

# The National Housing Code

## SOCIAL & RENTAL INTERVENTIONS

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Community Residential Units

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Institutional Subsidies

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**Social Housing Policy**

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Subsidy Quantum - Social & Rental Interventions

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Volume 6

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## PREAMBLE

### **Social housing development in the context of the broader housing development programme of the Government.**

In his opening address to parliament in 2001, the President announced the Government's commitment towards the regeneration of inner cities in the country, the development of well located land and the intention to broaden the current housing assistance programmes to accommodate higher density development and to address the increasing demand for rental housing in urban areas.

Furthermore, in the State of the Nation address in May 2004, the President referred to **“a comprehensive (housing) programme dealing with human settlement and social infrastructure, including rental-housing stock for the poor”**. He also referred to the need to address “the broader question of spatial settlement patterns and implications of this in our efforts to build a non-racial society”.

Subsequently, in September 2004 the National Department of Housing released its Comprehensive Plan for the Development of Sustainable Human Settlements. Entitled ‘Breaking New Ground’, this document **“reinforces the vision of the Department of Housing to promote the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing”**.

While the 2004 plan notes the continued relevance of the state housing programme introduced in 1994, it flags the need to redirect and enhance various aspects of policy, and commits the Department to meeting a range of specific objectives. Amongst others, these objectives include:

- Utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring;
- Combating crime, promoting social cohesion and improving quality of life for the poor;
- Leveraging growth in the economy; and
- Utilising the provision of housing as a major job creation strategy.

The plan notes the shift in emphasis from the provision of housing to the creation of sustainable human settlements. This includes the promotion of more efficient cities, towns and regions. In support of spatial restructuring, the plan highlights the need to **“integrate previously excluded groups into the city and the benefits it offers”**. The plan flags the need to promote densification, including “housing products which provide adequate shelter to households whilst simultaneously enhancing flexibility and mobility”.

The Social Housing Policy described in this document, while comprising only one aspect of the overall housing strategy, is a key component of meeting these objectives. Social housing has shown that it is able to significantly contribute to urban regeneration and to urban efficiency. It can meet objectives of good location, integration, and viability. The sector can facilitate local economic development through supporting local economies. It makes a financial contribution to local authorities by way of regular payments for rates and services. Social housing has been shown to promote the effective and efficient management of rental and/or collective forms of accommodation (with emphasis on long term management and maintenance). This contributes to social integration, social stabilisation and crime reduction. Therefore social housing is not only able to contribute to the Department's objectives noted above, but also to the government's macro objectives of promoting citizenship, democracy and good governance.

Social housing institutions and projects have been developed in South Africa since 1997 with the introduction of the institutional subsidy mechanism. To date approximately 60 social housing institutions (SHIs) have been formed delivering approximately 30,332 units throughout the country. The SHIs have developed social housing stock using the institutional subsidy together with loan funding from the NHFC and have relied on donor funding and local authority grant funding to cover institutional set-up and operational costs. This has resulted in a unsustainable situation where the majority of the SHIs have developed and currently depend on donor funding. The delivery models have been diverse and vary from pure rental, to co-operative housing, instalment sale options, and hybrids of these delivery models.

Recent reviews of the performance of the sector (the Job Summit Pilot Project Mid Term Review and the EU Mid Term Review) have shown mixed results. Key conclusions of these reviews are pertinent to the development of the policy framework for the sector. The reviews of the sector note the following:

- Scale is hard to achieve in the sector within the current context, given that the capacity and experience base is limited and needs to be consolidated and properly reinforced if scale is an objective.
- The overall funding framework and the current institutional subsidy is not tailored to the production of viable medium to higher density housing products and projects, and has no proper provisions for the operating and management costs of the housing stock.
- Financial pressures are immense and the parameters of the current subsidy approach are too tight to allow the provision of social housing too far down-market. In most cases SHIs display serious financial distress.

- Capacity building initiatives for the sector have largely centred on education and training initiatives and the pre-establishment phase of the SHI. This has resulted in a focus on the establishment of SHIs with limited emphasis on the project packaging, project implementation, and project operations skills needed to run viable institutions.
- A lack of suitable governance and management capacity has been evident within some of the SHIs, yet there has been no agency with the necessary authority to intervene and correct the situation.
- The sector has been moving out of the low income market into the middle income markets due to the financial pressures and subsidy constraints and therefore competing with private sector players causing potential market distortions.

Moreover it is fair to say that social housing currently operates in a policy vacuum.

This Social Housing Policy document endeavours to fill this policy vacuum and to address the key challenges of the sector. The policy framework presented is an aggressive and bold indication of government's commitment to making the social housing sector work because of the benefits that it brings to the country.

**Among the major features of the policy are the following:**

- The specific purpose and focus of social housing in relation to government's political and development goals and in relation to other housing policies is clarified.
- The idea of focusing social housing investment in designated restructuring zones is given prominence.
- A new approach to targeting beneficiaries is introduced which constitutes a radical departure from previous approaches.
- A new approach to auditing targeting compliance by the delivery agents of social housing is introduced.
- Financial mechanisms have been devised to allow deep down-market reach.
- A major conceptual shift has been made from linking subsidy allocations to units provided to subsidizing projects as a mechanism for allowing greater delivery flexibility but primarily for allowing a more holistic approach to providing sustainable living environments and promoting quality.
- Long term perspective and life-cycle costing are given prominence.



- Gearing social housing to scale is problematized and developed as an important shaping influence on policy.
- A new concept of subsidizing accredited projects is introduced as an innovative mechanism to gear in private sector delivery capacity and minimize the market distortion associated with large capital grants.
- Provision is made for a new Social Housing Act.
- The idea of performance agreements between SHIs and local authorities is introduced.
- Institutional arrangements are clearly specified.
- A regulatory framework built mainly around the ideas of accreditation and performance and compliance monitoring is introduced for the first time in South Africa.
- Provision is made for a powerful new institution – The Social Housing Corporation – which will serve as the sector regulator and preside over capacity building programme formulation.
- A new approach to capacity building is introduced which involves a focus on building the capacity to initiate, implement and operate viable projects. Viable projects are seen as the building blocks to sustainable institutions. The new approach involves a shift away from focussing capacity building on putting staff in place up-front and training them and then hoping that delivery will follow.
- The capacity building approach also recognizes the need to build capacity in all actors (government, civil society, private sector) who contribute to the functioning of the sector, not just in the SHIs.
- Substantial capital grants are introduced. The grants are also calculated in a way that makes provision for a contribution to the reserves of the implementing agency over and above project costs.

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### 1 Policy Objectives

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- 4 The Target Market of Social Housing
- 5 Bringing Greater Quality into Housing Environments
- 6 Gearing to Scale
- 7 Legislative, Institutional and Regulatory Environment
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## 1 POLICY OBJECTIVES

**The social housing programme has two primary objectives:**

- Firstly, to contribute to the national priority of restructuring South African society in order to address structural, economic, social and spatial dysfunctionalities thereby contributing to Government’s vision of an economically empowered, non-racial, and integrated society living in sustainable human settlements.
- Secondly, to improve and contribute to the overall functioning of the housing sector and in particular the rental sub-component thereof, especially insofar as social housing is able to contribute to widening the range of housing options available to the poor.

### 1.1 RESTRUCTURING

Whilst South Africa has made great strides in the ten years since the election of its first democratic government, a number of structural constraints in achieving fundamental change remain a cause for concern. Political constraints have largely been removed but obstacles arising from the economic structure and spatial patterning of South African society have proven stubborn and persistent. In some instances post-apartheid programmes have even inadvertently reinforced apartheid inequities. There is a need therefore, to ensure that the links between processes of social restructuring and housing policies and instruments are brought into closer alignment. Social housing can be used as a key instrument in this regard, and can “contribute strongly toward the achievement of urban restructuring and urban renewal through urban integration and impacting positively on urban economies”. Specifically, the contribution of social housing to such restructuring objectives comprises three dimensions: spatial, economic, and social.

#### 1.1.1 SPATIAL

In most South African cities poor (and mostly black) people live in locations far removed from where vibrant economic growth is occurring. To assist in rectifying this situation, social housing will be located in specific, defined localities (mostly urban) which have been identified as areas of opportunity (largely economic) where the poor have limited or inadequate access to accommodation, and where the provision of social housing can contribute to redressing this situation. Social housing if provided at sufficient scale and if linked effectively to the policy instruments aimed at boosting the delivery of medium-density housing, will contribute to increasing the equity and efficiency of South African

cities. On the one hand this will be achieved by ensuring that the poor are not pushed farther and farther to distant and marginal locations. On the other hand a spatially more compact growth form will improve the efficiency of service delivery and reduce the costs of urban governance.

### **1.1.2 ECONOMIC**

In addition to its primary impact of contributing to addressing spatial constraints to economic access, social housing will contribute to job creation and economic revitalization. Job creation will be enhanced via the construction of complete (as opposed to incremental) homes, which means greater primary, secondary and subsequent employment multipliers. The extent of this impact depends on the scale of the programme as a whole (which remains a political choice constrained by the fiscus and by capacity in the sector). Job creation is also served by the creation of employment opportunities in the management and maintenance of stock.

Social housing will also be a tool in the revitalization/regeneration of important economic areas which are lagging or underperforming. Successful regeneration initiatives in other parts of the world indicate that comprehensive strategies are necessary and that the introduction of social housing into blighted environments has had positive external impacts on the surrounding environments. Successful economic revitalization also boosts job creation.

### **1.1.3 SOCIAL**

The extent to which social housing brings a level of management to social processes at a local level suggests that it is the most promising of the housing instruments that we have available for achieving integration. Within selected social housing schemes, and across the programme as a whole, a mix of race and income levels in the beneficiary profile will be aimed for. The location of social housing projects in targeted areas of opportunity will also contribute to achieving a racial and income mix at a neighbourhood level.

Well-managed social housing projects have low internal (to the project) crime rates, and contribute to stabilizing external (to the project) crime-ridden environments. This is of course not only very valuable in its own right but also in relation to revitalization initiatives referred to above.

Social housing institutions (SHIs) play a significant role in establishing and maintaining a relationship with their residents. The unique support

services offered to residents contribute towards providing a sense of belonging and security among residents, stabilize the household members, and builds on efforts to help residents take on leadership roles and new responsibilities within the larger community. This helps to reconnect the residents with resources in the city and region with resultant integration and market effects from the creation of well functioning neighbourhoods.

## **1.2 FUNCTIONING HOUSING SECTOR**

The formal rental sector in South Africa is underdeveloped when measured against international norms. Rental housing is especially important to the poor, offering choice, mobility and an opportunity to those households who do not qualify for an ownership subsidy. The poor in South Africa struggle to access the limited number of affordable rental opportunities provided by the formal market (especially in good locations). While the proportion of rental accommodation to ownership varies in different areas, there is a general consensus that those housing sectors which are functioning well have a good balance between ownership and rental. In light of the current imbalance in South Africa in this regard, the development of social housing must be viewed as an important contributor to the housing options for the poor, and to the functioning of the sector as a whole.



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## 2 DEFINITION OF SOCIAL HOUSING

Social housing and social housing policy must be clearly conceptualised and understood. In addition, the relationship of social housing to the broader housing environment must be apparent. Accordingly, the definition of social housing which follows relates to the overall intentions of the Social (Medium-Density) Housing programme, which notes the need for institutional mechanisms to hold rental housing as a public asset over a period of time, for the benefit of a range of income groups.

### **Social housing is defined as:**

A rental or co-operative housing option for low income persons at a level of scale and built form which requires institutionalised management and which is provided by accredited social housing institutions or in accredited social housing projects in designated restructuring zones.

**An accredited housing institution** is defined as a legal entity established with the primary objective of developing and/or managing housing stock that has been funded through the grant programmes specified in this policy, which institution has been accredited by the designated regulatory body (defined in this policy). The housing stock can be owned by the housing institution, or it can be owned collectively by groups of residents. Housing institutions should not be seen as short-term vehicles for providing housing to a specified market segment, but are seen as robust, sustainable institutions, established to assist in providing the social housing option. Housing institutions will therefore have to demonstrate financial and operational sustainability over time while adhering to the guiding principles for social housing.

An **accredited project** is a project in which government makes a subsidy contribution in order to make rental units which are provided by a private sector actor affordable to those eligible for social housing. The project receives accreditation through the designated regulatory body. The notion of accredited projects allows for the participation of private sector developers and rental management agencies in social housing provision in order to bolster capacity to achieve scale delivery.

**Low-income persons** are broadly defined as those whose household income is below R7,500 per month. Income mix prescriptions for individual projects will specify desired percentages of participants for different income categories within this broad band and ensure a good spread across the range R1,500 to R7,500.

The social housing definition also refers to “persons” who will benefit from the programme rather than households, families or groups. The social housing option will therefore cater for the housing needs of single persons as well as families, and will thus be responsive to the market demand within an area.

