



# BRIEFING TO THE PORTFOLIO COMMITTEE ON HUMAN SETTLEMENTS

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Financial and Fiscal Commission

4 October 2017

*For an Equitable Sharing of National Revenue*

# PRESENTATION OUTLINE

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- Introduction
  - Role and function of the Financial and Fiscal Commission
  - Past FFC recommendations and progress on their implementation
- Housing Policy Regime post-2009
- Key Issues within the sector
- Human Settlements and Macro-Economic Environment
- Budget Analysis and Performance
- Recommendations – 2018 DOR
- Conclusions



# 1. INTRODUCTION

# ROLE AND FUNCTION OF THE FFC

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- The Financial and Fiscal Commission (FFC)
  - Is an independent, permanent, statutory institution established in terms of Section 220 of Constitution
  - Must function in terms of the FFC Act
- Mandate of Commission
  - To make recommendations, envisaged in Chapter 13 of the Constitution or in national legislation to Parliament, Provincial Legislatures, and any other organ of state determined by national legislation
- The Commission's focus is primarily on the equitable division of nationally collected revenue among the three spheres of government and any other financial and fiscal matters
  - Legislative provisions or executive decisions that affect either provincial or local government from a financial and/or fiscal perspective
  - Includes regulations associated with legislation that may amend or extend such legislation
  - Commission must be consulted in terms of the FFC Act
  - Current research strategy focuses on developmental impacts of IGFR

# PAST FFC RECOMMENDATIONS

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- **Recommendation:** The government (NDOH) should accelerate accreditation of municipalities (housing function shift) where capacity exist
  - **Government response:** Accepted this recommendation
  - **Developments on implementing recommendation:**
    - Six metros (Ekurhuleni, Tshwane, Johannesburg, eThekweni, Nelson Mandela Bay and Cape Town) by 2014
    - A technical task team to work on housing function was established (consists of FFC, National Treasury and NDHS)
    - In 2014/15 – Human Settlements Capacity Grant (HSCG) introduced to capacitate municipalities for housing function shift but reduced in 2015/16
    - 2016/17 HSCG was stopped and the whole function shift/level 3 accreditation was abandoned and a new accreditation approach was developed and yet to be finalised to date, this created uncertainty within metros

# 2015/16 DOR RECOMMENDATIONS

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**Recommendation:** Municipalities especially metros should invest in forward looking processes and systems that will enable such municipalities to accurately understand and disaggregate housing demand

**Recommendation:** Metros focus on planning for rental flats and creating new (or transform existing) neighbourhoods in intermediate suburbs, which have lower densities than in the inner city

**Recommendation:** Government's housing subsidy prioritises the most vulnerable groups, which include poor female-headed households with children below the age of 20 years and households containing adults who are permanently out of the labour market

- Targets and indicators should be put in place and closely monitored annually
- The national Department of Human Settlements should report on households benefitting from government housing programmes based on gender and by age group on a yearly basis

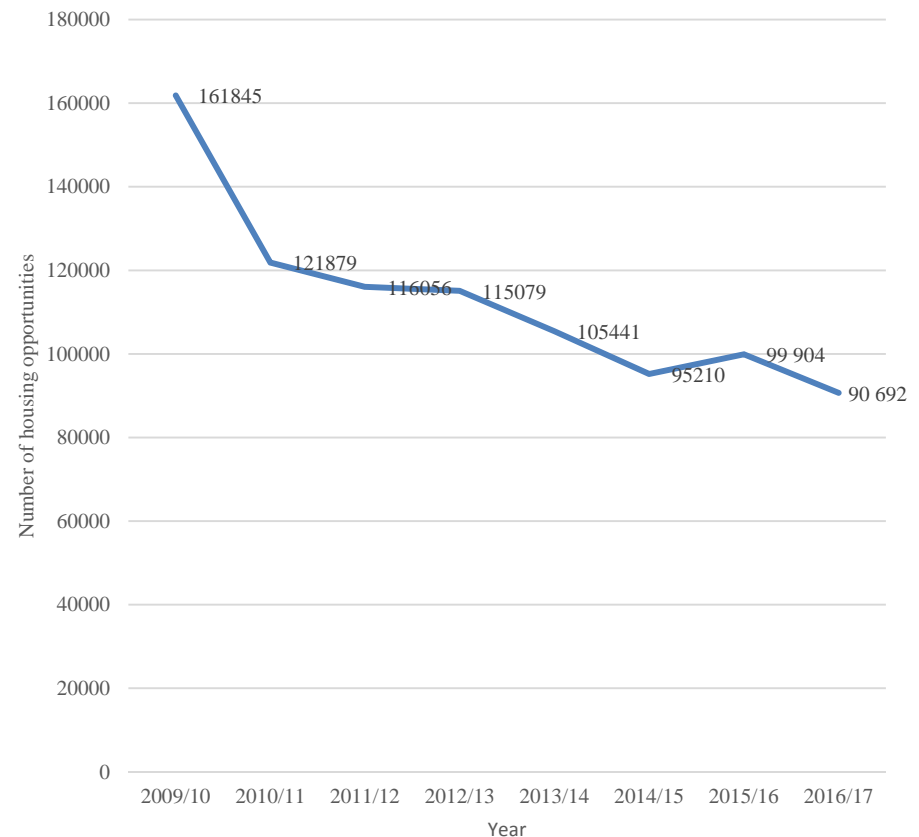
• **Government response:** Accepted recommendations but no progress on implementation



