

**2019**

**State houses for the Department of  
Agriculture, Land Reform and Rural  
development from 2015/16 to 2018/19**

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## Summary

There is poor management of properties by the department of Roads and Public works (DRPW). The department does not have the database of houses for the Department of Agriculture, Land Reform and Rural Development (DALRRD). Some of the houses are not conducive for staying in as DRPW is not maintaining the houses. Only 34 state houses out of 129 is rent income being collected. Rent of R900 has not been increased since 2012. Same rent is charged on all different types of houses (1, 2, 3 Bedrooms).

There is no regular inspection. There are no signed lease agreements for the remaining 96 tenants. Illegal occupants are staying for free and the tenants are even sub leasing these properties. The tenants do not pay for water and electricity

If DRPW hand over the houses to the DALRRD then the following will take place:

- There will be better monitoring and inspection.
- Illegal tenants will be legalised by ensuring lease agreements are signed and rent is charged.
- Installation of pre-paid meters

As employees of the DALRRD are residing in the research station, as tenants vacate the house it will be easier to identify and report as such and get a new tenant. Also the Department must increase the rental to R1398.95 same as the current housing allowance.

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## **1. Introduction**

The Performance and Expenditure Review (PER) focuses on the rental of state houses for the Northern Cape Department of Agriculture, Land Reform and Rural development (DALRRD). It uncovers the dynamics surrounding the rental properties of the department. This will assist the department to identify all the inefficiencies related to collection of rental income, assist in collecting more revenue and save on unbudgeted costs surrounding the monitoring and maintenance of these houses. It will unpack the roles and responsibility between the department of Agriculture, Land Reform and Rural development and the department of Roads and Public works. Employees residing in the houses are the main beneficiaries.

Once achieved all other user departments such as Education, Health and Environment and Nature Conservation will learn best practices. Houses for the whole province will be better managed thus the fiscus will increase due to increase in in rent income charged in all houses of the provinces and the employees

Department of Agriculture, Land Reform and Rural development is faced with challenges of managing their houses due to a lack of cooperation by the Department of Roads and Public works. The challenges include non-collection of rental from DRPW officials and private tenants, illegal occupants, rental fees not increased, huge amounts of maintenance costs on depleted houses and municipal bills which lead to loss of revenue and high payment cost of maintenance and municipal bills.

The purpose of this PER is to understand the following questions:

- Is there a policy /Mandate that forces the department to continue leasing the properties or keeping the houses.
- Is the leasing of properties beneficial for the department

- Key costs and what are the associated expenditure for owning state houses
- Who are the role players and what their activities/roles are.
- Potential revenue to be collected if all challenges are resolved