Social housing primarily covers the **rental** tenure option and excludes immediate individual ownership by the residents. Social housing is not intended to be used by beneficiaries seeking immediate individual ownership, as other options have been created within the Housing Subsidy Scheme to accommodate such needs. Therefore, institutions and private sector actors providing social housing may not, as a general rule, transfer to individual ownership any of the units developed with social housing grants. Transfer to individual ownership will only be possible with the express permission of the regulator, and on the assumption that a portion of subsidy will be repaid to bring the actual subsidy received into alignment with the other subsidy instruments of government (such as the institutional subsidy). It should be noted that whilst social housing grants are primarily meant for rental housing provision, SHIs can provide housing for sale and ownership using other funding and other subsidy instruments (such as the institutional subsidy). Thus SHIs can realize an income-mix and potentially cross-subsidise social housing by developing housing for other income groups.

The social housing option, however, does allow for collective forms of ownership, on condition that the persons involved and being housed through collective ownership, are fully aware, understand and subscribe to these forms of collective ownership options. The conversion of rental schemes into ownership options is not excluded. Such conversions, however, will only become viable options in the long term, and will be based on feasibility studies confirming the sustainability of such a conversion scheme and of the SHI concerned. Under normal circumstances the conversion of rental schemes to sale options should not be considered within the first 15 years of establishment. As noted, individual purchase will be allowed only if approved by the regulator after careful consideration of the fundamental objectives of social housing, and on the assumption of a “buy-back” of part of the grant.

Primary and secondary housing **co-operatives** registered under the Co-operatives Act of 1981, and accessing funding through this programme will be considered together with the social housing institutions and will have to be accredited as social housing institutions. Separate guidelines, however, will be drafted to accommodate the specific nature, operations and regulatory requirements of the housing co-operatives. Housing co-operatives and the co-operative tenure form will allow for and encourage members’ contributions to be invested into the projects as equity contributions in order to reduce the overall debt funding required for the project. In

these cases, the housing co-operative option must be structured in such a way to exclude any individual member gain from the grant funding provided to the project.

**Designated restructuring zones** are those geographic areas identified by local authorities and supported by provincial government for targeted, focused investment. Within these areas, the Capital Grant (detailed in this document) will apply. This is a significant capital contribution from government for the development of social housing in these defined localities as part of a broader goal of social restructuring in South Africa. This grant, and other funding mechanisms, is elaborated in the financial section below. Outside of these restructuring zones, (and within them if desired) the institutional subsidy may be used for rental or other forms of development.

Social housing in restructuring zones must take the form of medium density multi-unit complexes requiring institutionalised management. This includes townhouses, row housing, multi-storey units, walk-ups etc, and excludes detached units. A defined density threshold, in respect of all social housing projects, will be elaborated in the guidelines for this programme.



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### 3 GUIDING PRINCIPLES FOR SOCIAL HOUSING

This section sets out the principles for social housing which are the fundamental premises upon which Government will develop and apply its policy, legislation, and regulations for the sector.

Social housing must adhere to the general principles laid down in the Housing Act, 1997 (Act 107 of 1997) Part 1 Section 2, as well as in relevant sections of subsequent legislation such as the Rental Act, 1999 (Act 50 of 1999). In addition, the policy must be read in conjunction with the White Paper on Housing (1994), the Urban Development Framework (1997) and with the National Housing Code. It is important to note that the Department of Housing's 'Comprehensive Plan for the Development of Sustainable Human Settlements' (2004) provides direction in matters of principle.

**The following principles underpin the Government's social housing policy:**

**Social housing must:-**

- **Promote urban restructuring through the social, physical, and economic integration of housing development into existing areas,** likely to be urban or inner-city areas. Social housing has the specific objective of contributing to spatial restructuring, especially in urban areas. Specifically, social housing must be located within urban restructuring zones, to be defined by the local authority and supported at provincial level. These zones are intended to provide geographic focus for accommodation opportunities for low-income people close to facilities, amenities and income generating opportunities. Social housing developments must influence and be influenced by integrated development planning, and should therefore be in line with local Integrated Development Plans (IDPs) and other related plans created for the promotion of integrated development in urban areas.
- **Promote the establishment of well-managed, quality rental housing options for the poor.** Social housing aims to widen the range of accommodation choices available to poor people and thereby contribute to a functioning housing sector through injecting additional rental housing stock in areas of opportunity.
- **Respond to local housing demand.** Social housing forms one of the mechanisms of the state housing programme aimed at responding to the diverse needs of households. Demand for this form of housing may vary from area to area. Therefore social housing projects and their supporters must adequately demonstrate the demand for this type of housing option in areas where social housing development is planned or underway.



- **Deliver housing for a range of income groups (including, inter alia, middle income, emerging middle class, working class and the poor) in such a way as to allow social integration and financial cross subsidisation.** Social housing should accommodate, within the same project, households with a mix of income levels – i.e. people in the ‘medium’ income categories, while at the same time reaching persons located at the lower end of the market. Social housing will therefore provide opportunities across income streams. Government’s grant funding will, however, be focussed on the lower income end of the target market.
- **Support the economic development of low income communities in various ways:** by ensuring that projects are located close to job opportunities, markets and transport, and by stimulating job opportunities to emerging entrepreneurs in the housing services and construction industries. Social housing projects have a strong capacity to support the development of Small, Medium and Micro Enterprises (SMMEs) in services such as cleaning, security, plumbing, electrical and other maintenance functions.
- **Foster the creation of quality living environments for low-income persons.** In addition to residential accommodation, social housing projects must include related social facilities and amenities where appropriate and must provide adequate space to accommodate recreation and other needs related to higher density residential living. Explicit attention must be paid to design and construction quality, and the rental units must aim to achieve the spatial and physical quality set out in best practice precedents, which provide benchmarks for the sector.
- **Promote a safe, harmonious, and socially responsible environment both internal to the project and in the immediate urban environs.** Social housing must be mindful of its role in social and spatial restructuring and must demonstrate its ability to create social stability, racial and income integration and reduce crime in an area through quality, well-maintained physical environments and good management practices.
- **Promote the creation of sustainable and viable projects.** Social housing projects must be financially viable in their own right, with low default rates (high rental repayment rates) and good management practices. Institutions owning and managing project must start small and develop incrementally, closely related to and supported by the number of projects and number of rental units under management. Additional support provided to an institution will therefore relate directly to its performance in managing its projects. The creation of institutions with staff and overheads out of proportion to units under management will not be sustainable.

- **Encourage the involvement of the private sector where possible.** Growth in the delivery and management of social housing will best be achieved through the involvement of both social housing institutions and the private sector, acting separately and in partnership. Support will therefore be provided to both actors in relation to viable projects. The Social Housing Corporation will determine whether the specific institution or project applying for assistance is appropriate or not within the context of this policy. The main objective of the institution or project must, however, be to provide housing to the target market. It should not include other objectives of interest that could compromise the sustainability of the housing services provided.
- **Facilitate the involvement of residents in the project and/or key stakeholders in the broader environment** through defined meaningful consultation, information sharing, education, training and skills transfer. Social housing must encourage and support residents in their efforts to fulfil their own housing needs in a way that leads to the transfer of skills and empowerment. Education, training and information sharing must take place before occupation by residents and must be done throughout the process in such a way that residents are able to make informed decisions about their housing and protect themselves as responsible housing consumers. Where possible, participation from residents at different levels, phases of projects and in various forms should be accommodated within the operations of the provider and manager of the housing option.
- **Ensure secure tenure for the residents of projects, on the basis of the general provisions for the relationship between residents and landlords as defined in the Housing Act, 1997 and the Rental Act, 50 of 1999 - Chapter 3, section 4 (1) to (5).** This applies to all forms of tenure provided for within this policy. Residents need to be made aware of the tenure provisions of the social housing project prior to and upon acceptance of these provisions as a form of consumer protection.
- **Support mutual acceptance of roles and responsibilities of tenants and social landlords, on the basis of the general provisions for the relationship between residents and landlords as defined in the Rental Act, 50 of 1999- Chapter 3, sections 4 and 5, in the Co-operatives Act, 1981 (Act 91 of 1981) as well as in the envisaged Social Housing Act.** Social housing is based on mutual respect for the rights of tenants and owners, and the speedy resolution of conflicts that may arise. Social housing actors and Government need to cooperate to develop a consensus on roles and responsibilities, educate all parties on these roles and responsibilities, and allow for effective implementation of the contractual obligations of all parties.

- **Be facilitated, supported and/or driven by all spheres of government.** The roles and responsibilities of the various spheres of government with regard to facilitating, supporting and/or driving social housing must ensure efficiency and prevent unnecessary duplication. The role of local government is particularly significant in defining restructuring zones and facilitating the implementation of social housing within its area of jurisdiction. The ability of this sphere of government to create an enabling local environment is critical to the success of the sector. Cooperative governance and coordination of resources between the spheres and among the different government departments, is key for creating and enabling a supportive environment for the delivery of social housing.
- **Ensure transparency, accountability and efficiency in the administration and management of social housing stock.** Transparency in the way that decisions are made, information is exchanged, and accountability and efficiency in the administration of the social housing project is essential for its establishment and for making social housing successful as a sector.
- **Promote the use of public funds in such a manner that stimulates and/or facilitates private sector investment and participation in the social housing sector.** Public sector investment should be used to gear the private funding provided for social housing in order to obtain maximum benefit for the sector, local authorities, the state and social housing residents. Operational surpluses of social housing institutions must be reinvested in new social housing projects.
- **Operate within the provisions of the Constitution, 1996, the Public Finance Management Act no. 1 of 1999, the Preferential Procurement Policy Framework Act no. 5 of 2000 and other statutory procurement prescripts.** These provisions indicate that fair and equitable competition regarding access to Government resources must be instilled at all interfaces between organs of the State and the suppliers of housing goods and services. The social housing policy will therefore comply with these requirements.

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## 4 THE TARGET MARKET OF SOCIAL HOUSING

Given the principles specified above, it is necessary to clarify who needs social housing and who is eligible for social housing subsidies. To date, the social housing market has been defined in terms of the standard subsidy beneficiary criteria, as outlined in the housing code, essentially viewing the market in terms of the subsidy income bands. This together with an insufficient grant programme (the existing Institutional subsidy mechanism) has resulted in social housing in South Africa serving a very narrow segment of the housing market near the top of the R3,500 cut-off point. Moreover this has seriously affected the ability of social housing institutions to conduct sustainable business insofar as the pool of subsidized beneficiaries is very small.

Given this highly constrained target market many existing social housing institutions have been looking up-market (above the eligibility cut-off point) in order to survive and this has led to endemic and time-consuming conflicts between government and social housing institutions. Moreover the narrow market segment means that social housing has not done much to increase the range of options available to those in the lower bands of the subsidy range. Thus there is a perception that social housing is for a small relatively privileged elite and does little to contribute the housing challenge in South Africa. In addition it has proven extremely difficult to verify and monitor income eligibility. In short the current situation serves neither the goals of greater social/housing equity or of creating a viable social housing sector.

A relatively radical departure from the current approach to income targeting is required. Such an approach should *inter alia* ensure that: a much wider spectrum of low-income people can access social housing; should be demand-driven as opposed to being dictated by the peculiarities of an inappropriate subsidy-system; should try to eliminate much of the burdensome red tape associated with an income-based eligibility approach; and should allow social housing institutions to conduct viable business. Such an approach is presented here and incorporates a number of dimensions. The first is a subsidy approach which allows deep down-market reach. The second is a shift from an income-based to a self-targeting (more demand-driven) approach. The third is a shift from linking subsidies to individuals to a project-based approach (in terms of which targeting is pursued on a project-by-project basis). The presentation of these dimensions is however prefaced by a short overview of the demand for rental housing.

#### 4.1 TYPICAL HOUSEHOLDS RENTING IN SA: THE DEMAND FOR RENTAL HOUSING

Currently the typical nuclear family is not a predominant household form in South Africa. Household structures are varied and complex and so too are housing needs. Among those looking for affordable rental options are the following:

- Persons opting for the flexibility and mobility that rental housing allows (e.g. those who are investing in housing in the rural areas but are earning income in the cities, contract workers who follow work to different locales, or those who are occupationally mobile);
- Persons utilising social housing options as a first phase in a process to individual ownership (deferred ownership) and/or better rental accommodation at a later stage when their ability to afford higher-rentals increases;
- Low income households who cannot afford inner city residential property prices and are forced to opt for affordable rental options such as those provided by social housing institutions;
- Persons who wish to address their housing needs through a collective approach;
- Single individuals have been excluded from subsidy assistance to date; the Government needs to support housing access for this group, and social housing is well-suited to address this need;
- Persons requiring short-term accommodation such as vendors and others who sell produce in urban areas and who cannot afford to return nightly to their permanent residence in far-flung townships;
- Broken households where persons urgently need alternative accommodation due to a variety of circumstances;
- Singles with dependents who tend to opt for affordable social housing rental options;
- Persons with special housing needs but who are able to live independently, such as those with disabilities living with HIV/AIDs, including orphans and children. Co-operation would be required with the Departments of Health and Social Development in order to accommodate this group;
- Single persons wishing to co-habit in rental accommodation.
- Persons currently living in informal settlements because it is the only affordable rental option available to them.

- Persons across the range of income bands that can be construed as low-income.

The above groups identified are by no means exclusive or exhaustive, but characterise the broad profile of potential residents who would be drawn to social housing accommodation. In cases where the housing mandate overlaps with other government departments mandates, discussions will need to be held with the other government departments at national, provincial and local government level to clarify specific roles and responsibilities. Co-operative governance is important for the social housing process to work.

