



BRIEFING TO THE PORTFOLIO COMMITTEE ON HUMAN SETTLEMENTS

13 October 2015

For an Equitable Sharing of National Revenue

PRESENTATION OUTLINE

- Role and function of the Financial and Fiscal Commission
- Mandate of Department of Human Settlements (DHS) and Housing Policy Framework
- Human Settlements and the Macro-Economic Environment
- Budget Analysis and Performance
- Conclusions

ROLE AND FUNCTION OF THE FFC

- 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

MANDATE OF THE DHS AND STRATEGIC GOALS FOR 2013/14

- Purpose – Facilitate the creation of sustainable human settlements and improve the quality of the lives of households
- Mandate
 - Determine national policy including norms and standards
 - Determining national housing delivery goals
 - Monitor the financial and non-financial performance of provinces and municipalities
 - Assist in capacity building where necessary
- Departmental strategic goals:
 - Accelerated delivery of housing opportunities
 - Access to basic services
 - Efficient utilisation of land for human settlements development
 - Improved property market

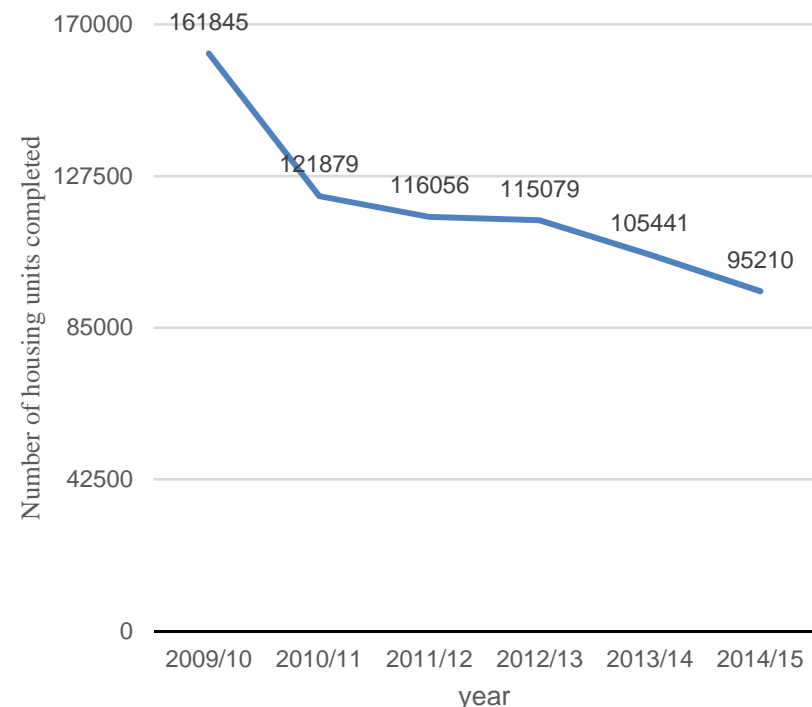
MEDIUM TERM STRATEGIC FRAMEWORK

2014 -2019

- Medium Term Strategic Framework 2014-2019 seeks to achieve sustainable human settlements and improved quality of life and has the following priorities
 - Prioritise adequate housing and improved quality of life with approximately 1.4 million more households in new or improved housing conditions
 - Residential property market with a target of 110 000 new housing units delivered in the affordable gap market
 - Enhance institutional capacity with a target of 49 municipalities assigned or accredited with the housing function
 - Provide title deeds for all 563 000 new subsidised housing units and address the backlog of 900 000 title deeds
 - Expanding informal settlement upgrading to cover 750 000 households

HOUSING POLICY REGIME AND DELIVERY

- Period post 2009
 - Adoption of Outcome 8 and NDP
 - State guarantee fund for the Housing Gap Market
 - Uncertainty on housing function shift and funding (MHSCG)
 - Transfer of sanitation function to DWS
 - Increasing contraction in the number of houses delivered per annum