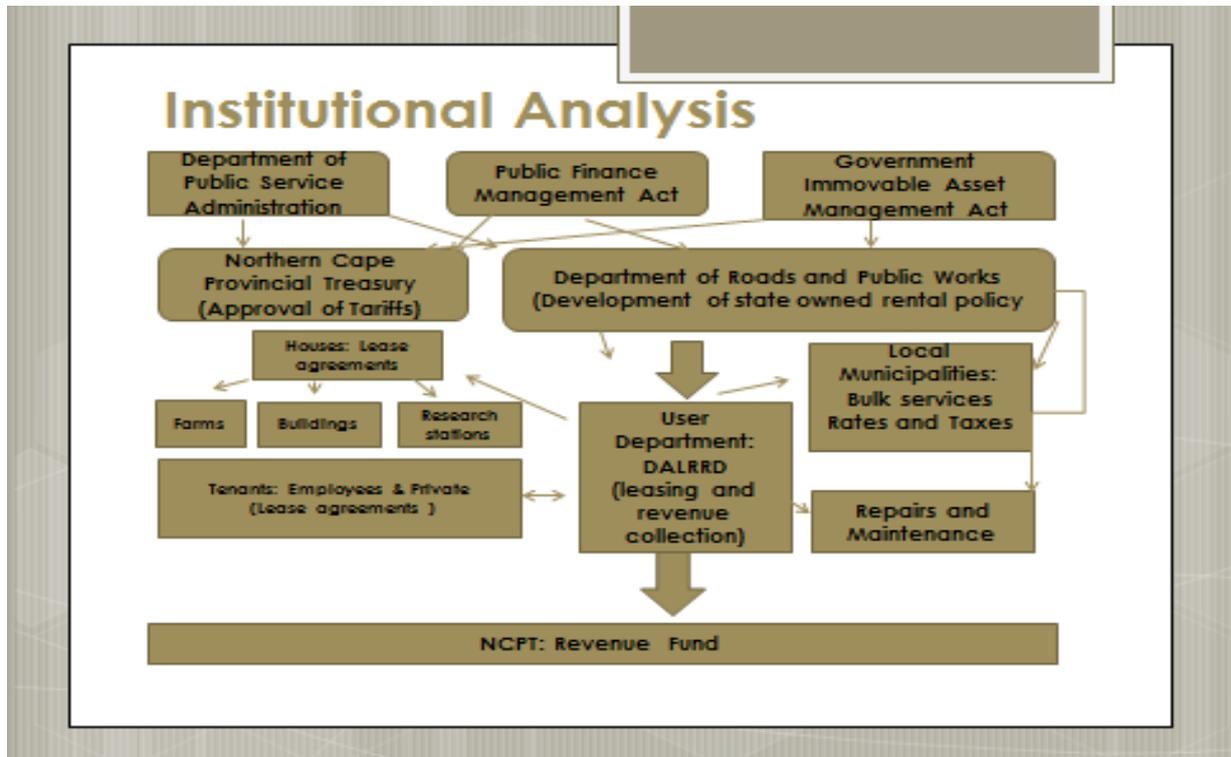
## **2. Policy and Institutional Information**

The safeguarding, management and maintenance of state houses is guided by the Government Immovable Asset Management Act (GIAMA), whereas the Public Finance Management Act (PFMA) sets out the procedures for efficient and effective management of all revenue, expenditure, assets and liabilities. To simplify the rental process the Department of Public Service Administration (DPSA) issued a document of Determination on Housing with Circular 17/3/P to provide the actual rental fee to be charged in the state houses.

Department of Roads and Public Works (DRPW) is the custodian of all the departmental houses in the Province since 2010 when all the departments were instructed to transfer their properties to DRPW. The provincial Housing rental policy was developed by the Department of Roads and Public Works with the assistance of Provincial Treasury to align the GIAMA, PFMA and the DPSA circular, the policy was highlighting the responsibility of users regarding the state houses, charges of rental income and processes to be followed when letting the state houses.

DALRRD as the user department has different types of properties and land being let out which are: farms, Houses in the research stations/ farms and other buildings with two types of tenants, private and public servant officials. Both DRPW and DALRRD are responsible for the payment of bulk services, rates and taxes and repairs and maintenance as depicted in figure 1. DRPW as the custodian of houses was supposed to be responsible for all payment due. DRPW is not cooperating with the user department the user department ends up settling the debt as it is their service delivery which gets impacted when local municipalities switch off the lights and water.

Out of 129 houses of DALRRD, the rent is collected only on 34 houses which are occupied by the DALRRD employees and have lease agreements. The rental income is then paid over to the Provincial Revenue Fund. The remaining house are unaccountable as it was DRPW who put in their employees and private occupants but the department has no database nor lease agreements for these house and no rental income is collected.



### 3. Programme Chain of Delivery

All the user departments were consulted. Their inputs and suggestions were incorporated into the policy. Then the Provincial Housing policy was approved. The Provincial Housing policy was circulated to all user departments, and escalated to the employees. The workshops were conducted by the user departments to unpack the policy and clarifying the contents to the staff. The glitches in this process were that the revenue management officials attended the workshops and not all employees received the information, there was no flow of information.