What the above listing of possible beneficiary groups also indicates is that, the demand for social housing implies a wide product range, including rooms with shared facilities, communal housing, short stay accommodation, group housing, apartments and multi-unit dwellings.

Indications are also that the demand for rental housing will increase significantly. In 2001 approximately one million households were renting in metropolitan areas in South Africa, out of a total of 1.8 million households who were renting nationally. This figure is expected to rise in metropolitan areas to 1.5 million in 2006 and 2.2 million in 2011. Indications are that for the income group R19,201 - R38,400 per annum (R1,600 – R3,200 per month), the total formal renting requirement between 2006 and 2011 will increase by an average of approximately 7% per annum on a metropolitan basis, with higher increases in some areas such as Johannesburg.

## 4.2 DEEPENING THE REACH OF SOCIAL HOUSING

As noted above there is concern about the very limited down-market reach of social housing under current arrangements. There is no political or technical justification for the very limited market segment currently targeted. As a consequence this policy introduces a new grant mechanism which allows for a reach much deeper down-market.

The details of this grant mechanism will be elaborated in a later section. What is important to note here, however, is that in terms of this mechanism the only constraints on down-market reach are the fiscus and the ability of beneficiaries to make regular rental payments sufficient to cover operating costs. In principle it is possible for the capital grants to cover 100% of the capital costs of targeted units in a social housing project. We estimate that it will therefore be possible to reach as far downmarket as those who earn R1500 per month (and perhaps even lower in instances where running costs can be reduced below a typical R500 per month). Participation in social housing projects will require the demonstration of a regular income which is able to sustain the monthly rental, and the payment of a deposit equal to three months rental. Access will therefore be restricted only by the ability to



make regular rental payments and the rent pricing policy applying to the cheapest rental units in any project. It should be stressed, however, that the primary policy objective of the social housing programme is restructuring, not mass delivery. Considerable scale will nonetheless be necessary to achieve restructuring objectives.

As a general rule social housing projects should avoid housing uniformly very low income individuals. Doing so escalates the average subsidies required substantially. Moreover the negative social consequences of concentrating uniformly low-income people in social housing estates are well-documented. Thus the notion of an income mix is very important. An income mix and where possible a race mix (to help meet the restructuring goals of the policy) determined for each project, must be aimed for and will be a criterion to be satisfied before a grant is awarded to a project.

The objective of achieving an income mix should also be accompanied with a corresponding graduation of quality levels. In principle lower rentals will be associated with lower quality of housing. Whilst this should be so, observing the principles of vertical equity requires that proportionately larger subsidies should go to poorer people. Moreover the quantity of housing (e.g. studio apartment, 1-bed, 2-bed, 3-bed units) cannot be determined on the basis of income only. Thus delicate engineering, but keeping these interdependent relationships (the rent, quality, quantity, subsidy rectangle) in balance is important.

As a general rule the rent attaching to various unit types will be based on assumptions about the target market and more specifically in relation to a proportion of income that can be afforded (e.g. rents should not exceed 33.3% of monthly income). The details of this will be addressed in the guidelines formulation process.

#### **4.3 SHIFTING FROM INCOME-BASED ELIGIBILITY TESTING TO GREATER SELF-TARGETING**

Recognition of the difficulty of basing eligibility on incomes (which are very difficult to determine and audit) raises the possibility of an alternate approach. In this alternative approach the emphasis shifts from trying to audit incomes to the auditing of the rents that SHIs or projects charge. In short rental units of different quantity/quality levels could be injected into the marketplace at rents affordable to the income mix targeted. The idea is that self-targeting would occur insofar as higher income people would not want to stay in the poorer quality units. Periodic social surveys would be undertaken to establish the actual correlation between incomes and types of units occupied. If out of line, remedial action would have to be taken. There are several advantages to the approach, the main ones being the much more realizable auditing approach, and the circumvention of the “edge of the

world” effect that occurs at the outer limits of income bands (for example if the upper limit of the band is R3,500 and a person’s income is R3,499 per month the person is eligible for a big capital grant - but if the person’s income is R3,501 he or she is eligible for nothing). Furthermore the approach would also considerably ease the administrative burden on both government and the social housing institutions.

The main weakness of the alternate approach is that it is vulnerable to downward raiding by higher income households of units meant for lower income people. Much depends on the way projects are implemented as to whether self-targeting processes will work or not. It is proposed therefore that in the guidelines writing process detailed guidelines for promoting effective self-targeting are developed. Moreover it is also envisaged that detailed attention should be given to other provisions/interventions that would limit downward raiding.

An indication of how the approach would be implemented in practice is provided in the sub-section that follows.

#### **4.4 SHIFTING FROM A SUBSIDY-BAND APPROACH TO A PROJECT-BASED APPROACH**

One of the most significant policy shifts articulated in this document is the shift away from thinking about housing in relation to individuals and individual housing units, to thinking in terms of projects. This theme will be revisited elsewhere in the document since it has significance beyond an approach to income targeting. However the project approach certainly has relevance to targeting and is as a consequence addressed here.

It is envisaged that appropriate targeting will be addressed in the project approval process and that it will be a pre-condition for the award of a project grant (or subsidy). As indicated above the thinking is that each project will specify a range of housing products targeted at income groups appropriate to the context and to the restructuring aims of the social housing policy. For example a project in a suburban area like Midrand could be based on the specific restructuring objective of providing affordable housing to lower income people who currently work in Midrand but who are excluded via market dynamics from living there (for example domestic workers, hawkers and workers in the shops and offices in the area). Thus a project in the area would be based on tested demand from these groupings and might include several housing products - each targeted at specific sub-markets. For example the first housing type might be rooms with shared bathroom facilities aimed at single low-income persons. Shared bathroom facilities are unlikely to be attractive to those with higher incomes and therefore downward raiding is unlikely. The second product could be rooms with bathrooms - targeted at a higher income sub-market. The third

product could be a one-bedroom apartment with rudimentary finishes - again targeted at a particular submarket. The fourth and fifth products could be two- and three-bedroom apartments respectively. The rents would be set on the basis of the rental that people in the sub-market targeted could pay (as a proportion of income). The difference between rental revenues and the cost of providing the units will be subsidized via a grant from government. This grant will be calculated with reference to the project as a whole rather than with reference to particular unit types. However to the extent that deep down-market reach is intended, those units meant for the very poor will attract proportionately more subsidy than units meant for those low-income people with more substantial incomes. The mechanics of the grant mechanism are specified in greater detail in a later section but are central to the approach.

It should be noted that a proportion of units in the project may be entirely unsubsidized and this is considered desirable since achieving income mixes is a clear restructuring objective.

#### **4.5 ESCALATING RENTALS**

As noted above the monitoring and auditing of the rentals charged by those providing social housing (together with spot checks on the correlation between rents and incomes) becomes the primary means through which government checks that its policy objectives are being achieved. As a consequence the raising or escalation of rentals must occur through well-defined processes (to be detailed in the regulations). It should be noted however that it will be necessary to escalate rentals on an annual basis (at CPI-X). Such escalation of rentals is necessary not only to ensure the financial viability of projects and institutions, but also to ensure that there is a "harmonious" rent level for units of comparable quality across the social housing sector. One result of a failure to escalate rentals is that earlier projects will be able to offer comparable quality accommodation at lower rentals than later projects.

In the event that a household is unable to afford these rent increases, it will be required to leave the project. One way of reducing the potential for evictions arising as a consequence of rent escalations is to charge higher rentals (than required in terms of the financial modelling estimates) at the outset and then escalate rentals at a more gradual rate. This approach is recommended, although it may have some implications for initial entry.

#### **4.6 AN UPPER INCOME LIMIT FOR ACCESS TO SUBSIDISED UNITS**

Whilst self-targeting will constitute the main approach to dealing with eligibility, it is felt that an upper income limit for accessing any unit which has subsidy attached to

it should be specified. This is necessary to ensure only that the worst excesses of downward raiding are avoided. A properly graduated set of housing products where rentals charged are in consistent relation to quality and quantity of housing provided should ensure that as one approaches the higher quality/quantity units the rentals charged imply less and less reliance on subsidies. However the upper limit for access to a subsidized unit is proposed as an extra safeguard. If a market rental applies to a unit in a social housing project (as is intended to help achieve an income mix) then the upper income limit does not apply.

At present the upper income limit defining eligibility for social housing subsidies is R3,500 per month. This upper limit has become increasingly problematic largely because it has not been inflation-adjusted over the years. Therefore whilst the eligibility limit has remained static, buying power has dramatically reduced, with the result that households today with incomes below about R3,000 are unable to access state-supported rental housing via the institutional subsidy, and are serviced by the private and informal market. In addition, households whose income has increased find themselves over the specified eligibility income limit, even if in real terms they are actually poorer than they were ten years ago.

The upper limit for eligibility will therefore be increased from the current R3,500 per month to an amount consistent with what the limit would have been if it had been escalated at CPIX since its inception almost a decade ago. Thus an upper limit of R7,500 will apply. This upper limit should be escalated each year at CPIX. The subsidy mechanisms have however been structured in such a way that there are incentives for reaching down-market and achieving a spread across the income range between R1500 and R7500 in all qualifying projects.



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## 5 BRINGING GREATER QUALITY INTO HOUSING ENVIRONMENTS

As noted in earlier sections government has become increasingly concerned about the quality and the sustainability of the living environments it creates. Social housing is seen as a potentially important contributor to achieving such quality environments. Of central importance, however, is the recognition that quality is only partially a function of the housing units themselves. Equally or even more important is attention to the public environment. By moving away from a policy based on subsidizing individual units - to a project- based approach, consideration of the public environment can be made integral to project design.

As far as the quality of housing units is concerned, social housing must be seen in the context of medium to higher density developments ranging from group housing to multiple level, multiple unit dwellings. It is therefore a much more complex building type than the single unit dwelling model and subject to many more requirements with regard to its structure, servicing, financing and quality standards.

In thinking about the quality aspects of units a social housing project the following considerations (amongst many others) are pertinent:

- A social housing project may have many residents over a 20 year period and therefore the finishing needs to be of a sufficient quality and robust enough to sustain such use, and the units must have low maintenance characteristics;
- The safety aspects of certain choices must also be weighed up against the 'savings' – for example most developments supply minimal kitchens, some with only a wall mounted sink. This stimulates cooking habits which create safety and fire hazards;
- Social housing designs should also aim for as much flexibility as possible within the financial limitations to allow for retrofitting in future. Early compromises in terms of spatial layouts, designs or servicing may not allow for this.

As noted above the quality of units is not the only important focus - the housing environment is equally important. The total development encompasses the unit design, common areas such as walkways, staircases; services such as electrical and water reticulation and fire equipment; as well as the amenities that contribute to the social environment such as play areas, landscaping, parking, laundry and drying areas, and community meeting rooms. In project developments where the units are unavoidably small out of financial necessity, the overall environment is particularly important in providing relief in this respect. Moreover there is the broader public environment (the neighbourhood) within which the social housing project nests and



interacts. In this regard the roles of neighbourhood organizations and most critically local authorities are very important.

Social housing needs to be viewed in terms of lifecycle costing: this means that the overall development needs to be viewed in terms of the choices made with regard to initial capital expenditure and the impact of this over the life of the environment broadly conceived. Certain choices and compromises, particularly with regard to services and material choices will result in higher running costs for both the SHI and residents, and may also result in higher operational costs for the SHI. Social housing developments therefore need to balance quality with costs and long-term maintenance expenditure.

Given the above considerations the advantages of adopting a project-based approach to subsidizing social housing delivery (as opposed to one based on subsidizing units) should be apparent. Important criteria for the approval of social housing projects in the future will be attention given to the quality aspects discussed above and to the living environment as a whole.

Moreover social housing projects will conform to and exceed the norms and standards set by the Minister, the National Building Regulations and the standards imposed by the National Home Building Registration Council (NHBRC). It is envisaged that best practice benchmarks will be continually developed and incorporated into a set of norms and standards that the sector itself will develop and which the regulator will enforce.

## 6 GEARING TO SCALE

In order to have impact in restructuring and to contribute to the rental sector, a substantial increase in the delivery of social housing units is required. However, the ability to deliver social housing at a substantially increased scale has been limited by a variety of factors, including the weak capacity currently evident in the social housing sector, the limited effectiveness of previous capacity building initiatives, the time it takes to gear effective capacity, a lack of clarity on financial conditions in certain programmes (such as the Job Summit) and the insufficient funding provided by the institutional subsidy at the moment. As previously noted delivery to date in the sector has resulted in of the order of about 30,000 social housing units being under management country-wide, and about 60 operational social housing institutions. While many of these housing units are located in inner city areas, these projects have not necessarily provided the geographic focus or systematic contribution to restructuring hoped for. In addition, many of the institutions – and by implication the projects - face significant financial problems as well as management difficulties.

Given this picture, targets with respect to scale delivery ultimately need to achieve a balance between the desired impact of the programme in terms of numbers of units delivered, the capacity available to achieve this impact, and the fiscal implications of this delivery, both in terms of capital grants and the cost of capacity building. As there are a variety of actors who could be involved in the delivery of social housing, targets in respect of scale need to be expressed in terms of number of viable projects (and therefore units under management), rather than number of institutions created.