HUMAN SETTLEMENTS AND ECONOMIC PERFORMANCE

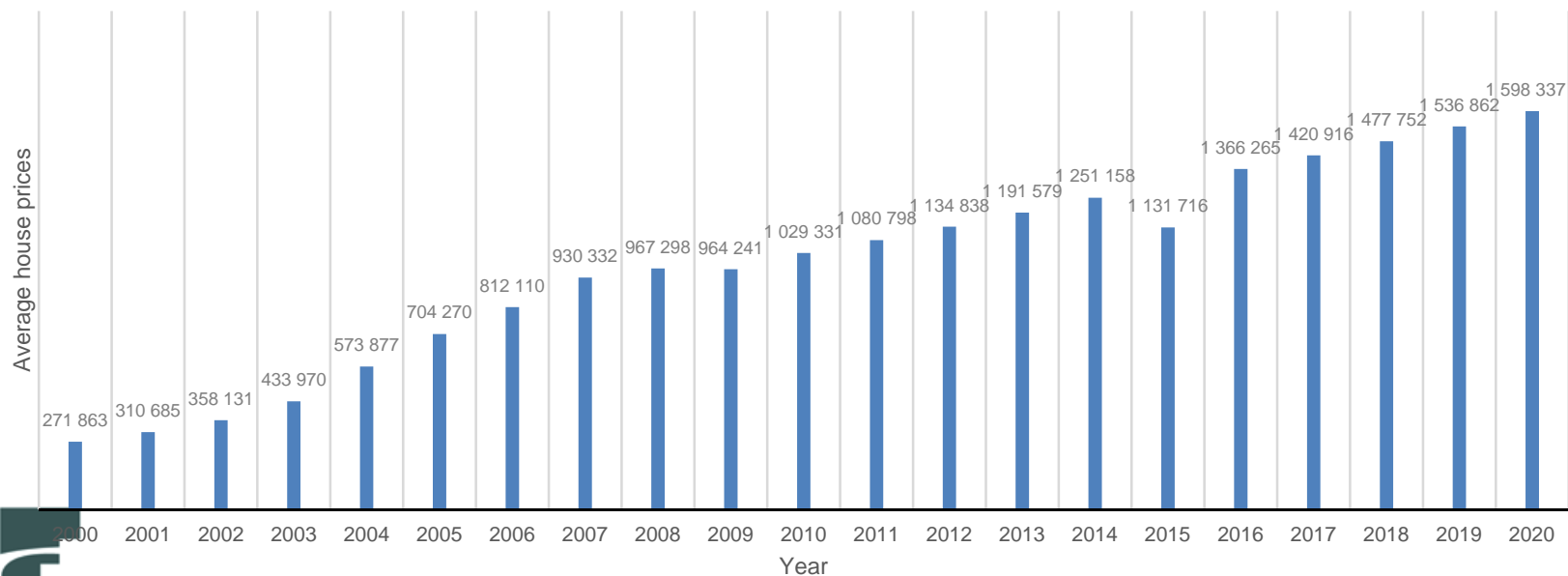
- Property market remains buoyant despite the weak macroeconomic outlook
 - Residential building is slowing down
- Prices are steadily normalising to correct for the boom that occurred between 2000 and 2007
 - House prices rose by an average of 20% per annum between 2000 and 2007
 - With the exception of 2012 prices have been declining in real terms
- Inflation pressures likely to push prices down

HUMAN SETTLEMENTS AND THE ECONOMY

- High prices and interest rates deter access to houses, especially for low income earners.
 - Average price of small homes (80 – 140 sqm) is R852 000
 - Average interest rates for low income groups generally high
 - Repo rate increased by 75 basis point since January 2014 to date
 - Prior to the most recent increase, interest rates have generally been stable
- Sufficient stock of affordable houses unavailable (below R500 000)
 - Availability of well-located land, high building costs and bulk service – water, electricity etc

