

2020

Housing Development Agency (HDA)

*Developing Housing Solutions, Managing
Quality*

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NATIONAL TREASURY

CONTENTS

1	Executive Summary	1
2	Summary	2
3	Introduction	5
3.1	Purpose of the spending review	5
3.2	Report outline	6
4	Legislation, policy and institutional landscape	6
4.1	Overarching legislation for housing sector	6
4.2	Legislation for the Housing Development Agency	7
4.3	The concurrent nature of housing delivery responsibilities	9
4.3.1	National Sphere	9
4.3.2	Provincial Sphere	9
4.3.3	Municipal Sphere	10
4.3.4	Other stakeholders in the value chain	10
5	Programme Chain of Delivery	14
6	Performance Analysis	16
6.1	Aggregate delivery outcomes	16
6.1.1	Land acquisition	16
6.1.2	Serviced Sites	17
6.1.3	Housing Units	18
6.2	National Priority Programmes	19
6.3	Analysis of provincial performance outcomes	20
6.3.1	Eastern Cape performance	20
6.3.2	Gauteng performance	21
6.3.3	Western Cape performance	22
7	Revenue and Expenditure Observations	23
7.1	Data sources for the review	23
7.2	Revenue and Expenditure trends	23

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7.2.1	Provincial revenue - HSDG	25
7.2.2	Components of expenditure	28
7.2.3	Project obligations	29
8	Recommendations	30
9	Possible measure to take forward	32

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1 Executive Summary

The purpose of this spending review is to quantify the value added by services rendered by the Housing Development Agency over a three-year reporting period from 2016/17 to 2018/19. The Housing Development Agency (HDA) is a schedule 3A public entity of the National Department of Human Settlements established in terms of the Housing Development Agency Act of 2008. The HDA is mandated to fast-track housing development processes mainly through land acquisition, developmental and project management services. The HDA implements housing projects on behalf of provinces and municipalities and provides project management and technical support services in the housing development process.

This review has found that there are duplicated functions on land identification, planning and development between the Housing Act (1997) which gives the said functions to municipalities and the Housing Development Agency Act (2008) which gives the functions to the HDA. This duplication requires the National Department of Human Settlements to review and amend the Housing Development Agency Act to ensure that HDA functions do not encroach on municipal functions.

The HDA's total revenue from 2016/17 to 2018/19 amounted to R1.040 billion, increasing at an annual growth rate of 19%. Revenue comprises operational transfers, provincial transfers and own revenues from service fees. Total expenditure amounted to R1.007 billion, having increased at a faster pace than revenue at an annual growth rate of 26% over the three-year period.

Over the same period, the agency received R4.9 billion of provincial transfers (funded from the Human Settlements Development Grant allocations) of which only R317.9 million or 6.5% was recognised as revenue over the three-years. Of these receipts, R796.9 million has gone unaccounted for in the HDA's financials. Considering that the bulk of these provincial transfers are paid out in contravention of section 17 of the Division of Revenue Act, the National Department of Human Settlements must enforce provincial compliance in line with its powers as the transferring officer of the grant.

The main cost driver for expenditure is compensation of employees which represents 46% of total spending. Compensation of employees has increased at excessive rate of more than 20% year-on-year over the three-years. Overall, operating expenses

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accounted for 68% of total spending. The HDA must manage compensation of employees and other operating cost escalations to curb excessive growth trends.

This review has found that there are various data limitations and non-financial performance gaps that require concerted efforts from the HDA to improve reporting outcomes.

2 Summary

A spending review was undertaken on the Housing Development Agency (HDA) – a schedule 3A public entity of the National Department of Human Settlements. The HDA was established in terms of the Housing Development Agency Act (2008) to identify, acquire, hold, develop and release state, communal and privately owned land for residential and community purposes and to project manage housing development services for the creation of sustainable human settlements.

Provincial Departments of Human Settlements and municipalities contract the Housing Development Agency to project manage and or implement various housing projects on their behalf. Thus the purpose of this review is to quantify the value added in services rendered by the Housing Development Agency over the period 2016/17 – 2018/19.

Key findings

- This review found that while the Housing Development Agency Act (2008) mandates the HDA to acquire, develop and release land for housing developments and to plan for and manage land developments for housing interventions, the Act gives the HDA functions which are already designated as municipal functions in the Housing Act (1997).
- The HDA acquired 12 741 hectares of land against a target of 8 000 hectares, and provided 23 284 serviced sites against a target of 23 751. The entity has consistently underperformed on the annual delivery of housing units, having delivered only 20 006 top structures against a target of 25 306 units of the three-year period.
- Total revenue and expenditure over the period amounted to R1.040 billion and R1.007 billion respectively. Revenue has increased at annual growth rate of 19% while expenditure has increased at a faster pace of 26%.

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- Revenue comprises of operational transfers from the National Department of Human Settlements at R590.4 million (57% of revenue); transfers from provincial departments of human settlements at R317.9 million (31% of revenue) and own revenues from project management fees, rental and interest income at R132 million (12% of revenue).
- The HDA only recognises marginal portions of provincial transfers as revenue. Of the R4.9 billion provincial transfers (funded from the Human Settlements Development Grant) received only R317.9 million or 6.5% was recognised as revenue. The HDA records provincial transfers as liabilities in the year of receipt and recognises portions of the transfers as revenue when corresponding project expenses are incurred. Thus the HDA accrues large fiscal transfers which remain unspent for considerable amounts of time.
- There are significant amounts of provincial transfers which are unaccounted for in the HDA's books. R158.5 million of the total R1.1 billion transferred in 2016/17; R312.5 million of the R2.6 billion transferred in 2017/18; and R325.9 million of the R1.2 billion transferred in 2018/19 are unaccounted for.
- Total expenditure largely consists of operating expenses at 68% while project expenses account for the remaining 32% of expenditure. Compensation of employees alone is 46% total spending. In each of the three years under review compensation of employees has increased at more than 20% year-on-year and accounted for more than 70% of the annual operational transfers from the National Department of Human Settlements.

Challenges and limitations:

- There was limited cooperation from the HDA, with some requests for information not attended to. Following several requests and three subsequent data submissions from the entity, it became evident the expenditure dataset submitted to National Treasury contained incomplete descriptive details for transactions and could not be used for the review in its current state. As such expenditure analysis in the report is very limited since it was not possible to extract usable expenditure data from the entity's submission.
- A request for project level information was not attended to thus no analysis could be undertaken for specific projects. As a result of data limitations, this review

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could not fully achieve the objective of quantifying the value added by HDA services.

- There is lack of consistency and standardisation on performance reporting across provinces and regions i.e. there are multiple and varying references of the same delivery outcomes contained in the same document and the reporting details are provided at different levels across provinces. This makes benchmarking performance outcomes impossible.
- I was also unable to verify provincial performance delivery outcomes reported in the HDA's annual reports with delivery outcomes in annual reports of provincial departments – provinces do not indicate which delivery outcomes were delivered on their behalf by the HDA.

Recommendations

- To address the duplicated functions, the National Department of Human Settlements should review and amend the Housing Development Agency Act to ensure the functions of the entity do not encroach municipal functions.
- The National Department of Human Settlements on behalf of the executive authority of the HDA, should take actions to address oversight and stakeholder relations issues with the entity.
- The HDA must improve performance reporting to ensure that delivery outcomes are consistent and standardised per region, per province, per project and such delivery outcomes are accurately cross referenced in different sections of the same report.
- The HDA must manage compensation of employees and other operating cost escalations to curb excessive growth and improve its financial management systems to adequately manage provincial project revenues and expenditure records.
- The Housing Development Agency must only accept provincial payments which are:
 - a) processed in line with prescripts of section 17 of the Division of Revenue Act;

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- b) processed on formal invoices which correspond with project milestones for which funds are released at a rate which can be fully utilised by the entity.
- The National Department of Human Settlements must as part of its grant monitoring and oversight role ensure that provincial departments comply with section 17 of the Division of Revenue Act. Where there is non-compliance, the NDHS must utilise its powers as the transferring officer of the grant to enforce provincial compliance.
- Considering data limitations, and the inability to fully achieve the objective of quantifying the value added by HDA services, the contents of this report must be taken forward as a first step to undertake a fully-fledged spending review.

