List of Abbreviations

BEE  Black economic empowerment
BOT  Build operate transfer
CPI  Consumer price index
CPIX  Consumer price index Inflation rate excluding mortgage inflation
DPLG  Department of Provincial and Local Government
HLGC  Home Loan Guarantee Company
HSRP  Human Settlement Redevelopment Programme
IRR  Internal Rate of Return
IT  Information Technology
LG  Local Government
Minmec Meeting of the Minister of Housing and the Provincial Members of the Executive Committee (Provincial Housing MECs)
NASHO  National Association of Social Housing Organisation
NDOH  National Department of Housing
NHFC  National Housing Finance Corporation
NURCHA National Urban Reconstruction and Housing Agency
PFMA Public Finance Management Act no. 1 of 1999
PMU  Programme Management Unit
PPP  Public Private Partnership
SHC  Social Housing Corporation
SHF  Social Housing Foundation
SHI  Social Housing institution
SPSH  Support Programme for Social Housing
VAT  Value Added Tax
Executive summary

Introduction

The proposals contained in the document A Social Housing Policy for South Africa (July 2003) were adopted by Minmec in August 2003. Subsequently, the National Minister of Housing called for a review of the policy in order to ensure alignment with Government's broader strategy.

This “Key Issues” document summarizes the main findings of this review. It also makes recommendations for changes to the existing policy document. It should be noted that this document does not itself constitute the revised policy document. A further process will involve incorporating some aspects of the document into the revised policy, and using other aspects in formulating guidelines to operationalize policy.

The process of formulating this “Key Issues” document used as its starting point the July 2003 social housing policy document, which were systematically unpacked and submitted to rigorous testing and review. The review process has revealed the July 2003 social housing policy document to be a thorough proposal which provides a sound basis from which to adjust aspects of the policy.

The main revisions proposed in this document are as follows:

- Clearer specification of the objectives and focus of social housing
- Clarification of issues regarding market niche
- Clarification and adjustments of issues regarding scale delivery
- Clarification, adjustments and revisions to issues of regulation, accreditation and institutional architecture
- Revision of approach and financial instruments linked to capacity building and establishment
- Adjustments to the capital grant instrument proposed and some insight into fiscal implications
- Adjustments to proposed institutional arrangements
- An outline of Tax considerations
- Better alignment with current political priorities
- An adjusted roll-out strategy, according to proposed revisions

The Department believes that the proposed revisions improve on the original policy document, and respond both to the concerns of the Minister and to other newly articulated priorities especially as outlined in the National Housing Strategy in September 2004.

For ease of comparison, this review largely follows the structure of the 2003 policy document, and systematically highlights where the proposals in this review differ from those of the original.
Definition of social housing

The conceptualization of social housing in the 2003 policy document targets low-to-medium income earners. In the revised definition, social housing is viewed as a mechanism to provide accommodation for low-income households in specific restructuring localities, thereby contributing to broader goals of social, economic and racial restructuring. The revised definition defines social housing as:

A rental or co-operative housing option for low income persons that is provided by accredited social housing institutions or in accredited social housing projects in designated restructuring zones.

The reframing of the objective of social housing in this way has financial implications. Specifically, the comparatively large grant funding proposed necessitates a regulatory framework that includes the accreditation of institutions or projects making use of these subsidies.

The notion of an accredited project has been introduced to allow for the participation of private sector developers and rental management agencies in social housing provision. An accredited project is a project in which government makes a subsidy contribution in order to make the rental units provided by a private sector partner affordable to those eligible for social housing.

Whilst social housing grants are meant for rental, social housing institutions (SHIs) can provide housing for sale and ownership using other funding and other subsidy instruments (such as the institutional subsidy). Institutions providing social housing may not transfer to individual ownership any of the units developed with the social housing grants, without the express permission of the regulator. Co-operative ownership structured to exclude private individual gain on the project grant is included in the programme. Social housing must take the form of medium density multi-unit complexes.

Policy objectives and focus

The overarching objective or rationale for wanting to promote social housing – the main justification for this component of the overall housing programme – is implicit, rather than explicitly spelt out in the 2003 policy document. In this review two primary objectives of the social housing programme are specified:

- Firstly, to contribute to the national priority of restructuring South African society in order to address structural economic, social and spatial dysfunctionalities
- Secondly, to improve and contribute to the overall functioning of the housing sector and in particular the rental sub-component thereof

With regard to the first objective, it is clear that whilst South Africa has made great strides in the ten years since the election of its first democratic government, a number of structural constraints on achieving fundamental change remain a cause for concern.
It is clear that the links between processes of social restructuring and housing policies and instruments need to be brought into closer alignment.

The contribution of social housing to such restructuring objectives comprises three dimensions: spatial, economic and social. With regard to spatial objectives it is proposed that social housing is situated 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.

In addition to 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. Social housing will also be a tool in revitalization/regeneration of important economic areas which are lagging or underperforming.

With regard to social objectives, a mix of race and income levels in the beneficiary profile will be aimed for, both within selected social housing schemes, and across the programme as a whole. 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. Moreover experience of social housing projects to date indicates that well-managed projects have low internal crime rates, and contribute to stabilizing external crime-ridden environments.

The second overall reason for promoting social housing relates to the functioning of the housing sector as a whole. The formal rental sector in South Africa is underdeveloped when measured against international norms. Rental housing is especially important to the poor who struggle to access the limited number of affordable rental opportunities provided by the formal market (especially in good locations). 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.

**Market niche: eligibility and affordability**

The 2003 policy document highlights the need for delivery to a range of income groups. However it notes that “social housing is not an option for the very poor” and comments that social housing will primarily address the R1500-R3500 income group. This review makes four adjustments to this conceptualisation:

- it highlights the predominantly low incomes of households currently renting in South Africa
- this picture is used to justify an extension of the reach of social housing further down-market than the 2003 document intends, whilst striving for a mixed-income profile in social housing projects
- a motivation is put forward for a periodic revision of eligible income bands
- while a rent pricing system linked to income is not supported, upward rental adjustments in line with improvements in income are proposed.
Levels of affordability in the rental sector in South Africa are low. About 40% of all households renting in metropolitan areas have incomes below R9 600 per annum, and more than 23% of households renting have little or no income.

In current social housing experience only income-earners within a very narrow band are able to afford the rentals which have to be charged. In order to allow access by poorer households, this review proposes re-structured financial mechanisms to allow for a reach deeper down-market. However, given the objective of a socio-economic mix of residents, social housing should not serve only the lowest income brackets. A racial and income mix, determined for each project, should be aimed for. As with the 2003 document, this review proposes that a range of accommodation units be provided, spanning single and family accommodation, attracting different rentals and targeting different income categories. The objective of achieving an income mix should also be accompanied by a corresponding graduation of quality levels. Households’ ability to afford rentals will be calculated in relation to a proportion of income. The details of this will be addressed in the subsequent regulation-writing process.

Specified income bands should be revised nationally on a periodic basis in order to cater for households whose incomes are inflation indexed. If this is not done people who are earning the same real incomes may suddenly become ineligible. The raising of income bands will also accommodate the recommendation that rentals be escalated on an annual basis (at CPIX). In the event that a household is unable to afford these rent increases, it will be required to vacate the unit in favor of cheaper accommodation.