## 2. HOUSING POLICY REGIME

# HOUSING POLICY REGIME POST 2009 AND DELIVERY

- Period post 2009
  - Adoption of Outcome 8 and NDP
  - State guarantee fund for the Housing Gap Market: FLISP
  - Establishment of MHSCG to assist metros on housing function shift
  - Discontinuation of MHSCG
  - Uncertainty on housing function shift and the revision on the accreditation approach yet to be finalised for implementation
  - Slow down on accreditation to all levels for 2015/16
  - Transfer of sanitation function to DWS
  - Increasing contraction in the number of houses delivered per annum







### 3. HUMAN SETTLEMENTS AND ECONOMIC PERFORMANCE

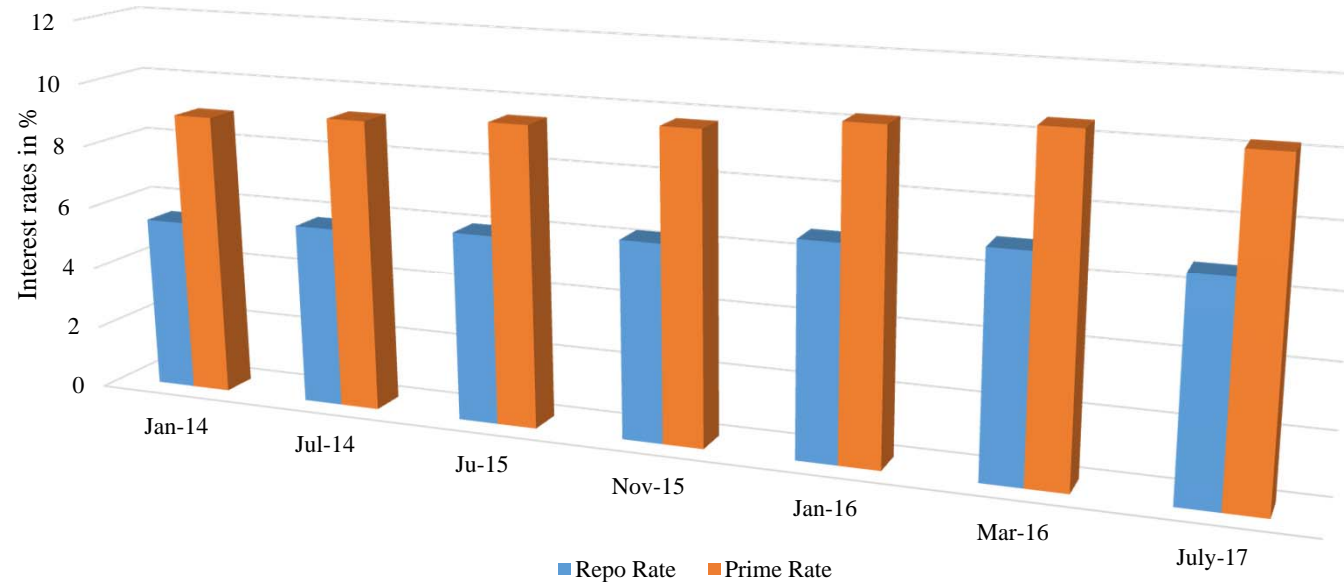
# HUMAN SETTLEMENTS AND ECONOMIC PERFORMANCE

- Housing affordability is directly influenced by the state of the economy and is affected by a number of economic variables such as inflation, interest rate and unemployment among others
  - Furthermore, level of indebtedness in the country remains high
    - According to the World Bank, South Africans are the biggest borrowers in the world, with 86% of the population in debt
- Households spending more on consumer goods and other goods and services
  - Less to spend on housing – reducing housing affordability/not qualify for mortgage bond

