

## **Budgetary Review and Recommendations Report (BRRR) of the Portfolio Committee On Human Settlements, Dated 24 November 2021**

The Portfolio Committee on Human Settlements (hereinafter, the Committee), having considered and assessed the performance of the Department of Human Settlements (hereinafter, the Department) and its Entities for the 2020/21 Financial Year, and the associated briefs from the office of the Auditor-General (AG) and the Department of Planning, Monitoring and Evaluation (DPME) on 10, 12 and 17 November 2021, reports as follows:

### **1. INTRODUCTION**

The Department's mission is to facilitate the creation of sustainable human settlements and improved quality of household life. The vision of the Department is a nation housed in sustainable human settlements. Its mandate and core business is derived from section 26 of the Constitution, 1996 (which guarantees the right to adequate housing), policies applicable to government, such as Breaking New Ground, and legislation such as the Housing Act, (Act No. 107 of 1997).

The Department has two approaches to addressing housing needs, namely, through the scaled delivery of subsidised housing for low-income households, and through striving to create an environment conducive for operations of the subsidised housing market within the larger economy. The Medium Term Strategic Framework (MTSF) 2019- 2024 identified a number of priorities in relation to human settlements in order to realise the vision of sustainable human settlements and an improved quality of household life.

#### **1.1 MANDATE OF THE COMMITTEE**

The Committee's mandate is to maintain an oversight responsibility that ensures a quality process of scrutinising and overseeing government's action. It is driven by the ideal of realising a better quality of life for all people in South Africa. It is also required to facilitate public participation as well as oversee compliance with regulatory legislative frameworks related to human settlements.

In brief, the Committee:

- Considers legislation referred to it;
- Conducts oversight of any organ (s) of state and constitutional institution (s); falling within its portfolio;
- Considers international agreements; and
- Considers budget of Department and Entities falling within its portfolio.

#### **1.2 MANDATE OF THE DEPARTMENT OF HUMAN SETTLEMENTS**

The mandate of the Department is to determine, finance, promote, co-ordinate, communicate and monitor the implementation of housing policy and the provision of human settlements.

Since the formulation of the Comprehensive Housing Plan in 2004, the Department has conducted various initiatives to enhance the creation of comprehensive, integrated, co-ordinated, sustainable human settlements and quality housing. These initiatives include the review of the National Housing Code which determines national norms and standards in respect of housing development. In keeping with this responsibility, the Department has set short, medium, and long term human settlements development goals towards breaking of

apartheid spatial patterns while promoting access to adequate housing, affordable services in better living environments and a more functional equitable residential property market.

As mentioned in the introduction to this report, Outcome 8 of the government's outcome-based service delivery approach is focused on the mandate of the Department. This mandate is to create sustainable human settlements and work towards improving the quality of household life. Section 26 of the Constitution of the Republic of South Africa (1996) and the Housing Act (No. 107 of 1997) are still considered the foundation for the operational models and the spending focus of the Department.

### **1.3 AIM OF THE DEPARTMENT OF HUMAN SETTLEMENTS**

In line with the National Development Plan (NDP), the Human Settlements aims at achieving visible results from effectively coordinated spatial planning systems by 2030 and this is done through:

- The development of the Spatial Master Plan for Human Settlements that would direct investments to the priority precincts;
- Implementation of Catalytic Projects;
- Prioritising, targeting and focusing resources (financial and others) towards upscaling delivery;
- Supporting and encouraging government and private sector collaboration and integration;
- Promoting the participation of Youth and Women in human settlements development programmes;
- Scaling up delivery on the informal Settlements Upgrading Programme.

## **2. PURPOSE OF THE BUDGETARY REVIEW AND RECOMMENDATIONS REPORT (BRRR)**

In terms of Section 5 of the Money Bills Amendment Procedures and Related Matters Act, (No. 9 of 2009) the National Assembly, through its Committees, must annually compile BRRRs that assess service delivery and financial performance of Departments and may provide recommendations on forward use of resources. The BRRR is also a source document for the Committees on Appropriations when considering and making recommendations on the Medium Term Budget Policy Statement (MTBPS).

### **2.1 METHODOLOGY**

The Portfolio Committee on Human Settlements compiled the 2020/21 BRRR using the following documents:

- The NDP: Vision for 2030;
- Medium Term Strategic Framework;
- 2020/21 State of the Nation Address;
- Strategic Plans of the Department and its Entities;
- Annual Performance Plans and Annual Reports of the Department and its Entities, assessment made by the DPME and the AG outcomes of audit findings.

## **3. NATIONAL DEVELOPMENT PLAN VISION 2030**

In relation to the NDP 2030, the Department has the following strategic priorities:

- Respond systematically, to entrenched spatial patterns across all geographic scales that perpetuates social inequality and economic inefficiency;
- Implement strategically the chosen catalytic interventions to achieve spatial governance;
- Achieve a creative balance between spatial equity, economic competitiveness and environmental sustainability;
- Expand personal freedoms by providing the residents of South Africa with greater choice of where to live;

- Support individuals, communities and the private sector in engaging with the state on the future of the spaces and settlements in which they live and work while streamlining processes to enable local governments to implement strategic spatial intervention.