At the time of entry into a social housing project, household income must be below the government-specified upper limit of the revised subsidy bands for the housing sector. This upper limit should reflect the level below which participation in the formal rental housing market is difficult. This review recommends that subsidy eligibility be increased to household incomes of R7 500 per month and that an income mix is specified. 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. Once a project has been completed and becomes operational rentals will escalate annually with inflation. While this may place pressure on individual households to afford the rentals over time, it cannot be resolved without an individual rent subsidy. Such a subsidy is not recommended due to fiscal constraints.

This review did consider the idea of an income-related rent pricing system, in which the rent is raised or decreased according to the annual variation in income of the individual tenant. However this system is not considered feasible in the current South African context for a number of reasons. However, where it is clear that the income of a household has increased beyond the upper limit of the band, the household may continue to occupy the social housing unit only by paying an increased rental. The SHI must invest the revenue received in this way through developing or improving its social housing stock.

Consideration needs to be given to the possibility of building in equity for long term tenants (who have rented a unit for over 20 years, for example). This will be allowed
only if approved by the regulator and on the assumption of a “buy-back” of part of the grant.

Gearing up to scale

The 2003 policy document does not explicitly address the issue of what scale of output is envisaged, or how to achieve the associated increase in scale of delivery.

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. The stated government goal for social housing delivery is 45 institutions each delivering 500 units over a three year period and then scaling up further thereafter. These targets need to be viewed against the experience to date which indicates a far lower delivery rate by a mere handful of institutions across the country. As noted in the 2003 document, therefore, capacity building is essential, as is the mobilization of available capacity. However this review notes that the ability to deliver at a substantially increased scale is limited by a variety of key factors. Whilst a building-up of the sector itself is necessary, this review proposes a greater private sector contribution as an essential component of the move to scale.

A conclusion of this review is that targets in respect of scale should not be expressed in terms of number of institutions created but rather in terms of number of viable projects (and therefore units under management). This is an important shift in emphasis in which the ability to create and sustain functioning projects is stressed. The review, consistent with the National Housing Strategy, proposes a target 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, these targets represent a major increase in scale from the current delivery rate of 25 000 social housing units over 10 years.

There are a range of options for the development and management of these proposed projects. This review has considered a number of institutional options for gearing to scale in order to deliver these projects, including:
- A continued reliance on initiating and building Social Housing Institutions (SHIs),
- Using municipal capacity,
- The creation of a special purpose state corporate structure,
- Public private partnerships (PPPs),
- Demand-side subsidies and then relying on a response from the supply-side,
- Private sector provision

It is recognized that there are real constraints associated with most of the available options for gearing to scale. However this review supports a **three-pronged strategy**. The first component is continued support to the growth and consolidation of SHIs, via a greater focus on viable projects. The second component is the use of PPPs for big impact projects in designated restructuring areas. The third prong is the use of grants to underpin the further growth of private sector rental provision. 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.
Regulation and institutional architecture

The 2003 policy document contained a sound basis for the proposed accreditation of SHIs. This review process has reinforced the need for regulation in the sector. To this end, this review proposes three areas of clarification and adjustment: (i) the relationship between regulation and accreditation, (ii) the role and nature of the regulating body and (iii) the broader institutional architecture.

There is a need to distinguish between regulation and accreditation. Accreditation is one component of regulation. Importantly, this review introduces two separate approaches to accreditation, that of accrediting social housing institutions, and that of accrediting social housing projects, which may be run by other organizations, notably the private sector.

The regulatory functions of the proposed regulating body are specified quite clearly in 2003 policy document. This review proposes a few additions. The first is that the regulatory framework should be “light” and enabling. To this end, the suggestion is that the regulatory body should stress the use of performance standards rather than demanding compliance with a plethora of rigid rules. Whilst the regulatory framework should be enabling, it is also proposed that the regulatory framework must allow stronger sanctions than just the removal of accreditation. The body performing such regulation must have both an obligation and delegated ministerial responsibility to intervene in cases of non-compliance or poor performance.

The regulatory body proposed, the Social Housing Corporation (SHC), should start small, and expand gradually as its activities grow. It could initially be run by/or operate under the auspices of an existing department in the Department of Housing. In establishing the SHC cognizance should be taken of good corporate governance.

The 2003 policy document describes the different tasks of the various actors in social housing and provides an overall diagram of institutional linkages. Both need to be updated to take account of the present situation, and need to be aligned better to existing capacity constraints and existing institutional capabilities. Furthermore whilst the institutional architecture proposed must take into account existing actors and avoid the creation of new institutions unless absolutely necessary, the discussion of institutional arrangements should start from an assessment of what is necessary to make social housing policy work rather than start with existing actors and their capabilities. As a consequence it is proposed that the section/s on institutional arrangements in the current 2003 policy document be re-worked with reference in the first instance to a conceptual model of what is required and in the second instance to a consideration of current institutions and their capacities.

The approach to the conceptual model is to identify key roles that need to be performed within the sector as a whole and then to specify rules for ensuring that role conflicts do not occur. 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.

As far as leadership is concerned it is clear that the Minister and her department (the NDoH) must provide policy and sector co-ordination leadership. The Social Housing Corporation proposed in the 2003 Policy document should be tasked with, inter alia, the programme management of the social housing programme and associated restructuring funding stream. Local authorities and provinces would in the first instance apply to the SHC for the approval of “restructuring zones” – those geographic areas identified for targeted investment. Thereafter, local authorities would apply to the SHC for the allocation of funds to feasible project proposals. Once approved, the funds could be allocated to the provinces to manage disbursement and project compliance.

The objective of restructuring of society implies a more strategic investment in housing than the formula-based equitable shares allocations of the housing budget to Provinces implies. This review proposes that a new funding stream be created through which local authorities and provinces can apply for access to social housing grants – a restructuring funding stream. The programme management of this stream would be handled at a national level, where there is already precedent for this form of arrangement. Proposals regarding institutional arrangements with respect to debt financing remain the same as in the existing 2003 proposal.

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, has been introduced and needs to be incorporated into a revised policy document, with a description of roles and responsibilities. The majority of the roles assigned to local government in the 2003 policy document will remaining, however the need to ensure performance and participation by local government in social housing is a key revision required. 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 on this for its members in co-operation with NDoH. Delivery (and operating) governance is an area which is underemphasized in the 2003 Policy document. Whilst the notion has a number of dimensions a key principle
should be that LG councillors should not sit on the governance structures of SHIs because of potential conflicts of interest and the possible politicization of the delivery and operations processes (as is the practice in many other parts of the world). The role of SALGA in this regard is important particularly in terms of making LGs aware of the role, purpose and governance of SHIs.

Facilitation activities can and should be undertaken by a wide array of service providers (in competition where possible) and reference is made to many aspects of facilitation in the 2003 policy document. In addition, reference should be made to use of the SETAs, the role of tertiary institutions, and risk mitigation via existing institutions.