This policy aims for the delivery of 22,500 units in the first three years and a total of 50,000 units within five years. While these figures may seem small in relation to the RDP housing delivery programme, the social housing programme is not envisaged as a bulk delivery mechanism at this stage. In any event, these targets represent a major increase in scale from the current delivery rate of 25,000 social housing units over 10 years. Once the programme is underway and begins to demonstrate the impact of delivery, targets beyond these figures would be up for debate. At this stage it is academic to talk of larger scale delivery as the necessary capacity for this does not exist.

### 6.1 STRATEGY FOR GEARING UP CAPACITY

While there are real constraints associated with most of the available options for gearing to scale, a three-pronged strategy will be pursued. The first component

involves continued support to the growth and consolidation of SHIs, via a greater focus on viable projects. Notwithstanding the disappointing track record to date, the policy and funding environment has been so unsupportive that it is difficult to draw conclusions. SHIs have succeeded elsewhere and, given the appropriate support, they will become the primary support vehicle for social housing in South Africa. It should be noted that SHIs could also include municipal entities defined in terms of the Municipal Systems Act no. 32 of 2000. Such entities would have to adhere to the requirements of the Municipal Systems Act and the Municipal Finance Management Act no. 56 of 2003.

The second component is the use of public private partnerships (PPPs), for big impact projects in designated restructuring areas. PPPs are envisaged only in large scale projects because the associated transaction costs will not make them cost-effective in small projects. However, large scale projects could be made up of a number of different developments, and do not imply en-masse developments on one site. The private sector is seen to play a key role in the conceptualization, construction and management of PPP projects. However, these PPPs will not be structured as build-operate-transfer (BOT) arrangements in which automatic transfer from the private sector to the social housing institutions takes place after a period of time in which there has been no involvement of SHIs. Rather, in those cases where transfer of the stock to SHIs is envisaged, SHIs should be actively involved from the start of the conceptualization and development of a project in order to ensure the long-term sustainable management of the stock.

The third prong is to support the growth of private sector rental provision. This would be through the use of grants in accredited projects, developed and managed by the private sector, rather than by accredited institutions. The fact that the private sector is a major contributor toward the support of rental housing at present suggests strongly that the measures introduced to support social housing should not have the effect of squeezing them out, but should rather facilitate their involvement in the sector.

In addition to these 3 main routes for scale delivery, social housing could also be delivered through special tenant interest groups and special needs groups, and could include both transitional and communal housing.

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## 7 LEGISLATIVE, INSTITUTIONAL AND REGULATORY ENVIRONMENT

### 7.1 LEGISLATIVE ENVIRONMENT

The social housing sector is currently not specifically regulated, but is governed by various pieces of existing legislation. This has complicated the sector's growth and has contributed to delay in delivery at scale within the sector, as requirements posed by the legislation have had to be addressed, usually on an individual case-by-case basis. The legislative environment impacting on social housing broadly comprises the following:

- The nature and/or registration of the SHIs as legal entities
- Tenure options offered by the SHIs
- VAT and income tax legislation and regulation
- Land legislation
- Housing and Rental Housing legislation and regulations/guidelines
- Financial legislation
- Norms, standards and quality control rules and guidelines, and
- Provincial and local government-specific regulations.

Annexure A contains a list of the relevant legislation and related guidelines/regulations and briefly describes how these affect the social housing sector.

A Social Housing Act will be developed to provide the legal framework required for the regulation of the social housing sector. The Act will deal with legal requirements for the promotion of a sustainable and viable social housing sector in South Africa, inter alia specifying the functions and legal forms of a social housing institution, specifying government support mechanisms, legislating the social housing regulatory framework in terms of SHI accreditation, and defining the roles and functions of sector agencies. The Act will thus comprise the legal framework for the implementation of the social housing policy.

The legislation and regulatory framework will be designed to ensure that the sector is well equipped to provide sustained delivery of social housing at scale, as well as protect the financial investment that Government and the private sector contributes to the sector through the social housing institutions. The guidelines to the policy will

have to look at the alignment, enhancement and streamlining of the various pieces of legislation where possible.

## 7.2 INSTITUTIONAL ARRANGEMENTS FOR THE SECTOR

The policy proposals regarding the institutional architecture for social housing start from the premise that whilst the capabilities and capacities of existing institutions should be taken into account and whilst new institutions should not be created unless absolutely necessary, the discussion of institutional arrangements should start from an assessment of what is necessary to make social housing policy work. The approach taken then is to identify the key roles that need to be performed within the sector as a whole and then to specify rules for ensuring that roles do not conflict. With respect to key roles the following five are identified:

- **Leadership:** This refers to overall sector development, policy and programme development and national programme management.
- **Funding:** This includes the approval of projects and the allocation of grants/subsidies for programmes and projects. In addition it refers to the management of grants for facilitation as well as the provision of loans.
- **Delivery:** This includes the production of accommodation units, as well as the delivery of infrastructure and public environments. It includes delivery initiation and governance.
- **Regulation:** This involves accreditation, monitoring of compliance of institutions and ongoing monitoring. It also refers to restructuring zone initiation and restructuring zone approval.
- **Facilitation:** This includes capacity building/support, risk mitigation, sector research and policy support, consumer education and protection and SHI interest protection.

### 7.2.1 LEADERSHIP

As far as leadership is concerned the Minister and her department (the ND) will provide overall policy and sector development and co-ordination leadership. A dedicated social housing directorate will be established in the ND.

However a key point of departure of this policy document is that co-operative leadership and governance will be necessary if the social housing programme is to succeed. Thus significant leadership will have to be provided by Provinces and Local Authorities. Local authorities will, for example (together with provinces), be responsible for the identification

of restructuring zones. Moreover both provinces and local authorities will be partly responsible for mobilising and leading social housing initiatives and social housing institutions within their jurisdictions.

National programme management is currently a responsibility of the Provinces although the accreditation of local authorities to run such programmes is currently a goal of emerging national housing policy. It is envisaged that such national programme management will remain the preserve of the provinces/ accredited local authorities. However because of the particular concern of national government with restructuring objectives (which are not strictly housing objectives) and because of its particular responsibility for sector development, the national programme management of the social housing programme will be shared between national government (or its agent(s)) and the provinces/accredited local authorities. In this regard it should be noted that the capital grant to social housing projects will be comprised of two components, a standard/fixed component approved by national government and a variable component approved by provinces/accredited local authorities (these arrangements will be elaborated in later sections). The sharing of national programme management responsibilities may require legislative amendments but should this be the case such amendment is considered necessary.

With respect to restructuring objectives it should be noted that the fixed subsidy component referred to above is designed primarily as a financial contribution to achieve restructuring objectives (which are broad political and developmental goals) whilst the variable component is intended primarily as a contribution to achieving deeper downward reach of social housing projects. It should be noted too that national government (or its agent) will be responsible for the final approval of restructuring zones whilst provinces/local authorities will be responsible for their identification (and for making application for their approval by national).

Sector development is considered to fall quite squarely within the ambit of national government (especially given the weakness of the sector at present) although contributions from other levels of government are to be welcomed. Thus capacity building grants will be administered from the centre ( by the Social Housing Corporation as the agent of national government). Moreover national government (via the Social Housing Corporation) will be responsible for the final approval of social housing projects (where viability of the project and the institution will be the main criteria). Local authorities and provinces will in the first instance apply to



the ND (or its agent) for the approval of “restructuring zones” - those geographic areas identified for targeted investment. Thereafter, SHIs and other delivery agents will apply to the provinces/accredited local authorities for the allocation of funds to feasible projects proposals. Province’s will then assess the projects and determine the amount of variable/top up subsidy they are prepared to apply to the standard/fixed restructuring grant to be applied for from the centre. Then the province will submit the project to the agent of national government (the Social Housing Corporation) for approval with respect to viability. Once approved, the funds will be allocated to the provinces to manage disbursement and project compliance.

**Table 1: Summary of the institutional architecture proposed in terms of the sector roles and processes**

INSTITUTIONAL/ SECTOR ROLES					
	Leadership	Delivery	Funding	Regulation	Facilitation
<b>DELIVERY PROCESS</b>	<p>ND promotes the mobilisation and development of the social housing sector</p> <p>Local authorities (identify restructuring zones and mobilize local SHI’s)</p> <p>Provinces (put forward restructuring zones to ND for approval)</p>	<p>Local authorities provide land, infrastructure &amp; public environs</p> <p>SHIs, PPP, municipal entities and the private sector are housing delivery and management agents.</p>	<p>SHI’s, PPP’s, municipal entities and the private sector compile project proposals within approved restructuring zones and submit to the Province’s/ accredited local authorities.</p> <p>Provinces administer disbursement of grant finance</p> <p>NHFC and private sector provide loan funding</p>	<p>Province/ accredited local authority monitors project level compliance.</p> <p>Federations set code of good practice for members</p>	<p>SHC / SHF disburses capacity building grants</p> <p>Service providers compete to provide capacity building services</p> <p>Risk mitigation/ guarantees to SHIs etc.</p>

INSTITUTIONAL/ SECTOR ROLES					
	Leadership	Delivery	Funding	Regulation	Facilitation
<b>REGULATORY PROCESS</b>	<p>ND provides policy framework, sector co-ordination and programme funding</p> <p>ND, Provinces and accredited local authorities all manage different components of the social housing programme.</p>	<p>Delivery agents and local authorities enter into performance agreements</p>	<p>Provinces decide on topping up or restructuring grants to apply and submit to ND (or its agent) for viability testing.</p> <p>ND (or its agent) approves the standard/fixed component.</p>	<p>SHC annual performance monitoring and compliance of SHIs and sector players</p> <p>SHC accredits social housing institutions and private sector projects.</p>	<p>ND communicates with the sector and calls for projects</p> <p>SHC annual performance monitoring of sector players</p>

## 7.2.2 FUNDING

Social housing's role in restructuring, referred to earlier in this document, calls for a re-consideration of the institutional arrangements with respect to funding. In the period after 1994 the emphasis was on delivering housing commodities to as many households as possible. The delivery of houses was seen as a goal in its own right linked also to lower order rights specified in the constitution. Much delivery success has been achieved but a second generation of housing policy needs to augment the delivery of houses for its own sake with the use of housing to achieve other key goals of new democracy - and most specifically the restructuring of society. This latter objective implies more strategic and directed investment than the formula-based equitable shares allocations of the housing budget to Provinces implies.

A new fund will be created at national level through which local authorities and provinces can apply for access to the standard/fixed component of the social housing grant – the restructuring component. The fund will be managed by the ND (or by the SHC as its agent). There is already precedent for this but legislative changes (to the Housing Act) will nonetheless probably be necessary. At present provinces can access funds for housing in two ways. The first is the Housing Subsidy Scheme (HSS) which is allocated to the provinces on the basis of a formula and which is programme managed by the provinces. The second is Human Settlement Redevelopment Programme (HSRP) which is programme

managed at a national level by ND. Local authorities must make application (supported by a business plan) to access these funds. A similar approach to this latter arrangement will be used for accessing the standard/fixed restructuring grant.

As noted earlier, the ND (or its agent) will manage the approval and allocation of standard/fixed restructuring grants whilst provinces will administer their disbursement and handle project level compliance. It is envisaged that provinces/local authorities can develop and submit (on an annual basis) a programme for social housing development in designated restructuring zones and an associated business plan. If approved by ND, the funds necessary to implement the programme will be allocated to the province who will then administer the programme/business plan (noting that all social housing projects still have to be approved by national government (or its agent)).

Also as noted previously, there is a second component to the social housing capital grant—a variable component which will be administered by the provinces/local authorities and sourced from the equitable shares housing budgets allocated to the provinces each year/funding cycle. The idea is that the provinces/accredited local authorities will (as usual) allocate a portion of their budget for social housing. Part of this will be used in the form of institutional subsidies to be applied outside restructuring zones. A second part would be used within restructuring zones to top-up the standard/fixed component of the social housing capital grant. The top-up will be applied primarily to enhance the affordability of social housing and thereby promote deeper downmarket reach. The top-up component will however be subject to a cap (probably the existing institutional subsidy amount). Local authorities can however top-up further by for example making land available free or through other in-kind contributions. There is however no obligation on them to do so. Thus national, provincial and local authorities may all be involved in making contributions to the capital costs of social housing projects.

As far as capacity building grants are concerned it has already been indicated that they will be managed by the SHC. The SHC is in a position to identify needs and set the capacity building programme parameters based on the institutional and performance assessments that it regularly does as part of its core business. Having done so, it will call for a variety of service providers to compete to provide the capacity building services. Administering national capacity building processes is a role which is

consistent with the regulation/accreditation role in so far as the regulator will be able to operate with a “human face” - offering assistance (capacity building) to non-complying or non-performing organizations. Therefore the SHC will administer and disburse the funds associated with a capacity building programme.

As far as debt financing is concerning the key roles will be played by the National Housing Finance Corporation and the private sector. The **National Housing Finance Corporation’s** roles and function must be seen in conjunction with its mandate as provided for under the Housing Act 1997. In that context the National Housing Finance Corporation (NHFC) is expected to:

- Provide improved access to loan funding for SHIs
- Assist the SHC with the assessment of project viability as well as assessment of institutional health and sustainability of SHIs, except in projects where it is advancing debt financing.
- Provide and/or facilitate access to guarantees for loan funding from private sector financial institutions
- Explore and support mechanisms aimed at gearing public funding for social housing

### 7.2.3 DELIVERY

With regard to delivery, SHIs are envisaged to be a key delivery agent of social housing units (either as SHIs or via PPPs). In addition, the possibility of the private sector as a deliverer of social housing via accredited projects will be introduced. Partnerships between SHIs and Local Governments (LGs) are important and SHIs and LGs should jointly identify restructuring projects (delivery initiation) and together submit proposals for funding. It is also proposed that the South African Local Government Association (SALGA) should facilitate the role of local governments in social housing through the development of guidelines for its members in co-operation with ND.

