unit projects, before the end of the 2017/18 financial year.

8.4 Late completion of projects and contractors failing to complete projects, pointed to provinces experiencing capacity and monitoring challenges.

8.5 Continuous poor performance by contractors; failure to achieve targets; and the late payment of contractors appear to be contributing to non-completion of HSDG projects.

8.6 There was poor alignment between cash-flow projections and allocations in the business plans. This resulted in provinces transferring huge cash amounts to the HDA and report the funds as spent, as observed under 8.2 and 8.3.

**9. Recommendations**

Emanating from the above observations, the Committee recommends the following:

9.1 The national Department of Human Settlements, the Housing Development Agency, the Gauteng Partnership Fund and National Treasury should, before the tabling of the 2018 Medium Term Budget Policy Statement (MTBPS), submit to the NCOP financial and/or expenditure reports from all implementing agents that received Human Settlements Development Grant funds appropriated for the 2017/18 financial year.

9.2 The National Treasury and the national Department of Human Settlements should submit to the National Council of Provinces, before the tabling of the 2018 MTBPS, the regulations which gave the Receiving Authorities power to transfer Human Settlements Development Grant funds to implementing agencies instead of surrendering them to the National Revenue Fund.

9.3 The national Department of Human Settlements should improve the evaluation of business plans on creation of sustainable and integrated human settlements with the aim to improve quality of household life and access to basic services.

9.4 The national Department of Human Settlements should strive to provide assistance to provinces who are showing signs of lack of capacity and are struggling to monitor conditional grant expenditure and projects. The Department should provide a progress report within six months after the adoption of this Report by the House.

9.5 The provinces should put measures in place for continuous monitoring of conditional grants. This would ensure that poor performance by contractors, failure to achieve targets and late payment of contractors were addressed and projects completed within the stipulated time frames.

This is a recurring recommendation across all conditional grants monitored by the Committee.

9.6 The provinces should ensure that cash-flow projections are aligned with their business plans.

9.7 The provinces should strive to plan for the implementation of projects prior to the start of the financial year. This approach could be achieved easily since the RSA follows the medium term expenditure framework which reflects three year-allocations.

Report to be considered.