3 Introduction

3.1 Purpose of the spending review

Housing is a concurrent function across the national, provincial and local spheres of government. As each sphere undertakes to fulfil its functions and responsibilities in the housing delivery value chain, it is important to assess the efficiencies and value add in the implementation of housing projects.

The purpose of this report is to quantify the value added in services rendered by the Housing Development Agency (HDA) – a public entity of the National Department of Human Settlements. In particular, the report aims to ascertain if the HDA is best placed to implement housing development projects on behalf of provinces and municipalities and how efficiently and effectively the HDA delivers housing projects. The report further examines whether the HDA is well within its mandate in executing functions in the housing value chain and lastly, the report studies whether the proportion of spending on core functions versus operational and support functions is warranted.

Provincial Departments of Human Settlements and municipalities employ the HDA to project manage or implement housing projects on their behalf. The undertaking of services from the HDA is based on medium-term operational plan agreements and implementation protocols entered into with provinces and municipalities. Payment for these services at a provincial level is largely funded from the Human Settlements

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Development Grant while municipalities use a combination of own revenues and the Urban Settlements Development Grant for metropolitan municipalities.

3.2 Report outline

For purposes of this report, the study focuses on HDA services rendered to provinces. This is mainly due to the ability to accurately track provincial payments to the HDA through the Basic Accounting System and the proportion of revenue generated from provincial projects. Unfortunately for municipalities there is currently no standardised expenditure data showing the required level of details since municipalities are at various stages of implementing the Municipal Standard Chart of Accounts.

The main sources of data for this report are the Basic Accounting System records for the nine provincial departments of Human Settlements, various provincial annual reports and the expenditure data records, annual reports, annual performance and strategic planning documents of the HDA.

The remaining sections of this report will follow the structure detailed here onwards. Section 4 focuses on the legislation, policy and institutional landscape. Section 5 studies the HDA's project delivery chain. Section 6 provides an analysis of the HDA's performance outcomes. Section 7 discusses expenditure trends and observations. Lastly, section 8 and 9 provide recommendations and actions to be implemented going forward.

4 Legislation, policy and institutional landscape

4.1 Overarching legislation for housing sector

Section 26 of the Constitution of the Republic of South Africa (1996) recognises access to adequate housing as a right for all and requires the state to take reasonable legislative and other measures within its available resources, to achieve the progressive realisation of this right.

The Housing Act (1997) provides for the facilitation of a sustainable housing development process, defines the functions of national, provincial and local governments and sets out the general principles applicable to housing development across the three spheres of government. The Act places upon municipalities the responsibility to provide citizens with access to adequate housing. It makes provision for provinces to intervene where municipalities are unable to effectively execute the housing function and also

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places a responsibility on both national and provincial government to support and enhance municipal capacity to implement the housing function.

The Housing White Paper (1994) sets out the national housing strategy for government which aims to improve the quality of lives for all South Africans especially low income households. Accordingly, the housing vision is articulated as the establishment of viable, socially and economically integrated communities, situated in areas allowing convenient access to economic opportunities, as well as to health, educational and social amenities. The National Department of Human Settlements (NDHS) is currently working on reviewing the White Paper which will be referred to as the Human Settlements White Paper to signal the shift of focus from housing to human settlements.

The Housing Code (2009) provides the underlying policy principles, guidelines and norms and standards which apply to various housing programmes that are available to assist low income households to access adequate housing. The above legislative documents serve as the foundation for housing development.

4.2 Legislation for the Housing Development Agency

The Housing Development Agency (HDA) was established in terms of the Housing Development Agency Act (2008) as a schedule 3A national public entity of the NDHS. The HDA was established to facilitate the acquisition of land and landed property through measures that complement the capacities of government across all spheres and fast-track land acquisition and housing development services for the purpose of creating sustainable human settlements.

As per the Act, the objectives of the agency are to:

- *identify, acquire, hold, develop and release state, communal and privately owned land for residential and community purposes and for the creation of sustainable human settlements (this is both an objective s4(a) and a function s7(1)(g)).*
- *project manage housing development services for the purposes of the creation of sustainable human settlements;*
- *ensure and monitor that there is centrally coordinated planning and budgeting of all infrastructure required for housing development; and*
- *monitor the provision of all infrastructure required for housing development.*

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Table 1 below which provides a summary of housing functions as per the Housing Act (1997) and the Housing Development Agency Act (2008). The shapes denoted in the table are colour coded to indicate related functions where squares represent similar functions and the stars represent the same functions.

Table 1. Summary of government's functions as per the Housing Act

<i>Functions of National Government</i>	<i>Functions of Provincial Government</i>	<i>Functions of Local Government</i>	<i>Functions of the HDA</i>
Housing Act			Housing Development Agency Act
Establish and facilitate a sustainable national housing development process	Do everything in its power to promote and facilitate the provision of adequate housing in its province within the framework of national housing policy.	Ensure the inhabitants of its jurisdiction have access to adequate housing on a progressive basis	Develop a development plan to be approved by the Minister in consultation with the relevant authorities in provinces & municipalities
Determine national policy and national norms and standards	Determine provincial policy in respect of housing development	Ensure conditions not conducive to the health and safety of the inhabitants of its jurisdiction are prevented or removed	Develop strategic plans with regard to the identification and acquisition of state, privately and communal owned land which is suitable for residential and community development ★
Set broad national housing delivery goals and assist with setting provincial and local housing delivery goals	Support and capacitate municipalities to effectively perform housing development duties	Ensure that basic services are provided in a manner which is economically efficient	Prepare necessary documentation for consideration and approval by the relevant authorities as may be required in terms of any other applicable law
Monitor the performance of national, provincial and local governments against housing delivery and budgetary goals	Co-ordinate housing development in the province	Set housing delivery goals in respect of its area of jurisdiction	Monitor progress of the development of land and landed property acquired for the purposes of creating sustainable human settlements
Determine a procurement policy which is fair, equitable, transparent, competitive and cost effective	Intervene in municipalities that cannot or do not perform housing development duties	Identify and designate land for housing development ★	Enhance the capacity of organs of state including skills transfer to enable them to meet the demand for housing delivery ■
Assist provinces to develop the administrative capacity to effectively implement their duties in respect of housing development ■	Develop and maintain a multi-year plan for implementing every national and provincial housing programme consistent with national policy ■	Create and maintain a financially and socially viable public environment conducive to housing development	Ensure that there is collaboration and intergovernmental and integrated alignment for housing development services
Support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and perform their duties in respect of housing development ■	Promote the adoption of provincial legislation to ensure effective housing delivery	Promote the resolution of conflicts arising in the housing development process	Identify, acquire, hold, develop and release state, privately and communal owned land for residential and community development ★
Promote consultation on matters regarding housing development between the national, provincial & local government and representatives of civil society; sectors supplying and financing housing goods or services		Initiate plan, co-ordinate, facilitate, promote and enable appropriate housing development in its jurisdiction ★	Undertake such project management services as may be necessary, including assistance relating to approvals required for housing development
		Provide bulk engineering services, and revenue generating services in so far as such services are not provided by specialist utility suppliers;	Contract with any organ of state for the purpose of acquiring available land for residential housing and community development for the creation of sustainable human settlement
		Plan and manage land use and development ★	Assist organs of state in dealing with housing developments that have not been completed within the anticipated project period ■
			Assist organs of state with the upgrading of informal settlements ■
			Assist organs of state in respect of emergency housing solutions ■

- shapes are colour coded across the different stakeholder functions.
- squares represent similar functions, stars represent duplicated functions between municipalities and the HDA

The starred HDA functions in the table above though stated somewhat differently are the same as starred municipal functions which focus on land identification, planning, development and management. This reveals a duplication of functions between local

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government and the HDA indicating that the Housing Development Agency Act (2008) is partly inconsistent with the Housing Act (1997).