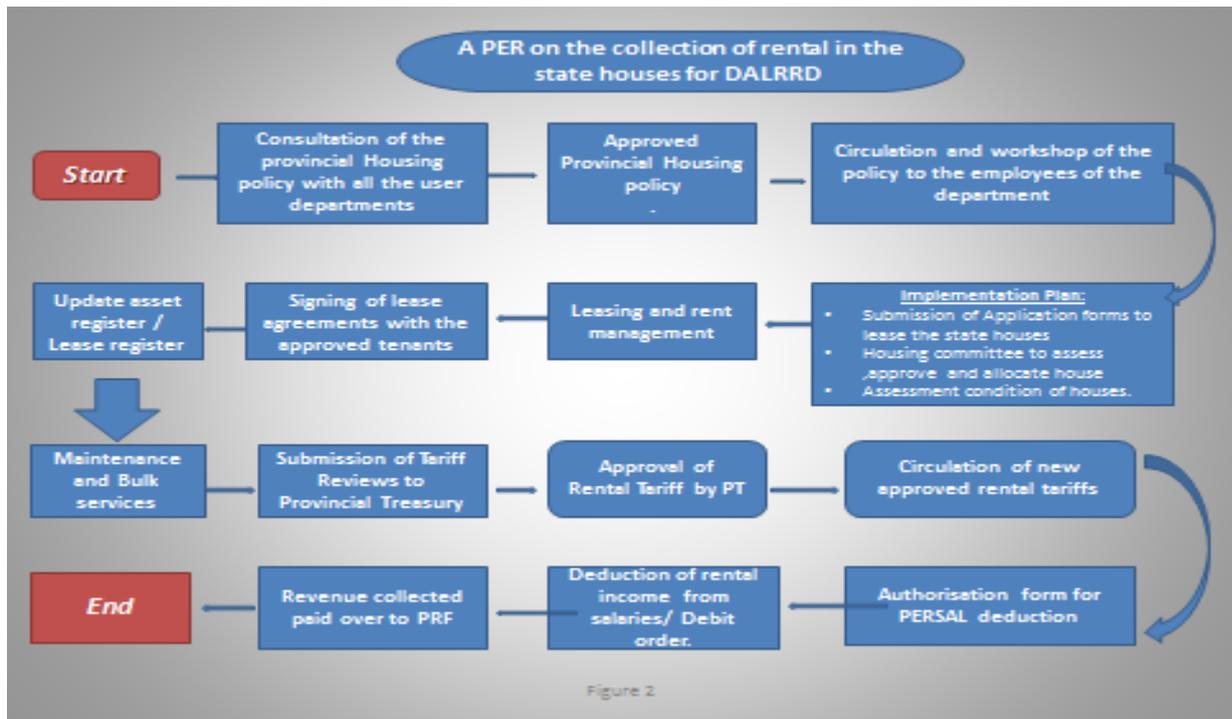
The property management officials who are supposed to deal with this policy were not made aware hence no proper application of policy. The purpose of DALRRD was to provide accommodation for employees who were not from the province or far from their work place and as a form of attracting skills to the Province. Criteria was established for employees who can apply and application forms were received and the meetings held to assess the application forms received. The successful applicants will be allocated the houses and the lease agreement and PERSAL deduction form will be signed.

Due to the number of houses that were vacant, DRPW started allocating the houses to their officials and private tenants with no lease agreements. There were also illegal tenants who started occupying the houses and the houses were vandalised as there was no proper management and there were shifts of responsibilities. At most provincial departments should attend to basic maintenance, service municipal rates, collect rental and attend to the leasing of units as they become vacant.

Poor property management resulted in a number of challenges such as:

- The houses are depleted which pose a huge risk to tenants and possible liability to the department.
- There are illegal occupants in the research stations / Farms which lead to farmers and other tenants no wanting to pay rent.

The problems occurred when there was a shift of functions in the Northern Cape Province; clarity of roles and responsibility were never clearly provided. DALRRD have inherited all these challenges and are paying unbudgeted bulk services and maintenance costs hence they want to take over the function of houses.