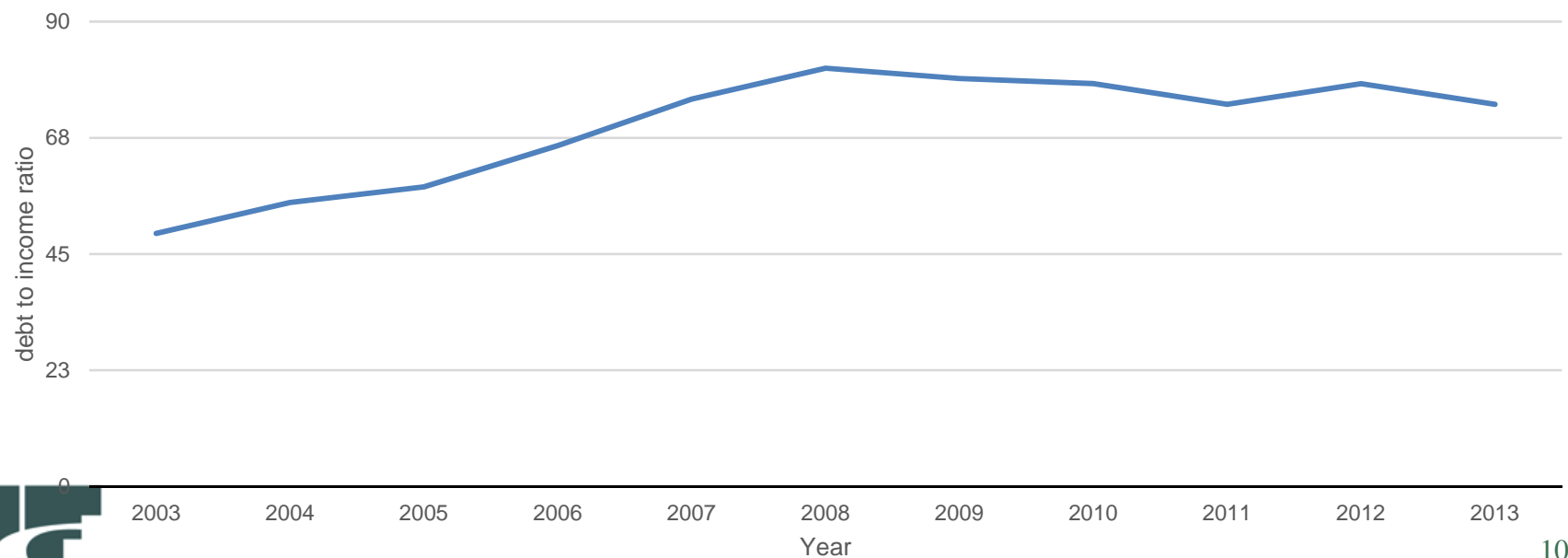
HUMAN SETTLEMENTS AND THE ECONOMY

- Average house prices are beyond affordability thresholds of many households
- Average house price in 2015 is R1.3 million