The NDHS must therefore amend the Housing Development Agency Act (2008) to ensure that the HDA functions do not encroach but rather support and compliment functions of other organs of state, and in this case, those of municipalities.

4.3 The concurrent nature of housing delivery responsibilities

4.3.1 National Sphere

At the national sphere, the NDHS is responsible for developing policy, guidelines, norms and standards for housing programmes. The NDHS determines also funds housing development across the three spheres of government. The NDHS funds four of its six public entities (the Community Schemes Ombud Service, HDA, National Housing Finance Corporation and Social Housing Regulatory Authority) through operational and specific transfers with the HDA receiving an operational transfer. The NDHS administers and transfers the following conditional grants to provincial departments of Human Settlements and municipalities: Human Settlements Development Grant, Title Deeds Restoration Grant, Provincial Emergency Housing Grant, Urban Settlements Development Grant and the Municipal Emergency Housing Grant.

The National Treasury makes annual budget allocations to the NDHS (which include conditional grants to provinces and municipalities and the transfers to public entities), monitors and provides support and advise to NDHS on budget, policy and legislative matters.

The HDA is responsible for the identification, acquisition, development and release of land for housing developments. It acts as the implementing agent and or programme manager of housing projects on behalf of provinces and municipalities in the housing development process.

4.3.2 Provincial Sphere

Provincial departments of human settlements are mainly responsible for implementing housing programmes and projects. Provincial departments therefore have the authority to make decisions regarding the type and scale of projects to be undertaken and the implementation methods thereof. Payments for housing programmes and the

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appointment of the HDA to implement or manage housing projects are funded from the Human Settlements Development Grant.

4.3.3 Municipal Sphere

In terms of Housing Act (1997), each municipality is responsible for the provision of access to adequate housing to citizens within its municipal jurisdiction. Municipalities utilise own revenues and conditional grants to finance housing related payments which include payment for services rendered by the HDA. For metropolitan municipalities, payments to the HDA may be funded from the Urban Settlements Development Grant.

4.3.4 Other stakeholders in the value chain

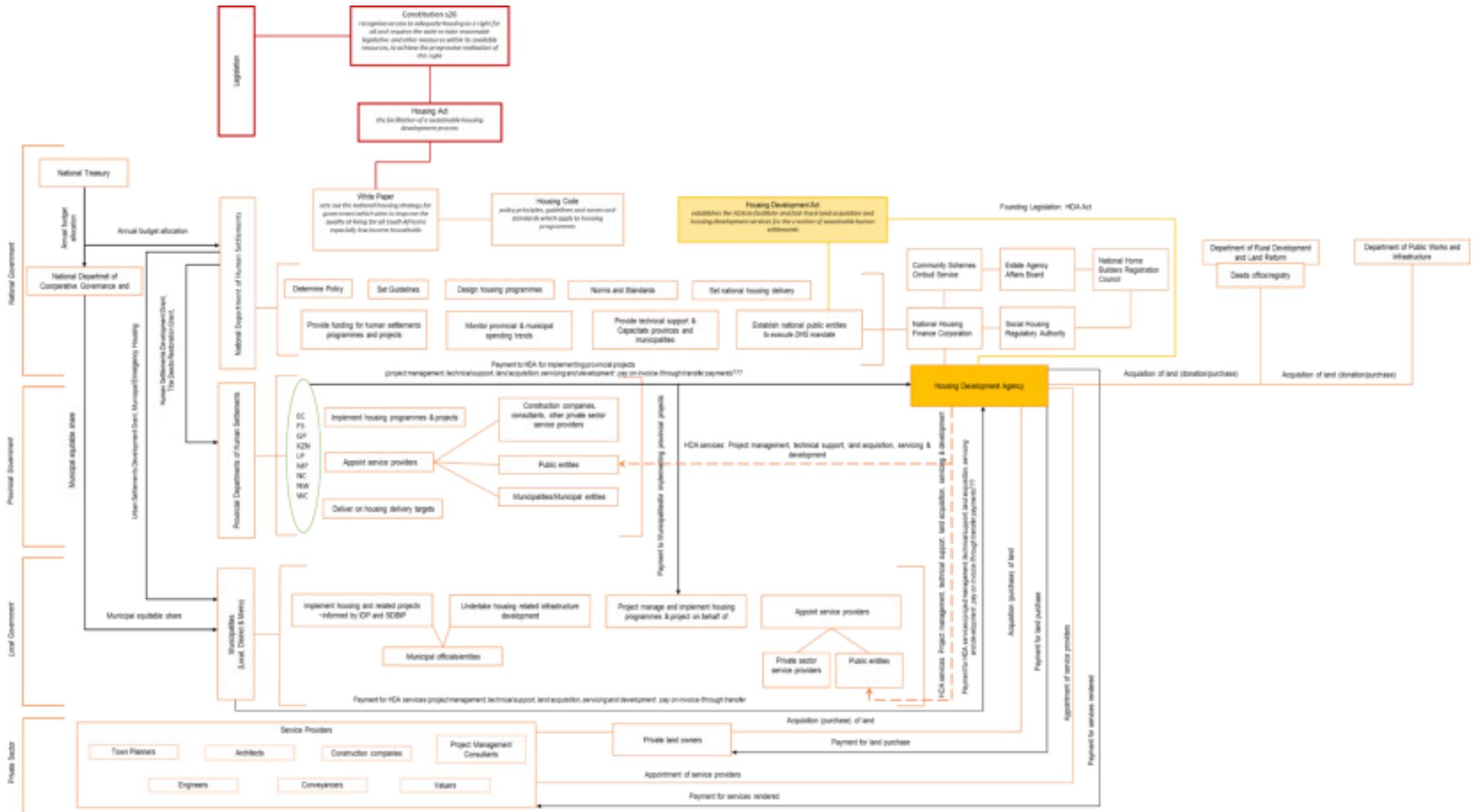
The HDA also interacts with the national departments of Rural Development and Land Reform, and Public Works and Infrastructure on matters relating to state owned land. The HDA acquires land parcels from these departments for use in the housing development process.

To execute its project manager and implementing agent role, the HDA contracts private service providers to offer specialised professional services. The outsourced services are for professionals such as engineers, town planners, project management consultants, conveyancers, construction companies, etc.

The overall institutional relations are summarised in figure 1 below which represents the legislative, policy and institutional relations within which the HDA conducts its work. Figure 2 is a representation of the funding flows.

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Figure 1. Legislation, policy and institutional landscape



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Figure 2. Funding flows

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5 Programme Chain of Delivery

The HDA enters into medium-term operational plan agreements and implementation protocols (contractual agreements) with provinces and municipalities to undertake various housing projects. When appointed as an implementing agent the HDA undertakes to deliver the actual anticipated project outcomes such as land acquisition, development and rezoning, serviced sites or housing units. When appointed as project manager the agency is responsible for planning, organising and controlling activities so that project milestones are achieved successfully.

A large portion of the services rendered by the HDA are outsourced from private sector service providers. This is the case as the entity's staff composition does not comprise of all the necessary specialised professions required for services rendered in housing projects. The in-house skills set is also not sufficient to enable the entity to satisfactorily undertake projects, hence the outsourcing of technical services. The ability to outsource specialised services allows the HDA staffing flexibility and access to expert resources.

A summary of project activities is presented in table 2 below to highlight the various processes undertaken by the HDA. Once an implementation protocol or medium term operational plan is signed with a province, a combination of these activities commences depending on the type and scope of project.

