**Report of the Select Committee on Appropriations on the Expenditure and Performance of the Informal Settlements Upgrading Partnership Grant for Provinces in the First Quarter of the 2022/23 Financial Year; Dated 12 October 2022**

1. **Background**

Section 4(a), (d) and (e) of the Money Bills and Related Matters Act No. 09 of 2009 (as amended in 2018), mandates the Committee to consider and report on spending issues; reports on statements of actual expenditure published by the National Treasury; and any other related matter set out in the Act. These provisions, read together with section 32 of the Public Finance Management Act No. 01 of 1999 (as amended), and section 16 of the Division of Revenue Act No. 05 of 2022, provides the framework for the legislative sector to play an oversight role over the Executive. Against this background, the Committee undertook to assess the implementation, performance and expenditure of the Informal Settlements Upgrading Partnership Grant for Provinces in the first quarter of the 2022/23 financial year. The purpose of the Grant is to intensify efforts to upgrade informal settlements by providing funding to facilitate a programmatic and inclusive approach.

**2. Terms of reference**

Due to the fact that the Grant was recently introduced as a standalone, the Committee had not had an opportunity to assess its implementation and expenditure; and therefore resolved to conduct a hearing on the performance of this Grant on 10 August 2022. The Department of Human Settlements and the National Treasury were invited to report on its financial and non-financial performance for the first quarter of the 2022/23 financial year. In addition, all nine provincial departments of human settlements were invited to attend and take part in the deliberations.

In order to provide a holistic picture on matters relevant to informal settlements upgrading, the Department of Human Settlements also shared with the Committee financial and non-financial data for the 2021/22 financial year and the first quarter of the 2022/23 financial year on the Informal Settlements Upgrading Partnership Grant for Metropolitan Municipalities. As much as this data was important and highly appreciated, it was not incorporated into this Report in order not to widen its scope.

1. **Informal Settlements Upgrading Partnership Grant for Provinces**

The Informal Settlements Upgrading Partnership Grant for Provinces was introduced via a window within the Human Settlements Development Grant (HSDG), equivalent to 15 percent of the HSDG, in the 2019/20 financial year. This window was intended to serve as a planning and preparatory platform before the Grant would be established as a standalone grant in the 2020/21 financial year. However, provinces required additional time to complete their informal settlements upgrading strategies. The Grant was, therefore, formally introduced into the grant system as of the 2021/22 financial year.

The Grant outputs are defined according to Phases 1 to 3 of the Upgrading of Informal Settlements Programme (UISP) in the National Housing Code of 2009. The Phase 1 output is the number of pre-feasibility studies completed. The Phase 2 outputs include pre-planning/feasibility studies; land acquisition; the number of settlements supplied with bulk infrastructure; the number of settlements benefitting from interim municipal engineering services and/or any alternate technology; and the number of settlements provided with rudimentary services. The Phase 3 outputs include the number of settlements provided with municipal engineering services and/or any alternative technology; the number of serviced sites developed; the number of social and economic amenities provided by the municipality in consultation with the communities; the number of sites transferred to end users; the number of households provided with secure tenure, the number of engineering designs for water, sewer, roads, and storm water drainage concluded; and the number of layout plans approved.

The key outcomes for households living in informal settlements in the window period were -

* To provide tenure rights;
* To ensure the provision of a healthy and secure living environment; and
* To facilitate community partnerships and participation in the development of settlements.

During this period, the outputs included the following:

* Programmatic province-wide informal settlements upgrading strategy.
* Approved individual informal settlements upgrading plans according to the National Upgrading Support Programme.
* Social compacts concluded with communities outlining their role.
* Informal settlements designated for upgrading in terms of the Municipal Spatial Development Framework.
* Households provided with secure tenure.
* Households provided with water, electricity and sanitation services (grid and non-grid).
* Informal settlements provided with public lighting, roads, storm water, refuse removal and bulk connections for water, electricity and sanitation.

