



human settlements

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BRIEFING NOTE TO THE PORTFOLIO COMMITTEE IN RESPECT OF HUMAN SETTLEMENTS DEVELOPMENT GRANT PERFORMANCE (HSDG) FOR THE FREE STATE PROVINCE

1. PURPOSE

To provide the Portfolio Committee with a briefing in respect of the Free State Human Settlements Development Grant performance for the financial years 2010/11 and 2011/12 .

2. BACKGROUND

The Free State Provincial Department of Human Settlements was allocated an amount of R1,3 billion in the 2010/11 financial year from the Human Settlements Development Grant. This amount was allocated to the Province based on the approved allocation formula and business plan signed-off by the Accounting Officers for the Province and National Department on 31 March 2010.

It is important to emphasise that the Human Settlements Development Grant is allocated to the Provinces to fund Human Settlements and Housing Development in line with the conditions on how the grant is to be utilized as contained in the Division of Revenue Act, relevant policy directives and legislative frameworks contained in the National Housing Code. The business plan provides details on how the Province will utilize the grant in the various approved housing programs and approved projects. The National Department uses the approved business plan and approved frameworks to monitor and evaluate financial and non-financial performance of the conditional grant transferred to Provinces.

This happened despite the request to amend the recovery plan. It was therefore the conclusion of National that the Province deliberately ignored the warnings of Technical MinMec and MinMec decisions by proceeding with the non-approved recovery plan. The HSDG is allocated to provinces to fund the human settlements and housing developments in line with the province. The conditions on how the grant is to be utilized is contained in the

Division of Revenue Act, relevant policy directives and legislative frameworks contained in the National Housing Code.

The business plan provides details how the province will utilize the grant in the various housing programmes and projects and forms the basis of the National Department approving the Provincial allocation and monthly transfers to the province on planned delivery activities and outputs as set by the province. The National Department uses the business plan and approved frameworks to monitor and evaluate financial and non-financial performance of the conditional grant.

3. DISCUSSION

The R1,3 billion approved in 2010/11 for the Free State Province was adjusted downwards by R263 million, based on an eight months performance analysis of actual and projected spending as well as delivery, based on a recovery plan requested of the Province as well as relevant consultations between the respective Accounting Officers. Thus the Province had a final adjusted allocation of R1, 037 691 for the period ending 31 March 2011.

Summary of Allocation 2010/11 Financial Year

Original Allocation	1.300 691
Adjustment (stopped allocation)	263 000
Total Available 2010/11	1.037 691

The downward adjustment was based on an overall performance review of all Provinces as undertaken by the National Department.

The assessments revealed, and in particular for Free State, a less than satisfactory financial and non-financial performance when measured against the approved business plan as well as the projected and actual financial and non-financial performance.

The spending and delivery performance of the Province as per the six months assessment revealed a 19% actual financial expenditure as against a targeted 50% financial expenditure and 3 393 units delivered against targeted 18 679 units. The main concern raised during these assessments was the risk of underperformance and under spending on the grant, by the Free State Province.

The projected spending by 31 March 2011 revealed the probability of 60% expenditure, and a possible under spending of 40% at the end of the financial year.

This required an urgent intervention wherein National urged all provinces to submit Recovery Plans that would outline how delivery would be improved and consequently improve the spending. As this matter continued to receive urgent attention, the monitoring of spending continued in October month, and the Free State showed a persistent trend of under spending, of its allocated and transferred budget.

The Province submitted its recovery plan during this period, which indicated the steps to accelerate delivery of housing opportunities, improved access to basic services, security of tenure, planning of well-located public land as well as the purchase of material supplies to improve spending. The purchase of material was a material deviation from the targets set in the business plan.

The plan also indicated measures to appoint contractors to work throughout the December festive season as well as the establishment of a Provincial Intervention Task Teams to manage the expenditure recovery plan. The recovery plan as tabled at Technical MinMec and was however not supported by Technical MinMec, wherefrom, the Province was advised not to follow the route of purchasing building materials but put in place strategic measures to improve the current delivery strategy.