According to Treasury Regulations 7.3.1 Accounting Officer must review, at least annually, all fees that cannot be fixed by law and relate to revenue accruing to a revenue fund. The Accounting Officer must obtain approval from Provincial Treasury for the proposed tariff structure. On an annual basis DALRRD submit their tariffs except for rental increase as they have been using DPSA circular, they are still waiting for another circular from DPSA indicating rental increase or guidance from DRPW about rental increase. Revenues from rentals received are collected via salary deduction in the case of government employees and the revenue is paid over to the Provincial Revenue Fund

#### 4. Expenditure Observations

the usefulness of the department having this function and if the programme is properly managed. For expenditure a data is retrieved from BAS and a detail breakdown is still awaited from monthly management accounts of the housing programme as accuracy of capturing into BAS is questionable. For Revenue BAS and PERSAL will be used. The department has 3 different types of properties being let out, which are farms, other buildings and houses in research stations as indicated below which are the main focus of the PER.

<b>Dwelling</b>	<b>Total Number of Dwellings</b>	<b>Dwellings Occupied by Dept officials</b>	<b>Amount</b>
Rietrivier Research Station	27	3	2 700
Vaalharts Research Station	59	9	8 100
Karakoel Research Station	11	11	9 900
Eiland Research Station	4	4	3 600
Koopmansfontein Research Station	20	5	4 500
Wesselsvlei Research Station	8	2	1 800
<b>Total</b>	<b>129</b>	<b>34</b>	<b>30 600</b>

##### 4.1 Expenditure analysis

The below table indicates BAS expenditure relating to infrastructure: Buildings and other fixed structures. There is no confirmation which figures relate only to houses, so I cannot rely on the figures. Also there is no trend and the fluctuations are unexplainable eg for electricity from 2015/16 to 2016/17 the increase is 7502% then following year no electricity was paid for the whole year and then in 2018/19 it increased by 33%. Even though a proper analysis cannot be provided at the moment but looking at the figure there is a lot of expenditure spent on having the houses compared to the revenue collected.

There are also other unidentified costs from DRPW for being custodian of the state houses some of the rates and taxes and repairs and maintenance costs are paid by DRPW. There are also employee costs which are not shown in the expenditure analysis for DALRRD

involved which cannot be quantified as the employees do not only deal with the houses such as property management unit manager, Inspectors and monitors, legal services for lease agreements etc. and similar with DRPW there is a property management unit which deals with some of the DALRRD state houses. It can be seen that over a 4 year period the average spent on 129 houses is R1 231.65 (R7 626 395.98/ 4 year period/ 12/129)

**Table1: BAS expenditure for Infrastructure, Buildings and other Fixed Structure**

Row Labels	2015/2016	2016/2017	2017/2018	2018/2019	Grand Total
<b>Vote 12: Agriculture Land Reform And Rural Development</b>	<b>R 462 626.56</b>	<b>R 1 602 248.76</b>	<b>R 405 559.48</b>	<b>R 15 590 402.49</b>	<b>R 18 060 837.29</b>
Electricity	R 1 465.20	R 111 378.08	R -	R 3 423.15	R 116 266.43
Municipal services				R 18 400.00	R 18 400.00
Property Maintanace			R 156 698.46	R 749 122.14	R 905 820.60
Refurbishment				R -71 090.00	R -71 090.00
Sewerage	R 43 666.19	R 4 877.40		R -	R 48 543.59
Upgrades			R 204 423.10	R 4 377 714.46	R 4 582 137.56
Water	R 417 495.17	R 1 485 993.28	R 25 039.63	R 97 789.72	R 2 026 317.80
<b>Grand Total</b>	<b>R 462 626.56</b>	<b>R 1 602 248.76</b>	<b>R 386 161.19</b>	<b>R 5 175 359.47</b>	<b>R 7 626 395.98</b>

#### 4.2 Revenue analysis

The reports extracted from BAS and PERSAL indicates there are 34 houses rented out by the department and the rent collection is via salary deductions.