From the 2020/21 financial year the following outputs were added:

* Hectares of land acquired for relocation of category B2 and C settlements.
* Hectares of land acquired for *in situ* upgrading.
* *In situ* individual serviced sites developed.
1. **National Treasury**

Having provided information on the allocations and performance of the Grant since inception, National Treasury reported that the provincial allocations for the 2022/23 financial year had been as per Table 1 below. The Eastern Cape had reportedly not spent any of the funds transferred as at the end of the first quarter; while the Northern Cape and the North West had overspent during the same quarter.

Table 1: 2022/23 financial allocation per province and first quarter expenditure

|  |  |  |
| --- | --- | --- |
| Province |  | 2022/23 |
| Main Allocation R’000 | Transferred funds R’000 | First quarter expenditure | Percentage spent against voted funds |
| Eastern Cape | 458 151 | 137 445 | - | 0 |
| Free State | 241 563 | 62 983 | 14 147 | 5.9 |
| Gauteng | 1 175 155 | 235 031 | 27 670 | 2.4 |
| KwaZulu-Natal | 756 868 | 310 267 | 35 943 | 4.7 |
| Limpopo | 269 465 | 98 650 | 26 529 | 9.8 |
| Mpumalanga | 274 653 | 68 226 | 66 557 | 24.2 |
| Northern Cape | 81 272 | 16 491 | 26 876 | 33.1 |
| North West | 379 324 | 58 060 | 109 799 | 28.9 |
| Western Cape | 489 638 | 102 000 | 101 240 | 20.7 |
| **Total**  | **4 121 089** | **1 089 153** | **408 761** | **9%** |

National Treasury further reported the following challenges and risks, which had been observed with respect to the Grant:

* Reporting on the Grant, as required by the Division of Revenue Act, had been inconsistent. Many provinces were not submitting data on outputs and achievements. For example, five provinces had not submitted a 2021/22 financial year evaluation report.
* The delayed approval of provincial business plans by the national Department of Human Settlements, had contributed to the delayed implementation of the Grant.
* Planning delays had been caused by the comprehensive requirements, such as pre-feasibility studies, Environmental Impact Assessment (EIA) approvals, geotechnical reports, social facilitation, and land surveying.
* Municipal approvals, such as for engineering designs, were not given swiftly.
* Projects were delayed and additional costs incurred due to poor performance by implementing agents (IAs) and contractors.
* Social compacts with communities, to explain roles and processes, were not done according to plan.
* Community unrest and business forums stalled progress with demands to participate in projects.
* People had settled in the way of services, and needed to be relocated for services to be fully installed.
* Significant financial transfers had been made to agencies and entities, that needed to be accounted for through verification.
* There were delays in supply chain management processes and procurement.
1. **Department of Human Settlements**

The Department of Human Settlements (DHS) submitted that a total of R3.9 billion had been allocated to the Grant in the 2021/22 financial year. During the same period, R20 million each had been reallocated from the Free State, Gauteng, and Limpopo provinces and transferred to the Northern Cape Province, raising its total allocation from R76.7 million to R136.7 million. Only four provinces, the Eastern Cape, Free State, KwaZulu-Natal and Northern Cape, had spent 100 percent of their allocations. Mpumalanga, North West and Western Cape had spent above 90 percent of their allocated funds. Despite losing R20 million, Limpopo had only spent 58 percent of its funds. The DHS further reported that the Eastern Cape and Gauteng had been transferring their Grant funds to their provincial housing development agencies (HDAs), which had been acting as implementing agents (IAs) for this Grant. Furthermore, Gauteng had also been using municipalities as IAs.

Focusing on the financial report for the first quarter of the 2022/23 financial year, the DHS concurred with National Treasury’s figures captured in Table 1 above. The DHS further indicated that the spending had been poor, with only 38 percent of transferred funds being spent; amounting to only 9 percent of the total allocation. The Eastern Cape was highlighted as the only province reporting zero expenditure at the end of the first quarter. Other provinces that had spent below 30 percent of the transferred funds, were Free State, Gauteng, KwaZulu-Natal, and Limpopo. The Northern Cape and North West had overspent on their first quarter transfers.