Metropolitan local governments may consider establishing a dedicated unit for their support functions to social housing development. While it is understood that the above local government involvement will be critical to the success of social housing projects and SHIs, local governments should not manage SHIs directly. Local government representatives should not sit on the governance structures of SHIs because of potential

conflicts of interest and the possible politicization of delivery and operations (as is the practice in many other parts of the world). Moreover local governments, in the spirit of co-operative governance should undertake to support SHIs, not undermine them. The role of SALGA in this regard is important particularly in terms of making local authorities aware of the role, purpose and governance of SHIs.

The extent of local government's support for a SHI must be specified in an annual performance agreement between the two parties (supported by a Council resolution), and the parties should jointly identify restructuring projects and together submit proposals for funding to the SHC. This performance agreement needs to emphasize mutual support for enabling delivery. The extent of local government support may range widely and could include an undertaking that the local government : will provide/facilitate access to land and infrastructure for SHI projects; will incorporate restructuring zones into the local government's Integrated Development Plan (IDP); and will provide standard municipal rates and service charges rebates/ exemptions etc. It could also include an undertaking or willingness by the municipality to support bridging finance needs or credit requirements/applications of SHIs. Local government may also undertake to assume SHI restructuring co-responsibility together with funding agency/ies in the event of SHI financial difficulties, if and when this will be required at the Social Housing Corporation's recommendation. The suggested content of annual performance contracts will be further addressed in the guidelines process.

#### **7.2.4 REGULATION**

A Social Housing Corporation (SHC) will be established by the National Department as fully fledged institution to oversee the social housing sector and as the regulatory agency performing the functions of accreditation, performance monitoring and compliance. Interventions and sector support measures will also be initiated by the SHC as required.

The Corporation's scope and functions will be laid down in a Social Housing Act and detailed in regulations under the Act.

The regulatory framework should be "light" and enabling. The SHC will stress the use of performance standards rather than demanding compliance with a plethora of rigid rules. Whilst the regulatory framework will be enabling, it must still allow stronger sanctions than just the removal of accreditation. Therefore, the SHC must have both an

obligation and delegated ministerial responsibility to intervene in cases of non-compliance or poor performance.

Whereas most of the sector regulatory roles are logically allocated to the proposed Social Housing Corporation (SHC), in the course of time the National Association of Social Housing Organisations (NASHO) could play an increasingly important role particularly in regard to self-regulation, at least as far as SHIs are concerned. Not all SHIs are members of NASHO. Moreover, there are different legal forms of SHIs. Therefore, some SHIs may form additional member-based associations to lobby on specific issues of concern and provide targeted assistance and/or services to their membership base.

### **7.2.5 FACILITATION**

Facilitation includes activities such as consumer protection, consumer education, insurance schemes for SHIs, and tenants alike, information sharing, capacity building (of all key players in the sector) and so on. Facilitation activities can, and should, be undertaken by a wide array of service providers (in competition where possible). Government at all levels has a general sector facilitation role to play but should not prescribe the facilitation activities of other actors (except of course where it funds such facilitation - as is the case of capacity building). In this regard it should be noted that government has set up and supported the Social Housing Foundation as a key sector-wide facilitation agency. Given the establishment of the Social Housing Corporation, the role of the SHF will need to be reviewed. A detailed institutional assessment of the Social Housing Foundation will be commissioned with a view to identifying and proposing alternative options for the SHF's institutional future, including for example, the option of absorption of SHF into the Social Housing Corporation. The assessment will also make recommendations as to the future funding of SHF activities/work plans.

Table 2: Summary of the roles and responsibilities of the sector stakeholders

Stakeholder	Roles and responsibilities
<b>National government</b>	<ul style="list-style-type: none"> <li>• Provide overall leadership for the sector</li> <li>• Create an enabling environment for social housing, through the development of policy and enactment of legislation.</li> <li>• Ensure attention to its constitutional responsibilities</li> <li>• Provide a regulatory and legislative framework within which actors in the sector must operate</li> <li>• Address issues that affect the growth and development of the sector</li> <li>• Fund the social housing programmes</li> <li>• Administer the standard/fixed restructuring component of the capital grant.</li> <li>• Approve the designation of restructuring zones submitted by provinces and local authorities</li> <li>• Approve social housing projects, programmes and business plans submitted by provinces</li> <li>• Establish institutional capacity to support social housing initiatives</li> </ul>
<b>Provincial government</b>	<ul style="list-style-type: none"> <li>• Together with local authorities identify restructuring zones and submit to ND for approval</li> <li>• Allocate funds to the provincial social housing programme.</li> <li>• Receive project applications from delivery agents and decide on extent of top-ups</li> <li>• Submit projects and proposed top-ups to ND for approval and acquisition of standard/fixed subsidies.</li> <li>• Ensure compliance with national and provincial social housing norms and standards.</li> <li>• Mediate in case of conflicts between an SHI and local government and resolve such conflicts, if required</li> <li>• On an annual basis develop a social housing programme and associated business plan and submit to National government for approval and funding</li> <li>• Administer the disbursement of project capital grant funding approved by the ND for social housing projects, and monitor progress in terms of the grant allocation process.</li> </ul>
<b>Local government</b>	<ul style="list-style-type: none"> <li>• Initiate the identification of restructuring zones and link to IDP process</li> <li>• Call for social housing projects in designated restructuring zones</li> <li>• Facilitate social housing delivery in its area of jurisdiction</li> <li>• Apply to the ND (SHC) for the approval of restructuring zones.</li> <li>• Commit in its IDP to specific measures (e.g. to support the development of in-situ associated social facilities), in order to ensure an enabling environment for the social housing sector.</li> <li>• Enter into performance agreements with SHI's.</li> <li>• Provide preferential access to land and buildings for social housing development in approved restructuring zones</li> <li>• Provide preferential access for SHIs to acquire local authority rental stock</li> <li>• Provide access to municipal infrastructure and services for social housing projects in approved restructuring zones and, where appropriate,</li> </ul>



Stakeholder	Roles and responsibilities
	<p>provide local fiscal benefits (e.g. through rebates on municipal rates and service charges)</p> <ul style="list-style-type: none"> <li>• Assist SHI's in their establishment stages through inter alia logistical and resource (financial, human and technical) support</li> <li>• Provide grant funding to incipient SHIs in establishment stages and assisting with sourcing additional funding to support the activities of the SHI (including possible local government equity participation)</li> <li>• Provide access to bridging finance for SHIs</li> </ul>
<p><b>National Housing Finance Corporation (NHFC)</b></p>	<ul style="list-style-type: none"> <li>• Provide improved access to loan funding for SHIs</li> <li>• Assist the SHC with the assessment of project viability on an agency basis as well as assessment of institutional health and sustainability of SHIs, except in projects where it is advancing debt financing</li> <li>• Provide and/or facilitate access to guarantees for loan funding from private sector financial institutions</li> <li>• Explore and support mechanisms aimed at gearing public funding for social housing</li> </ul>
<p><b>Social Housing Corporation (SHC)</b></p>	<ul style="list-style-type: none"> <li>• Act as the agent of ND where appropriate</li> <li>• Accredite social housing institutions and approve their project applications</li> <li>• Accredite projects to be developed by private sector developers and managers wanting to develop social housing projects in restructuring areas</li> <li>• Conduct compliance monitoring vis-à-vis the accreditation criteria through annual visits and reviews of SHIs and private sector players.</li> <li>• Enforce compliance where necessary.</li> <li>• Advise the Minister on any matter related to social housing and the social housing sector</li> <li>• Formulate, direct and oversee the capacity building programme to be embarked upon as part of the strategy to build the social housing sector.</li> </ul>
<p><b>Social Housing Foundation (SHF)</b></p>	<ul style="list-style-type: none"> <li>• Support the SHC in providing capacity building and technical support to SHIs and the broader sector</li> <li>• Promote the development and awareness about social housing</li> <li>• Provide best practice information and research on the status of the sector</li> <li>• Promote an enabling environment for the growth and development of the sector</li> <li>• Assist emerging and existing SHIs gain accreditation</li> <li>• Assist SHIs in the submission of viable project applications</li> </ul>
<p><b>Social Housing Institutions (SHIs)</b></p>	<ul style="list-style-type: none"> <li>• Develop and/or manage viable social housing projects for low income residents in restructuring areas jointly with local authorities</li> <li>• Promote the creation of quality living environments for low income residents</li> <li>• Reinvest any operational surpluses in further social housing projects in restructuring areas</li> <li>• Apply for and achieve accreditation and comply with the accreditation requirements of the SHC</li> <li>• Establish and comply with annual performance agreements with local authorities on social housing projects in the area of jurisdiction</li> <li>• Consult with residents in social housing projects through meaningful</li> </ul>



Stakeholder	Roles and responsibilities
	<ul style="list-style-type: none"> <li>participation</li> <li>• Inform residents on issues relating to consumer protection</li> <li>• Observe and operate within a best practice and value regime as supported by national policy</li> <li>• Comply under all conditions with the Ministerial National Norms and Standards in respect of Permanent Residential Structures, the National Building Regulations and the technical standards imposed by the National Home Builders Registration Council, where applicable.</li> </ul>
<b>Private sector</b>	<ul style="list-style-type: none"> <li>• Develop and/or manage viable accredited social housing projects for low income residents in restructuring areas</li> <li>• Promote the creation of quality living environments for low income residents within the accredited projects</li> <li>• Submit project accreditation applications and comply with the accreditation requirements of the SHC</li> <li>• Inform residents on issues relating to consumer protection</li> <li>• Observe and operate within a best practice and value regime as supported by national policy in the accredited projects</li> <li>• Comply under all conditions with the Ministerial National Norms and Standards in respect of Permanent Residential Structures, the National Building Regulations and the technical standards imposed by the National Home Builders Registration Council in accredited projects</li> </ul>
<b>National Association of Social Housing Organisation (Nasho)</b>	<ul style="list-style-type: none"> <li>• Representation and co-ordination on behalf of its members</li> <li>• Campaign and lobby on behalf of its members</li> <li>• Promote the social housing sector</li> <li>• Support individual SHIs</li> <li>• Promote capacity-building within the sector from the demand side in partnership with other sector players</li> <li>• Promote joint procurement by SHIs where this is efficient</li> <li>• Promote exchange of good practice among its members</li> </ul>

### 7.3 REGULATION

One of the key weaknesses of the social housing sector to date is that there has been a very weak regulatory framework. One consequence of this is that both social housing institutions and social housing projects have got into serious trouble and significant government investment has been jeopardized or squandered. No early warning system has existed. Given the size of government investment envisaged in this policy document, this situation cannot be allowed to continue.

An effective regulatory system has a number of components. To begin with it must have a capacity to monitor and evaluate the performance and actors in the sector (SHIs, private sector delivery agents, tenants, local authorities, provincial and national government, wholesale financiers, sector facilitation agencies etc). Secondly an effective regulatory system must have both the capacity and the will to

act in the face of non-compliance /non-performance. Compliance of course can have relevance to a number of issues. For example it is intimately associated with ensuring that actors utilize government resources in a way which is consistent with government objectives. Thus SHIs or private sector delivery agents that charge rentals in excess of what has been agreed given the subsidy applied and government's concern to house the poor, must be brought to book. Compliance may also relate to making certain changes to organizations in order to ensure that they perform more effectively. An organization could, for example, be required to reduce its overheads in order to ensure financial sustainability or compliance could have to do with specific organizations which are funded by government performing in accordance with their mandate.

Central to the government's arrangements for establishing an appropriate regulatory environment is:

- The introduction of an accreditation and compliance monitoring process
- The establishment of a Social Housing Corporation

### **7.3.1 ACCREDITATION AND THE ESTABLISHMENT OF A SOCIAL HOUSING CORPORATION**

#### **7.3.1.1 ACCREDITATION OF SHIS**

An SHI accreditation mechanism will be established to stimulate and regulate the SHI sector. It will provide incentives and compliance criteria for SHIs to ensure that their operational viability is safeguarded and will also provide a measure of comfort to any financial institution from which the SHI may wish to borrow for project development. In addition, it will provide an assurance to Government and the South African taxpayers that its investment is well protected.

#### **The accreditation process will have three major steps:**

1. Preparation of the accreditation application: an intending applicant institution having an admissible legal status will prepare the documentation required for the application for provisional accreditation. As outlined in the section on capacity building a grant is available, if necessary, to facilitate the preparation of an application;
2. Provisional accreditation: this phase of accreditation will entail acceptance of the SHI application by the Social Housing Corporation. Acceptance of the application will be

the entry point into the more substantive capacity building and capital grant funding offered by the social housing programme.

3. Full accreditation: after the accreditation criteria (outlined below) have been met in full. Such full accreditation will allow the SHI to continue accessing capital grants for projects.