**Table2: 4 Year Period Revenue Collection**

State Houses	Current Situation			
	2015/16	2016/17	2017/18	2018/19
<b>Number of tenants</b>	34	34	34	34
<b>Number of houses</b>	129	129	129	129
<b>Rate per house</b>	900	900	900	900
<b>No of Months</b>	12	12	12	12
<b>Total Revenue Collected per annum</b>	<b>367 200.00</b>	<b>367 200.00</b>	<b>367 200.00</b>	<b>367 200.00</b>

The table below compares the expenditure and revenue which indicates the net loss the DALRRD experiences on an annual basis. The net loss is for letting the state houses to employees taking into consideration that the expenditure is not even a complete picture as there are other costs that cannot be quantified.

<b>Table3: Net Loss of State Houses</b>	2015/2016	2016/2017	2017/2018	2018/2019	Grand Total
Total Expenditure	R -462 626.56	R -1 602 248.76	R -386 161.19	R -5 175 359.47	R -7 626 395.98
Total Revenue	367 200.00	367 200.00	367 200.00	367 200.00	1 468 800.00
<b>Net Loss</b>	<b>R -95 426.56</b>	<b>R -1 235 048.76</b>	<b>R -18 961.19</b>	<b>R -4 808 159.47</b>	<b>R -6 157 595.98</b>

## 5. Performance

An analysis was performed between the current situation and the intended situation.

The table below indicates what the department is actually receiving from the rental of state houses comparing it to what the department is supposed to receive if the rental was received from all the state houses and if the rental income tariff was increased by the inflation rate annually as per Northern Cape Housing Policy and the Treasury Regulation.

Table 4: Current Situation V/S Intended Situation

State Houses	Current Situation				Intended Situation				Revenue Lost			
	2015/16	2016/17	2017/18	2018/19	2015/16	2016/17	2017/18	2018/19	2015/16	2016/17	2017/18	2018/19
Number of tenants	34	34	34	34	129	129	129	129	95	95	95	95
Number of houses	129	129	129	129	129	129	129	129	95	95	95	95
Rate per house	900	900	900	900	-	-	-	-	-	-	-	-
Rate per house increased by inflation	-	-	-	-	1049	1124	1174	1226	1049	1124	1174	1226
No of Months	12	12	12	12	12	12	12	12	12	12	12	12
Inflation rate	-	-	-	-	5.18	7.07	4.5	4.4	5.18	7.07	4.5	4.4
Total Revenue Collected per annum	367 200.00	367 200.00	367 200.00	367 200.00	1 624 502.16	1 739 354.46	1 817 625.41	1 897 600.93	1 257 302.16	1 372 154.46	1 450 425.41	1 530 400.93

Poor management of properties is causing loss of revenue for the department and the Province.

Also-the performance indicators for leasing state houses clearly show non-performance as:

- There is non-compliance with the content of the Northern Cape Housing Policy and the Treasury Regulation as no increase has been implemented.
- Not all Stakeholders are aware of the existence of the housing policy
- DALRRD and DRPW do have a complete lease register.

### Expenditure Performance

Even though not all expenditure has been analysed, just for the current situation of the department having to pay municipal services and maintenance costs this indicates expenditures that was not supposed to be incurred by the DALRRD. DRPW should be incurring some of these costs as well as the tenants as they should be paying for the services that they are utilising eg water. Further investigation need to be done to determine is DRPW raised as an interdepartmental debt when DALRRD pay for the services.

## 6. Options

There are 3 options to consider:

### 1. Repair the state houses and charge inflationary rental tariff

The department of Roads and Public works has an option to refurbish the houses and perform proper verification and monitoring of houses which will ensure houses are not vandalised and tenants are held responsible for paying rental income. When houses are refurbished, DRPW can hand over the state houses back to the user departments to manage and monitor. Once there is proper monitoring DALRRD will be able to update the lease register as the officials vacate or leave work of employment. Once the state houses are in good condition the department will be able to hold the tenants accountable for municipal services and will be able to implement inflation increase every year.