HUMAN SETTLEMENTS AND THE ECONOMY

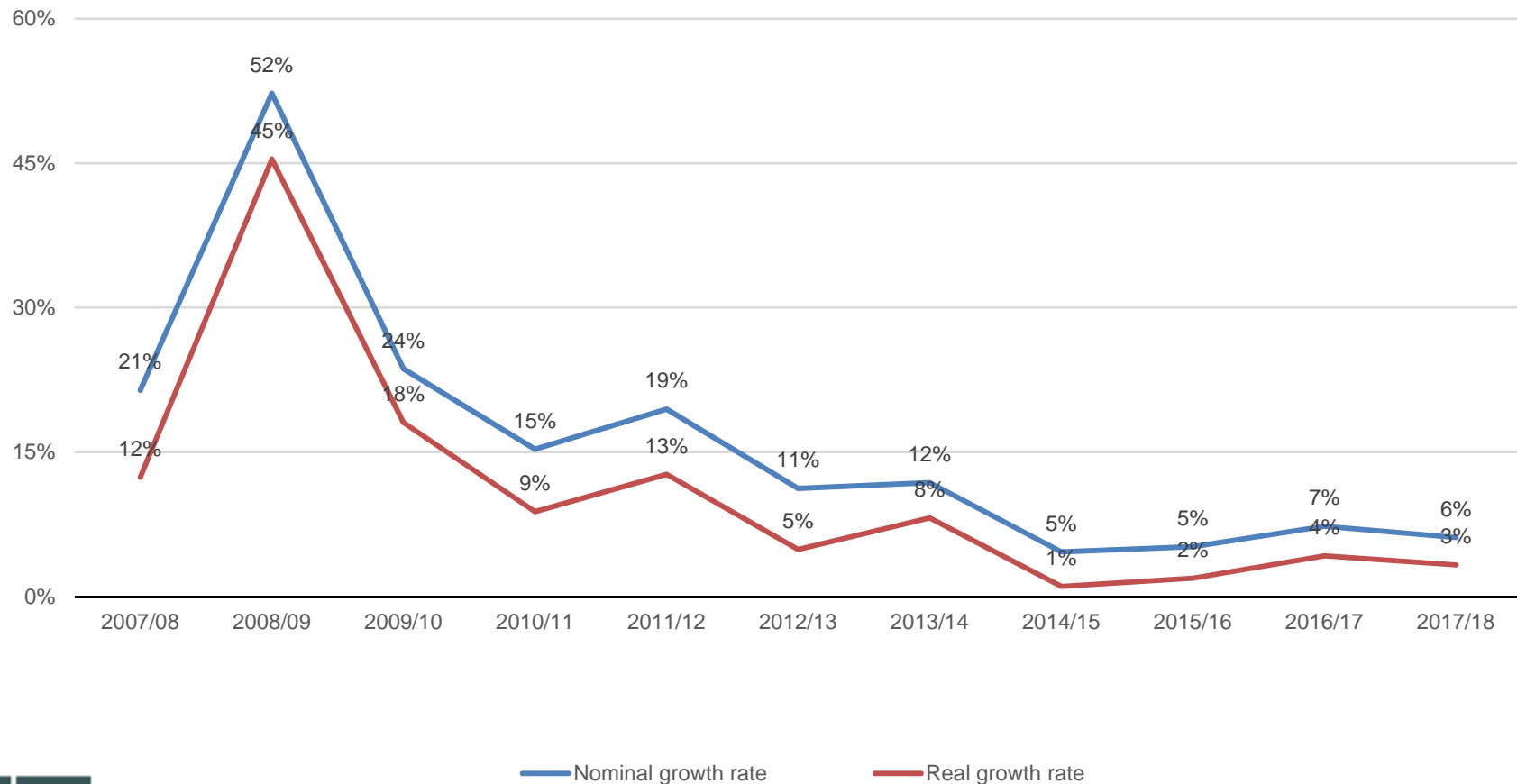
- 75% of households are highly indebted
- High debt levels impair ability to access finance and service bonds



NOMINAL BUDGET ALLOCATION (R' MIL) - 2006/07 – 2016/17

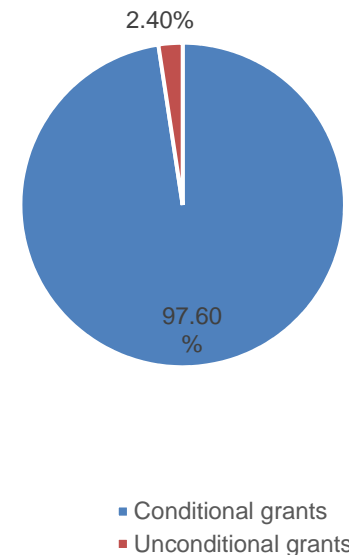
Financial year	Budget allocation (R' Millions)
2006/7	7 178
2007/8	8 716
2008/9	13 270
2009/10	16 407
2010/11	18 917
2011/12	22 599
2012/13	25 138
2013/14	28 111
2014/15	29 417
2015/16	30 943
2016/17	33 206
2017/18	35 246