The accreditation criteria for each of the stages will include the following:

- a) Provisional accreditation criteria to be used to screen an institution applying (the applicant) will comprise the following:
  - reconfirmation that general registration criteria as per the Companies Act or the Co-operatives Act have been met by the applicant (i.e. the legal status of the aspiring SHI is clear), and that it has, to date, met its annual accounting, auditing and reporting requirements as legally required, as demonstrated by appropriate records from the registrar of companies or co-operatives as the case may be, including the applicant's most recent audited annual accounts and director's report (where this applies);
  - the identification, in the case of a new SHI, of a viable project (which has been feasibility tested and which will generate a yield beyond the immediate costs of the project).
  - In the case of existing SHIs, the submission of feasibility tested plans to make currently unviable projects viable, and the identification of viable future projects (which have been feasibility tested)
  - submission of an acceptable business plan, approved by the applicant's board, including a justified application for establishment grant, if so required; and
  - submission of an acceptable business plan, approved by the applicant's board
  - specific certification in the statutes/memorandum and articles of association that the applicant SHI function is

to primarily deliver social housing on a financially sustainable basis;

- expression of willingness to develop financial and institutional benchmarks in the accreditation process (and to adhere to those), and to be assisted in their development by the Social Housing Corporation's capacity-building programmes;
- expression of support by local government ;
- agreement to participate in and contribute to specific default risk insurance schemes (as may be established under the auspices of the National Department, NASHO or the Corporation, see section on financial arrangements below).

b) Full accreditation criteria will include:

- a revised operational business plan, including an agreed set of achievable time bound financial and operational viability benchmarks;
- positive assessment of performance in relation to the projects implemented and under management;
- validation that the above legal requirements relating to statutes/memorandum and articles of association, annual accounting, auditing and reporting continue to be adhered to;
- agreement to participate in and contribute to specific default risk insurance schemes (as may be established under the auspices of the National Department, NASHO or the Corporation).

### **7.3.1.2 PERFORMANCE MONITORING**

As noted above, one of the primary functions of the Social Housing Corporation will be to monitor the compliance of SHIs with a variety of requirements. Regular performance audits (the frequency to be determined in the regulations writing process) will be undertaken by the Corporation. Where problems are encountered the SHC will put the SHI on terms but also specify

the capacity and other support which will help it get its house in order.

### **7.3.1.3 INCENTIVES AND SANCTIONS**

Access to capital grants and the generous capacity building and staff gearing provisions constitute strong incentives for accreditation and for compliance with the provisions thereof. Non-compliance or non-performance implies loss of these privileges. Moreover the regulator will be empowered by the Act to intervene directly and decisively in instances where SHI non-performance threatens government investment. Incentives and sanctions will be addressed in more detail in the regulations writing process.

## **7.3.2 ACCREDITED PROJECTS**

Private sector institutions can also access the capital grants (but not the capacity grants unless the private enterprise is a black empowerment enterprise BEE) provided for in this policy document but access is contingent upon the successful accreditation of a proposed project and with on going compliance with the provisions of this accreditation. The project accreditation process envisaged is comprised of two components - an institutional component and a project component.

### **7.3.2.1 THE INSTITUTIONAL COMPONENT**

The regulator will need to be satisfied that the private sector institution applying for a capital grant is a reputable business and a “going concern”. Criteria to be used in the assessment will include inter alia:

- Registration as per the Companies Act
- Evidence of good corporate governance insofar as meeting legal requirements with respect to its annual accounting, auditing and reporting requirements.
- Evidence of compliance with and commitment to Black empowerment objectives
- Evidence that the company is a going concern with an established track record (unless a newly established BEE)

- Expression of willingness to participate in and comply with the development of best practice benchmarks regarding accredited projects.
- An expression of commitment to the intentions of government regarding social housing.
- An expression of willingness to allow the regulator to monitor the ongoing soundness of the business and the project.

#### **7.3.2.2 THE PROJECT COMPONENT**

The primary focus of the accreditation process will be the project itself and the provisions/arrangements to be made regarding the protection of government investment. Criteria to be used in the assessment will include inter alia:

- Expression of support from the local authority.
- Compliance of the project with government policy objectives.
- Verification of its location in a restructuring zone.
- Assessment of the feasibility and viability of the project.
- The specification of arrangements to protect government investment.
- The specification of procedures to be followed in the event of the withdrawal of the company from the project.

#### **7.3.2.3 INCENTIVES AND SANCTIONS**

Access to the capital grant allows the private sector to compete with SHIs on level playing fields and is a considerable incentive to participate. Sanctions for non-compliance will be specified in more detail in the regulations writing process. However in extreme circumstances they could include; requiring a private company to repay the capital grant, foreclosing on the company, and blacklisting it with respect to future support. The regulator will be empowered via the Act to intervene directly and decisively in instances where government investment is threatened.



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## **8 CAPACITY BUILDING IN THE SOCIAL HOUSING SECTOR**

### **8.1 PLACING THE DEVELOPMENT OF VIABLE PROJECTS AT THE CENTRE OF THE CAPACITY BUILDING EFFORT**

Capacity building is a major prerequisite for the development of robust social housing institutions and the growth of the sector. Several recent reviews have highlighted the weak capacity and poor governance in the social housing sector and the relative ineffectiveness of the capacity building effort to date. It should be noted at the outset that there has been a tendency to think about capacity building in the sector as being primarily about the building of SHIs. Thus capacity building initiatives have generally involved two main components.

The first is training of SHI staff members across a variety of activities pertinent to the business of an SHI and secondly assistance in gearing up the capacity of SHIs at the outset (usually in the form of up-front grant finance to allow the initial staffing of the SHI). One consequence of this is that substantial sums of money have been spent on gearing up staff and training them without this effort necessarily translating into outputs (projects under viable management in sustainable housing institutions). Thus when the grant funding is utilized the SHI is no longer financially sustainable.

The policy outlined here involves a shift in emphasis in the capacity building approach. Rather than focusing on building organizations up-front (ahead of delivery) this policy framework highlights the need to develop the capacity to run sustainable projects and to link ongoing capacity support (of a variety of types) to performance in initiating, implementing and running viable projects. Sustainable SHIs/organizations are based on and depend on viable projects. Support from government for growth in staffing will therefore be contingent on the generation of a yield (over and above direct project costs), which in the course of time will support such staff. This is aimed at avoiding the creation of dysfunctional organizations which have staff and other overheads, but little to show in the way of viable projects. As will be explained in a later section the generation of a yield over and above what is needed to recover project costs is considered central to the definition of a viable project.

It is also apparent that the current distress that the sector finds itself in is, at least in part, due to the absence of an effective monitoring system with a capacity to intervene early to address problems. The regulation processes outlined in this policy document should go a long way to helping address this shortcoming. Thus the capacity building process will also have to be strongly linked to the accreditation and performance monitoring process.

## 8.2 TYPES OF CAPACITY BUILDING INTERVENTIONS

Given the policy emphases described above capacity building interventions supported by government will take the following forms:

- Training, technical assistance and on-the-job management support around the skills needed to develop, implement, and run viable social housing projects (such as project packaging, outsourcing, use of technical advisors, financial literacy etc.).
- Training, technical assistance and on-the-job management support aimed at improving the effective internal functioning of the social housing institution itself, on issues such as governance, human resource management, management systems, resident education and relationships etc.
- Financial support for gearing up staff but in a way that is strongly linked to performance in running viable projects.
- The linking of capacity building initiatives to the processes of monitoring and regulation that the policy introduces.
- The sharing of information and experience.

Technical resource groups (TRGs) and resource pools need to be developed which can assist social housing institutions specifically with project development, institutional development and housing management. TRGs and resource pools can be composed of various experts drawn from support organisations, educational institutions, professionals and existing private sector real estate practitioners, as the sector still has a limited skills and experience base that it can draw on. The provision and use of generic templates, procedures, systems and approaches needs to be encouraged through the regulatory process by the SHC. Exchanges of information and experience between housing institutions, private sector and international partners is another important element in capacity building and Nasho should be encouraged to facilitate this. All of these activities can be supported financially via the grant mechanisms defined below (and in particular the General Capacity Building Grant)

## 8.3 SHI CAPACITY-BUILDING GRANTS

**Three kinds of grants for capacity building will be provided for in this policy.**

**The first kind of grant** concerns assistance for gearing up staff in social housing institutions. The approach adopted uses the feasibility and business planning process to link staffing and other establishment costs to viable projects. SHIs will be able to obtain support for the basic/minimum institutional establishment (mainly

staffing) costs related to the development of the first project on the basis of a business plan which clearly links staffing requirements with outputs. For projects subsequent to the first project assistance may also be provided but only if the initial project is operating on a viable basis and the targeted yield is being achieved. Staffing gear up support will as a consequence be entirely dependent on performance. If properly managed, SHIs should be able to develop quite quickly to a point where it will no longer be necessary to subsidize staffing gear up (when sufficient reserves are in place). The advantage of using this approach is that it links staffing gear-up to viable projects in a very direct way.

**The second form of grant** for capacity building is the **Provisional Accreditation Grant**, which consist of two sub-components:

- **Project Acquisition and Feasibility grants:** These are aimed at providing financial support to the process of preparing project proposals and obtaining approval for them. The focus is on supporting the acquisition of viable projects.
- **Pre-accreditation grants:** These grants provide financial support to the process of preparing and submitting a proposal for accreditation.

**The third form of grant** for capacity building is the **General Capacity Building Grant**. This grant also has two sub-components:

- One relates to ad hoc grants which are linked to the SHI business planning process, and will be demand driven.
- The other component provides programme-related grants to support the social housing sector as whole.

It should be noted that for the most part the capacity building grants referred to above are only available to SHIs and not to the private sector, except for BEE firms. However, all organizations can access provisional accreditation grants. The SHI capacity building grants will be managed and approved by Social Housing Corporation linked to the regulatory (accreditation and performance monitoring of SHIs) process and the capacity building framework and programme for the sector.

Some SHIs will also be able to access funding for staff development and learnerships from sector education and training authorities (Setas) based on claims made against the skills development levy paid by the SHI. The SHIs will be encouraged to use this funding for staff development areas that are not necessarily unique to social housing.

## **8.4 CAPACITY BUILDING FRAMEWORK AND PROGRAMME FOR THE SECTOR**

Capacity building needs and requirement of SHIs and other sector players can be identified through several mechanisms: firstly by the SHI itself, indicated and motivated in its business plan; secondly, through performance assessments of the SHI or in the various stages of the accreditation process; and thirdly by support organizations which identify a need across more than one institution and motivate for a programme-related intervention.

The Social Housing Corporation will develop a capacity building framework and programme for the sector, based on the needs and requirements emerging from the sources listed above and in consultation with key sector players such as the SHF. The Corporation will monitor the implementation of the programme, and facilitate the delivery of the programme through the use of various service providers contracted on a competitive basis. Monitoring will be done on the basis of verifiable and measurable indicators to ensure that the objectives of the programme are being achieved.

## **8.5 CAPACITY BUILDING OF OTHER SUPPORT ORGANISATIONS**

Programme related capacity building grants will be used to capacitate sector players such as NHFC, SHF, provincial and local government, federations and support organisations as required and articulated in the capacity building framework and programme for the sector by the SHC. These players are co-responsible for the smooth delivery of social housing projects and therefore need to be capacitated in order to adequately support SHIs and other delivery agents.

Government, especially local government, has a key role to play in supporting the growth and development of the social housing sector in South Africa. Yet, often at provincial and local government level, social housing is not fully understood and therefore appropriate support for the sector is lacking. Focused capacity building initiatives for provincial and local spheres of government are therefore required as part of the overall capacity building framework and programme for the sector. This capacity building should be targeted to prepare and assist provincial and local government to adequately understand its role in helping the growth and development of the social housing sector.

## **8.6 CO-ORDINATING CAPACITY BUILDING INITIATIVES**

The social housing capacity building programme needs to be carefully co-ordinated with the ND's capacity building strategy for the housing sector as a whole. At present there is provision in this ND strategy for capacity building in social housing

– highlighting the need for co-ordination. It should also be co-ordinated with other government training and capacity building initiatives.

In this regard co-ordination with the accredited education and training providers of the South African Quantification Authority (SAQA). Social housing institutions utilize many generic skills (management, administration, book-keeping etc.) and accredited training support is available. The potential also exists to get social housing specific trainers and service providers accredited and paid for via the funds from the Skills Development Funding Levy.



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## 9 FINANCE FOR SOCIAL HOUSING

### 9.1 OVERALL APPROACH

In view of the restructuring focus, the social housing policy identifies specific delivery systems and intervention areas. Importantly the policy envisages that an additional social housing capital grant be provided to approved projects in designated zones earmarked for restructuring. Such projects must be implemented by accredited SHIs, or if implemented by the private sector, must be accredited social housing projects.

The approach also envisages the retention of the existing institutional housing subsidy mechanism in order to cater for social housing projects that do not fall within the identified restructuring zones.

Given the intention of achieving deep downmarket reach on the one hand and balanced communities in socio-economic terms, the social housing policy intends promoting mixed-income rental housing developments with a significant proportion of beneficiaries paying subsidised rentals of between R500 and R1,166 per month (in June 2005 terms).