Table 2. Typical project implementation process

Inception	Planning	Implementation
Identify land Verify land ownership & start negotiations Confirm budget for land acquisition Acquire land Transfer land	Appoint Implementing Agent Acquire record of decision (ROD) Undertake feasibility study Develop layout plan Conclude proclamation and registration Obtain approval on development budget Conduct environmental impact assessments Undertake Geotechnical Studies Complete traffic Investigation Carry out land survey Complete social facilitation Approve beneficiary list Design development plan Procurement	Construction of Civil Infrastructure (Bulk) Construction of Civil Infrastructure (Internal Services) Construction of Electrical Infrastructure (Bulk) Construction of Electrical Infrastructure (Internal Services) Construction of Top Structures Construction of Social Amenities Handover & occupation by beneficiaries <i>Programme management, technical assistance & support services</i> Programme/project planning & design Procurement of technical services Project management

Adapted from 2018/19 HDA annual report (pg. 45)

An analysis of the logical framework (annexure A) was compiled to include all possible processes that the HDA may undertake considering the differences in project scope. Some key points revealed by analysis of the logical framework:

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- There is a wide range of activities undertaken by the HDA, the appropriateness of which is determined by the nature of projects. While the activities themselves may be numerous it is the nature of each project that ultimately determines what activities are undertaken.
- The agency outsources a significant portion of professional and technical services from the private sector to be able to provide services to organs of state since it does not have the skills in house. For instance, the agency requires services of engineers and conveyancers – these skills are contracted from the private sector.
- There are multiple planning and statutory approvals required which underpin the work of HDA. For instance, with land acquisition, development and construction of housing units, the HDA must obtain: a deed of sale or transfer; municipal approval and zoning certificates; approved building plans for construction. Other projects may require settlement upgrading plans, approved business plans or project pipeline, etc. It is noted that delays in getting the necessary approvals and finalising plans introduce a major threat to project timelines.

Although each project determines the number of activities required and the sequence thereof, as a collective the various activities detailed in the logical framework ultimately converge to arrive at similar outcomes.

To properly quantify the value added by the HDA and the appropriateness of each set of activities undertaken, there is a need to undertake an analysis of the activities and processes undertaken in each programme in line with business processes. An attempt to complete a logical framework for the entity's separate programmes was not entirely successful. Although a comprehensive draft was put together, engagements with both NDHS and the HDA resolved that there was a need to redo the logical framework. NDHS raised concerns that the current draft was largely forward looking and in line with the HDA's future aspirations while the goal of the review is to assess operational and expenditure trends to date. Unfortunately, an updated draft has yet to be finalised and subsequent efforts to engage with the HDA have been met with unwillingness to cooperate.

The lack of cooperation from the HDA has highlighted the need to rebuild, foster and strengthen relations with the entity as oversight roles and responsibilities have weakened. The NHDS on behalf of the Minister of Human Settlements, Water and

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Sanitation who is the executive authority of the HDA, should take actions to address oversight and stakeholder relations issues with the HDA.

6 Performance Analysis

The sections below study the performance outcomes of the HDA, particularly on the acquisition of land, provision of services sites and the delivery of top structures. The subsequent sections also report on the performance against national priority projects and some provincial specific delivery outcomes.

6.1 Aggregate delivery outcomes

6.1.1 Land acquisition

The HDA was developed to fast-track housing development processes mainly through land acquisition, developmental and project management services. Land availability is a crucial element in housing projects and often serves as a pre-requisite for many housing development projects. Thus in fulfilling its functions, particularly referenced in section 7(1)(g) of the Housing Development Agency Act, the HDA acquires land for housing projects on behalf of provinces and municipalities.

Figure 3. Delivery outcomes on land



Land acquisition in each of the three years (2016/17 – 2018/19,) surpassed annual targets. The HDA acquired approximately 12 741 hectares of land against a target of 8 000 hectares and has accordingly exceeded its 2014/15 – 2018/19 medium term strategic framework target of acquiring and releasing 10 000 hectares of land. As at the

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end of 2018/19, the agency had released a cumulative total of 13 507 hectares of land for human settlements development.

Of the three years under review, more land was acquired in 2016/17 (6 288 hectares) following the release of a substantial piece of land by the KwaZulu Natal provincial government to Indaka Local Municipality. The release of land in 2016/17 represents approximately half of the total land released in the three-year period. Despite land delivery outcomes in 2017/18 at 3 329 hectares and 2018/19 at 3 124 hectares signalling a declining trend, they HDA's performance exceeds annual targets.

The HDA's financial position does not allow for the entity to acquire, hold or develop land with own funds at the scale required by the sector. Thus, although land is often a pre-requisite for housing developments, the entity's land acquisition is largely informed by provincial and municipal needs.

6.1.2 Serviced Sites

Section 7(1)(k) of the HDA Act requires the HDA to assist organs of state with the upgrading of informal settlements. The upgrading of informal settlements programme is one of the three national priority programmes which the HDA is responsible for. This programme is important as it tries to address rapid growth in the number of informal settlements brought on by rapid urban migration.

Figure 4. Delivery outcomes on serviced sites



The agency has reported cumulative delivery of 23 284 serviced sites against a target of 23 751 for the years under review. There is an increasing trend in delivery outcomes

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over the reporting period although the agency significantly under performed in 2016/17. This underperformance was largely due to delays in finalising the scope of projects to be undertaken by the HDA.

The increasing number of serviced sites reflects and is in line with the sector's increasing focus on upgrading informal settlements. Two of the entity's priority programmes: National Upgrading Support Programme (NUSP) and the Revitalization of distressed Mining Towns programme contribute significantly to the overall serviced sites.

6.1.3 Housing Units

Although there are various housing programmes which deliver different outcomes, the delivery of housing units is still the main or ultimate delivery outcome from governments intervention in the housing space. As a result, the HDA undertakes on behalf of provinces and municipalities to deliver and or project manage programmes aimed at delivering housing units.

Figure 5. Delivery outcomes on housing units



Over the three-year period, the HDA has consistently underperformed on delivering housing units, reporting cumulative delivery of 20 006 housing units against a target of 25 306 units. According to the HDA, this is largely attributed to delays in appointing contractors as there was uncertainty regarding timeous receipt of funds from provinces particularly in 2017/18. A significant portion of provincial transfers (R1.9 billion or 72% of the annual R2.6 billion worth of provincial transfers) were processed in last quarter of the 2017/18 financial year. In 2018/19 the agency reportedly experienced delays in

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payments to contractors, community interruptions and interference from local business forums which collectively delayed projects.

Whilst the delivery trend in relation to land and serviced sites is encouraging, the HDA has consistently fell short of delivering expected targets for housing units. Thus the HDA's ability to deliver top structures at the expected pace has yet to be proven.

6.2 National Priority Programmes

The HDA has the responsibility of delivering on three priority programmes the: National Upgrading Support Programme, Revitalization of distressed mining towns programme and Catalytic projects programme. The National Upgrading Support Programme provides technical and capacity support to provinces and municipalities for the upgrading of informal settlements. The mining towns programme aims to improve living conditions within communities in mining towns and transform the areas into sustainable integrated human settlements. The catalytic projects programme delivers large scale, mixed use, mixed income, integrated human settlement developments aimed at providing spatially, socially and economically integrated communities.