NOMINAL AND REAL GROWTH RATE OF TOTAL DHS ALLOCATION- 2006/07 – 2014/15



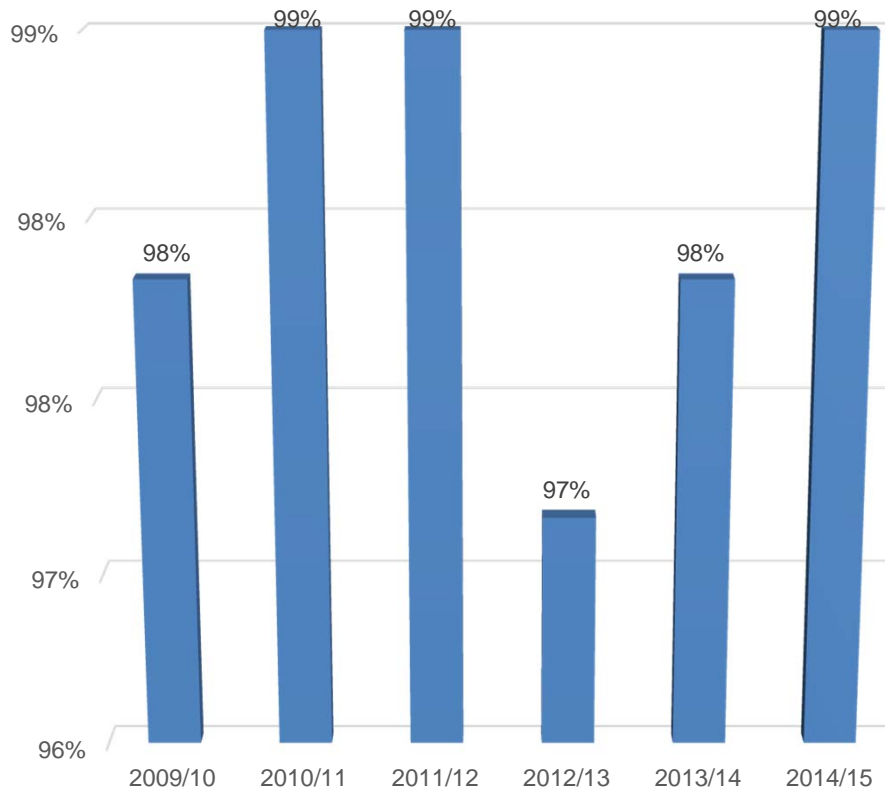
DEPARTMENTAL ALLOCATION BY SOURCE – 2014/15

- Program 4 – Housing Development Finance: Conditional grants (HSDG, USDG and RHIG) took R28.7 billion (97.6%) of the total allocation of R29.4 billion
- Programs 1 Administration, 2 Human Settlements Policy, strategy and planning & 3 Delivery Support took only 2.40% of the total allocation