#### **4. MEDIUM TERM STRATEGIC FRAMEWORK (2019-2024)**

The 2019- 2024 MTSF is both a five-year plan implementation plan and an integrated monitoring framework. The plan focuses on the seven priorities and related interventions of the sixth administration of government. The integrated monitoring framework focuses on monitoring and outcomes, indicators and targets towards the achievement of priorities. The MTSF promotes alignment, coordination and ultimately full integration of all development planning instruments into an integrated framework without duplication, role conflict and coordinated development in all spheres of government. The MTSF is structured into priority outcomes which cover the focus areas identified in the NDP Chapters.

The focus of the MTSF 2019-2024 for the Human Settlements Sector is to implement a coherent programme to transform human settlements and to ensure that delivery of housing is used to restructure towns and cities, and strengthen the livelihood prospects of households and overcome spatial apartheid patterns. To advance this vision, the MTSF 2019-2024 has three interrelated outcomes with clear targets:

- Spatial transformation through multi-programme integration in priority development areas (PDA's);
- Adequate housing and improved quality living environment;
- Security of tenure through the provision of title deeds.

The following are specific MTSF 2019-2024 targets for the Human Settlements Sector:

- Deliver 450 000 subsidised housing units;
- Approve 20 000 applications to purchase units for Finance Linked Individual Subsidy Programme (FLISP);
- Deliver 300 000 serviced sites;
- Deliver 30 000 social housing/ rental housing units in PDAs;
- Deliver 12 000 Community Residential Units (CRU)/ rental housing units in PDA's;
- Upgrade 1 500 Informal Settlements to Phase 3.

##### **4.1 THE STRATEGIC FOCUS FOR HUMAN SETTLEMENTS**

Targeted infrastructure investment is critical for economic growth as well as contributing towards social protection and community development. The focus is on infrastructure development to support economic growth and enhance social protection. The human settlements strategy is grounded on the following:

- Amassing government investment through investment in identified areas.
- Infrastructure development to support both economic growth and enhance social protection.
- Improve neighbourhood design to contribute to a better quality of health and well-being of households.
- Investment in public spaces (walkways, public transport stops, streets, squares, parks, trading spaces, food gardens and the like).
- Supporting the South African construction industry and the real estate industry.
- Supporting job creation and transformation through the appointment of local designated groups.
- Evidence-based directed and big data management.

#### **5. SONA 2020/21: ANALYSIS OF KEY PRIORITIES PERTAINING TO THE DEPARTMENT**

During the SONA in February 2021, the President outlined the following in relation to human settlements:

- Two major human settlements project that would provide homes for almost 68 000 households in Gauteng province had begun. Similar projects were planned in other provinces.
- The 100-billion Infrastructure Fund was operational. Its approved project pipeline for 2021 which include the Student Housing Infrastructure Programme – which would provide 300 000 student beds.
- New post-apartheid cities, announced in the previous SONA, were being conceptualised in a number of places. The master plan for the first, Lanseria Smart City, which would house between 350 000 and 500 000 people, was out for public comment.

## 6. DEPARTMENT AND ENTITIES PERFORMANCE

The Department has been embarking on the process of reviewing its organizational structures since the middle of the 5th administration term and has carried this over into the 6th Administration. The organizational structure was approved by the MPSA in March 2021, with the Macro Structure implementation date set for 1 April 2021, and Micro Structure by 1 July 2021. The Migration Framework outlining the transitional processes into the newly approved structure has been approved and the draft migration plan and the matching and placement of all Senior Managers has been finalized as of 31 March 2021. The process has taken into consideration the placement in line with the Skills Audit conducted and to stability at the management level, while ensuring that there is skills retention in critical core programme positions.

The cuts in the Compensation of Employees (COE) over the MTEF has meant that the filling of vacancies in the Department has been hampered. However, all vacant SMS positions have been prioritized and approved for filling. Also, 80% of the 3-year contract appointments has been converted to permanent appointments by 31 March 2021. In 2020/21, the corporate operations of the Department were greatly impacted by the Coronavirus and the resultant declaration of a National State of Disaster by the President effective from the 26 March 2020. The Department has been able to deal with the reduction of the Coronavirus in the workplace through an established COVID-19 awareness and provision of PPE are operationalized in compliance with National State Disaster Management, DPISA and National Treasury Guidelines and Directives for the mitigation of COVID-19 in the public sector. As of 31 March 2021, the Department had recorded 48 COVID-19 positive cases with the last case reported on 30<sup>th</sup> January 2021. There were 2 reported deaths due to Coronavirus infections.

Due to the pandemic, the Department had to ensure business continuity through putting in place remote working arrangements to ensure 100% productivity. Processes were put in place to ensure upgrading the Departmental ITC system to support remote work arrangement. As such the Department has commenced in the procurement of various IT systems that would support remote work and business continuity and these include, but not limited to, the Electronic Documents and Record Management System, the Business Continuity Planning and Management System, Business Mapping Processes, upgrading of the HSS System and the Human Resources Management Systems.