As will become apparent an approach is proposed in terms of which incentives are provided to achieve downmarket reach at the same time as balancing this with the objective of achieving mixed rental/mixed income housing environments. At the same time the main justification of social housing policy is to promote restructuring and consequently the financial mechanism proposed are also designed to allow interventions in the land market that might mitigate against demographic and socio-economic integration. In order to achieve these major objectives, new capital grants will replace the existing institutional subsidy in designated restructuring zones.

Also very important in the financial proposals is an emphasis on the establishment and promotion of viable and sustainable housing projects. Viable institutions result from viable projects. Viable projects are defined here as projects that are able to generate a yield over the project's lifetime from rental income streams after taking into account all development, operating and financing costs as well as long term provisions for maintenance, vacancy and default risk. Viability is in essence a measure of good management and the ability of a project to meet the needs of its target market. The strong emphasis on viability results from the high level of financial distress currently being experienced by most social housing institutions.

The application of the institutional housing subsidy and the social housing capital grant will be differentiated according to a set of parameters which are described below.

Table 3: Parameters for funding

<b>Intervention Delivery Systems</b>	<b>Areas</b>	<b>ZONE 1: Identified Restructuring Zones</b>	<b>ZONE 2: Areas outside of Zones</b>
<b>A. Conventional SHIs – Organic Growth (identified high-potential SHIs)</b>		<ul style="list-style-type: none"> <li>Application of the new social housing subsidy for rental only</li> </ul>	<ul style="list-style-type: none"> <li>Application of existing institutional subsidy only, i.e. included deed of sale and other ownership options.</li> </ul>
<b>B. Private Sector Developers / Investors (Private for profit entities that wish to develop a social housing project)</b>		<ul style="list-style-type: none"> <li>The new social housing grant applicable for rental only where projects have been approved by the SHC</li> <li>The social housing grant is held in a ring-fenced property holding company</li> <li>At the end of the project’s lifetime, the public sector retains the stock</li> <li>Does not require participation of a SHI</li> </ul>	<ul style="list-style-type: none"> <li>Application of existing institutional subsidy only, i.e. deed of sale and other ownership options.</li> </ul>
<b>C. Fast-tracked scale delivery (Public-Private Partnership Model)</b>		<ul style="list-style-type: none"> <li>The new social housing grant applicable for rental only</li> <li>PPP’s structured to achieve relatively rapid delivery of stock but where the intention is to transfer this stock entirely to SHI’s once targeted returns on private equity/financial investment have been achieved.</li> <li>SHIs involved in operating running the stock from the outset (usually in a JV arrangements in the short run and on their own in the longer run) .</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
<b>D. Special Tenant Interest Groups (Would accommodate co-operatives, hostel conversions etc.)</b>		<ul style="list-style-type: none"> <li>New social housing grant is applicable.</li> <li>But where group or individual ownership either exists or is a longer term option, claw-back arrangements on at least a portion of the subsidy ( that part over and above the existing institutional subsidy) would have to be applied.</li> <li>The groups must demonstrate institutional capacity or contracted management capacity, and conform to the requirement of a Section 21 public benefit institution.</li> </ul>	<ul style="list-style-type: none"> <li>Application of existing institutional subsidy only, i.e. included deed of sale and other ownership options.</li> </ul>
<b>E. Special Needs Groups (Would include social service / welfare needs focused institutions, e.g. disables, aged, medical care etc.)</b>		<ul style="list-style-type: none"> <li>New social housing grant applicable</li> <li>Must have and demonstrate intuitional capacity and conform to the requirement of a Section 21 public benefit institution.</li> <li>Applicable outside of restructuring zones</li> </ul>	

## 9.2 CAPITAL GRANTS FOR SOCIAL HOUSING PROJECTS

As noted above the new capital grant's for social housing have several objectives. At the highest level the objective is to allow for social housing to be built in restructuring areas where the land market would otherwise prohibit it. The grants should therefore be sufficiently generous to allow for otherwise prohibitive land costs. A second objective is to achieve substantial down-market reach at the same time as achieving mixed rent projects. The capital grant has been structured to achieve this. A third key objective of the capital grant is to help ensure the delivery of viable projects and thereby promote the development of viable institutions. This concern with viability is a central feature of the approach to calculating the subsidy. We begin with a discussion of viability.

**A viable project is a project with a targeted minimum yield in relation to the total project cash flows over the funding life of the project (no residual value should be assumed).** In calculating the yield an Internal Rate of Return (IRR) should be employed, where the rate of return is calculated after all capital expenditure, operating expenses and maintenance costs have been accounted for in the project over its funding life. This yield must be sufficient to cover the cost of debt, to allow for some variance in this cost of debt over time, and to build up some reserves within the social housing institution for future projects and activities.

The capital grant is intended to be used to fund a proportion of the capital costs of the project, while the remaining portion could be funded by debt or other sources of funding. This has the effect of reducing the amount of debt service required over the project's life. The proportion of the capital grant is not intended to ever exceed 100% of the capital costs of the project. This hypothetical scenario can only occur in instances where 100% of the units in a project will be let at a rental which is exactly equal to the per unit operating cost. Since most projects will be mixed rent and mixed income projects the average subsidy will in most instances be well below 100% of capital cost.

The amount of the grant is intended in most instances to be equal to the amount needed to allow the income (rental income) to cover not only the ongoing operating costs of the project, but to pay for the debt service (interest and principal) and to build up some reserves in the SHI. The grant is calculated as the amount needed to obtain a defined pre-tax IRR, over a predefined period. This is based on assumptions in respect of the project's, rental mix, rental increase, running costs, and inflation rate. When assessing the viability of a project, the operating costs must contain short term maintenance costs, longer term maintenance provision, property rates, charges and duties, (direct) administrative and management costs, cleaning and security, services and vacancy and default provision and a small provision for

unforeseen events. The income is assumed to be residential rental income. The costing must accord with industry benchmarking. Costs and rental income are to be escalated in line with inflation over the lifetime of a project. This is crucial for viability.

The grant will be drawn down on in pre-defined stages during construction of units and will have been paid out in full by the beginning of the first full letting year (i.e. when all units are constructed and ready to be let out).

Eligibility for the capital grant will be based on meeting the requirements as set out above in respect of the nature of the social housing institution and its location (i.e. within or without the designated development zones) or the accreditation of a suitable project. In the latter instance projects being developed by private sector developers/investors on a for-profit basis could receive accreditation to deliver a designated proportion of the units as social housing. In such instances the capital grant would be available for accredited projects.

In order to qualify for the capital grant on every unit a project must have at least 30% of units contributing to deep down-market reach and maximum rentals no higher than R2500 (implying an income of R7500 per month--- the top of the income band). Moreover the financial arrangements provide incentives for achieving even higher proportions of deep down-market rentals. In short the capital grant will increase linearly as the proportion of units with deep down-market rentals increases from a minimum of 30% of all units to a maximum of 70%. Going beyond 70% is possible but not encouraged because the objective of achieving mixed income projects starts to be compromised.

Of course the concept deep down-market reach requires definition. Rents are in the deep down-market range if they fall between the lowest possible rental which is operating cost per unit (assumed to be R500 per month and implying an income of R1500 per month) and R1166.66 (implying an income of R3500 per month). Moreover the average rental of units in this band must be no more than R825. Furthermore units in the band should include a mix of housing types but of course there will be projects (for example refurbishments where only bachelor apartments will be provided).

### **9.3 FINDING A BALANCE BETWEEN FLEXIBILITY AND TRANSPARENCY**

One of the features of the policy is the move away from the subsidization of units to the subsidisation of projects. This shift has important advantages. Among the advantages is the fact that a project based approach is well-suited for dealing with the inherent variability and complexity that is typical of social housing projects in complex property and land markets. There are some significant disadvantages

however. Particularly important in this regard is the fact that calculating the subsidy on a project-by-project approach is very open-ended and not necessarily very transparent. For example whilst projects will be benchmarked against industry norms, there is a danger that project designers will exaggerate the need for subsidy.

As a consequence the subsidy mechanisms and procedures have been designed to achieve something of a balance between flexibility and transparency. In this regard two measures are crucial. The first is splitting the capital grant into two components, a standard component (administered by national government) and a variable component administered by the provinces. The second is the use of a set of subsidy efficiency parameters to test the extent to which the public is getting good value as far the deployment of its funds is concerned.

### 9.3.1 SPLITTING THE CAPITAL GRANT INTO TWO COMPONENTS

#### The Standard Component

The standard component will be sourced via the ND (or its agent the SHC). It will be approved at the centre but will be administered by the provinces. The standard component is calculated as a proportion (60%) of the subsidy required to ensure a viable project (as defined above) in **a typical (generic) mixed rent project** and is expressed as an average subsidy per unit for the project. The typical mixed rent project used to calculate subsidy requirements assumes that 30% of the units achieve deep down-market reach whilst the rest have rentals below R2250 per month. In such a scenario the average subsidy per unit required is approximately R55 000. Thus the standard grant component from national will be 60% of this or R33 000.

The standard subsidy component is structured to promote deep down-market reach on the one hand and a mixed rent environment on the other. Thus the standard grant can vary depending on the degree of down-market reach achieved up to a certain limit. As previously noted a project is not eligible for subsidy unless it achieves a minimum of 30% down-market reach. Moreover further deep-down-market reach is encouraged by linearly increasing the overall subsidy as higher deep down-market reach is achieved up to a limit of 70%. Thus the minimum standard subsidy is R 33 000 (assuming an overall subsidy of R55 000) and the maximum standard subsidy is R 44 000 (assuming an overall average subsidy of R74 000). Of course projects can exceed the limit of 70% but they will not attract any extra standard component subsidy if they do.

#### The Top-up (variable) Component

The source of the top-up component is a slice of the budget allocated to the provinces in terms of formula-based equitable shares. Thus it is the provinces who

top-up the standard subsidy. The top-up component is applied on a project-by-project basis to top-up the standard component up to the level where the project is able to achieve viability (i.e. achieve the targeted yield). The top-up is however capped (to reduce open-endedness) and may not exceed an amount equivalent to the institutional subsidy amount. If more funding is required the project is either deemed unviable or other sources of grant finance have to be sourced. For example local authorities may be able to make land available for free or donors may be prepared to put up additional funds.

Not every project will have the same profile of units and rents as the typical (generic) project. For example if projects exceed the 70% down-market reach maximum, higher average subsidies will be required and larger top-ups of the standard grants will be required. Provinces and accredited local authorities can choose to do so but only within the parameters prescribed (in such instances the additional top-up would have to come from local authorities or donors). The approach encourages the players at the local level (provinces/local authorities/SHI's) to look for efficient solutions and use subsidy money carefully (since it is money from local coffers that is being used in the topping-up process). It should be noted also that the actual subsidies for the deep down-market units are on average R90 000 per unit when 30% of the units are deep down-market and R108 000 when per unit when 70% fall into the deep down-market category.

The amount of grant applied to new social housing projects will consistently take into account building and land cost inflation and the individual subsidy eligibility parameters set by the National Department. The grant is, therefore, to be re-evaluated and adjusted on an annual basis. This adjustment will apply to new projects that are initiated, and not to existing ones. This is because the grant applies to capital costs that occur at the beginning of the projects' lives.

### **9.3.2 SUBSIDY EFFICIENCY MEASURES**

The splitting of the grant into a standard and a variable component (and capping the latter) helps to reduce the open-endedness of the financial arrangements by calculating subsidies on a generic base case and partly fixing inputs. Open-endedness is also further reduced by the intended use of subsidy efficiency measures in assessing social housing projects. Projects will not be eligible for either component of the capital grant unless certain minimum subsidy efficiency criteria are observed. The subsidy efficiency measures will be developed in the guidelines writing process but may include indicators such as the subsidy per square meter of housing produced, the amount of subsidy per rand of monthly rental, the amount of subsidy per Rand of development costs etc.



### 9.3.3 FISCAL IMPLICATIONS

Assuming the roll out of 50 000 units over the next five years substantially in terms of the base case generic scenario, then R2,75 billion will be required in grant funding over the period. It should be noted that in this base case the grant to debt ratio is 45 % to 55% (close to a 1:1 ratio).

## 9.4 DEBT FUNDING

In the longer term it is envisaged that the private sector will increasingly provide commercial debt funding in respect of the social housing sector. However, social housing institutions will not get funding for projects unless these projects and organizations demonstrate viability. In securing funding from the private sector the strength of the SHIs balance sheet will be crucial, as will be the existence of a track record. Lenders will also require a range of risk sharing and mitigation issues to be addressed.

In the short-term social housing projects will need to look to the NHFC for funding until they establish an adequate track record to attract private sector lending. The NHFC will in the short-to medium term continue to offer loans to the social housing sector, and wherever possible facilitate access to additional private sector loan funding through appropriate structuring of transactions.

In the short-to-medium term the formal basis for mobilising private sector resources and transferring risk to the private sector is through the establishment of Public Private Partnerships (PPP's). These partnerships can take many forms, they are subject to a rigorous process. This process has pre-defined stages and identified decision points which enable the public sector to clearly articulate the basis for such a partnership and the rules for managing the relationship.