Table 3. Performance on National priority programmes

Performance indicators		2016/17			2017/18			2018/19		
		Target	Actual	Indicator description	Target	Actual	Indicator description	Target	Actual	Indicator description
National priority programmes provided with programme management and technical project support	Informal settlements	274	356	Number of ISU projects provided with technical support (pg 36 - 16/17 AR)	5	6	Projects provided with implementation support (pg 55 - 17/18 AR)	5	5	Number of ISU projects provided with implementation support (pg 35 - 18/19 AR)
	Mining towns	2 Reports	22 mining towns	Technical support provided to projects in mining towns (pg 36 - 17/18 AR)	22	22	Technical support provided to projects in mining towns (pg 30 - 17/18 AR)	22	22	Technical support provided to projects in mining towns (pg 37 - 18/19 AR)
		0	6	Completed 6 spatial transformation plans (pg 35 - 16/17 AR)	5	7	Completed transformation plans (pg 56 - 17/18 AR)			
Catalytic projects	50	99	Support provided to catalytic projects (pg 36 - 16/17 AR)	50	58	Number of catalytic projects managed for implementation (pg 30 - 17/18 AR)	50	57	Number of catalytic projects identified and implemented (pg 36 - 18/19 AR)	

The table above is a summary of the performance outcomes reported for the national priority programmes. Allocations for the National Upgrading Support Programme form part of the operational transfer from NDHS and the HDA has discretion on the proportions of expenditure dedicated to NUSP. A total of R2.9 billion had been ring-fenced in the Human Settlements Development Grant for intervention projects in mining towns over the three years under review. For catalytic projects, the entity's financials reflect allocations of R20.6 million in 2016/17 and R19.5 million in 2017/18.

While the entity reports on the number of informal settlements provided with technical or implementation support, it would be helpful if this was reported against by providing

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descriptive details for the various support services and disaggregating or grouping the number of settlements. The same reporting challenges are noticed with technical support provided to mining towns. Although there is a subset of details indicating the number of spatial transformation plans developed, it is unclear as to what support services were provided to the remaining mining towns. Similarly, on catalytic projects, further details on the type of support or implementation services provided to the reported number of projects would enhance the HDA's performance reporting. As it stands, it is not possible to compare or benchmark performance outcomes for each of the three priority programmes. The current high level reporting conceals details of performance outcomes and the extent of work and delivery achieved by the HDA.

6.3 Analysis of provincial performance outcomes

Analysis of the reported performance outcomes in the HDA's annual reports over the three-year period has revealed that there are multiple references of the same performance indicator with different delivery outcomes in each of the annual reports. Moreover, the level of details provided for performance outcomes in the HDA's annual reports is not consistent and standardised across provinces and regions.

An attempt to analyse performance outcomes in three provinces – the Eastern Cape, Gauteng and Western Cape was unsuccessful as provincial delivery outcomes are reflected in aggregate terms. Provincial annual reports do not show which set of delivery outcomes were delivered by the HDA. As such it is not possible to cross reference delivery outcomes between the HDA performance reports and those of provincial departments. Nevertheless, below are some performance outcomes as reported by the HDA.

6.3.1 Eastern Cape performance

Figure 6. Eastern Cape performance outcomes

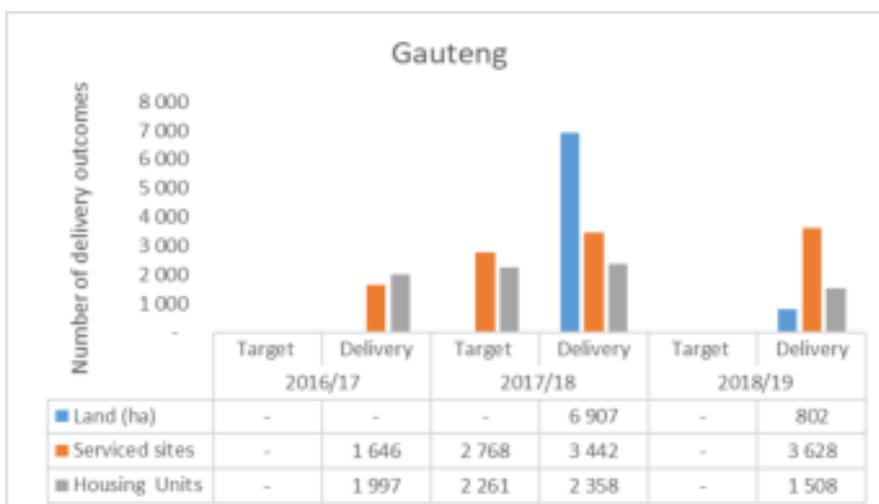
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For the Eastern Cape, the HDA's 2016/17 and 2017/18 annual reports provide performance outcomes only for housing units. In the first year performance represents 99% of the target while only 36% of the target was achieved in the second year. According to the HDA, this low performance is said to have resulted from delays in appointing new contractors. No provincial specific performance outcomes are reported in the 2018/19 annual report instead; it is reported that a strategy for the labour sending areas was developed but not finalised since the agency was placed under administration.

6.3.2 Gauteng performance

Figure 7. Gauteng performance outcomes



There is an increasing trend on serviced sites throughout the three-year period while delivery in housing units decreased quite drastically in the outer year. The agency

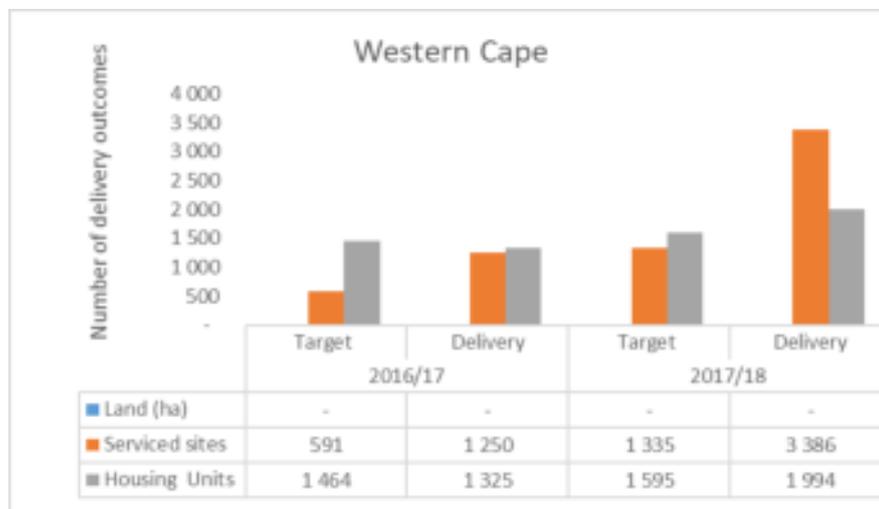
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reports that there were no targets for 2016/17 since Gauteng projects were undertaken in the middle of the financial year. Be that as it may, the contractual agreements entered into should have a set of performance targets to guide and influence the allocations transferred to the agency.

Performance outcomes reported for Gauteng indicate that significant portions of land were acquired in 2017/18. This outcome exceeds the aggregate total of land acquired and released as reported in figure 3 above of 3 329 hectares. It is unclear if these delivery outcomes are accurate and whether they refer to the same indicator. It is impossible that the land acquired for Gauteng exceeds the total delivery outcome for the entity.

6.3.3 Western Cape performance

Figure 8. Western Cape performance outcomes



In the Western Cape, performance data in the first two years relates to serviced sites and housing units. Delivery trends on serviced sites is increasing and far exceeds annual targets whereas delivery on housing units fell short of targets in the first year but exceeds the target in the second year. No delivery outcomes are provided for Western Cape in the outer year.

While the above figures attempt to depict provincial performance outcomes as reported in the HDA's annual report, it is by no means a comprehensive set of the delivery outcomes achieved over this reporting period. There are references in delivery

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outcomes contained in the annual reports for which there is no provincial breakdown. For instance, there are aggregate delivery outcomes reported at regional level without specific details per province which does not align with individual provincial delivery stated elsewhere in the annual reports. There are also delivery outcomes on other indicators which are reported only in aggregate terms with no details for provinces, municipalities or projects.

7 Revenue and Expenditure Observations

7.1 Data sources for the review

After several requests for granular data to be used in the spending review, the HDA submitted a set of general ledger accounts. Although these accounts contained lots of information, they also contained lots limitations. The accounts contained multiple repeated entries, entries without proper descriptions and entries with only reference numbers or codes as descriptions. This made it difficult to extract, clean and consolidate data into suitable formats for the review.