Most of the 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. It is recommended that NDoH commissions a detailed institutional assessment of the Social Housing Foundation to come up with alternative options for its institutional future, including for example, the option of absorption of SHF into the Social Housing Corporation. The assessment should also make recommendations as to the future funding of SHF activities/work plans.

In summary, the revisions to policy imply substantial changes in institutional arrangements, the details of which will have to be formulated in the writing of the guidelines. The establishment of the sector regulator, the SHC, should be in phases, to ensure that a credible organization is established that is able to perform the roles assigned to it effectively.

Capacity building

The 2003 policy document highlighted the weak capacity and poor governance practices in existing SHIs. These problems in the social housing programme have been subjected to rigorous scrutiny; however attempts to improve the situation have to date been ineffectual.

The 2003 policy document proposes three areas of focus: capacity building of social housing institutions, capacity building of other support organisations, and the coordination of capacity building initiatives. In addition, a stronger regulatory environment for the social housing sector is proposed. In this regard capacity building is linked to the introduction of accreditation for social housing institutions, with a related focus on strengthening the staffing of organizations.

This review proposes a shift in emphasis in this conceptualization. Rather than focusing on building the organizations in the first instance, this review highlights the need to develop sustainable projects. The provision of support to institutions is linked to the performance of the project. This is aimed at avoiding the creation of dysfunctional organizations which have staff and overheads, but little to show in the way of projects. In addition, capacity building in support of the consolidation and growth of existing social housing institutions will be provided. Furthermore, the large re-structuring
projects will need to develop systematic approaches to building up capacity, the costs of which should be capitalized into the project.

While this review has introduced the idea of social housing also being delivered by the private sector, the concept of capacity building, and the support associated with this, is intended to focus mainly on social housing institutions, and the skills and capacity needed by them to run viable projects. Support will be offered in two broad areas:

- the skills needed to work with the components of and inputs into social housing projects
- the effective internal functioning of the social housing institution itself

Capacity building will take the form of both training and support to the core business functions of SHIs.

The 2003 policy document refers to various SHI capacity building grants and establishment cost grants, as well as in-kind capacity-building support. This review proposes **two kinds of grants for capacity building and a new approach to gearing up staffing capacity**.

The first 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, similar to those proposed in the 2003 document, provide financial support to the process of preparing and submitting a proposal for accreditation.

The second 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.

The new approach to gearing up staffing capacity uses the **Social Housing for Restructuring Capital Grant** to link staffing and other establishment costs to viable projects. This is intended to replace the establishment grants in the 2003 document. For SHIs, it is proposed that the minimum institutional establishment costs related to the development of the first project should be capitalized into that project. This will increase the project cost and thus also the grant requirement. For projects subsequent to the first project some provisos would apply, including that the initial project would need to be operating on a viable basis. 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. The advantage of using this approach is that it links staffing gear-up to viable projects in a very direct way.

**Financial Proposals**
A capital grant system is proposed which will be connected to designated urban restructuring areas, where an in depth financial contribution is justified. This is termed the Social Housing for Restructuring Capital Grant. Where areas are not seen as urban restructuring areas, capital grants are in principle not available. This is not to say that a capital grant can never be applied for, but strong evidence has to be produced to designate the area as a social housing restructuring zone.

In all social housing projects outside of designated zones, the existing institutional subsidy will apply. Applications will be based on current requirements as per the housing code, and will be allocated and disbursed by Provincial Government. It is proposed that a review be undertaken of the alignment of the institutional subsidy process with the Social Housing for Restructuring Capital grants process.

This review emphasizes viable and sustainable housing projects, as opposed to institutions. The argument is that viable institutions result from viable projects. The objective of the Social Housing for Restructuring Capital Grant is to realize sustainable projects over the expected lifetime of a project. A viable project is a project with a targeted minimum yield in relation to the total funding employed in the project over the funding life of the project (no residual value should be assumed).

The calculation of the grant includes all costs (investment and running costs) and all income (rental income) over a total (assumed) operating period. The grant is calculated as the net present value of shortfalls and surpluses of the cashflows over a predefined period. This is based on various assumptions. The costing must accord with industry benchmarking. Costs and income are escalated in line with inflation over the lifetime of a project. In addition the liquidity shortages (i.e. cash flow shortages) that will result from negative cash flows in the first few years of a project also need to be calculated and added to the capital grant amount.

It is proposed however that a distinction be made between the grant applied to accredited SHIs and the grant applied to private sector for-profit developers / investors who deliver social projects. In the latter case (i.e. accredited projects) the additional grant to cover cash flow shortages in the initial years should not be applied. In these instances the private sector will be required to invest equity in such social housing projects. Although the grant is calculated over the lifetime of a project, it will be paid out up-front. This lowers the need for equity or loans and therefore is a strong risk mitigation incentive. The subsidy is a fixed amount per project. There are no adjustments during the lifetime of a project.

Eligibility for the capital grant will be based on meeting the requirements in respect of the nature of the social housing institution and the location of its project (i.e. within or without the designated development zones) or the accreditation of a suitable project.

As a capital grant, the amount of grant provided to social housing projects is fixed. However over time the amount of grant applied to new social housing projects will be adjusted to take into account inflation. Rentals will escalate annually with inflation.
There are a range of critical assumptions that will need to be made in calculating these subsidy requirements. In the guidelines formulation process, procedures will need to be developed to address the likely scenario that assumptions made are likely to deviate in the relatively volatile context of the SA political economy. Periodic reviews and adjustments to subsidy allocations (additions or claw-backs) are recommended.

In the longer term it is envisaged that the private sector will increasingly provide commercial debt funding in respect of the social housing sector. In the short-term there is likely to be very little gearing, and consequently social housing projects will need to look to the NHFC for funding until a track record is established. It should be noted that there is little point in involving the private sector without risk transfer.

In the longer term it is unlikely that the NHFC’s current balance sheet would be able to carry the envisaged number of social housing units. It is proposed that the NHFC 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. The option of fixed interest rates for a period would be advantageous to improved project and institutional viability and is currently being investigated both by the NHFC and the private sector. Such thinking should be extended to the social housing arena. However the availability of funds and the risk appetite of NHFC are of greater concern as a limitation than the cost of funds.

The formal basis for mobilising private sector resources and transferring risk to the private sector is through the establishment of Public Private Partnerships (PPPs). While these partnerships can take many forms, they will be subject to a rigorous process.

A guarantee mechanism has been mooted as one possible response to the lack of private sector debt funding participation in social housing projects. Under such a scheme government would in effect underwrite projects with a guarantee to settle any debt in the event of default. Such a scheme is however not recommended at this stage, for a number of reasons. This recommendation notwithstanding, it should be noted that the team conducting the review are not opposed to the idea of guarantee schemes in principle. The successful use of such schemes in other national contexts has been noted.

Many different insurance schemes to help both tenants and institutions deal with rental default are under discussion in the industry. This review proposes that subscribing to such insurance schemes should not be made compulsory. Individual SHIs should be free to choose from a variety of products offered by service-providers on a competitive basis in the marketplace. Consideration should perhaps also be given to specific insurance cover in respect of industry specific risks. In addition it must be noted that the presence of insurance cover does not reduce the critical need for proper risk management. It must also be noted that substantial legal risk remains in respect of the ability to enforce evictions.