The DHS submitted that at the time of reporting, there were 3 605 informal settlements in the country, with 481 in the Eastern Cape; 161 in the Free State; 731 in Gauteng; 740 in KwaZulu-Natal; 74 in Limpopo; 368 in Mpumalanga; 151 in the Northern Cape; 136 in the North West; and 763 in the Western Cape. Of the 3 605, 1 804 were located in metropolitan municipalities, with 154 in Buffalo City; 464 in the City of Cape Town; 119 in the City of Ekurhuleni; 210 in the City of Johannesburg; 186 in the City of Tshwane; 530 in Ethekwini; 47 in Mangaung; and 94 in the Nelson Mandela Bay.

The DHS reported the following key overall achievements since the inception of the Grant:

* Establishment of a baseline for informal settlements upgrading.
* Establishment of a framework for monitoring and reporting performance (project-based reporting and direct relationship between plans and reporting).
* Institutionalisation of engagements between provinces and municipalities and support with upgrading of informal settlements.
* Establishment of a dashboard for informal settlements in partnership with the Housing Development Agency.
* Moving towards digitalisation of planning and reporting.

Furthermore, the DHS submitted that 610 informal settlements across the country had been upgraded in the 2021/22 financial year, using Phases 1 to 3 of the Upgrading of Informal Settlements Programme (UISP) in the National Housing Code of 2009 as indicators of performance and a manual for the required outputs and activities. However, there had not been much progress by provinces with achieving key outputs during the first quarter of the 2022/23 financial year and much of the work was earmarked to be rolled out from the second quarter.

1. **Observations and findings**

Having received submissions from the National Treasury and the Department of Human Settlements, the Committee observed the following:

* 1. The Grant framework may contain monitoring and reporting weaknesses which are contributing to poor levels of performance by the majority of provinces. It appears as if the business plans are not complied with and as such, the risk of potential under-spending by provinces is not detected early.
	2. There may be shortcomings in the process of approving business plans by the DHS. The process of ensuring that business plans contain all the relevant information and the length of interaction periods between the DHS and provinces could be a contributing factor to the high under-expenditure by most provinces in the first quarter of the 2022/23 financial year.
	3. The Committee is concerned over the potential instances of fiscal dumping, where funds transferred by provinces to implementing agents (provincial housing development agencies) are reported as expenditure when, in actual fact, such funds had not necessarily been spent. While noting the measures the DHS is reportedly taking to mitigate that risk, the Committee may still decide to invite some of the IAs to report on their expenditure and deliverables.
	4. Provincial spending on this Grant in the first quarter of the 2022/23 financial year was extremely low for a country with informal settlements continuously mushrooming. The Committee found it concerning that the Eastern Cape had recorded zero expenditure and that most provinces had not performed well, with the Free State spending only 6 percent of its total allocation; Gauteng spending 2 percent, KwaZulu-Natal 5 percent and Limpopo only 10 percent.
	5. The Committee is concerned about the design and timeframes of the business plans of the under-performing provinces. It further appeared as if the DHS’ monitoring and evaluation responsibility was not properly executed as the Grant was continuously implemented during the first quarter of the 2022/23 financial year.
	6. The Committee notes the planned engagements around the social compacts required by the Grant framework, which may assist to address some of the challenges contributing toward the grievances of the informal settlements communities. The Committee is of the view that this is an important intervention to map out some of the measures to address the challenges that have engulfed informal settlements.
	7. The Committee notes that the DHS has taken some steps to address the matter of classification of expenditure and accountability, including requiring the housing development agency, implementing agent (IA) of most of the provinces, to account to the technical MINMEC on amounts transferred and spent as well as deliverables.
	8. The Committee further notes that the DHS has a record of all the funds transferred to other organs of state and has agreed with provinces that these would be reported as opening balances in the statements of the new financial year.
	9. The Committee is concerned about proper alignment between municipal Integrated Development Plans (IDPs) and provincial and national government plans, which is required to ensure coherence and streamlining and to enhance Grant performance across sector plans.
	10. The Committee notes that the upgrading of informal settlements provides the basis for housing development. However, it is concerned that the illegal occupation of land is hampering government efforts to properly plan, budget and effectively make use of state resources to deliver proper housing projects. The Committee is of the view that this is one of the issues creating animosity within communities and putting people’s lives at risk. The Committee appreciates that the DHS is investigating ways to assist municipalities with the capacity to evict illegal occupiers.
	11. The Committee notes the concern raised by the Minister of Human Settlements that the Grant framework is too constrained and not conducive to good performance; as well as that inequality is being perpetuated by the way in which funding is allocated between urban, semi-urban and rural areas. The Committee is of the view that there is a need to ensure that funds are appropriated in a way that enables the receiving department to spend effectively.
1. **Recommendations**