2014	R920 855	
2015	975 032	6%
2016 (July)	1 052 708	8%

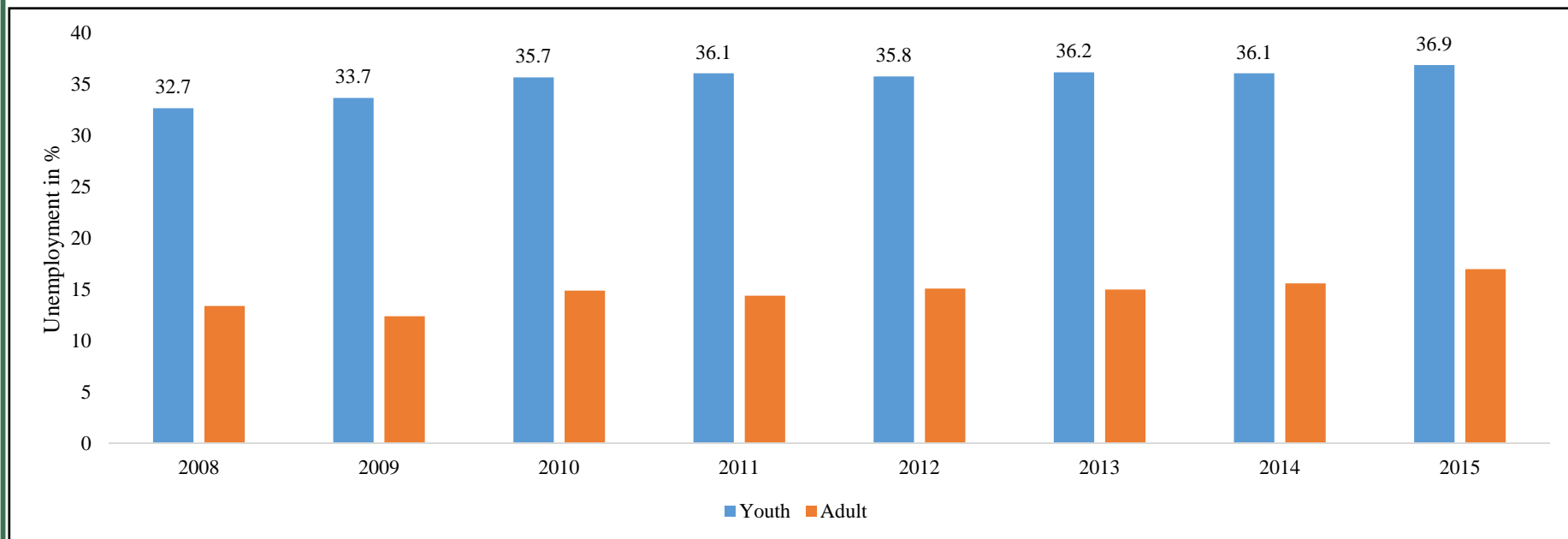
# HUMAN SETTLEMENTS AND THE ECONOMY

- Recently, there has been an increase in interest rates both by SARB and commercial banks
  - High housing prices and interest rates deter access to houses, especially for low income earners as this group is generally offered higher interest rates by banks



# HUMAN SETTLEMENTS AND THE ECONOMY

- Unemployment is one of the key challenges and directly affects housing affordability
  - The overall unemployment has increased over the recent years – with youth unemployment having increased from 32.7% in 2008 to 36.9% in 2015 and remains higher compared to adults (35-64 age bracket)