It is proposed that a more systematic framework for thinking about risk mitigation facing various actors in the sector be developed. The generic risks applicable to social housing projects that need to be considered are as follows:
• Development risk, comprising both design and construction risk, and marketing risk.
• Property management risks, comprising of operating, revenue and market risks
• Financing risk, comprising of interest rate and default/ income interruptions risk
• Institutional risk, including governance risk, fraud and theft risk and system risk

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 should be to promote this process of appropriate risk management.

Tax Issues

There are also a number of critical tax issues that need to be addressed in order to assist the development of a viable and sustainable social housing sector. The critical distinction that needs to be made is between tax-paying and tax-exempt institutions. Whilst the majority of social housing institutions may be section 21 institutions, they are not necessarily tax-exempt institutions.

It must also be noted that the tenure form adopted for a social housing project has an impact on its VAT and tax exemption status. It will accordingly be necessary to distinguish between rental housing, co-operative housing and projects selling units by way of instalment sale agreements.

From a taxation point of view a number of areas need to be considered.
• With respect to VAT treatment, it is proposed that SARS be lobbied to classify residential rental as VAT-able service, and to Zero-rate the subsidy.
• For Income & Donations Tax (Public Benefit Organisations) it is proposed that an amendment be sought to the relevant Act clearly specifying rental housing accommodation provision as a public benefit activity and that the specific income targeting requirement be stipulated.
• With regard to residential building allowances, the policy should seek to align its initiatives to encourage private sector development of social housing projects with those of the Urban Development Zones (UDZs). Measures should be sought to help streamline the process of interacting with local government and accessing the benefits of UDZ's.
• With regard to Duties and Municipal Rates it is proposed that local government is lobbied to provide a more favourable rates dispensation in respect of social housing.

In general with regard to tax, the four most critical issues that need to be addressed are the VAT on rental accommodation; the zero-rating of subsidies in the case of rental; the revision of the Act in respect of defining social housing as a public benefit activity exempt from the trading activity restrictions; and the revision of the Act in respect of the restrictive nature of the income bands for PBO activities. Overall, however it must be noted that in view of the significant benefits that accrue to public benefit organisations (not applicable to private developers), these social housing institutions are likely be required to focus significantly on the lower end of the market.
• Fiscal Implications

Analysis has been undertaken in order to understand in broad terms the short to medium term implications for national government of the proposed social housing grant. This is intended to inform the policy debate as well as influence budgetary allocations. In addition the analysis assesses the sensitivity of the proposed mechanisms in respect of different scenarios. Finally the analysis should assist in guiding the budgetary allocation to this programme and provide a basis for estimating the annual number of units that could be delivered by the programme over a period of time. It is important to note that the spreadsheets used in the analysis do not provide a detailed financial model.

Two typical social housing grant arrangements have been applied in developing the financial implications:

- Arrangements applicable to Social Housing Institutions: This is a capital grant to cover a portion of the development costs as well as critical liquidity shortages in the first few years of operation. Typically there would be no equity in these projects.
- Arrangements applicable to accredited social housing projects developed by the Private sector: This capital grant covers a portion of the development cost, but no funding for liquidity shortages.

Financial spreadsheets have been prepared to calculate, in relative concise but simple manner, the order of magnitude of subsidy required for ongoing sustainability of social housing developments. These results have then been translated into fiscal implications for government. It should be noted that there are a number of key limitations to the analysis. In addition, all of the key input variables in respect of number of units, cost assumptions, income mix as well as funding structure can be changed in order to test various scenarios. Assumptions have also been made with respect to the base run analysis. The spreadsheet has been iterated to establish a base case that meets certain performance parameters.

With respect to Social Housing Institutions, the required subsidy per unit (for all units in a particular project) is an average of R 62 650 per unit. This equates to about 53% of total development costs.

For Private Sector Investors, a 20% equity component is applied in respect of total development costs. The required subsidy per unit in a project is on average R 43 200 per unit. This equates to about 37% of total capital costs.

For a budgetary period of 5 years, the total subsidy amount required will range between:
- R 3,13 billion where only social housing institutions are involved in the development; and
- R 2,16 billion where only the private sector developers are involved.

The above assumes a 60:40 subsidy / non-subsidy unit mix delivering 50 000 units.
The base case was stress tested to establish the impact of key variables on the subsidy amount and fiscal requirements. Key sensitivities and conclusions are:

- The participation of the private sector with equity, results in a lower capital grant than that required for SHIs and 100% debt financed (after grant) projects.
- The mix of subsidy band / non-subsidy band units has a significant impact on the grant (overall) required, i.e. a 10% increase in subsidy band units and corresponding decrease in non-subsidy band units, results in about 25% increased grant required for SHIs, 35% for private sector.
- The viability of projects, specifically in respect of operating deficits in first 5 years is highly sensitive to increases in operating costs. Increasing operating costs by 30% from R500 / unit to R650 / unit while maintaining capped rentals, results in about a 69% increase in grant required.
- As above, viability and operating deficits are also sensitive to rental decreases. A 20% decrease in average subsidy band rental, results in a 25% increase in grant required.

With respect to Capacity Building Grants, provision should be made for:

- Between R 50,000 and R 75,000 for project feasibility studies per project on a risk sharing basis. Allow R 10 million per annum.
- Between R 50,000 and R 75,000 for SHI accreditation (follow on from feasibility grant) or R 10 million per annum.
- R 20 million per annum for capacity building grants to be utilised for specific capacity building initiatives.

The total fiscal implication of the capacity building grants is estimated at R 40 million per annum. No provision has been made for operating support grants. This requirement has been accommodated by allowing for the full operating costs in year one of development to be included in the total development cost.

Alignment

The 2003 social housing policy document has addressed various issues with respect to the alignment of the policy with other policies, strategies and contextual issues. However this discussion is spread throughout the document and is not unpacked in a systematic manner in which alignment issues are immediately apparent to the reader. Specifically, the 2003 document does not clearly address issues of vertical and horizontal equity, as well as alignment with the housing market in order to minimize distortions in this market. The document is not specific on whether the social housing policy is intended to be a targeted instrument with a smaller reach and scope or whether it will be used as an instrument for scale delivery. Furthermore, the existing policy document needs to be updated and aligned with the new strategy and direction of the National Department of Housing.

This review comments on the extent to which the social housing policy is supportive of and supported by other initiatives. Three primary areas of alignment which are considered are the 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 NDOH programmes and other government department programmes.

With respect to alignment with national government priorities, this review has made a strong case for social housing to be used as an instrument of urban restructuring. This conceptualisation aligns with broader national priorities highlighted, inter alia, in the President’s state of the nation address (21 May 2004). 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 to linking with the urban renewal programmes.

Alignment has also been considered with principles of vertical and horizontal equity, concepts which are elaborated on in the main body of the document. 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 addressed in two ways: through retaining the stock produced for the long term advantage of the poor and not transferring the benefit of ownership to individual occupants, and secondly, through specifically using these projects for the larger goal of urban restructuring.