The referral back of the Provincial recovery plan was meant to improve the recovery plan; however the province ignored the recommendations of the Technical MinMec and chose not to amend the Recovery Plan. All provincial Recovery Plans were again tabled at both Technical MinMec of 18 November and MinMec of 19 November 2010, wherein MinMec of 19 November accepted the recommendations of the Technical MinMec and allowed Free State to amend its Recovery Plan.

Following these meetings the Director General held a teleconference, on 01 December 2010 with the affected provinces i.e. Kwa-Zulu Natal, Limpopo, Eastern Cape and Free State. In the teleconference the Free State was adamant that it would spend its allocation despite the fact that its expenditure as at 30 November showed up as 27% of its allocation. As the projected spending was impractical it was resolved that a portion of their allocation be withheld for 30 days in terms of DoRA and if the situation improved funds would be transferred. The decision to withhold the allocation was directed to all affected Provinces.

The Limpopo province was at that stage performing above expectations and business plan projections. The analysis of December spending in Free State showed a significant increase from 27% (R348 million) to 58% (R757 million), an indication that the Province spent R407 million in one month.

Upon review of the expenditure reports generated from HSS for the same- month, the system report revealed that major part of the spending related to the purchasing of building materials to the value of R313 million.. While the interim report of the Province reflected further outstanding commitments to the value of R180 million for materials purchased.

This raised concerns that the December spending as reported did not create value on the ground as money went to materials purchases. The further risk was that the material purchased may not have been utilized for the period and could end up being stolen and/or not result in units as required in terms of policy and procedure, prior to them being utilized.

The increased spending happened despite the request to amend the Recovery Plan. It was therefore the conclusion of the National Department of Human Settlements that the Province deliberately ignored the warnings of Technical MinMec as well as MinMec decisions by proceeding with the non-approved Recovery Plan. The enormous increase in expenditure happened just after a decision to withhold the amount of R263 million, which was aimed to be re-allocated to provinces which indicated the capability of spending at the same time in need of additional funding for the period under review.

All processes for implementing Sections 16, 17 and 18 of DoRA were followed and National Treasury granted approval for R263 million to be stopped and re-allocated to other Provinces. This led to an adjusted allocation of R1.037 691bn with the final transfer having been effected in January 2011. The final expenditure for the province was therefore R1 037 691bn. During this period, delivery of 1 562 top structures was shown to have been delivered by the Province.

FINANCIAL YEAR 2011/12

The adjustment of the allocation, impacted on the outer year' allocation and invoices that could not be paid in the 2010/11 financial year accrued over to 2011/12 financial year.

The province was allocated R913, 907 million in 2011/12 financial year, an allocation which was adjusted due to the inception of the USDG which its allocation was weighted against the MIG for Cities and the HSDG. The USDG was allocated to Metropolitan Municipalities.

The expenditure for the first quarter of the financial year 2011/12 reflected outstanding invoices amounting to R 86 million related to materials purchased in 2010 financial year which could not be paid as the funding was no longer available.

This then brought the total of building materials purchased and paid for by the Province to approximately R549, 120 million. The request for unpaid invoices was communicated to National Treasury based on a motivation by the Free State Province that contractors had submitted March invoices which were due and payable. The payment of these outstanding invoices to the projected targets for 2011/12 could not be verified to delivery on the ground as they were related to material purchased which the province could not indicate whether they were converted to delivery.

The indication is such that the funds which were transferred to the Province based on the approved business plan for 2011/12 financial year was used to defray expenditure associated with the unpaid invoices of the previous financial year ended 31 March 2011. This means that 9% of the 2011/12 allocation was used to settle invoices for material purchased in 2010/11. For the 2011/12 financial year the Province planned to service 8 846 sites and build 15 421 top structures, the additional target of 9 501 units were expected to be achieved from the other programmes other than the sites and units. The total target for the period were said to be 32 767 while the delivery reported by the Province for the period was 15 206 divided into 7 680 and 7 526 for Sites and Top structures respectively.