### 2. Repair the houses and make the rent charge same as the housing allowance

Same as option 1 but instead of increasing rent with inflation prices, the housing allowances rates per DPSA must be used.

### 3. Repair the houses and sell them at market price.

Another option available is to do a cost benefit analysis to determine if the department still need these state houses as majority of them no longer serve the purpose they were intended for.

The state houses are now being let to private occupant which was never the plan; the department must determine the cost of keeping these houses with all the maintenance and municipal services involved and compare with the benefits of keeping them. The department can look at upgrading the houses and sell them at market price or to avoid spending much money is to cut their losses and sell them as they are and receive minimal revenue. Processes and procedures of disposing state houses should be adhered to such as providing a tenant with a one month notice, giving the tenant the first option to purchase the house etc.

The department should also look if the assistance of the third party will be used in selling the houses and what the commission be and if not, does the department have the necessary skill to handle the sale. The department can even look at keeping the necessary houses and sell the ones that are no longer relevant.

## 7. Recommendations

**Table 5: Option 1 V/S Option 2**

Demand Assumption	Option 1: Rental increase with inflation				Option 2: Rental increase with housing allowance			
	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
Number of tenants	129	129	129	129	129	129	129	129
Number of houses	129	129	129	129	129	129	129	129
Rate per house (Inflation)	1281	1346	1414	1482	-	-	-	-
Rate per house ( Housing Allowance)	-	-	-	-	1399	1470	1544	1618
No of Months	12	12	12	12	12	12	12	12
Total Income	1 982 992.97	2 084 125.62	2 188 331.90	2 293 371.83	2 165 574.60	2 276 018.90	2 389 819.85	2 504 531.20

Option 2 is the best option. Rent charged at housing allowance rate yield more revenue than tariff being increased every year. The department of Roads and Public works must transfer the houses to the user department of Agriculture, Land Reform and Rural development in good condition. Due to the economic crisis and the equitable share being reduced every year if the department or the Province can maintain the state house it could be the good revenue to augment the equitable share and conditional grants.

The user department with state houses must be held accountable to collect the revenue due to the department and the Province. To motivate the user department part of the revenue collected could be retained for maintenance. Roles and responsibility of Lessee and Lessor should be clearly explained .The tenant must know that they are responsible for their municipal accounts this will assist the user department not to incur unnecessary unbudgeted costs. Lease agreements must be in place to stipulate the above mentioned.

The user department must also be held accountable for the maintenance and monitoring of state houses to ensure the state houses are not run down. Proper budget for property rates

and maintenance must be transferred when DRPW transfer the houses to the user department.

The following should take place:

- A letter must be issued by DRPW to confirm transferring of houses.
- A request for rental tariff increase must be submitted to Provincial Treasury for approval.
- A circular and letters must be issued to all officials and tenants for the increase in rental tariffs charged.

## **8. Action**

For the recommendation to be implemented the following action should take place:

- Prepare a presentation for the Provincial Treasury HOD to update him of the challenges of state houses and way forward.
- Facilitate a meeting between HOD of Provincial Treasury, HOD of DRPW and the HOD of DALRRD with all the property management employees of both departments to discuss the process of transferring the houses to the user department.
- Send a letter to the departments to form a committee dealing only with issues of houses of which I will be part.
- Obtain a proof of verification of houses done by both officials of DRPW and DALRRD to agree on the condition of houses and whose responsibility is it to refurbish them.
- Monthly check revenue collection to verify if the department charged rent in all houses and obtain reasons for any discrepancies and remedial actions.
- Assist user department with designing Standard operating procedures and internal controls processes to ensure lease register is updated, rent is collected and houses are properly maintained.
- Do Quarterly visits to ensure compliance with Standard Operating Procedures are adhered to.
- Verify that a proper asset and lease register is compiled.

- Present issues of state houses in all available platforms such as National Treasury visits, PMTEC hearings and revenue forums.