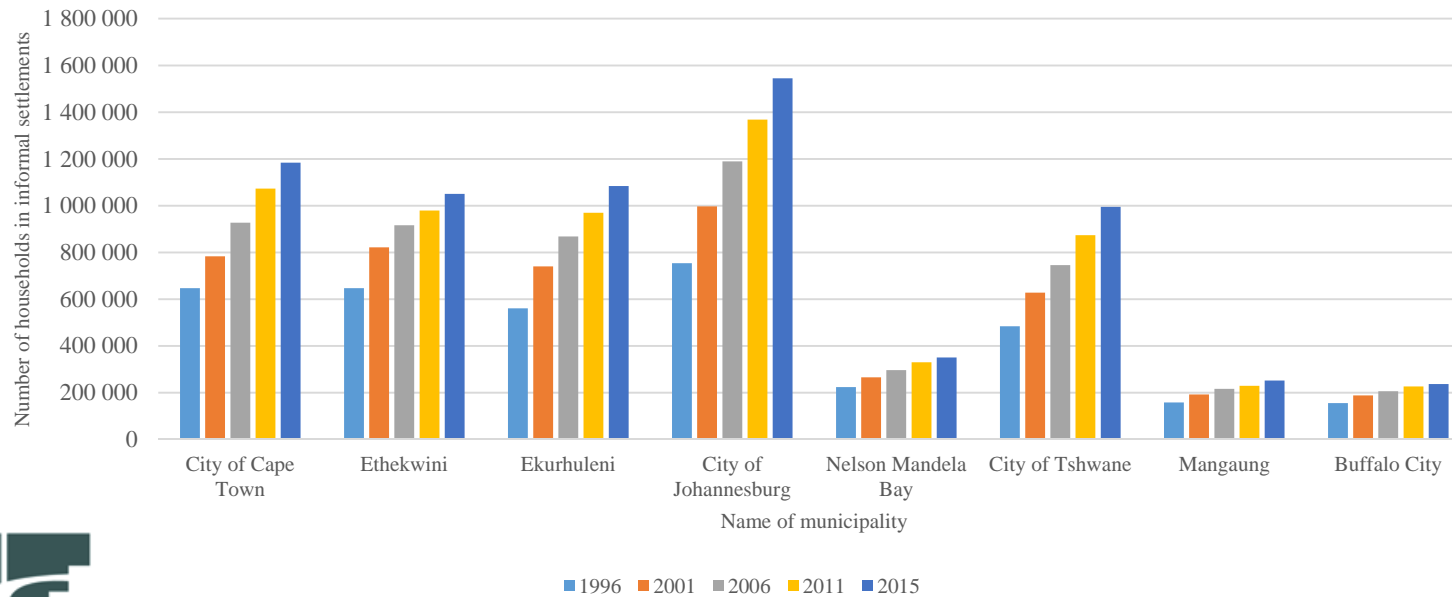




## 4. KEY SECTORAL ISSUES AND CHALLENGES

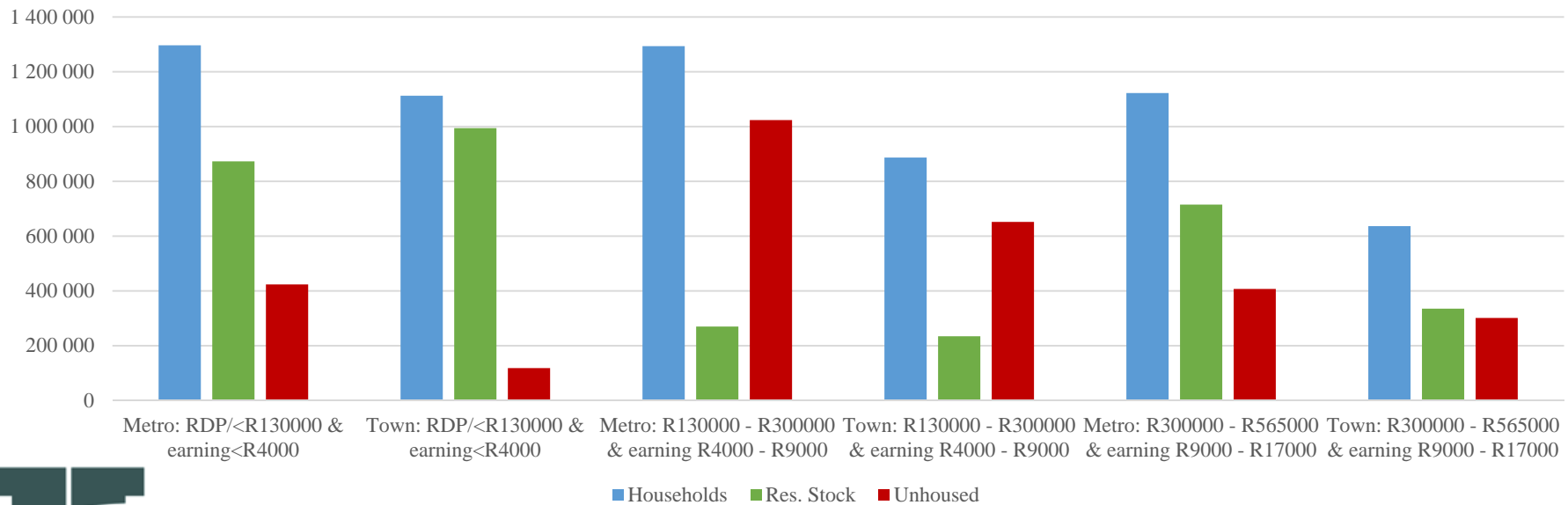
# INCREASING INFORMAL SETTLEMENTS

- Housing backlog remain stubborn and high particularly in metropolitan municipalities due to a number of reasons including urbanisation
  - Informal settlements and inadequate housing remain high in metros and is far above the national average
- The overall housing backlog is estimated around 2 million houses in 2017 compared to 1.5 million in 1994



# HOUSING NEEDS VS SUPPLY – SECONDARY CITIES AND METROS

- Housing gap is higher within the Housing Gap Market (households earning between R4000 to R17000 per month)
  - Within this group, the highest number of unhoused households is within the group earning between R4 000 and R9 000 per month both in metros and in secondary cities (for housing units valued between R130 000 and R300 000)



# LACK OF SUSTAINABILITY OF THE CURRENT DELIVERY MODEL

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- While funding for the delivery of housing has been increasing, the number of housing units delivered per annum continue to decline
  - This has been attributed to a number of factors including increasing costs over time and changes in policy (norms and standards)
- Housing backlog has increased in recent years implying that more resources from the fiscus are needed to deliver to a required scale
  - This therefore stretches the fiscus and is not affordable given the current slow economic growth, increasing unemployment and other competing social needs including education and health
- All these have led to questions over sustainability of the current funding and housing delivery model and a strong need to think about alternatives



# BACKLOG ON TITLE DEEDS

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- While Government has constructed more than four million housing units since 1994, a significant number of those housing units are not registered to their owners/beneficiaries
  - In 2016, it was estimated that between 700 000 to 900 000 of government subsidised houses were yet to be transferred to their eligible beneficiaries.
  - Hence Government had targeted to reduce this backlog by at least 100 000 in 2016
- Backlog on title deeds is a negative constraint for beneficiaries wishing to improve own housing conditions or climbing up the housing ladder

# INCREASING HOUSING GAP MARKET AND CHALLENGES WITH FLISP

- Broadly, government housing policies mainly target two income groups for direct intervention
  - Those earning between R0 and R3 500 per month (fully subsidised income group) and
  - Those earning between R3 501 and R15 000 per month (targeted through FLISP)
- Given current debates on what constitutes the Housing Gap Market, this market ranges from those households earning between R40000 to R17000 per month which is current FLISP's range
- One of the major constraints has been creditworthiness as qualifying households are required to apply for a mortgage bond from commercial banks to cover the difference between the subsidy amount and the actual house price
  - Unfortunately, due to high level of households' indebtedness particularly within the target group, a number of qualifying households are failing to have access to mortgage bonds

# EFFICIENT LAND-USE

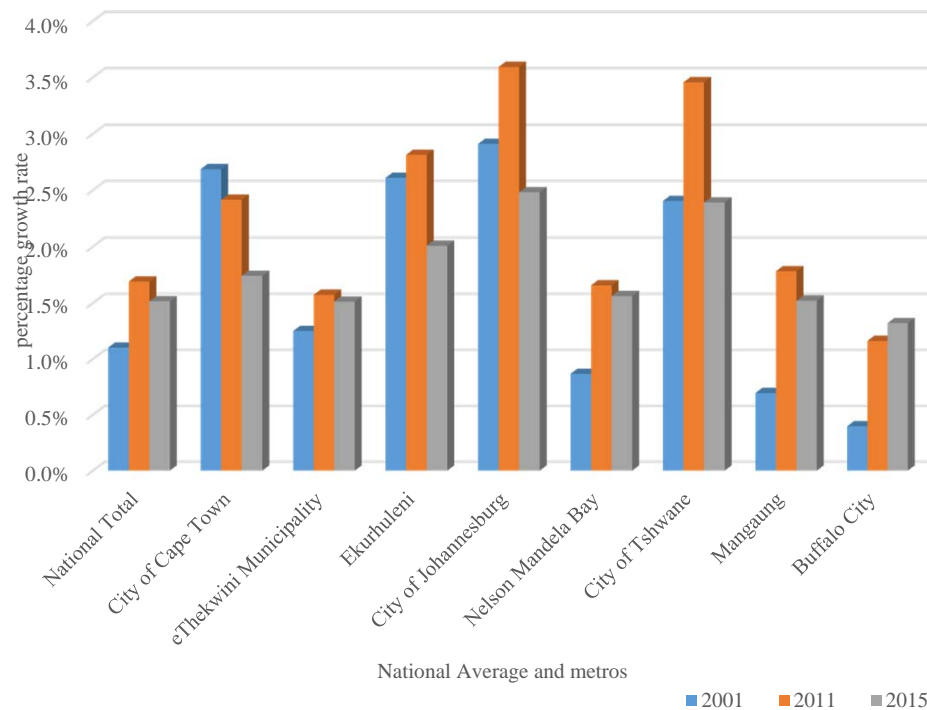
- The availability of developable/well located land suitable for housing development is very limited in the cities and in most cases is not owned by government
  - One of the solutions is for the government to consider multiple storey units as opposed to stand-alone housing units
    - While this increases the cost housing delivery, it is good as land is used efficiently
  - In the past the Commission also recommended consideration of brownfields development as opposed to Greenfields and that there must be some incentives for this