A request on project specific information was not attended to. The aim was to gather expenditure and performance information on specific projects which would at least allow for some analysis on components of expenditure at a project level. This request was made based on the assumption that the HDA would have and keep project reports which are updated frequently and used to monitor progress. Unfortunately, the HDA did not cooperate in this regard.

Whilst the challenges with data presented a huge limitation, extracting data records from the Basic Accounting System proved helpful to study provincial transfer payments made to the HDA. These reports along with the entity's annual reports served as the main data sources for this report.

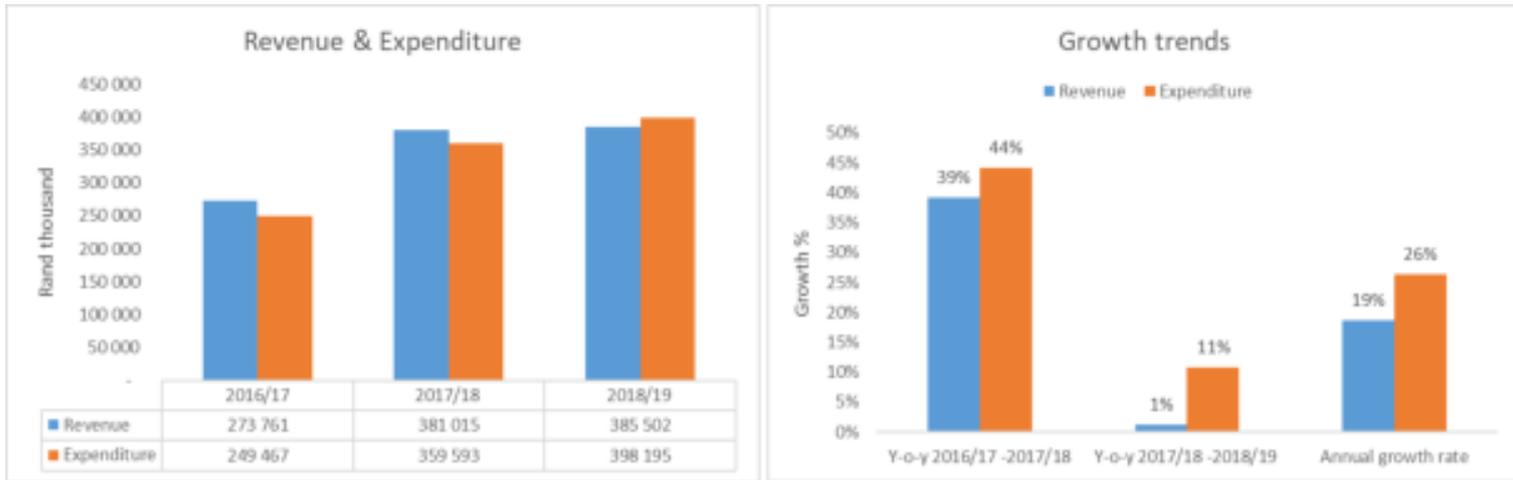
7.2 Revenue and Expenditure trends

The HDA's total revenue and expenditure over 2016/17 – 2018/19 amounted to R1.040 billion and R1.007 billion respectively. Revenue has increased at annual growth rate of 19% while expenditure has increased at a faster pace at annual growth rate of 26% over the three-year period. In the first two years of the period under review the agency's revenue covered spending levels, however in the outer year expenditure exceeded

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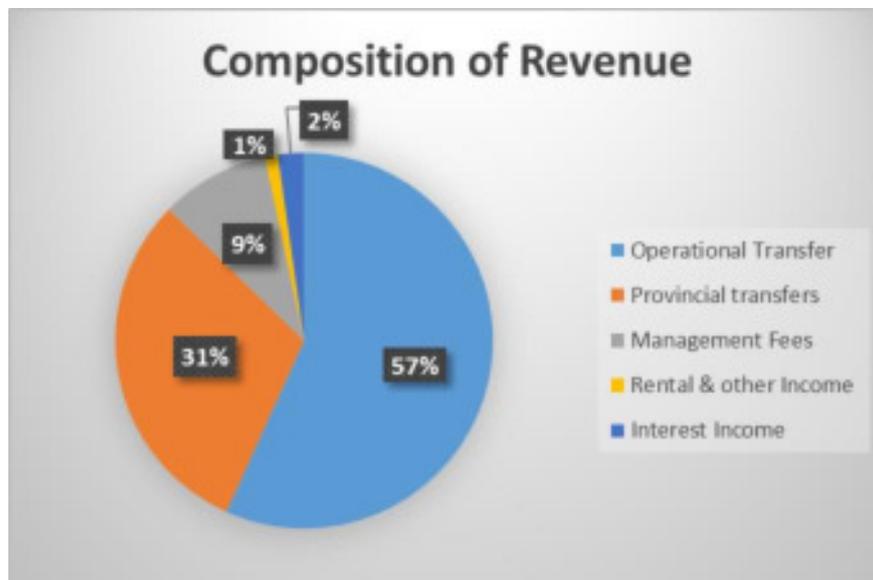
revenues largely due to excessive increases in staff remuneration which increased at 30% year-on-year.

Figure 9. Revenue and expenditure trends



The HDA derives 57% of its revenue from an operational transfer from the NDHS. Operational transfers amounted to R590.4 million over the three-year period. Transfers from provincial departments of human settlements represent 31% of total revenue and this amounted to R317.9 million over the period. The remaining 12% of revenue is a combination of own revenues from project management fees, rental income and interest income.

Figure 10. Revenue Streams



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Project revenues i.e. provincial transfers and management fees amounting R415.3 million account for 40% of total revenue. The amount of provincial transfers recognised as revenue only represents a small portion of the total cash received. The R317.9 million worth of provincial transfers recognised as revenue over the three-years is only 6.5% of the actual R4.9 billion transferred by provinces. Each provincial transfer is treated as a liability in the statement of financial position in the year of receipt and only released to revenue as corresponding expenses are incurred. The large sums of provincial transfers thus substantially increase the HDA's liabilities. The following sections focus more on provincial transfers.

7.2.1 Provincial revenue - HSDG

Provincial departments of Human Settlements transfer portions of the Human Settlements Development Grant to the HDA to fund provincial projects as per the signed contractual agreements between each province and the HDA. A significant portion of these funds is transferred to the agency as prepayments to give the HDA financial resources to kick start project related work. Over the years, provincial departments of Human Settlements have been transferring funds to HDA without following the requirements of section 17 of the Division of Revenue Act which for the years under review stipulated that:

“A receiving officer may not transfer any portion of a Schedule 5 allocation to any other organ of state for the performance of a function to be funded by the allocation, unless before the transfer is made, the receiving officer and the organ of state agree to a payment schedule, the receiving officer has notified the transferring officer and the National Treasury approves the agreed payment schedule and —

a) the transfer—

i) is approved in the budget for the receiving provincial department or municipality; or

ii) if not so approved—

aa) the receiving officer notifies the National Treasury that the purpose of the transfer is not to artificially inflate the expenditure estimates of the relevant provincial department or municipality and indicates the reasons for the transfer; and

bb) the National Treasury approves the transfer; or

b) the transfer is for the payment for services or goods procured in accordance with the supply chain management policy or procurement policy of the relevant province