The Department adopted a sector-wide planning approach to maximize the performance of the sector including its entities. This approach was aligned to all programmes of the Department linking with the programme structure of the Department. The Department continued to provide an oversight role over Human Settlements Entities particularly in relation to corporate planning, performance monitoring, compliance and corporate governance matters. The CSOS, EAAB, NHBRC, and HDA revised their 2020/25 and 2020/21 Corporate Plans in response to negative impact caused by the COVID-19 pandemic. The revised Corporate Plans were tabled in Parliament on 8 February 2021. In preparation for the financial year 2021/22 the draft Corporate Plans of the CSOS, EAAB, NHBRC and HDA were analyzed in order to ensure compliance and alignment with the Revised Strategic and Annual Performance Plan Framework and the 2019-24 MTSF targets. The outcome of this process was to ensure the integrated human settlements planning and a step closer towards the achievement of sector targets.

The performance and governance of the entities were monitored on a quarterly basis. Human Settlements Entities were further engaged on areas of concern in order to improve their performance. In line with the requirements of the Public Finance Management Act (PFMA) the Department facilitated the tabling of the annual reports of the CSOS, EAAB and the NHBRC by the compliance date of 30 November 2020 for the year under review. The Department continued to address all governance matters including appointments of the boards and filling of vacancies of both Executives and Management in order to address instability. In this regard, the Department successfully facilitated the initiation of the appointment process of the HDA and EAAB Boards and would be finalized in the next financial year. In terms of the filling of the Executives and Management vacancies, both the Chief Ombud and the CFO of the CSOS received Cabinet concurrence for appointment. In relation to the implementation of the Property Practitioners Act, 2019, the public hearings across the country were conducted on the regulations to give effect to the functioning of the Act. As an effort to enhancing the protection of housing consumers by NHBRC, the Housing Consumer Protection Bill achieved the milestone of being approved by Cabinet Committee for the introduction to Parliament.

In order to ensure accountability in the Human Settlements Entities, the Chief Executive Officers (CEOs) Forum was established, which is comprised of the CEOs of the entities and the Department. The Forum has provided a valuable platform to address strategic matters such as performance, compliance and governance for the benefit of the sector.

## **7. HUMAN SETTLEMENTS ALLOCATIONS - MTEF ALLOCATIONS**

### **7.1. Appropriation Statement 2020/21**

<b>Programmes</b>	<b>Final Appropriation</b>	<b>Actual Expenditure</b>	<b>(Over) /under Expenditure</b>	<b>Expenditure as % of Final Appropriation</b>
1. Administration	R 483 399	R 399 181	R 84 218	82.58%
2. Human Settlements Policy, Strategy and Planning	R 26 034 771	R 26 001 951	R 32 822	99.88%
3. Informal Settlements	R 633 659	R 511 211	R 122 448	80.68%
4. Rental and Social Housing	R 1 184 596	R 1 162 557	R 22 339	98.11%
5. Affordable Housing	R742 594	R700 934	R41 660	94.39%
<b>Total</b>	<b>R 29 079 019</b>	<b>R 28 775 534</b>	<b>R 261 825</b>	<b>98.96%</b>

(Source: DHS, 2021)

### **7.2. Expenditure**

By the end of the 2020/21 financial year, the Department has spent R28.7 billion out of the final appropriation of R29.1 billion. The Department therefore spent 98.9% of its available voted funds, and underspent by R261.8 million (0.9% of the total appropriation).

### **7.3. Quarterly Performance per Programme**

Programmes	2020/21 Quarterly Performance per Programme (Percentages)				
	Quarter 1 Achieved	Quarter 2 Achieved	Quarter 3 Achieved	Quarter 4 Achieved	Annual Achieved
Programme 1: Administration	50	83	43	57	29
Programme 2: Integrated Human Settlements Planning and Planning Programme	71	55	69	67	58
Programme 3: Informal Settlements	25	67	67	67	50
Programme 4: Rental and Social Housing Programme	43	50	57	71	57
Programme 5: Affordable Housing Programme	50	60	100	83	83
<b>TOTAL</b>	<b>54</b>	<b>62</b>	<b>67</b>	<b>68</b>	<b>55</b>

(Source: DHS, 2021)

## 8. HUMAN SETTLEMENTS ENTITIES

### 8.1. Housing Development Agency (HDA)

The HDA reported a surplus of R109 million for the 2020/21 financial year, as total revenue (R359.7 million) exceeded total expenditure (R 294.3 million). The surplus includes a refund of R44.3 million from the Ekurhuleni metro, which was previously written off as bad debt. The entity's revenue includes a government transfer of R233.6 million, as well as a provinces support conditional grant (R107.2 million), project management fees (R13.5 million) and interest and other fees (R5.4 million). Total revenue was R359.7 million.

The HDA received a qualified audit opinion with matters of emphasis for both 2019/20 and 2020/21. The 2020/21 audit opinion was influenced by a number of factors, including the inadequate systems in place to maintain records of project obligations and reconcile balances on a monthly basis; the auditor was unable to obtain sufficient appropriate audit evidence for clearing accounts, inter-company transfers and unknown receipts; the entity did not have adequate systems in place for identifying and recording all irregular, fruitless and wasteful expenditure; effective and appropriate steps were not taken to prevent irregular expenditure; a number of quotations were awarded to suppliers whose tax matters were not declared by the South African Revenue Services to be in order, as required by Treasury Regulations; some of the goods and services with a transaction value below R500 000 were procured without obtaining the required price quotations; management did not adequately implement daily and monthly controls.