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 in this review by the proposal that the private sector is also able to access social housing grants for social housing delivery. The idea is to enable the private sector to access social housing grants for social housing projects within restructuring areas. Under these circumstances, the projects will be accredited and monitored, as discussed earlier. This 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.

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.
With regard to alignment with other government initiatives, various initiatives located in one or other of the three spheres of government have a geographic focus which social housing could reinforce. The principle applied in many government initiatives of the clustering of investment around nodes is well-supported by social housing.
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1 Introduction

1.1 Background

The proposals contained in the document *A Social Housing Policy for South Africa* (July 2003) were adopted by Minmec in August 2003. Subsequently, the National Minister of Housing called for a review of the policy. Various concerns were expressed, including the extent of alignment of the 2003 policy document with emerging housing policy and with the priorities of government. Questions were also raised about issues of horizontal and vertical equity given the large subsidies envisaged. The potential for market distortion was also raised as an important question. Moreover, concern was expressed about the performance of the social housing sector to date given the ambitions articulated in the document and the intended levels of investment in the sector. In short the Minister requested a thorough review.

This “Key Issues” document summarizes the main findings of this review. It also makes recommendations for changes to the existing policy document. It should be noted that this document does not itself constitute the revised policy document. It is, however, a major component of the process of re-formulation. This document highlights key issues to be considered in formulating a social housing policy for South Africa. In selected instances, variations from the original policy document are proposed and arguments in support of these proposals are made. If the direction suggested in this document is accepted, a further process will involve incorporating aspects of the document into the revised policy. Moreover the “Key Issues” document will be an important input into the process of formulating guidelines to operationalize the policy. In other words, this key issues document does not only focus on matters of policy but also begins to deal with issues at the level of guidelines.

The process of formulating and revising a social housing policy must be seen against the background of a broader focus on well-located higher density housing, and rental housing. 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”. The specific social housing programme that this document addresses, while comprising only one aspect of the housing strategy, is a key component of meeting these objectives.

1.2 Process

The process of formulating this “social housing key issues” document used as its starting point the proposals of the July 2003 social housing policy document, which were systematically unpacked and submitted to rigorous testing and review. This was undertaken through a series of project team discussions, working group sessions with
invited participants from the sector, and specific consultancy assignments. A list of these discussion forums and associated participants is attached as Annexure A. The project team secretariat has then compiled this review document out of the range of materials produced.

For ease of comparison, this review largely follows the structure of the 2003 policy document, and systematically highlights where the proposals in this review differ from those of the original.

1.3 Results

The review process has revealed the July 2003 social housing policy document to be a thorough proposal which provides a sound basis from which to adjust aspects of the policy. While broadly adhering to the framework of the 2003 policy document, this document also draws on the mid-term reviews of the social housing sector published subsequent to the 2003 policy formulation (see for example the European Commission's SPSH Institutional Development and Capacity Building: Mid Term Review - Final Draft Report 28/08/03).

The main revisions proposed in this document are as follows:

- Clearer specification of objectives and focus of social housing
- Clarification of issues regarding market niche
- Clarification and adjustments of issues regarding scale in delivery
- Clarification, adjustments and revisions to issues of regulation, accreditation and institutional architecture
- Substantial revision of approach and financial instruments linked to capacity building and establishment
- Adjustments to the capital grant instrument proposed and some insight into fiscal implications
- Adjustments to proposed institutional arrangements
- Better alignment with current political priorities
- An adjusted roll-out strategy, according to proposed revisions

The Department is confident that the proposed revisions improve on the original policy document, and respond both to the concerns of the Minister and to other newly articulated priorities.

2 Definition of social housing

2.1 Existing definition in policy document

The conceptualization of social housing in the 2003 policy document targets it towards low-to-medium income earners. It also indicates that, where used in medium density
and urban regeneration initiatives, it will only be affordable to the upper income categories of the target group.

2.2 Definition in this review

This review adjusts the 2003 definition as follows:

*A rental or co-operative housing option for low income persons that is provided by accredited social housing institutions or in accredited social housing projects in designated restructuring zones.*

(bold indicates changes to the definition)

In the revised definition, social housing is viewed as a mechanism to provide accommodation for low-income households in specific restructuring localities, thereby contributing to broader goals of social, economic and racial restructuring. These objectives are detailed in Section 3 below, while the specific market niche is elaborated in Section 4 of this document.

The reframing of the objective in this way has financial implications, which are discussed in Section 8. Specifically, the comparatively large grant funding proposed necessitates a regulatory framework that includes the accreditation of institutions or projects making use of these subsidies. This framework is elaborated in Section 6.

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. However, separate guidelines 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, allows for and encourages 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.

The notion of an *accredited project* is a new concept (not contained in the 2003 policy document) which has been introduced to allow for the participation of private sector developers and rental management agencies in social housing provision in order to bolster capacity to achieve scale delivery. In other words, social housing can be provided through parties other than accredited social housing institutions. An accredited project is a project in which government makes a subsidy contribution in order to make the rental units provided by a private sector actor affordable to those eligible for social housing. The content and mechanics of this provision are clarified further in Section 8.

It should be noted that whilst *social housing grants* are primarily meant for rental housing provision, social housing institutions (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-subsidize social housing by developing housing for other income groups.

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 (discussed in Section 6), 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).

Moreover social housing must take the form of medium density multi-unit complexes. This includes townhouses, row housing, multi-storey units, walk-ups etc and excludes detached units. In addition there should be a defined density threshold in respect of all social housing projects that conforms to the proposed guidelines to be set for this programme.

Summary comment: It is proposed that the definition of social housing is adjusted to include a lower income group. Delivery will be by accredited institutions or through accredited projects. Social housing must take the form of multi-unit complexes of a defined density. The notions of housing co-operatives and co-operative tenure (collective ownership) should be included.

3 Policy objectives and focus

3.1 Objective in existing policy document

The 2003 policy document sees as its objective the creation of “an enabling environment for social housing to develop, grow and deliver at scale” (2003: 4). A number of guiding principles for social housing are then discussed, and reference is made to its contribution, inter alia, to inner city regeneration (2003: 5), its use in promoting social, physical and economic integration (2003: 6) and its contribution to supporting the economic development of low-income communities (2003: 6). However, the overarching objective or rationale for wanting to promote social housing - the main justification for this component of the overall housing programme - is implicit, rather than explicitly spelt out in the 2003 document.

3.2 Objectives identified in this review

In this review two primary objectives of the social housing programme are specified:

- Firstly, to contribute to the national priority of restructuring South African society in order to address structural economic, social and spatial dysfunctionalities and
thereby contribute 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.

3.2.1 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 on achieving fundamental change remain a cause for concern (see for example discussion in the State of the Nation Address in May 2004). Political constraints have largely been removed but obstacles arising from the economic structure and spatial patterning of South African society have proved stubborn and persist.