# POPULATION GROWTH AND NEW HOUSING DELIVERY IN METROS

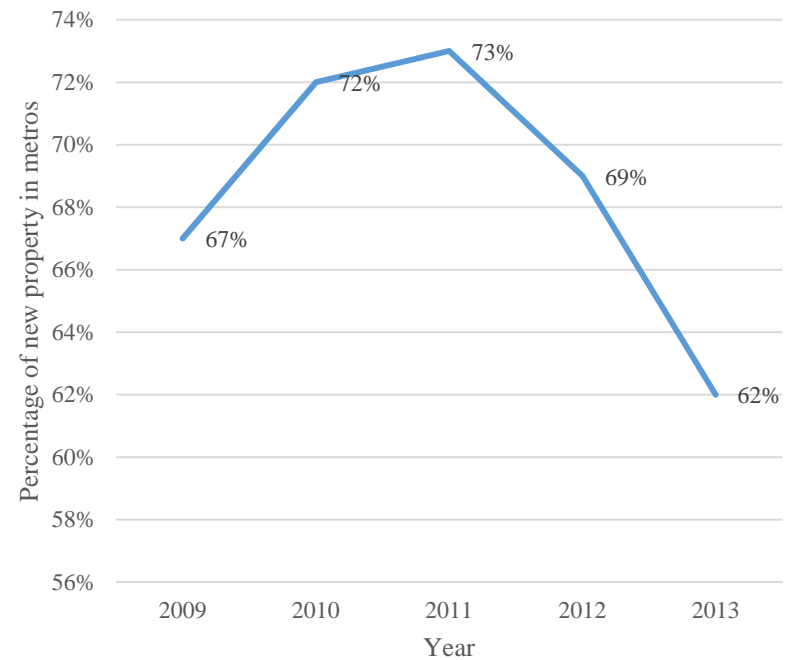
- Contextual Urban Challenge

- Population growth in urban population has not been matched by the number of new residential properties constructed and there has been a lack of understanding with respect to unhoused urban population and funding/policy and institutional constraints

Percentage of population growth in metros from 2001 to 2015



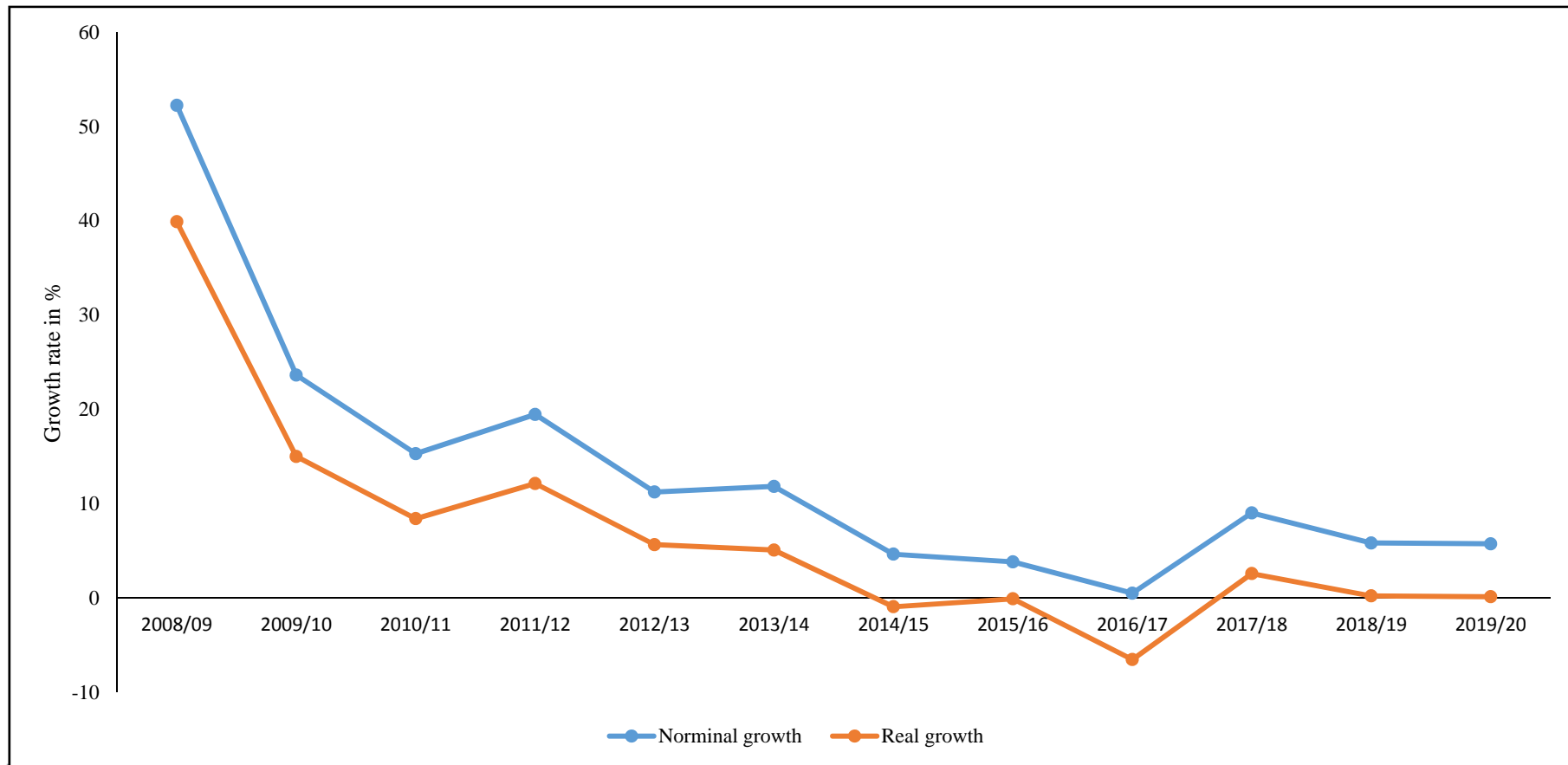
Percentage of new property in metropolitan municipalities