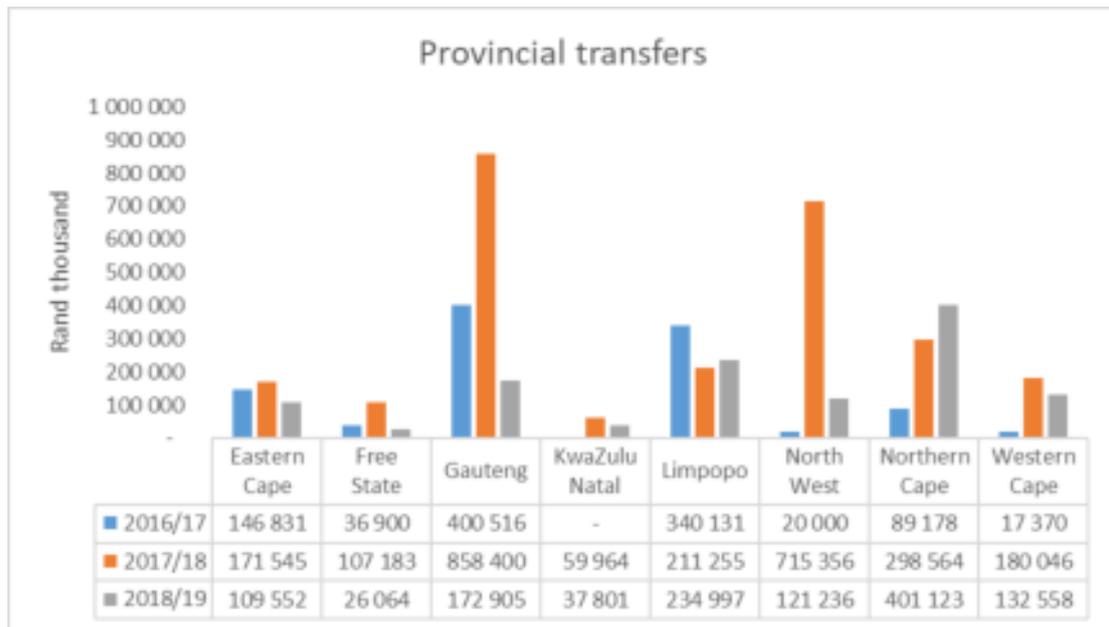
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or municipality and, if it is an advance payment, paragraph (a)(ii) applies with the necessary changes.”

The NDHS as the transferring officer of the Human Settlements Development Grant must closely monitor provincial transfers to the HDA to ensure that provinces adhere to the Division of Revenue Act prescripts. The Division of Revenue empowers NDHS to enforce compliance by means of withholding allocations or portions of allocations when provinces do not comply with any provisions of the Act. These options must be explored to ensure compliance to the Act and limit the presence of idle unspent funds.

In the period under review, 8 of the 9 provinces (except Mpumalanga) transferred funds to the HDA for projects to be undertaken by the entity on their behalf. Provincial transfers have increased from R1.051 billion (5.7% of the HSDG) in 2016/17, to R2.602 billion (13% of the HSDG) in 2017/18 and R1.236 billion (6.8% of the HSDG) in 2018/19.

Figure 11. Provincial payments to the agency



Transfers from Gauteng and North West increased significantly in 2017/18 as each of the provinces each transferred approximately R1 billion each to the HDA. For Gauteng, the increased transfer could be partly explained by the acquisition and release of 6 907 hectares of land however, as indicated previously this delivery outcome is highly unlikely

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as it exceeds the HDA's aggregate delivery for the year. Thus the substantial increase in 2017/18 is unjustified. It is disconcerting that funds from Gauteng were transferred only in March, the last month of the financial year. This is a clear case of artificially inflating provincial spending numbers on the part of the province. Another cause for concern is that although the Eastern Cape transferred funds to the HDA, no project obligations are reported for 2017/18 and 2018/19 in the HDA's annual financial statements. It is thus unclear as to why there aren't project obligations reported for the province.

In 2018, the National Treasury instructed the HDA to repay R1.513 billion of the 2017/18 provincial transfers back into the National Revenue Fund. This instruction was issued on the following basis:

- 1) provincial departments were consistently in breach of section 17 of the Division of Revenue Act;
- 2) a large portion of the 2017/18 provincial transfers were paid out in the last quarter of the financial year which is a clear indication of fiscal dumping;
- 3) the HDA could not provide proof of commitments for the transfers;

Whilst the provincial transfers to the HDA are said to be in line with the signed contractual agreements between the HDA and each provincial department, it is unclear if the monetary flows are a true reflection of the funding requirements for each project. What emerges clearly though is that at least in 2017/18 provincial departments artificially inflated their expenditure by transferring funds to the HDA.

Considering that the bulk of annual provincial transfers are recorded as current liabilities: project obligations in the statement of financial position, these project obligations represent idle funds, the opportunity costs of which is very high in light our fiscal pressures. The HDA should thus only accept provincial transfers in line with the following criteria:

- funding is based on formal contracting between the HDA and the province, with contracting agreements clearly identifying expected cash flows and deliverables;
- the province can provide proof of compliance with the section 17 of the Division of Revenue in the relevant financial year;
- funding is based on formal invoices that correspond with project milestones; and
- funding is released at a rate which can be fully utilised by the entity.

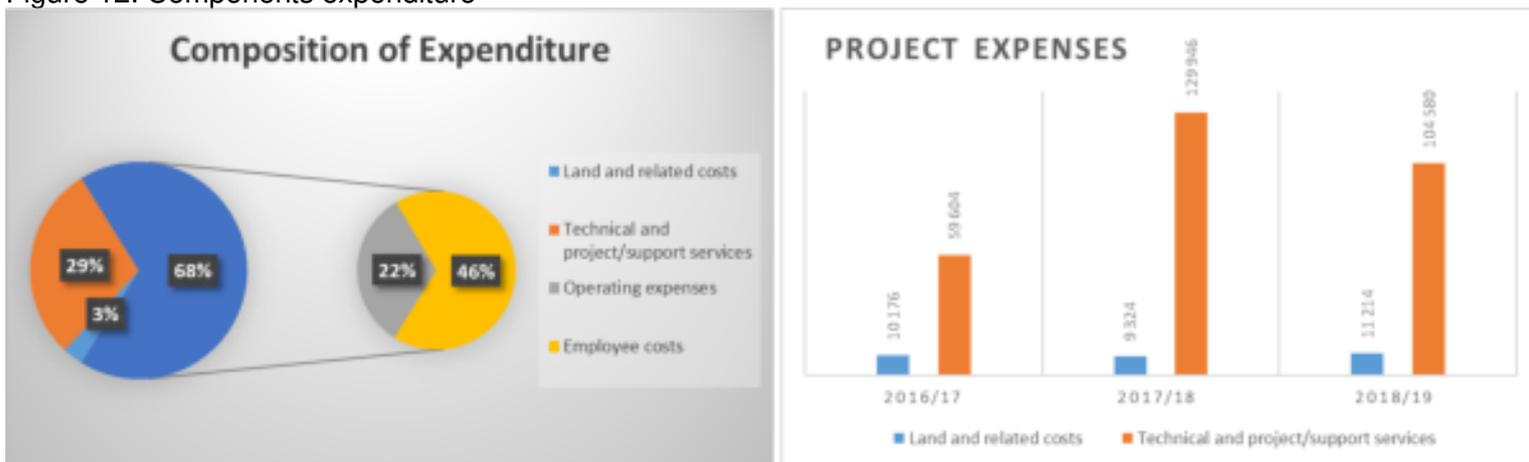
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These criteria will collectively enforce compliance to legal prescripts, improve budgeting and transparency, enforce accountability both on the part of provincial departments and the HDA with the ultimate result being a reduction in unspent and idle conditional grant funds.

7.2.2 Components of expenditure

Figure 12 below depicts the HDA's expenditure composition over the period under review. The agency's main cost driver is compensation of employees which accounts for 46% of total expenditure for a staff compliment of 232 employees as at 31 March 2019. The HDA's staff compliment increased from 168 employees as at the end of 2016/17, to 196 employees as at the end of 2017/18 and 232 as the end of 2018/19 as per the Estimates of National Expenditure publications. This set of personnel numbers is different from figures reported in the HDA annual reports which reflect headcounts of 207 in 2017/18 and 266 in 2018/19.