#### The HDA achieved the following:

- The 136 Priority Human Settlements and Housing Development Areas (PHSHDAs) were declared on the 15<sup>th</sup> of May 2020.
- 2116, 5517 hectares of land for PHSHDA were acquired.
- 19 Development plans for PHSHDA was completed.

- 32% of acquired land during 2014-2019 rezoned falling within the PHSHDAs.
- The compensation project entered into with the Department of Mineral Resources (DMR) for the Heuningvlei community, in the Northern Cape is 100% complete.
- The installation of 477 Services in Sesheng and various areas within the ZF Mgcawu District, in the Northern Cape.
- Concluded Sale Agreement for the ESKOM building in Kimberley for Student Accommodation.
- The Transformation and Empowerment Policy was approved, which makes provision for the application of the preferential procurement policy, as guided by the Preferential Procurement Policy Framework Act (i.e. PPPFA Act 2017).
- MTSF targets: 5671 housing units delivered; 2525 serviced sites delivered; 191 informal settlements upgraded; and 1502 title deeds registered.

## **8.2. Community Schemes Ombud Services (CSOS)**

CSOS' revenue declined from R264.7 million to R253.7 million, primarily due to changes in interest received from positive bank balances. Interest income declined from R14.3 million to R6.1 million by the end of 2020/21. The entity's revenue includes an amount of R223.6 million for levies paid by community schemes, as well as a R23.6 operating grant transfer from the National Department of Human Settlements. This is lower than the transfer received in 2019/20, i.e. R32.9 million.

Expenditure for 2020/21, also increase from R98.2 million, to R121.1 million. This was mainly the result of an increase in employee costs, which grew from R61.5 million to R84.9 million. This means employee cost increased with 38.1%. Employee cost consist primarily of salaries. The entity's income statement resulted in R132.6 million surplus for 2020/21.

CSOS received a qualified opinion from the Auditor General (AG) with emphasis of matter. The basis of this opinion is as follows:

- The AG was unable to obtain sufficient appropriate audit evidence for revenue from non-exchange transactions relating to levies, as the public entity did not have adequate systems to collect, process and record levies due.
- The AG was unable to determine whether any further adjustments were necessary to revenue from non-exchange transactions relating to levies stated at R223.5 million against the target of R217million for 2020/21 reporting period as disclosed in note 17 to the Annual Financial Statements.
- The AG was unable to obtain sufficient and appropriate audit evidence for receivables from non-exchange transactions relating to levies, as the public entity did not have adequate systems to collect, process and record levies due. This includes the inability to confirm receivables from non-exchange transactions relating to levies by alternative means.
- Consequently, the AG was unable to determine whether any further adjustments were necessary to receivables from non-exchange transactions relating to levies stated at R11.4 million against the target of R20.1 million for 2020/21 reporting period as disclosed in note 05 to the Annual Financial Statements.

### **CSOS achieved the following:**

- 11 27 Community Schemes were registered.
- R223, 594, 212.78 CSOS levy was collected.
- 70% (29 346 community Schemes were registered and 20 422 Community Schemes are paying levies).
- 28% of disputes were conciliated within 90 days.
- 25% of disputes were adjudicated within 90 days.
- 23 training and education sessions conducted for schemes and owners.
- 14 stakeholder information sessions conducted with industry bodies; National Association of Managing Agents (NAMA) and the Association of Residential Communities (ARC).
- Four edition of Shared Living e-Newsletters was published.
- Six marketing communication campaigns executed CSOS implemented an awareness campaign across social, online, Television and Radio platforms.

### **8.3. Estate Agency Affairs Board (EAAB)**

The Group's revenue for 2020/21 increased to R191.5 million – compared to R154.9 million the previous year. This is a 23.6% increase. Revenue growth was supported by a R24 million grant from the Department which related to a waiver for the 2020 Continuous Professional Development (CPD) fees and which resulted in a loss of revenue for the entity. Expenditure declined from R178.6 million previously to R155.7 million in 2020/21. A contributing factor was that operating expenses declined with 39.6% between 2019/20 and 2020/21. Operating expenses were reduced from R59.0 million to R35.6 million during the review period. Most notably, are the following reductions – which likely were influenced by COVID-19 social distancing requirements and lockdown:

- Security services: from R1.1 million to R582 thousand.
- Travelling expenses: from about R2 million to R62 thousand.
- Venue hire: from R1.5 million to R1.4 thousand.
- Stakeholder relations and consumer awareness: from R1.9 million to R300 thousand.

The EAAB received an unqualified audit opinion with emphasis of matter because of material correction of misstatements of revenue and related receivables and material provision for impairments trade debtors. The basis of this opinion is as follows:

- Material losses of R9.056 million and R9.507 million, which were incurred as a result of a write-off of irrecoverable trade debtors.
- Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R14.358 million, as disclosed in the annual financial statements, and as required by section 51(1)(b)(ii) of the PFMA.
- The entity did not effectively oversee the financial reporting and compliance, as well as related internal controls.