Flowing from the above observations, the Committee recommends as follows:

* 1. The Department of Human Settlements, working together with National Treasury, should strive to tighten the framework of the Informal Settlements Upgrading Partnership Grant for Provinces before the beginning of the 2023/24 financial year. This will ensure more thorough planning, monitoring and reporting by provinces. Furthermore, this should improve the level of performance and correctly assess the risks of under-expenditure to ensure that early interventions are taken to prevent any possible wastage or fruitless expenditure.
	2. The Department of Human Settlements should consider reviewing the business plan approval process and urgently address the reported delays. Approval of business plans should not occur in the middle of the financial year. Clear timelines for the approval process should be adopted by the sector and they should be carefully considered in a transparent manner. These timeframes should be included in the business plan framework and adhered to.
	3. The Committee implores the Department of Human Settlements, together with provincial departments of human settlements and municipalities, to urgently take steps to intensify efforts to ensure alignment of municipal Integrated Development Plans with those of provincial and national government. The Committee is of the view that this has been a problem for the past years and therefore, specific urgent interventions are required to address this. Parliament together with provincial legislatures will continue to monitor progress in this regard.
	4. The Department of Human Settlements (DHS) should perform rigorous programme and contract management to minimise the risk of under-performance; and provincial departments, working together with the DHS, should continuously improve programme design and hold the implementing agencies and contractors accountable for poor performance. Parliament and provincial legislatures will continue to monitor this going forward.
	5. The Department of Human Settlements should continue to hold accountable provinces that transfer funds to implementing agencies. The Department should also demand financial accountability and value for money from the implementing and contracted agencies. This will assist to ensure that there are no financial leakages and fiscal dumping, and opportunities for corrupt practices.
	6. The provincial departments of human settlements should comply with section 16 of the Division of Revenue Act, which requires provinces to provide agreements it has with other organs of state and a schedule of payments to the National Treasury, the Transferring Officer and provincial treasuries. These agreements should be submitted to these institutions as a matter of urgency and at the latest, within two weeks after the adoption of this Report by the National Council of Provinces (NCOP).
	7. The planned engagements through social compacts, required by the Grant framework, should be prioritised to reduce instances of community protests that often stall projects. Such public protest does not only interfere with the government planned projects but also results in the loss of people’s lives and vandalism to the existing infrastructure, which negatively affects service delivery. Therefore, the Committee implores all community leaders across political organisations, social partners, private sector and government institutions to find a way to address this and its negative impact on the poor and vulnerable communities.

* 1. The Committee implores the National Treasury to expedite the process of reviewing all conditional grant frameworks to address the Minister of Human Settlements’ concern around the Grant framework being too constrained and not supporting the Department to improve performance.
	2. Noting that provinces seem to lack the capacity or will to spend the Grant effectively; the Committee recommends that the National Treasury should consider the possibility of transferring the Grant funds to local municipalities after an accreditation process and upon presentation of business plans; similar to the way the Municipal Infrastructure Grant is administered.
	3. The Committee urges National Treasury, the Department of Human Settlements, and the provincial departments tasked with spending these allocated funds to remember that these are not mere numbers and targets, but that these are in fact the lives of people that they are dealing with. The people who rely the most on Government support for their quality of life. As such, the Committee urges all bureaucrats to seek ways in which to ensure that the funds are spent promptly and in the most cost-effective manner in ways designed to enhance the lives of the people living in informal settlements.

Report to be considered.