Figure 12. Components expenditure



Total operating costs including compensation of employees represent 68% of the HDA's expenditure while project related costs i.e. land, technical and project support costs are only 32% of expenditure. The proportion of compensation of employees on the HDA's operational transfer from the NDHS is been more than 70% in each year. Expenditure on the outsourced services for project related skills is included as part of project costs, indicating that the HDA's operational expenditure is excessively high.

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7.2.3 Project obligations

The HDA's annual financial statements include notes on project obligations which record the cash receipts from provinces and the corresponding expenditure on provincial projects. In each of the three-years under review, there are provincial transfers unaccounted for. In 2016/17 R158.5 million of the total R1.1 billion transferred by provinces is unaccounted for in the entity's financial records. In 2017/18 R312.5 million of the R2.6 billion transferred by provinces is unaccounted for in the entity's financial records. In 2018/19 R325.9 million of the total R1.2 billion transferred by provinces is unaccounted for in the entity's financial records.

Table 4. Provincial payments to the Housing Development Agency

Provincial Departments	2016/17				2017/18				2018/19			
	BAS Provincial transfers	Cash receipt (project obligation)	Variance	Expenditure (project obligation)	BAS Provincial transfers	Cash receipt (project obligation)	Variance	Expenditure (project obligation)	BAS Provincial transfers	Cash receipt (project obligation)	Variance	Expenditure (project obligation)
Eastern Cape	146 831	146 833	-	(371 820)	171 545	-	171 545	-	109 552	-	109 552	-
Free State	36 900	21 900	15 000	(25 205)	107 183	107 183	-	(16 475)	26 064	26 064	-	(23 749)
Gauteng	400 516	352 913	47 603	(142 065)	858 400	858 400	-	(337 059)	172 905	172 905	-	(180 562)
KwaZulu Natal	-	-	-	(7 166)	59 964	59 964	-	(27 001)	37 801	37 801	-	(15 310)
Limpopo	340 131	318 081	22 050	(203 845)	211 255	260 867	(49 612)	(171 132)	234 997	234 997	-	(466 790)
Mpumalanga	-	-	-	-	-	-	-	-	-	-	-	-
North West	20 000	397	19 603	(4 212)	715 356	715 356	-	(96 683)	121 236	122 348	(1 112)	(211 559)
Northern Cape	89 178	37 578	51 600	(36 914)	298 564	105 945	192 619	(42 036)	401 123	183 701	217 422	(71 785)
Western Cape	17 370	14 679	2 691	(18 672)	180 046	182 118	(2 072)	(30 808)	132 558	132 558	-	(263 143)
Total	1 050 926	892 381	158 545	(809 899)	2 602 312	2 289 833	312 479	(721 194)	1 236 235	910 374	325 861	(1 232 898)

The project obligations note also reflects expenditure against the cash receipts from provinces. Given the limitations with the financial records provided by the entity and the lack of project specific information, it was not possible to analyse or verify expenditure trends for each province. Thus the accuracy of project spending numbers as represented in table 4 above (and project obligation notes in AFS) can't be ascertained. It is also noted that the reported expenditure levels are in excess of both project expenditures as reflected in the statement of financial performance and more importantly the cash flow statement.

In December 2018, the then Minister of Human Settlements, placed the HDA under administration in terms of Section 31 of the Housing Development Agency Act. The decision to place the agency under administration was largely on the basis on governance, financial mismanagement, internal control issues and the pending investigations on staff allegedly linked to corruption.

While placing the HDA under administration is itself a red flag, concern is raised with financial control, management and reporting systems within the HDA. It is evident that the HDA's systems do not adequately account for and managing provincial project

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revenues and expenditure records. The above analysis suggests that a significant amount of money (R796.9 million) is unaccounted for and this requires further investigation and intervention particularly on financial management issues.

8 Recommendations

Considering the preceding discussion, the following key issues are put forward as recommendations:

Legislation

- The National Department of Human Settlements must amend the Housing Development Agency Act to ensure that HDA functions do not encroach on municipal functions as bestowed in the Housing Act (1997). Currently, the Housing Development Agency Act (2008) gives to the entity functions already assigned to municipalities. Considering that the Housing Act (1997) is supreme to the Housing Development Agency Act (2008), the proposed review and amendment must be on the entity's legislation.

Performance reporting

- The Housing Development Agency's performance reporting needs to be significantly improved. Performance information must be reported at sufficiently detailed levels to clearly provide delivery outcomes per region, per province, per project and any other relevant sub-category.
- Performance information must be standardised and consistent to allow for comparisons and benchmarking across regions, provinces, projects and financial years;
- Concerted effort is required to ensure consistency and accuracy in performance outcomes that are cross referenced in different sections of the same document i.e. across various text sections, tables and figures; and
- The Housing Development Agency must ensure that all contractual agreements between the agency and organs of state (whether entered into prior to or during

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the financial year) clearly state the expected delivery targets to ensure that there is a basis against which performance outcomes can be measured.

Budgeting and finance

- The Housing Development Agency must manage compensation of employees and general operating cost escalations to curb excessive growth;
- The Housing Development Agency must only accept provincial transfers when:
 - ❖ funds are based on formal contracting between the entity and province, with contracting agreements clearly indicating expected cash flows, deliverables and the timing thereof;
 - ❖ provinces can prove compliance with the section 17 of the Division of Revenue in the relevant financial year;
 - ❖ funds are paid on formal invoices – corresponding with project milestones (payments for goods and services not transfers); and
 - ❖ funds are released at a rate which can be fully utilised by the entity.
- The Housing Development Agency must implement a financial and reporting system to adequately track and manage provincial project revenues and expenditure records.
- The National Department of Human Settlements must consider further investigations into the financial matters of the Housing Development Agency particularly to investigate the R796.9 million unaccounted provincial transfers. Where it is warranted, the department should consider placing the Housing Development Agency under administration once again to deal with the financial control weaknesses emerging.

Oversight and stakeholder relations

- The Housing Development Agency's coerced cooperation rendered critical aspects of the spending review impossible. This has highlighted the need to rebuild, foster and strengthen relations with the entity as oversight roles and responsibilities have weakened. The Department of Human Settlements on behalf of the executive authority of the Housing Development Agency, should take actions to address oversight and stakeholder relations issues with the entity.

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- The National Department of Human Settlements must as part of its grant monitoring and oversight role ensure that provincial departments comply with section 17 of the Division of Revenue Act. Where there is non-compliance, the NDHS must utilise its powers as the transferring officer to enforce provincial compliance.

General:

- Provincial departments must ensure future expenditures including payments to the Housing Development Agency are recorded in line with the *Human Settlements Departments Transition Guide on Classification of Expenditure and Classification Circular 21 - Transfers and subsidies vs goods and services or capital assets*
- The contents of this report must be taken forward as a first step to undertake a fully-fledged spending review on the Housing Development Agency.

9 Possible measure to take forward

Below I present possible actions to take forward in light of the contents of this review:

- Engage with colleagues serving in the Problem-Driven Iterative Adaptation (PDIA) team to request that an official responsible for planning documents in the Housing Development Agency partake in the public entity budget and reporting reform (only a finance representative is participating currently).
- Consult with Public Finance Statistics to find ways to work around the general ledger accounts from the entity and keep this as the base for dealing with and closing the data gaps in entity expenditure records.
- Present this report to National Department of Human Settlements – request for commitment to undertake review again to expand this report.
- Start engagements with National Department of Human Settlements and the Housing Development Agency to proceed with the review using current limitations as starting point to engage with the entity (gaps in financial data, project revenue and expenditure tracking, programme and project performance reporting, lack of consistency and standardisation in performance reporting).

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- Officially request for dedicated officials to serve as immediate contacts for the spending review from the HDA, this will secure some commitment from the entity.

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