#### **EAAB achieved the following:**

- The improved audit outcomes for 2020/21. The EAAB received an unqualified audit opinion for the year 2020/21. This result was an improvement on the qualified opinion of the prior year, which was based on an adverse finding related to revenue recognition.
- The legal departments disciplinary unit was migrated to a digital platform for conducting disciplinary hearings.
- The Section 27 unit also managed to deal with Previously Disadvantaged Individuals (PDI) resolution exemptions. This involved unblocking of blocked agents who had been blocked for non-compliance, as well as amnesty to Black Estate Agents from payment of registration, audit, and other fees. Over 200 Previously Disadvantaged Individuals (PDI), benefited from this project; hence the increase on the numbers and the transformation agenda.
- The finalisation of the terms of reference of the Principalization Programme, which is aimed at increasing ownership and management control by Black people.
- A total of 790 intern estate agents' logbooks were received and 100%. Of these, were 781 were found to be compliant, and only 9 non-compliant.
- A total of 1 101 practicing and aspirant estate agents certificated by and/or exempted from completing the prescribed Services SETA qualifications.

### **8.4. National Housing Finance Corporation (NHFC)**

The financial statements of the NHFC indicate a surplus of R89.9 million (Group) and R61.81 million (Company) for 2020/21. Interest received on investments was significantly lower during 2020/21 compared to 2019/20, and was reported as R64 million in 2020/21, compared to R105.5 million in 2019/20. Revenue from management fees increased from R13 million in 2019/20 to R24.5 million in 2020/21.

The NHFC received an unqualified audit opinion with matters of emphasis for the 2020/21 financial year. The following matters were raised as part of the audit by the AG:



- Effective and appropriate steps were not taken to prevent irregular expenditure (R8.5 million).
- Disciplinary steps were not taken against some officials who incurred or permitted irregular expenditure, as required by the PFMA.
- Management did not adequately review the financial statements submitted for auditing.
- Some goods and services with transaction values of more than R500 thousand were also obtained without inviting competitive bids. Deviations were approved by the Accounting Officer, despite it being practical to invite competitive bids.

**NHFC achieved the following:**

- Incremental Housing Opportunities through disbursements R20 973.
- Housing units and stands 4 232.
- Value of disbursed funds R710 million.
- Number of subsidies applications approved and disbursed 1 136.
- Amount leveraged from financial institutions, especially banks R1.04 billion.

**8.5. National Home Builders Registration Council (NHBRC)**

The NHBRC reported a surplus in 2020/21 to the value of R737.86 million, compared to the 2019/20 financial year, which showed a surplus of R134.79 million. Non-subsidy enrolments contributed R111.9 million to the insurance premium revenue. Subsidy home enrolment revenue has decreased by R28 million, compared to the budgeted amount. Annual registration fees reached R1.5 million in 2020/21, with annual renewal fees reaching R9.8 million during the same period.

The NHBRC received an unqualified audit opinion (with emphasis of matter) from the AG. The following matters were raised:

- Accumulated material losses of R39.6 million (R30.6 million in 2020) that was incurred as a result of an impairment of trade receivables.
- Some achievements reported in the Annual Report materially differed from the supporting evidence provided for the following two indicators under Programme 2 (Regulation): number of homes inspected and Number of homes builders trained.
- The AG identified material misstatements in the Annual Report submitted for auditing, relating to the reported performance information of Programme 2 – Regulation.
- The AG found that Management did not exercise its oversight responsibility over the internal controls of the entity and the review of the financial and performance reports submitted for auditing, which resulted in the material misstatements.

**NHBRC achieved the following:**

- NHBRC spent 73% of its budget on Black Economic Empowerment (BEE) suppliers.
- The NHBRC implemented cost containment measures in line with the guidelines of National Treasury. This resulted in extensive cost savings and will be taken into account during the budgeting process.
- The NHBRC welcomed the strengthening of its regulatory efficacy through the approval of the Housing Consumer Protection Bill and its publishing in the Government Gazette.
- During 2020/21, the NHBRC conducted 260 disciplinary hearings, resulting in the suspension of 44 home builders.
- The NHBRC recovered R3.25 million during 2020/21, which is an increase of 25% when compared to the R2.6 million recovered in 2019/20.
- The NHBRC therefore prioritised adequate capacity at the Inspectorate Division to ensure speedy and quality inspections of subsidised and non-subsidised homes. A total of 24 501 completed non-subsidised and 23 231 completed subsidised homes were inspected during 2020/21.
- the NHBRC has focused on training and building capacity, with a particular emphasis on women, youth, people with disabilities and military veterans. It also trained home builders, inspectors, and artisans. A total of 9 154 individuals were trained on a variety of skills during 2020/21, of which around 61% were women.

## **8.6. Social Housing Regulatory Authority (SHRA)**

The SHRA revenue increased to R817.5 million in 2020/21. Programme cost declined from R1.2 billion to R595.5 million. By the end of the financial year, the entity achieved an operating surplus of R155.6 million. This is in contrast with the previous year, when the entity ended with the financial year with an operating deficit of R413.4 million. With respect to financial position, current assets grew with 70.1% from R721.2 million previously, R1.2 billion. This growth can mainly be attributed to a commensurate increase in cash and cash equivalents.