The restructuring of South African cities is a key contributor to the restructuring of South African society. As noted in the State of the Cities Report 2004, South African cities continue to be characterized by their apartheid spatial division along racial lines into rich and poor areas (SACN 2004: 99). The spatial dimensions of poverty entrenched under apartheid endure and have largely been reinforced by post-apartheid settlement development (SACN 2004: 101, 111). Such reinforcement has been unintentional and runs counter to stated policy objectives. However the dynamics of the land market together with limitations of the housing subsidy instruments available to practitioners, has meant that in practice apartheid spatial patterns have persisted. It is clear that the links between processes of social restructuring and housing policies and instruments needs to be brought into closer alignment.

The contribution of social housing to such restructuring objectives comprises three dimensions: spatial, economic and social.

3.2.1.1 Spatial

It is proposed that social housing is situated 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. In most South African cities poor (and mostly black) people live in locations far removed from where vibrant economic growth is occurring. It is hard, for example, to see how poorer people will be able to gain access to housing opportunities in the high land price growth corridor to the North of Johannesburg without intervention.

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 further and further 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.

3.2.1.2 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 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 of course also boosts job creation.

Social housing aims to bring its constituent population closer to income generating opportunities through its locational advantage.

3.2.1.3 Social

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. Evidence to date in South Africa indicates that a major accomplishment of social housing to date is that it has provided one of the few examples of success in achieving race and class integration. Whilst the case should not be overstated, 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.

Moreover experience of social housing projects to date indicates that well-managed 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.

Research on SHI core processes and procedures currently show that the institutions play a significant role in establishing and maintaining a relationship with their residents. The SHIs offer a wider range of unique support services to residents i.e. focus groups initiatives, community development initiatives and events, resident training, resident committee establishment and training to ensure resident representation and information
sharing. These services 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 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. This is a unique social role that SHIs perform and that cannot normally be expected from private sector players.

Through the provision of more dense, affordable, well-located and well-managed environments, social housing can contribute to restructuring objectives. This will require a coordinated approach which links spatial, economic and social aims.

3.2.2 Functioning housing sector

The formal rental sector in South Africa is underdeveloped when measured against international norms. Overall, 31% of households rent accommodation in South Africa (Sigodi Marah Martin et al 2001: 30) but only 15% (approximately half) is considered to be in formal rental accommodation (ibid: 32).

Rental housing is especially important to the poor. There is widespread increase in demand for rental housing worldwide, as home ownership becomes less affordable (Sigodi Marah Martin et al 2001: 16). However, it is noted that demand for rental housing is not only driven by income, but also by, inter alia, the availability of infrastructure and access to places of work. “For this reason, rental housing remains a popular form of housing for low, middle and high income people in both the developed and developing world” (Sigodi Marah Martin et al 2001: 22).

The poor in South Africa struggle to access the limited number of affordable rental opportunities provided by the formal market (especially in good locations). In South Africa the loss of formal rental stock due to the disposal of municipal stock has followed a world-wide trend which has seen a reduction in the number of rental units available in the low-income sector (Sigodi Marah Martin 2001: 16). Approximately 1/3 of households renting in metropolitan areas are renting backyard rooms, backyard shacks or living in informal settlements (Viruly Consulting 2004). As might be expected, higher incomes result in a movement away from informal housing structures.

A functioning rental sector contributes to a functioning housing sector, and thereby to overall macroeconomic health. Rental housing offers significant opportunities by, inter alia, offering choice and mobility to consumers, and accommodating the very poor and those households who currently do not qualify for the housing subsidy (Sigodi Marah Martin et al 2001: 8). Rental is no longer seen solely as a stepping-stone to ownership but is considered as part of a socio-economic strategy on the part of both landlords and tenants (Sigodi Marah Martin et al 2001: 17).

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1 Rent in this instance is defined as those households who live in a property with consent from the owner/landlord or their agent (Sigodi Marah Martin et al 2001: 25)
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.

Indications are 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 2001 (Viruly Consulting 2004). 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. (Viruly Consulting 2004).

Summary comments: Social housing is an important tool for pursuing the restructuring of South African society and particularly for dealing with spatial dysfunctionalities of South African cities. The contribution of social housing to restructuring objectives has spatial, economic and social dimensions. Social housing can make an important contribution to the housing sector, and to the housing options available to the poor, in light of a shortage of affordable, formal rental housing options in South Africa.

4 Market niche: eligibility and affordability

The 2003 policy document highlights the need for delivery to a range of income groups (2003: 7) and for housing in the lower income categories. However it notes that “social housing is not an option for the very poor” (2003: 5) and comments that social housing will primarily address the R1500-R3500 income group (2003: 9). This review makes four adjustments to this conceptualisation:

- It highlights the predominantly low incomes of households currently renting in South Africa
- this picture is used to justify an extension of the reach of social housing further down-market than the 2003 document intends, whilst striving for a mixed-income profile in social housing projects
- a motivation is put forward for a periodic revision of eligible income bands
- while a rent pricing system linked to individual income is not supported, upward rental adjustments in line with improvements in income are proposed.

4.1 Affordability levels in the rental sector and implications for social housing
Levels of affordability in the rental sector in South Africa are low (Sigodi Marah Martin et al 2001: 8). About 40% of all households renting in metropolitan areas have incomes below R9 600 per annum. More than 23% of households renting have little or no income. In an analysis of the 2001 census data by Viruly consulting (2004), the second lowest income category analysed (R4 800 per annum and below), contains the smallest overall number of households renting (only 50 000 in metropolitan areas). The number of households renting increases for the income category R9 600 and R38 400 per annum. Above that, it declines, presumably as ownership becomes more affordable (Viruly Consulting 2004)

4.2 The reach of social housing

In current social housing experience only income-earners within a very narrow band are able to afford the rentals which have to be charged. In order to allow access by poorer households, this review proposes re-structured financial mechanisms to allow for a reach deeper down-market. This is generally in line with the ideas contained in 2003 document; however this review proposes adjustments to the maximum grant amount suggested in the previous document. These financial proposals, including the substantial financial implication of this for government, are discussed in chapter 8.

Given the objective of a socio-economic mix of residents, social housing should not serve only the lowest income brackets. 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 is well-documented. Thus the notion of an income mix is very important. A racial and income mix, determined for each project, should be aimed for. As with the 2003 document (2003: 10), it is proposed that a range of accommodation units be provided, spanning single and family accommodation, attracting different rentals and targeting different income categories.

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. This requires delicate engineering, but keeping these interdependent relationships (the rent, quality, subsidy triangle) in balance is important.

Households' ability to afford rentals will be calculated in relation to a proportion of income. The details of this will be addressed in the subsequent regulation-writing process.

4.3 Eligibility
Most of the social housing sector is currently servicing a very narrow income band, restricted by the ability of households to afford rentals whilst still remaining below the R3 500 income cut-off point. This situation has become increasingly constrained as the income band has not been adjusted over the years to price and/or income index. Therefore whilst income categories in social housing have remained static, buying power has dramatically reduced, with the result that households today with incomes below about R2 500 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 will find themselves over the specified income limit.