FINANCIAL YEAR 2012/13

It was also discovered during the 2012/13, Provincial performance review session that an amount of R3, 3 million was paid by the province to two municipalities who could not utilized the funds for purposes intended for. The Municipalities did not have sufficient funds to reimburse the province. The amount was seen as the debt in the books of the Province and the intention was to write it off.

These is seen in the light of not having used the funds for the purpose intended for and therefore constitute a fruitless and wasteful expenditure as there was no value created.

The total allocation to the province for 2012/13 financial year amounts to R 96, 1 619m. The allocation is planned to service 27 264 sites and build 8300 top structures. The Province has however as at 31 July 2012 reported to have serviced only 2 Sites and built 1331 units.

The delivery of sites is at a slow pace considering the target of 27 264. While this may be seen as the early stages to be concerned of the spending, the adverse effect is the required delivery is not happening in the Province, as projected in the approved business plan

The Province has however in the form of a formal request indicated the need for National Human Settlements to intervene in the Province and provide capacity as most of the Senior Personnel have been placed under suspension pending the results of the investigation

The Provincial Department has in its letter identified the following four areas of challenges and skills gaps that require urgent attention:

- 2.1.1 Verification and processing of historical progress payment claims on active sites;
- 2.1.2 Capacity at Head Office in strategic, operational and technical programmes and levels;
- 2.1.3 Beneficiary management; and
- 2.1.4 Quality assurance in respect of projects.

3 THE FOLLOWING HAS THEREFORE BEEN PROPOSED BY NATIONAL AS INTERIM ASSISTANCE STRATEGY TO THE PROVINCE.

- 3.1 The National Urban Reconstruction and Housing Agency (NURCHA) as it is already providing assistance to the Province, should perform the verification and processing of historical progress claims.
- 3.2 It is proposed that the Province utilises its OPSCAP budget to appoint technicians and expertise to eradicate the backlog of claims until the data collection exercise has been completed and the Province has filled the vacancies.
- 3.3 The shortage of capacity at Head Office deals mainly with projects, future planning, contractor management, enrolments and audits to be conducted and NURCHA will be requested to provide support on projects of the Provincial Department at strategic and operational level.
- 3.4 It is suggested that the Branch: Project Management Unit assists with expertise to set up a Provincial Project Management Unit and the Chief Directorate: Internal Audit, Risk Management and Special Investigation undertakes required forensic audits as required.

- 3.5 The relevant Chief Directorate for Entities will enlist the National Home Builders Registration Council (NHBRC) to enrol the projects that are not yet enrolled.
- 3.6 The Provincial Department requires a Housing Subsidy System (HSS) expert to resolve queries in respect of project closure on the system, capturing and reconciling beneficiaries against projects and resolving queries and performing data clean-up on the HSS. It is proposed that the Chief Directorate: Information Management Systems and Information Technology Systems provide an expert to assist the Provincial Department of Human Settlements to perform these tasks and provide skills transfer to provincial officials.
- 3.7 There is a great need by the Province to perform quality assurance to the identified projects and do facilitation and management of various project stages. The Branch: Project Management Unit will be the most appropriate unit to provide services of quality assurance on identified projects and facilitate and management of the various project stages.
- 3.8 The Chief Directorate: Financial Management will play a supportive role in the provincial procurement process.
- 3.9 The roles and responsibilities will have to be clarified with the Province.
- 3.10 It is important that the Provincial Department of Human Settlements build the required organizational capacity to ensure compliance with the requirements of the Public Finance Management Act, 1999 (Act 1 of 1999) and the annual Division of Revenue Act, 2012 (Act 5 of 2012).

As a way forward and to clarify the roles and responsibilities of the relevant role players it is proposed that the Acting Chief of Operations and the: Chief Financial Officer and the Head of the Project Management Unit take a lead in the process to assist the Province and involve the relevant stakeholders as mentioned above together with the Chief Directorate: Regulatory Compliance Service to oversee roles of NURCHA and NHBRC in this process. The National Department to visit the Free State Province as matter of urgency.

RECOMMENDATION

It is recommended that Minister takes note of the briefing in respect of the delivery and financial performance of the Free State Province.