For this financial year 2020/21, the SHRA received an unqualified audit opinion. However, the AG drew attention to the following matters:

- Appointment of the Interim Council was not in accordance with section 9 of the Social Housing Act, 2008. Council has been in place from 28 October 2019, and still in place by end of March 2021.
- Leadership did not implement effective controls to ensure accurate performance and financial reporting nor did it exercise adequate oversight responsibility over compliance with applicable legislation, which resulted in irregular expenditure and material adjustments made to the annual performance report and the annual financial statements.
- Irregular expenditure.

### **The entity achieved the following:**

- SHRA has achieved a performance of 75% as compared to 2018/19, where achievement was at 62% and 2019/20, where it was at 67%, showing slight improvement.
- The review of the ICT strategy has been finalised, this also includes, the ICT Governance Framework which has been reviewed in order to align it with the current ICT landscape and prevailing best practices.
- The number of units under regulation increased from 40 317 to 40 628 during the period under review. Overall, 50% (15/30) of the reporting institutions met three or more of the five benchmarks that the SHRA uses to measure performance resulting in a decrease of 3.7%. However, the benchmark and reporting framework were reviewed during the year, to align them with the required entity's performance.
- The policies and procedures related to accreditation have been reviewed to introduce a more proactive and supportive accreditation process going forward, to ensure that inclusive growth can be achieved while also creating a sustainable and transformed social housing sector for the future.
- The SHRA completed the tenant audits in five projects resulting in a total of 1 867 tenant audits for the period under review in line with the Chapter 3, section 9 of the Social Housing Act.
- The SHRA was also able to complete 1 786 building condition audits across 30 projects.
- Six institutions completed their participation in the incubation project for the year. Three of those already have projects in the pipeline, while work with others is continuing to either potentially foster relationships with municipalities in the SHRA support programme or work with the HDA on making land available.
- In addition, seven municipalities from five provinces were included in the municipal support project, with a further four municipalities in two additional provinces identified for support. The intent was to achieve completion of new social housing projects within these municipalities, with land availability agreements for four projects in three municipalities having been achieved.

## **9. REFLECTION BY AUDITOR- GENERAL SOUTH AFRICA(AG) FOR 2020/21**

The Committee was briefed in a virtual meeting by the AG on the audit opinion. The overall outcomes, over two years, in the portfolio have slightly improved when compared to the prior year. Majority of the audits received an unqualified audit opinion with findings on

compliance and performance information. The EAAB audit outcomes have improved from a qualified opinion to an unqualified audit opinion with findings on compliance. The improvement was as a result of management implementing systems to ensure that all revenue streams are accounted for, as well as due to the extensive involvement of management in the audit process resulting in correcting all the identified material misstatements.

NHBRC and NHFC's material misstatements that were identified in the financial statements were subsequently corrected by management, resulting in unqualified with findings audit opinions. This can be attributed to inadequate and lack of timely review processes and slow response in addressing root causes identified in prior years. The Department submitted financial statements with no material errors. However, the systems and processes to ensure performance information reported is useful and reliable still require some improvement. CSOS has remained unchanged on a qualified opinion with findings on compliance.

## **9.2. Overall reflection on special reports**

The initiative was the provision of temporary residential units for resettlement of overcrowded settlements as a response to the Covid-19 pandemic. Since the first special report update on progress made up to 30 June 2020, the initiative was discontinued on 30 September 2020 as part of covid-19 response – implementation of 95 re-blocking projects to continue as part of sector's normal upgrading of informal infrastructure. This was due to lack of progress of the initiative and the reduction in new Covid-19 infections. At the time of discontinuation, the TRU projects were only started in a few provinces and therefore, implementation of our SR1 recommendations were made in those provinces which are: Limpopo, Eastern Cape and Free State as well as the HDA and Department.

### **Findings raised in the first and second special reports:**

- Reliability of expenditure information in the sector could not be confirmed due to information from the 3 spheres of government did not reconcile.
- Weaknesses in the project's monitoring processes and ineffective coordination by the HSCC.
- Non-compliance with procurement regulations which could result in irregular expenditure and financial losses.
- Poor quality in built TRUs as they did not comply with housing norms and standards.
- Units not priced per the established subsidy quantum.

## **9.3. Recommendations to the Committee**

Monitor and regularly follow up with the executive authority and accounting officer/ authority on:

- Progress on audit action plans put in place by the department and entities to ensure improvement in the audit outcomes of the portfolio.
- monitor the vacancies to ensure stability of leadership.
- follow up with entities that incurred irregular, fruitless and wasteful expenditure to ensure there is consequence management.
- The culture of consequence management should be enforced in the portfolio.

## **10. REFLECTION BY THE DEPARTMENT OF PLANNING, MONITORING AND EVALUATION (DPME)**

The Committee was briefed in a virtual meeting by the DPME on its analysis of the quarterly performance reports of the Department. The DPME raised the following concerns:

- Key concern is that human settlement patterns remain inequitable and dysfunctional with the form and location of land developments.
- Human settlement projects and informal settlement upgrades rarely responding directly to government's intent of spatial integration and spatial justice.
- Notwithstanding the provision of shelter and security to more than 4.5 million households in the democratic period, tenure insecurity and poor response in addressing asset poverty persists.