## 9.5 TAX INCENTIVES FOR SHIS

It is the government's intention to make SHIs as tax-attractive as possible in the interest of the social nature of their operations, and in the interest of SHIs being able to attract donations. The government is also concerned that the tax regime as it applies to SHIs is consistent and equitable. With those objectives in mind, there are several tax benefits SHIs can already access, while the feasibility of further options will require review of existing taxation provisions vis-à-vis the above intents.

Depending on their legal status, SHIs may utilise a range of income tax exemptions and/or favourable tax provisions. Income tax exemption will be possible for SHIs that are Section 21 companies by applying for exempt status under section 18a) and c) of the Income Tax Act. For SHIs with a different legal status, but which subscribe to SHI purposes in their legal statutes/memorandum and articles of



association as may be applicable (including the requirement that operational surpluses will be re-invested in social housing), the government will review if it may grant similar tax-exempt status. Chapter 4 of the 2003 national budget review specifically singles out institutions devoted to low-income housing and contributing to regeneration of urban areas.

Some additional income tax benefits announced in Chapter 4 of the 2003 national budget review may apply to SHIs (depending on their legal status), including the accelerated fiscal depreciation for construction/refurbishment in urban development zones in 13 major urban areas, and increases in the exempt ceiling in the transfer duty on acquisition of fixed property. The Government will clarify in legislation the precise locations of urban development zones in the above areas where accelerated depreciation will apply, as well the procedures governing it.

Provision of rental housing services is exempt from VAT. This means that for rental housing VAT paid on construction and operational inputs cannot be claimed back from SARS, effectively reducing the effective, net value of the institutional subsidy/capital grant for rental housing by the VAT amount included in the input value covered by the subsidy/grant. This has the impact of increasing costs and rents, and thus of creating a disparity between government support for rental housing as compared to that for other tenure options. Within the social housing sector it has built in an incentive for SHIs to explore other alternative forms of tenure, rather than the rental option. The possibility that all SHI services (including rentals) could be zero-rated under the VAT regime, so that maximum VAT refund on inputs will be possible, will be explored by the National Department. Alternatively, VAT may be added on top of the subsidy/capital grant amount for rental housing by way of compensation.

Provincial and/or local governments may decide on local tax benefits for SHIs within their jurisdiction (e.g. municipal rates rebates).

## **9.6 RISK MITIGATION MEASURES**

### **9.6.1 RISK MITIGATION REQUIREMENTS**

There are a number of generic risks applicable to social housing projects that need to be considered, including:

- Development Risk comprising the risks related to undertaking the rental housing development, specifically design and construction risks and marketing risks.
- Property Management Risks comprising operating (cost management), revenue (rental collection) and market (demand) risk.

- Financing Risk which comprises interest rate and default/income interruption risk.
- Institutional Risks that include governance, fraud and theft, and IT system risks.

It is not possible to develop generic responses to all of the risks at a policy level. However, it is desirable that best practice and norms and standards be developed that define, offset and manage these risks. A function of the Social Housing Corporation will be to promote this process of appropriate risk management.

### **9.6.2 INSURANCE COVER**

An insurance (hardship cover) scheme is proposed to provide SHIs with up to three months rental cover in the event of default. The scheme will be structured for the sector by the SHC utilising the existing products provided by the HLGC. The cost of such a scheme should be incorporated into the capital grant.

The SHC will in specific circumstances, for instance where social housing institutions would be reliant on a single dominant employer, encourage additional cover in the event of large scale industry disruptions or changed demand patterns to cover for disruption or mass retrenchment.

### **9.6.3 COMPLEMENTARY POLICY INITIATIVES**

The Prevention of Illegal Eviction from and Unlawful Occupation of Land Act (PIE). Eviction and property repossession on the grounds of non-payment of rent/hire-purchase charges after a reasonable process of warning/notice should not be considered illegal eviction in the context of PIE. The PIE Amendment Bill prepared by ND submitted for Cabinet approval clarifies this, removing a major disincentive to financial sector involvement in low-income housing. It is envisaged to be enacted in 2005.

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## Social Housing Policy

- 1 Policy Objectives
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human settlements

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## 10 ALIGNMENT

Three primary areas of alignment are considered in this section: alignment of social housing policy with government priorities, alignment with the principles of vertical and horizontal equity, and alignment with the broader housing market to avoid distortions. Secondary alignment is considered with respect to existing ND programmes and other government department programmes. Furthermore, the policy document needs to be aligned with the new strategy and direction of the National Department.

With respect to alignment with national government priorities, a strong case has been made for social housing to be used as a targeted instrument of urban restructuring. This conceptualisation aligns with broader national priorities of government. In addition, social housing is in line with the importance accorded to rental stock, access to infrastructure, facilities and amenities, improving the quality of life of people, and urban renewal programmes.

Alignment has also been considered with principles of vertical and horizontal equity. Social housing promotes vertical equity through facilitating access to quality accommodation in well-located areas for low income earners who are largely excluded from such housing in the market place. Horizontal equity is more problematic insofar as the magnitude of the subsidy is higher than that which may apply to equally poor people who are beneficiaries of, for example, government's incremental housing programme. This differential is justified however because the primary purpose of the programme is restructuring not bulk housing provision. Moreover horizontal equity is served by retaining the stock produced for the long term advantage of the poor and not transferring the benefit of ownership to individual occupants. The beneficiaries of other government housing programmes, whilst receiving smaller subsidies, can use these subsidies for private gain.

With regard to alignment with the housing market, it is recognized that the introduction of social housing will have an impact on the market in some areas. These impacts are both positive and negative in nature. However an element of distortion is cause for concern, and is countered by the proposal that the private sector is also able to access social housing grants for social housing delivery. Thus private sector delivery through accredited social housing projects, therefore, should significantly limit the market distorting potential of these proposals and encourage further delivery.

The social housing policy relates to a number of existing housing programmes and instruments, including:

- institutional subsidy
- the hostels policy
- the phasing out of government stock and the discount benefit scheme
- the Job Summit

In general social housing is compatible with most of these programmes and can be used in support of the programmes. However it must be noted that the social housing policy and SHIs must not be seen as easy solutions to existing complex problems such as the management of hostels and public housing stock.

It should be noted that the social housing policy is located within the Social (Medium-density) Housing Programme identified in the ND's Plan for the Development of Human Settlements (2004), noted above. This programme aims "to facilitate the production of effectively managed institutional housing in the areas where demand for institutional or managed housing, of all types, exists". Social housing forms one component of this 'managed institutional housing', along with household rental housing, hostels, state-owned rental housing, transitional housing and communal housing.

Forthcoming programme areas of the National Department which may have alignment implications are the Medium Density Programme and the Informal Settlement Upgrading Programme. Indications to date are that the social housing policy is broadly in line with these initiatives and can be used in support of them.

## **11 POLICY IMPLEMENTATION: A ROLL-OUT STRATEGY**

The National housing strategy adopted in September 2004 defined the following timeframes for the rollout of the social housing policy development process:

- The Social Housing Bill will be promulgated in early 2005
- Detailed implementation guidelines will be developed during November 2004 to March 2005 with the view of implementation in April 2005
- The accreditation body will be established and operationalised during April 2005
- Accreditation will commence in June 2005
- Housing institutions will continue delivery of rental housing and will experience enhanced performance in this area by late 2005, beginning 2006.

Three specific items are highlighted in the roll-out strategy, namely guidelines for designated restructuring areas, guidelines for the involvement of local authorities and interim regulatory arrangements prior to the establishment of a social housing directorate and regulator in the sector.

### **11.1 DEVELOPMENT OF GUIDELINES FOR DESIGNATED RESTRUCTURING AREAS**

The development of guidelines for the identification/proposal and approval of designated restructuring areas is key to be able to kick-start the delivery within the programme. Criteria outlining the features of such areas need to be developed and bottom-up procedures for proposal consideration need to be defined. The defining of criteria for designated restructuring areas need to be aligned where possible with the existing UDZs and with the urban development strategies.

### **11.2 DEVELOPMENT OF GUIDELINES FOR LOCAL GOVERNMENT INVOLVEMENT IN SOCIAL HOUSING**

Local government will be playing a key role in initiating delivery and assisting with performance by SHIs. Therefore, guidelines for local government involvement in Social Housing implementation need to be developed, as a priority. This development should be done in co-operation between SALGA and ND and where possible the metropolitan local authorities to ensure buy-in and speedy implementation and application at local government level.



### **11.3 INTERIM ARRANGEMENTS**

Interim arrangements will be put in place to ensure that the new social housing initiative that this policy document envisions does not lose momentum. It is also necessary that an interim regulator is established. At present the ND's Programme Management Unit (PMU) is currently overseeing the process of policy formulation and its passage through the necessary channels. Moreover the current work of the PMU contains most the tasks that a regulator would have to gear up for. Subject to endowment with additional resources, the PMU could gradually spread its work to the entire sector. It makes a great deal of sense therefore to the PMU to act as both the interim regulator and the driver of the new social housing initiative.

## ANNEXURE A:

### LEGISLATIVE ENVIRONMENT AFFECTING SOCIAL HOUSING SECTOR

<b>Regarding legal entities</b>	
Companies Act (section 21 companies and private companies) no. 61 of 1973 and relevant amendments	For the registration of the legal entity. Set criteria to which the legal entity must adhere and report on (see governance)
Co-operative Act 91 of 1981 (co-operatives)	Guides the registration of co-operatives (primary and secondary) and states the requirements of the registrar of co-operatives
Co-operatives policy and strategy and revision of co-operatives bill, 2003	Amendments to the 1981 co-operatives legislation and providing direction, focus and specific support for the sector. The support proposed needs to be tailored to support the housing co-operatives as well as other co-operatives
<b>Regarding governance</b>	
King 2 report on corporate governance	Sets out corporate governance requirements for public and private companies.
Public Finance Management Act 1 of 1999 for SHI established with support from local authorities (PFMA)	Sets out specific reporting and operational requirements for parastatals and SHI funded or supported by government
Municipal Finance Management Act 1 of 1999	Set specific reporting and operational requirements for parastatals and SHIs funded or supported by local government
Promotion of access to information Act 2 of 2000	Disclosure of information on request to ensure transparency and accountability
<b>Regarding operations</b>	
Constitution, Act 108 of 1996	Right to access housing Eviction only possible through an order of court i.e. security of tenure
White paper on housing, 1996	Framework for the operation of the housing development sector
Housing Development Act 107 of 1997	Principles for the development of housing

	<p>Framework for operating in subsidy market</p> <p>Defining roles of the key players in the sector</p>
Rental Act 50 of 1999	<p>Details government responsibility in the rental housing sector</p> <p>Lease agreement requirements</p> <p>Landlord tenant relationships through the establishment of tribunals</p> <p>Treatment of deposits and limitations on rent increases</p>
National Housing Code	<p>Details of using the various subsidy instruments available under the capital subsidy programme</p>
Provincial housing legislation and policies	<p>Captures provincial enhancements to the housing subsidy scheme and policy to be adaptive to the context in the province</p>
Local authority policies and bylaws	<p>Captures local area specific requirements that residential property owners have to adhere to and maintain. Linked to the town planning and zoning</p>
PIE – Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998	<p>Significantly affects the ability of an SHI to evict defaulting residents as the process is long and costly.</p>
Basic conditions of employment, Labour relations and employment equity legislation	<p>This legislation affects the recruitment, selection, development, performance review and administration of SHI staff</p>
Skills Development Act	<p>From the Department of Labour and linked to overall national skills development, employers are required to pay a levy for employee skills development that can be claimed back from sector education and training authorities against a predefined skills development plan. Small SHIs would be exempted from this.</p>
Financial Charter	<p>Proposed to bring private financial institutions into the low income housing sector. SHIs could benefit from funding from these organisations to diversify their funding sources and spread risk</p>
<b>Regarding development and land</b>	
Development Facilitation Act 67 of 1995	<p>Comes in to play when accessing land for the development of social housing. The principles in Chapter 1 are applicable in all provinces.</p>
Town planning legislation – provincial ordinances	<p>Comes in to play when accessing land for the development of social housing and zoning land for social housing development</p>

Municipal housing plans and integrated development plans and provincial development plans	Defines nodal areas targeted for development, details public funding available for the areas identified. Assists in planning the location of housing developments
NHBRC/Consumer Protection Measures Act 95 of 1998	This applies during the development stage of a project and will affect the SHIs if they act as developers of the project. The additional levy added for NHBRC cover adds to the cost of construction of the product and in the case of rental units adds a third level of insurance to the development, whereas in the case of instalment sale does not necessary benefit the prospective homeowner as transfer occurs after year 4
<b>Regarding other Social Housing tenure options</b>	
Share block Act 59 of 1980	For the registration of a Shareblock title development. Only one project has used this as a vehicle to date – Seven buildings
Communal Property Associations Act 28 of 1996	Communal property associations is a collective form of ownership used mostly by PHP. Not yet tried in social housing, but has similarities to the co-operative approach
Co-operatives Act 91 of 1981	Applies to the co-operative ownership of land
Sectional titles Act 95 of 1986	Applies to sectional title developments under the social housing umbrella
Alienation of Land Act	Applies to the instalment sale process
<b>Regarding taxation</b>	
VAT Act	Zero-rating of subsidies for VAT not applicable to rental housing development. Therefore SHIs doing rental have to pay the input VAT and cannot claim this back.
Income tax legislation	Income tax exemption for the SHIs
Property Rates Act	Regulating the property rates regime