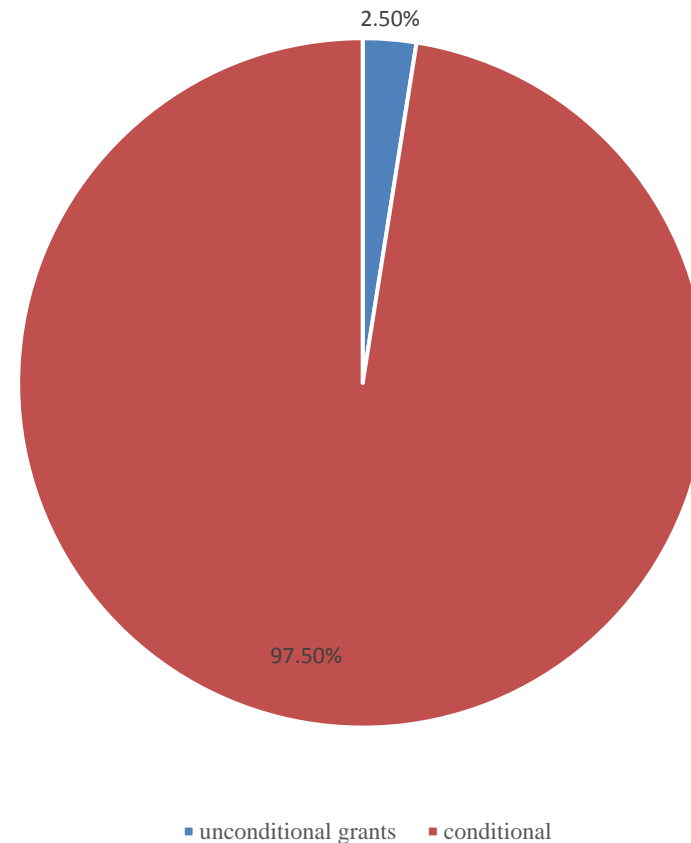
## 5. BUDGET ANALYSIS AND PERFORMANCE

# NOMINAL AND REAL GROWTH RATE OF TOTAL DHS ALLOCATION- 2008/09 – 2019/20



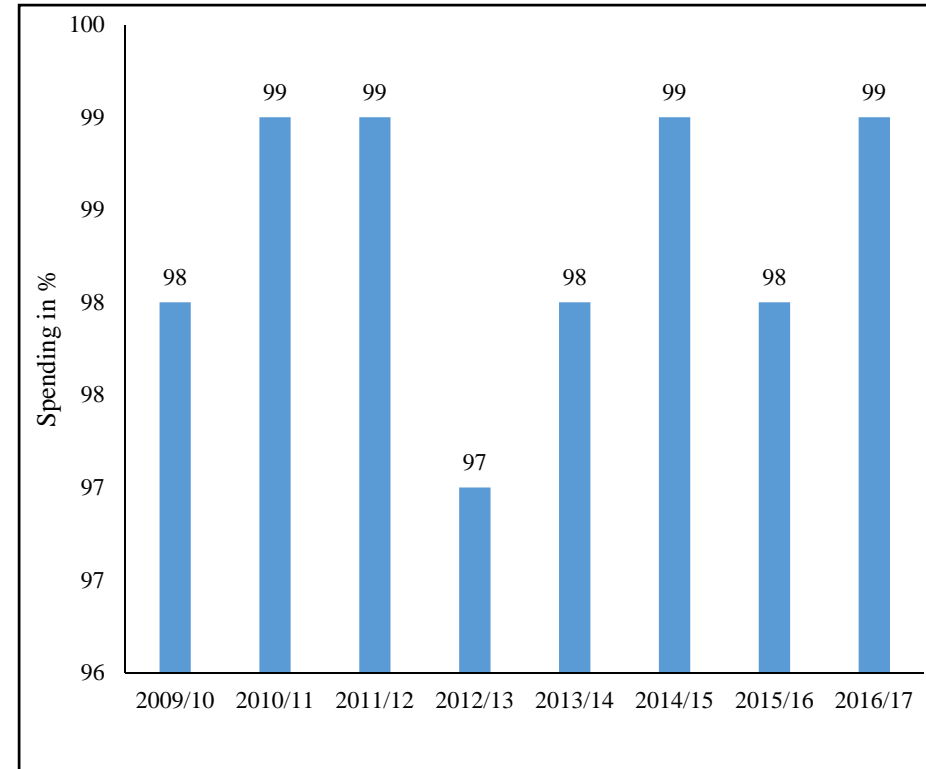
# DEPARTMENTAL ALLOCATION BY SOURCE – 2011/17

- Program 4 – Housing Development Finance: Conditional grants (HSDG, and USDG) took R29.9 billion (97.5%) of the total allocation of R30.6 billion