The accumulated inflation in the period 1994-2003 has been 135.8%\(^2\). This means that a person or household with an income of R 3 500 per month in 2003 is in real value comparable with a household that earned R 1 484 per month in 1994. In effect, people with an income of more than R 1 484 in 1994 who succeeded in increasing their income in line with inflation, are no longer within the income bands eligible for social housing. The income cut-off point in 1994 of R3 500 translates to a real value in 2003 of about R8 250 per month\(^3\).

This review has already indicated the need for greater capital subsidy to reach lower income levels. In addition, the review proposes that the specified income bands be revised nationally on a periodic basis in order to cater for households whose incomes are inflation indexed. If this is not done people who are earning the same real incomes may suddenly become ineligible.

The raising of income bands will also accommodate the recommendation that rentals be escalated on an annual basis (at CPIX). In the event that a household is unable to afford these rent increases, it will be required to leave the project. An alternative conceptualization where rent increases are subsidized for those struggling to afford them has been rejected as financially unsustainable (see discussion below and chapter 8). 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 modeling) 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. The escalation of rentals it should be noted 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.

At the time of entry into a social housing project, household income must be below the government-specified upper limit of the revised subsidy bands for the housing sector. This upper limit should reflect the level below which participation in the formal rental housing market is difficult. It is also proposed that in the event that the subsidy band is raised, and as is supported by this review, that the income mix prescriptions for projects should specify desired percentages of participants for different income categories within

\(^2\) The accumulated result of on average 10% per annum in a period of 9 years.

\(^3\) Figures taken from Jackson, P (2003) A macro economic perspective on Medium Density Housing Development
the band. The intention here is to ensure that housing opportunities provided are not
crowded into the higher income category for example.

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 noted that recognition of the difficulty of basing eligibility on incomes
(which are very difficult to audit) did lead to substantial discussion of an alternate
approach which is hinted at in the 2003 document. 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 what is proposed is that rental units of different
quantity/quality levels should 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 R7500 and
your income is R7499 per month you are eligible for a big capital grant--- but if your
income is R7501 you are eligible for nothing). However, given the disjuncture between
supply and demand there is real concern that downward raiding will be the dominant
dynamic in South African circumstances. For this reason the approach is not
recommended in this document but it is proposed that it be revisited and considered in
the regulation-writing process.

4.4 Rent pricing

There was some concern in the discussion in respect of ongoing individual affordability
in view of the escalations proposed. While the qualifying criteria that must be met by
each new project will not be adjusted, once a project has been completed and becomes
operational rentals will escalate annually with inflation, as noted above. While this may
place pressure on individual households to afford the rentals over time, it cannot be
resolved without an individual rent subsidy. Such a subsidy is not recommended at this
time.

This review did consider the idea of an income-related rent pricing system, in which the
rent is raised or decreased according to the annual variation in income of the individual
tenant. However this system is not considered feasible in the current South African
context for a number of reasons, including the absence of adequate, verifiable annual
income figures. In addition, the introduction of such a system would either increase risk
for the SHI to unacceptable levels, or, alternatively, would increase and complicate the
overall budget implications of the social housing grant for the state – given that in many
cases rent may have to be decreased in line with falling real incomes.
However, where it is clear that the income of a household has increased beyond the upper limit of the band, the household may continue to occupy the social housing unit only by paying an increased rental. The SHI must invest the revenue received in this way through developing or improving its social housing stock.

### 4.5 Long term tenure and equity for tenants

Consideration needs to be given to the possibility of building in equity for long term tenants (who have rented a unit for over 20 years, for example). This will be allowed only if approved by the regulator (discussed in section 6) and on the assumption of a “buy-back” of part of the grant. However, this issue needs careful consideration and, as its elaboration is not material to progressing the overall proposal, resolution of it should not delay this review and the adjustment of the policy.

**Summary comment:** Social housing should target lower income levels while still aiming for a socio-economic mix of tenants. Eligibility income bands should be raised and rentals escalated on an annual basis. An individual rent subsidy is not recommended.

### 5 Gearing up to scale

#### 5.1 Explicit attention is needed on how to get to scale

The 2003 policy document developed a grant system to improve the financial viability of the development and management of social housing. However, the document does not explicitly address the issue of what scale of output is envisaged, or how to achieve the associated increase in scale of delivery. Recent statements by the Minister to the effect that the social housing sector has one more window of opportunity to prove its capacity to deliver makes it necessary to deal with this question explicitly (Sisulu speech, 16 August). This is not purely a programming issue but it is the Department’s view that policy has to be formulated with delivery facilitation and achievement very squarely in mind.

The ability to deliver at a substantially increased scale is 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, the lack of adequate grant and a lack of clarity on financial conditions in certain programmes (such as the Job Summit) and the insufficient funding through the institutional subsidy at the moment.

Whilst a building-up of the sector itself is necessary, this review proposes mechanisms to promote more private sector involvement as an essential component of the move to
scale. In this regard incentives and risk mitigation are important elements of the strategy of attracting private sector involvement. In addition, this review introduces the concept of accredited projects, which could be developed and managed by the private sector. Thus accredited social housing institutions can be further enhanced through the direct involvement of the private sector in the delivery of social housing.

5.2 Objectives and reality

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. The 2003 policy document indicates that there are currently about 25 000 units under management country-wide, and about 40 social housing institutions operational (2003: 14). 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 financial problems as well as management difficulties (2003: 14).

The stated government goal for social housing delivery is 45 institutions each delivering 500 units over a three year period and then scaling up further thereafter ("Breaking new ground" - p19). These targets need to be viewed against the experience to date which indicates that the best-performing social housing institutions in South Africa are able to deliver about 300 new units per year. It should be noted that there are currently probably less than 5 institutions across the country able to perform at this rate. Internationally the biggest and best social housing institutions, with housing stock of 40 000 units or more, deliver at most about 2000 units per annum part for rental and part for ownership. To provide further perspective it is worth noting that the social housing sector in South Africa has produced no more than 25 000 units over 10 years. As noted in the 2003 document, therefore, capacity building is essential, as is the mobilization of available capacity (2003: 22).

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 capacity building. A conclusion of this review, supported by other reviews, is that targets in respect of scale should not be expressed in terms of number of institutions created but rather in terms of number of viable projects (and therefore units under management). This review proposes a target 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. The fiscal implications of the targets proposed are dependent on a range of assumptions and are subject to various limitations. These are unpacked in Section 8, and indicative figures, given various scenarios, are suggested.
5.3 Options for delivery at scale

The shift in emphasis - from the creation of institutions to the ability to create and sustain functioning projects - is important. This review has considered a number of institutional options for gearing to scale in order to deliver these projects. These options include:

- A continued reliance on initiating and building Social Housing Institutions (SHIs),
- Using municipal capacity,
- The creation of a special purpose state corporate structure,
- Public private partnerships (PPPs),
- Demand-side subsidies and then relying on a response from the supply-side,
- Private sector provision

With regard to the first option, the weakness of the social housing sector at present was acknowledged while noting that the lack of a truly supportive social housing policy environment has contributed to this underperformance. The reality however, is that it will take time to address problems in the environment and gear up the capacity of SHIs, a core strategy for gearing in the 2003 document (2003: 23). The notion of using municipal capacity was discussed at length but was rejected in the end because of the poor record of local authorities in running viable rental projects and the fact that rental housing continues to be a contributor to municipal deficits. Where appropriate, municipal rental stock should therefore be transferred to SHIs.