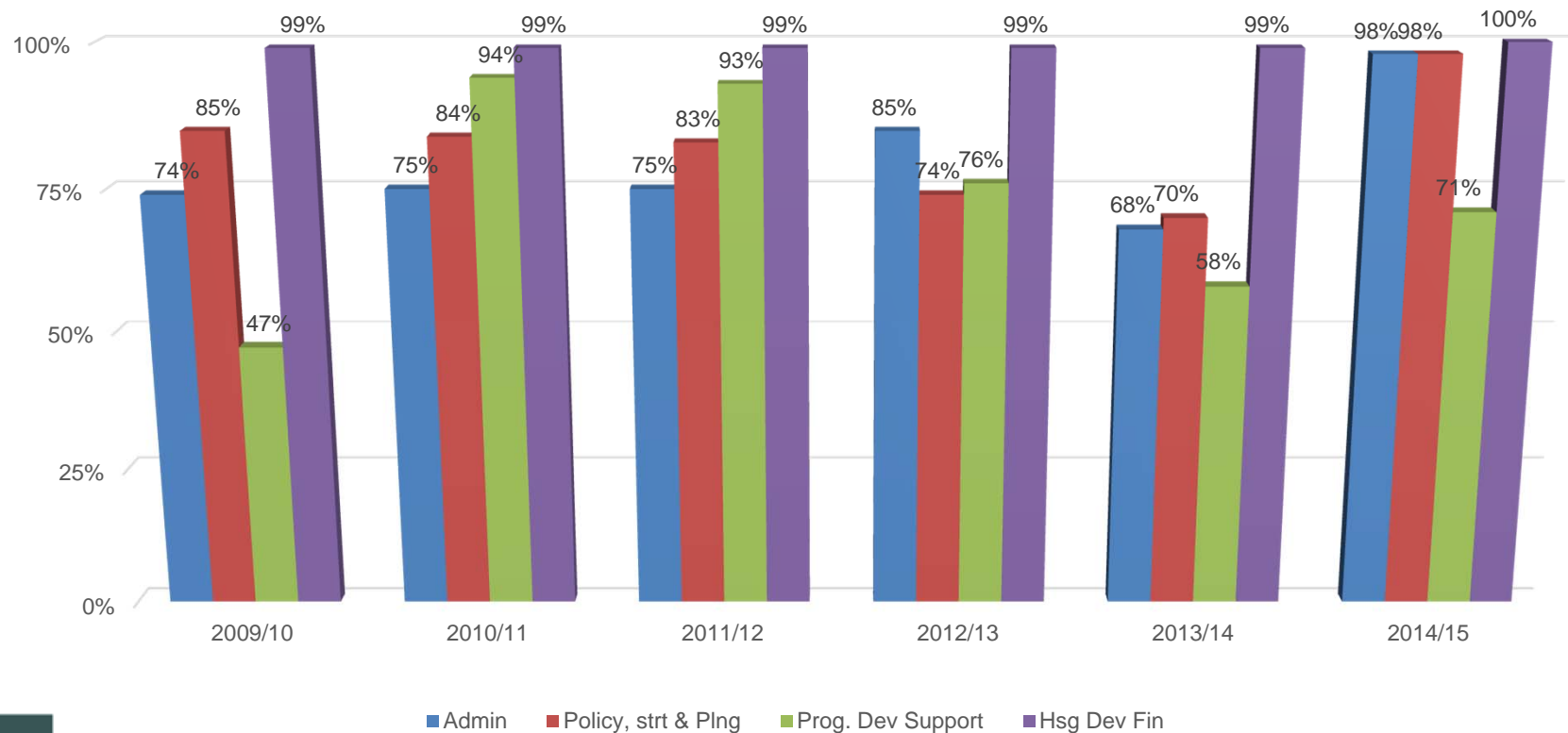


DEPARTMENTAL EXPENDITURE TRENDS – 2009/10-2014/15

- 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 and stopped HSDG to Limpopo and Eastern Cape



SPENDING PERFORMANCE BY PROGRAM 2009/10–2014/15



SPENDING PERFORMANCE BY PROGRAM – 2014/15

- Program 4 consistently shows good performance over the period
 - For 2014/15, R16.9 billion of R17 billion was spent representing a spending rate of 98%
- Commission observations with respect to the HSDG
 - In 2011/12, concerns were raised by the Commission on the Eastern Cape and Limpopo – with 82% and 83% spending respectively
 - Recommended that DHS determine underlying reasons for poor performance in these provinces
 - In 2012/13, the Commission raised concerns as R330,9 million due to the Eastern Cape and Limpopo was stopped due to under-performance
 - The Commission recommended that the underlying causes be determined by DHS working closely with these provinces and ensure that these provinces are compensated in the following year in order to ensure that individuals who are targeted to benefit are not deprived