- New household formation has outpaced population growth, with the national average household size reducing from 4.5 in 1996 to 3.4 in 2019.
- Absolute increase in the number of households living informally from 1,45 million to 2.17 million from 1996 to 2019.
- Eradication of the title deeds backlog and issuing of new title deeds have been largely elusive despite remedial steps taken by the Department to address the problem.
- Programmatic approach for registering new title deeds with the registration of the serviced sites not achieving the intended result - 90 698 serviced sites were delivered against only 3 455 new title deeds.
- Failure to pay affordable rental (both formal and informal sector); with greatest impact on designated groups comprising women, the aged and persons with disabilities.
- Increased land invasions and evictions during lockdown.
- Access and the effective use of well-located state-land and parastatal land remain a challenge.
- Budget cuts led to postponement of projects, downscaling of delivery targets and reprioritization.

#### **10.1. Recommendations to the Committee**

The DPME provided the following recommendations to the Committee:

- Ensure the Rapid Implementation Evaluation of the delivery of title deeds for government subsidised housing; findings and recommendations to inform the redesign of the title deed delivery process.
- Ensure that the Department urgently address systemic and policy issues to unlock implementation and upscale the upgrading of informal settlements.
- Ensure that the Department to ensure multi-programme integration in each PDA by facilitating coordination from different sector contributions, focusing strategic interventions and investment prioritization to support the spatial restructuring agenda.
- Ensure that the Department pays attention to implementation and programme management capacity at the different levels of government, particularly provinces and major cities.
- Ensure that the Department investigates primary cause for delays in rezoning previously acquired land. For instance, municipal capacity to process applications, alignment of the Department priorities with infrastructure priorities of the municipalities, and project sequencing.

### **11. OBSERVATIONS AND RECOMMENDATIONS**

Having been briefed by the Office of the AG, the DPME, the Department and its Entities on its annual report, the Committee adopted recommendations provided by AG and the DPME outlined in section 9.3 and 10.1. The Committee also made the following observations and recommendations:

1. The Committee noted that the Talana project in Limpopo experienced challenges on quality issues, resulting in investigations by the NHBRC on quality matters and SIU on allegations of fraud and corruption in the awarding of the tenders. Due to these issues, the units in the Burgersfort project were put on hold. The SIU has shared their findings and remedial actions with the Minister and Management. No further actions have been taken against the implicated employees.

#### **Recommendation:**

- Institute consequence management on implicated employees. The Committee notes that some implicated employees were arrested or resigned, however the

Department should ensure that implicated employees are blacklisted. Actions taken should be reported to the Committee within three months.

2. The Committee noted that provinces were not spending the Human Settlements Development Grant (HSDG) on time. This is as a result of contractors being appointed late and there being a lack of oversight over the contractors once appointed.

**Recommendation:**

- Support and provide capacity to provinces by the Department and entities in order to implement the HSDG. Assist provinces to complete housing projects. Ensure oversight over appointed contractors.
3. Key positions not filled in the Department and some of the entities. This created instability.

**Recommendation:**

- Prioritise the filling of critical positions in the Department and entities. The Department and entities must furnish the Committee with progress reports in the second quarter of the 2021/22 financial year.
4. NHBRC did not take effective and appropriate steps to prevent irregular expenditure of R1.2 million, R8.5 million by NHFC, which was caused by non-compliance with supply chain management prescripts on obtaining the required number of quotations. Disciplinary steps were taken against officials responsible for incurring irregular expenditure.

**Recommendation:**

- Ensure the implementation of audit recommendation plans. Ensure that management of NHBRC and NHFC institutes consequence management for incurred irregular, fruitless and wasteful expenditure.
5. SHRA's target for the 2020/21 financial year was 3 870 social housing units tenanted. The year-to-date tenanting for the 2020/21 financial year totalled 985, resulting in a year-to-date marginal negative variance of 2 885 social housing units tenanted. The target for the 2020/21 financial year was 4 006 social housing units completed, however, it only managed 1 856 units resulting in an annual shortfall of 2 150 units completed.

**Recommendation:**

- Ensure that SHRA improves its' performance for the 2021/22 financial year in order to address the social housing units backlog and meet the MTSF targets.
6. NHBRC and NHFC management did not exercise its oversight responsibility over the internal controls of the entity and the review of the financial and performance reports submitted for auditing, which resulted in the material misstatements. Furthermore, compliance with applicable laws and regulations was not regularly reviewed and monitor, resulting in the findings on non-compliance. Adequate steps were also not taken to ensure that action plans are implemented. No effective and appropriate steps taken to prevent irregular and fruitless and wasteful expenditure by CSOS, EAAB, NHBRC and NHFC.

**Recommendation:**

- Management should exercise its oversight responsibility over internal controls of entities. Management should also take effective and appropriate steps to prevent irregular, wasteful expenditure by some entities. Investigations should be conducted and consequence management should be instituted on affected officials. Development audit action plans to address root causes of irregular, fruitless and wasteful expenditure. Progress on audit action plans, investigations, and consequence management should be provided to the Committee quarterly.

7. The Committee noted that the HDA launched an investigation into allegations of fraud and corruption in awarding the tender related to the establishment and construction of TRUs in Limpopo.