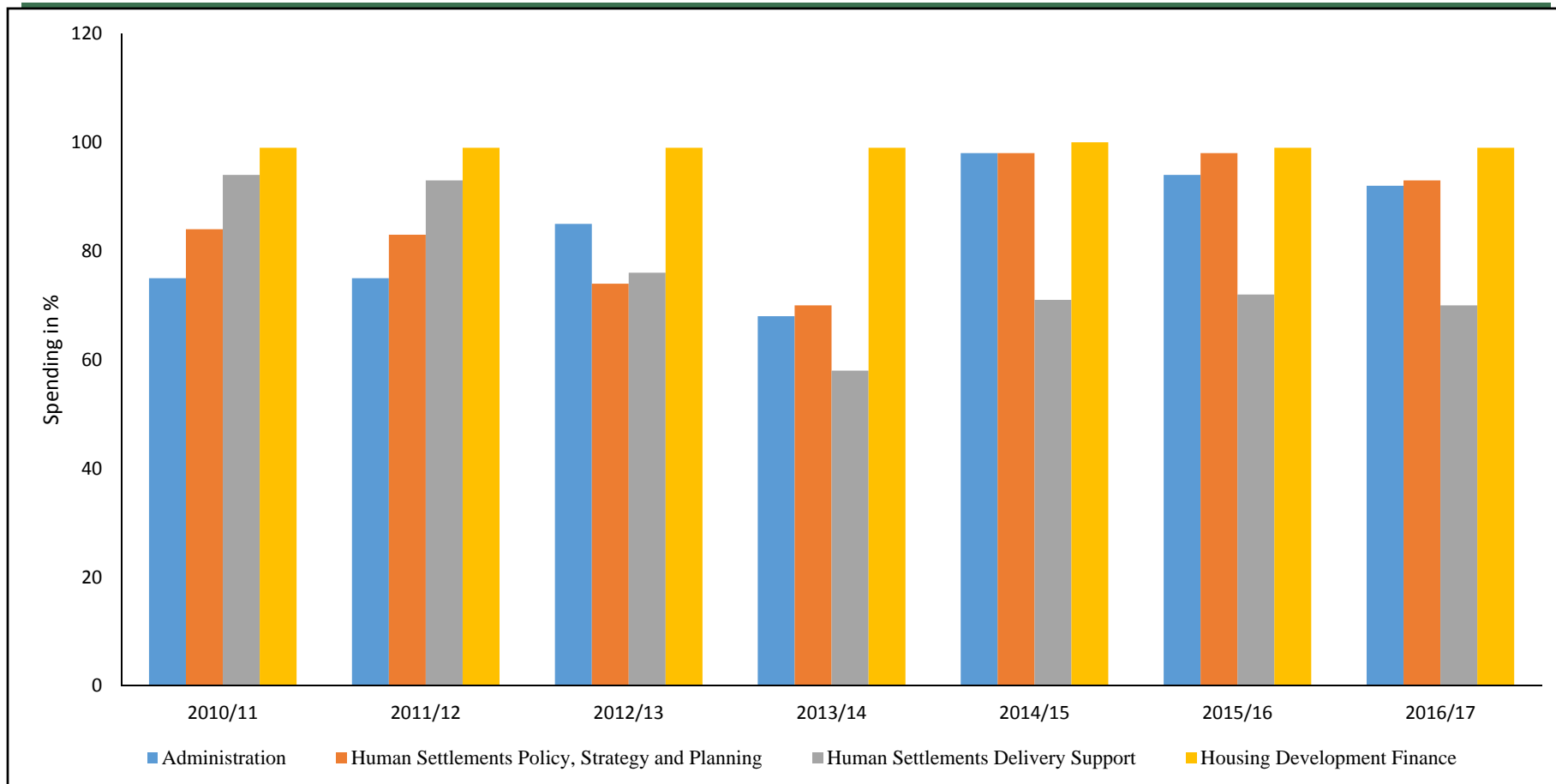
# DEPARTMENTAL EXPENDITURE TRENDS – 2009/10-2016/17

- Average spending performance of the department is 98% of allocated funds
- Slight dip in performance in 2012/13 F/Y mainly attributed to the poor performance of RHIG (now shifted to DWS)