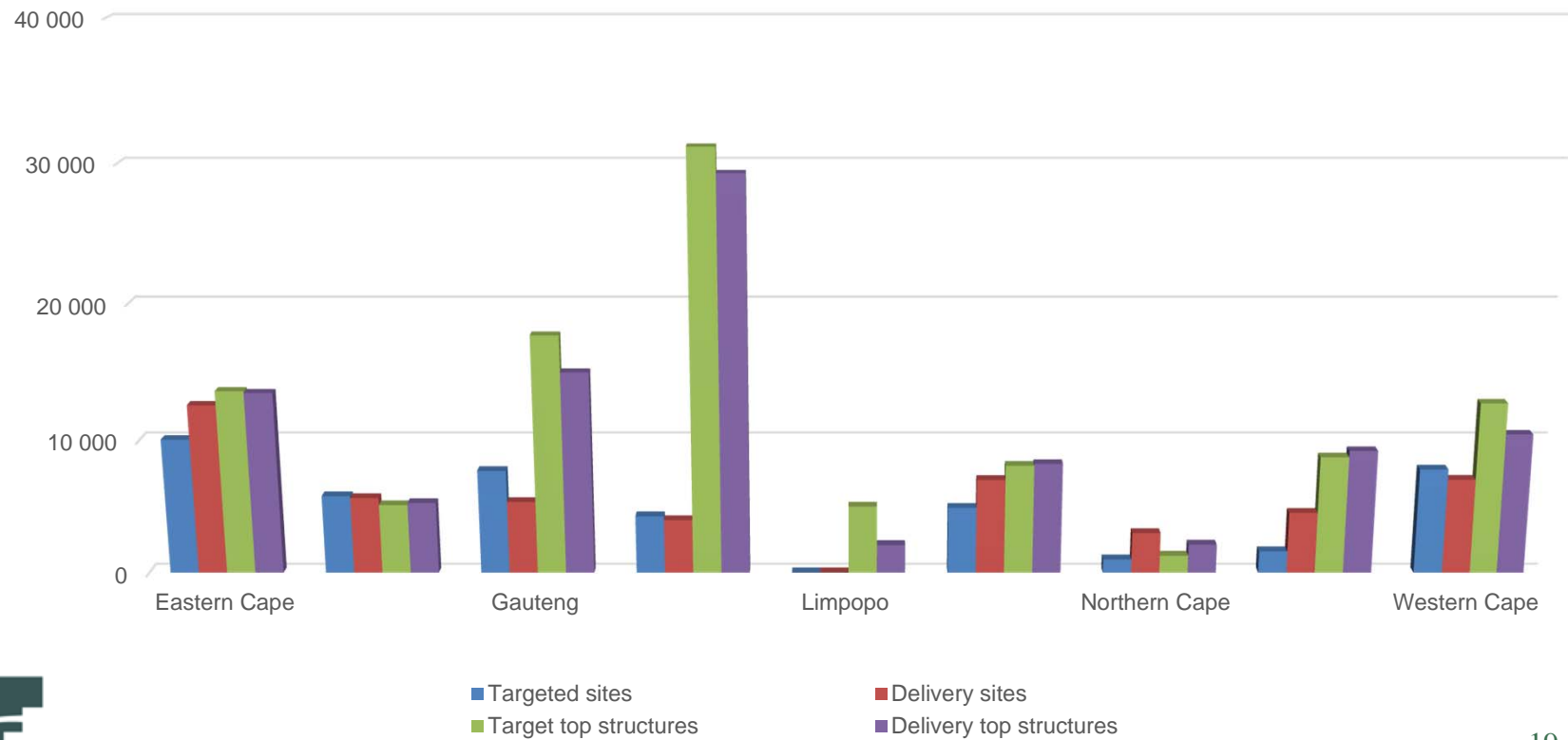
SPENDING PERFORMANCE BY PROGRAM – 2014/15

- In 2013/14 – though spending is about 99.6%, material underspending of HSDG in Limpopo was experienced:
 - Spending was only at 44% of allocated funds
 - R644 million was relocated to other provinces
- It is a concern that again in 2014/15 an amount of R599.5 million was stopped from Limpopo province and reallocated to other provinces due the province's persistent underspending