**Recommendation:**

- Provide progress report to the Committee on the results of investigation of allegations of fraud and corruption. Ensure consequence management against corrupt officials. Furnish the Committee with progress reports in second quarter of the 2021/22 financial year.
8. That there was no compliance with legislation in some entities. The nature of identified compliance was annual financial statements, performance and annual report.

**Recommendation:**

- Management should ensure compliance with legislation. Ensure consequence management against officials who do not comply with legislation.
9. The Committee observed that adequate disciplinary actions were not taken against staff who have caused irregular, fruitless and wasteful expenditure previously reported at NHFC, NHBRC and CSOS.

**Recommendation:**

- Take disciplinary actions against staff who caused irregular, fruitless and wasteful expenditure at NHFC, NHBRC, and CSOS. The Committee must be informed of actions taken in the first quarter of 2021/22 financial year. Root causes of irregular, fruitless and wasteful expenditure should be investigated, in order to develop preventative measures.
10. That there was non-compliance with various SCM prescripts in the process of procurement and contract management. For instance, deviations from procurement management processes, such as not obtaining the required number of quotations and not inviting competitive bids were required and various other SCM related findings at NHFC.

**Recommendation:**

- Ensure consequence management on officials who did not comply with various SCM prescripts in the process of procurement and contract management at NHFC.
11. The Committee was concerned about the disregard of previous recommendations and recurring findings of the AG in the Department and entities. Findings similar to those raised in the previous year and this could have been prevented if an effective action plan was implemented.

**Recommendation:**

- Management of the Department and entities should develop an action plan to address findings raised, and internal audit should monitor the action plan developed by management. Progress on the implementation of action plans should be reported to the Committee quarterly.
12. The Committee was concerned about poor performance in the informal settlements upgrading, Community Residential Units, the issuing of title deeds and Priority Development Areas (PDAs) targets.

**Recommendation:**

- Improve performance in the upgrading of informal settlements and encourage re-blocking of informal settlements, expedite performance on the CRUs, and the issuing of title deeds targets. Develop plans to fast-track the issuing of title deeds. The HDA should fast-track the acquiring and rezoning of land for PDAs.

13. The Committee was concerned about the lack of leadership at the EAAB and HDA, both of which had significant management, internal audit and legal challenges.

**Recommendation:**

- The Department should detail specific interventions undertaken to stabilize the HDA and EAAB. Intervention plans should be presented to the Committee in the second quarter of 2021/22 financial year.

14. The Committee noted that SHRA had not disbursed funds towards the Relief Fund. Only 54 applications had been approved.

**Recommendation:**

- Assist SHRA to disburse funds towards the Relief Fund. Actions taken in this regard should be reported to the Committee quarterly.

15. The Committee was concerned that the Department indicators were not smart and not customised. As a result, indicators or performance could not be measured properly.

**Recommendation:**

- The Minister must ensure that APPs have smart KPAs and customised indicators. This requires integrated and coordinated planning in the human settlements sector. Ensure an integrated system of delivery framework.

16. The Committee was concerned about a lack of coordinated response to deal with corruption in the human settlements sector.

**Recommendation:**

- Develop anti-corruption plans to prevent corruption in the human settlements sector.

17. The Committee was concerned about the lack of transformation in the real estate sector.

**Recommendation:**

- Assist the EAAB to accelerate the transformation of the real estate sector. The Department and EAAB should report their transformation initiatives to the Committee quarterly.

18. The Committee was also concerned about the performance of the 40% set-aside for women, people with disabilities, and youth.

**Recommendation:**

- The Committee should be provided with a list and nature of contracts provided to women, people with disabilities, and youth. The Committee insisted that the 40% set aside to women should be implemented. The Committee also recommended that the 40% set aside included in the Division of Revenue Act (DORA), in order for it to be legislated. Actions taken in this regard should be reported to the Committee quarterly.

19. The Committee noted some progress in the development of the Human Settlements Development Bank, however, there was a need to do more.

**Recommendation:**

- Accelerate the development of the Human Settlements Development Bank.

20. The Committee was concerned about the lack of management of the beneficiary lists.

**Recommendation:**

- Ensure the management of beneficiary lists. The Department should develop a beneficiary management system that is transparent.
21. The Committee observed that there was no single delivery model for the spheres of government and entities. As a result, there was a lack of coordination in the human settlements sector.

**Recommendation:**

- Develop a single delivery model for the human settlements sector. This delivery model should ensure that human settlements delivery is standardised at national, provincial and municipal level. Progress on the model should be reported to the Committee quarterly.
22. The Committee was concerned that houses provided in rural were often delivered without sanitation.

**Recommendation:**

- Ensure that that houses provided in rural areas are delivered with sanitation.
23. The Committee was concerned that officials who were not complying with legislation were not punished.

**Recommendation:**

- Ensure that officials who do not comply with legislation are punished.

## **12. CONCLUSION**

It is the submission of the Committee that the implementation of these recommendations would positively respond to the objectives of the Department and its Entities, the NDP and the lives of the people. Recurring challenges observed would be resolved as swiftly as possible if accountability regarding these recommendations could be forthcoming from all the Entities within the sector. To ensure the realisation of these objectives at specified timeframes, the Committee will conduct its oversight on specified intervals. In addition, Parliament should track the implementation of these recommendations by the Executive.

**Report to be considered.**