# SPENDING PERFORMANCE BY PROGRAM 2010/11– 2016/17

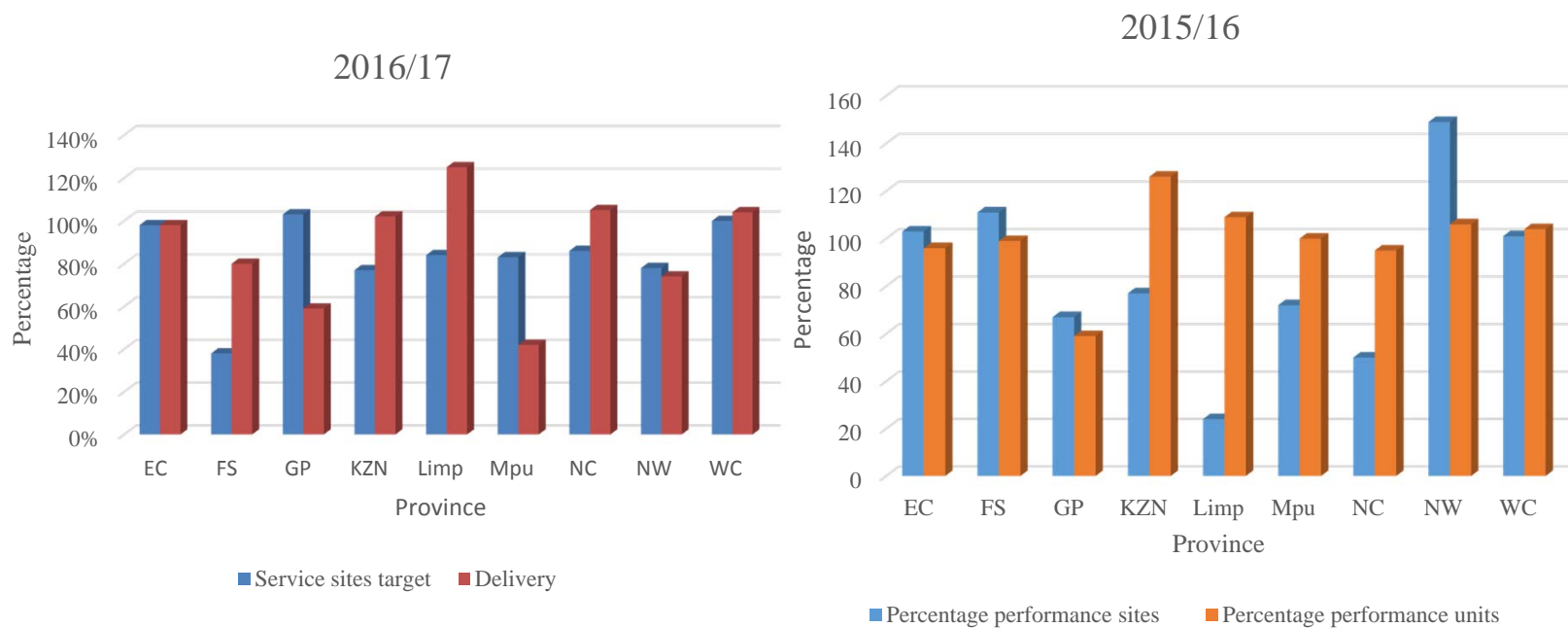


# SPENDING PERFORMANCE BY PROGRAM – 2016/17

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- Program 4 consistently shows good performance over the period with a spending of 99% in 2016/17
- While the overall performance is good, the Commission has concerns with respect to the following:
  - Material underspending with respect to program 3 since 2013/14
    - Mainly on compensation of employees,
    - implementation of NUSP running behind schedule and
    - SITA not providing required services as per service level agreement and could not be paid

# OUTCOME PERFORMANCE - SITES AND UNITS TARGETED, PLANNED AND DELIVERED 2015/16 & 2016/17



# OUTCOME PERFORMANCE – OTHER TARGETS AND ACTUAL PERFORMANCE 2015/16

150 000 households to be upgraded to phase 2 of the UISP 2015/16 – 150 000 2016/17 – 108 039	52 349 upgraded 75 941 upgraded	34.8% 70.2%
Capacity building programme 2015/16 - 10 municipalities 2016/17 – 53 municipalities	Not implemented at all 63	0% 118%
14 400 affordable rental housing opportunities	12 097 provided	84%
Additional housing units 2015/16 - 103 983 2016/17 – 108 017	99 904 units delivered 90 692	96% 83.9%
Number of FLISP subsidies 2015/16 – 12 929 2016/17 -17 231	253 approved 22 660	17.4% 15.4%



## 6. SELECTED AG FINDINGS

# SELECTED AUDITOR-GENERAL FINDINGS

- Other issues raised by the AG over the past three years and progress made is summarised in the following table

Material underspending	Prog 2 and RHIG.	Prog 3. There was still poor performance: RHIG which has been moved to DWS	Prog 3.	No material underspending
Usefulness and reliability of reported performance info	Target were found not reliable when compared to the source information or evidence provided	Significant key targets were not reliable when compared to the source information or evidence provided – lack of standards operating procedures for recording actual achievement	No material findings	Prog 2. No sufficient evidence for reported performance on title deeds – due to the lack of documentation

## SELECTED AUDITOR-GENERAL FINDINGS

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- On compliance with legislation, AG identified the following:
  - Financial statements were not prepared in accordance with PFMA (40(1)(b)) in 2015/16 and 2016/17
- Fruitless and wasteful expenditure incurred due to inadequate preventative controls



# 7. RECOMMENDATIONS – 2018/19

## DOR



# RECOMMENDATIONS

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- The Department of Human Settlements should undertake a review of the Finance Linked Individual Subsidy Programme (FLISP) to find ways of ensuring that qualifying individuals who are single and without dependants are included as beneficiaries from the programme and that FLISP is implemented in a standardised manner across provinces
- Provincial departments of human settlements and other key departments including the provincial departments of basic education and transport should align their delivery plans particularly for new human settlements development. This can be done by
  - Establishing functional inter-sectoral coordination committees where relevant departments will meet to discuss new infrastructure development projects relating to habitable human settlements
  - Ensuring that the portion of the Education Infrastructure Grant and funding from the Provincial Equitable Share are aligned to the portion of the Human Settlements Development Grant for new housing developments

# CONCLUSION

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- DHS's overall spending performance has been good over the last 7 years – average spending over 98% of allocated funds
  - However, there is a consistent under-performance with respect to program 3
- Number of households provided with housing opportunities continues to decrease
- Targets set for 2016/17 under-achieved and this raises concerns particularly in the Gauteng province which has three metros and experiencing in-migration
- While target for capacitating municipalities has been over-achieved, there has been slow progress with respect to finalization of new/revised accreditation framework
- Generally, there has been an improvement with respect to AG's findings in 2015/16 compared to previous years. However of concern are issues relating to underspending in programme 3 and the consistent failure of DHS to prepare financial statements in accordance with PFMA (40(1)(b))

# FFC'S WEBSITE: WWW.FFC.CO.ZA



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