SPENDING PERFORMANCE BY PROGRAM – 2014/15

- Material under-spending in the following grants
 - USDG: less than 50% spent by March 2015
 - DHS will have to determine reasons for this underspending and together with affected metros jointly develop a strategy to improve performance
 - The Commission has in the past recommended that municipalities that have demonstrated to have capacity to deliver housing be accredited with a housing function and DHS supported this recommendation
 - Introduction of MHSCG in 2014/15 was aimed to operationalise accreditation/function shift, however, of R300 million allocated only R25.5 million was spent by March 2015 (representing only 8.5% of allocated funds)
 - The funds were withheld due to MinMEC resolutions, and only released on 02 March 2015, which is the last month of the financial year
 - The Commission is concern with this as it undermines credibility of DOR processes
 - While there is an improvement with respect to program 1 and 2 compared to previous two financial years, program 3 under-spending remains high at 29% for 2014/15
 - Due to a number of reasons including late start of the NUSP

OUTCOME PERFORMANCE - SITES AND UNITS TARGETS PLANNED AND DELIVERED 2014/15



FINANCIAL PERFORMANCE OF PUBLIC CORPORATIONS AND ENTITIES

Name of entity	Total allocation (R'000)	Total transferred (R'000)	Amount spent (R'000)
Social Housing Regulatory Authority	631 023	631 023	85 300 Spending - 14%
Housing Development Agency	121 047	121 047	103 000 Spending – 85%
National Housing Finance Cooperation	230 000	230 000	234 000 Spending – 102%

SELECTED AUDITOR-GENERAL FINDINGS

- 2014/15: Material underspending on program 3 – allocated budget amounted to R168 974 000 and only 70.6% was spent
 - The Commission has also raised concerns on this issue as the program has a history of underspending in the past three years

Year	Underspending
2012/13	36%
2013/14	55%
2014/15	29%

- This has a negative impact on the achievement of determined objectives

SELECTED AUDITOR-GENERAL FINDINGS

- Targets were not reliable when compared to the source information or evidence provided
 - Due to the lack of standard operating procedures for the accurate recording
 - The Commission in its presentation to PCHS in 2013 and 2014 also raised concerns on non-reliability of targets set and evidence provided as well as lack of systems and procedures
 - Hence recommendation was made that systems need to be developed and operating procedure be put in place

HOUSING ACCREDITATION POLICY UNCERTAINTIES

- The Commission supported the shifting of housing function to Metros – as this was consistent with its recommendations.
- The decision to delay the shift poses financial risks to municipalities thereby potentially undermining integrity of the IGFR system
 - New grants were introduced in anticipation of the shift
- Subsequent delays in transferring the human settlement capacity grant to metros are a serious concern



– Uncertainties resulted in premature termination of the grant

IMPACT OF ACCREDITATION UNCERTAINTIES ON DoR

- Accreditation uncertainties have resulted in significant underspending on the HSCG
- Grant baseline allocation reduced from R300 million in 2014/15 to R100 million in 2015/16
 - From 2016/17 onwards USDG allocation will be used to for capacity
- Unlike USDG, the HSCG was intended to prepare metros for taking over housing function

Human Settlement Capacity Grant		
	Allocation 2014/15	Underspending 2014/15
Nelson Mandela	37707	63%
Ekurhuleni	52374	97%
City of Johannesburg	59573	100%
City of Tshwane	47506	25%
eThekweni	52469	71%
City of Cape Town	50371	62%

CONCLUSIONS

- The department's overall performance has improved significantly over the last 5 years - average spending over 98% of allocated funds
- Targets set for 2014/15 with respect to sites and top structures were narrowly missed in some provinces
 - Concerns with Limpopo: no targets were set for sites and with respect to top structure only about 42% was delivered while funds have been reallocated to other provinces for three consecutive years
- MHSCG has recorded a spending of only 8.5% due to late release funds of to municipalities by the Department
 - The grant will be discontinued in 2016/17
 - The Commission is of the view that this creates uncertainty, affects metros overall planning process and undermines the integrity of the IGFR system

CONCLUSIONS

- Program 3 remains a concern in respect of spending performance
 - where under-spending was 36% in 2012/13 and increased to 55% in 2013/14 and is 29% in 2014/15
- The Commission previously recommended that DHS should strengthen its monitoring and put performance management systems in place as indicated by the AG
 - The recommendation has been accepted but reporting on performance information remains poor



THANK YOU.

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