The creation of a special purpose state corporate structure was considered but rejected on the basis of the poor performance of such vehicles in the post-apartheid period. It was however recognized that where state corporates were set up at a local level (by provinces or local government) the risks of system failure as a whole were reduced. This could be a way for local authorities to participate. However they would have to set up a SHI and submit it to the regulation process.

PPPs in a variety of forms were considered and the lack of real experience with this modality was noted. Moreover it was agreed that PPPs could only be considered in large-scale projects because of the high transaction costs associated with them. Demand-side subsidies were considered but rejected because they were unlikely to be accepted at a political level due to fiscal constraints and because there were likely to be supply-side blockages.

Private sector delivery of rental housing (for the same sub-market as that addressed by SHIs) is acknowledged as a significant provider of rental housing at present. Delivery through this sector, whilst at least two to three times greater than that of SHIs, is nonetheless modest. Problems with quality are also noted.

5.4 Proposals

It was recognized that there are real constraints associated with most of the available options for gearing to scale. However this review supports a three-pronged strategy.
The first component is 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 to date that it is difficult to draw conclusions and write-off these institutions. SHIs have succeeded elsewhere and, given the appropriate support, they will become the primary support vehicle for social housing in South Africa.

The second component is the use of PPPs for big impact projects in designated restructuring areas. As noted above, 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 should 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 the use of grants to underpin the further 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 should not have the effect of squeezing them out. The proposals in the 2003 policy document, focused only on SHIs as providers of social housing, might have precisely such a squeezing effect and hence amendment is proposed.

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.

These proposals, and their relationship to special restructuring zones, are summarized in the table below.

Table 1: SUMMARY OF PROPOSALS FOR SCALE DELIVERY

<table>
<thead>
<tr>
<th>Intervention Areas</th>
<th>ZONE 1: Identified Restructuring Zones</th>
<th>ZONE 2: Areas outside of Zones</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Conventional SHI’s - (SHI’s demonstrating potential and that have been accredited by the SHC)</strong></td>
<td>• Application of “social housing for restructuring grant” for rental housing projects</td>
<td>• Application of existing institutional subsidy funding, providing the existing range of tenure options i.e. rental, installment sale, co-operative, communal property associations and shareblock ownership</td>
</tr>
<tr>
<td><strong>B. Private Sector Developers / Property managers (Private for profit entities that wish to develop)</strong></td>
<td>• Application of “social housing for restructuring grant” for rental only where projects have been approved by the SHC</td>
<td>• Not applicable</td>
</tr>
<tr>
<td>Intervention Areas</td>
<td>ZONE 1: Identified Restructuring Zones</td>
<td>ZONE 2: Areas outside of Zones</td>
</tr>
<tr>
<td>-------------------</td>
<td>--------------------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>and manage a social housing project)</td>
<td>The social housing is held in a ring-fenced property holding company  - Does not require participation of a SHI</td>
<td></td>
</tr>
<tr>
<td><strong>C. Fast-tracked scale delivery</strong> (Public-Private Partnership Model)</td>
<td>Application of &quot;social housing for restructuring grant&quot; for rental delivery at scale  - PPP’ structured using national agency and funding  - Accredited SHIs play an essential role as a party to the PPP and delivery process to ensure that long term sustainable management by SHIs is assured.</td>
<td>Not applicable</td>
</tr>
<tr>
<td><strong>D. Vulnerable groups and Special Resident/member Interest Groups</strong> (Would accommodate housing co-operatives, and could include groups requiring social service needs and special needs focused institutions, e.g. disables, aged, medical care etc.)</td>
<td>Application of &quot;social housing for restructuring grant&quot; for rental or co-operative housing projects  - But where individual ownership either exists or is a longer term option, the additional grant funding would not be applied.  - Must have and demonstrate institutional capacity or contracted management capacity</td>
<td>Application of existing institutional subsidy funding  - Must have and demonstrate institutional capacity or contracted management capacity.</td>
</tr>
</tbody>
</table>

**Summary comments:** Scale delivery needs to be considered in relation to the limitations of current social housing capacity, the time that will be needed to resolve key problems in the sector, and the opportunities that can be provided by drawing in the private sector. Targets need to be expressed in terms of number of viable projects (and therefore units under management) rather than number of institutions created. Gearing to scale should be achieved through three initiatives: by supporting the growth of SHIs, by formulating PPPs and by supporting private sector provision of social housing. Social housing can also be created by special tenant interest groups and special needs groups.

## 6 Regulation and institutional architecture

The 2003 policy document contained a sound basis for the proposed accreditation of SHIs. Reports published subsequently (the SPSH mid-term review and PMU reports), and discussions held during this review process have underpinned the need for regulation in the social housing sector: only a limited number of SHIs are performing and delivering housing units, and too many of them are in financial distress and/or suffering from governance deficiencies. Improved performance of the institutions is crucial for both for the future sustainability of the social housing sector, and to rebuild its credibility. Regulation is essential in this regard. To this end, this review proposes three areas of clarification and adjustment: (i) the relationship between regulation and accreditation, (ii) the role and nature of the regulating body and (iii) the broader institutional architecture.
6.1 Regulation and accreditation

There is a need to distinguish between regulation and accreditation. Accreditation is one component of regulation. Other aspects of regulation entail accreditation compliance and performance monitoring, as well as intervention in instances of poor performance or non-compliance.

This review proposes a greater emphasis on the latter two aspects than was apparent in the main text of the 2003 document. Importantly, this review also introduces two separate approaches to accreditation, that of accrediting social housing institutions, and that of accrediting social housing projects, which may be run by other organizations, notably the private sector. It should be emphasized that these are alternative routes: in other words, if an SHI is accredited, it does not have to get accreditation for each of its projects.

Regulation is seen as a compulsory and ongoing activity during the lifetime of any (provisionally or finally) accredited institution, or accredited project, which uses any of the social housing grants. The regulatory body performing such regulation must have both an obligation and delegated ministerial responsibility to intervene in cases of non-compliance or poor performance. However, while regulation is essential for quality control in the interest of sustainable SHIs and sustainable projects, it is in itself not sufficient to ensure gearing to scale.

6.2 Tasks and nature of the regulating body

The regulatory functions of the regulating body are specified quite clearly in the 2003 policy document. This review proposes a few additions. The first is that the regulatory framework should be “light” and enabling. To this end, the suggestion is that the regulatory body should stress the use of performance standards rather than demanding compliance with a plethora of rigid rules. Moreover there should be greater reliance on incentives rather than sanctions. Compliance and performance assessments of all SHIs, should be carried out by an independent team, appointed by the regulator.

Whilst the regulatory framework should be enabling, it is also proposed that the regulatory framework must allow stronger sanctions than just the removal of accreditation. In the case of accredited SHIs, it should be possible in extreme circumstances for the regulator to authorize the takeover of the portfolio of a non-performing SHI by a well-performing SHI. Other less stringent but nonetheless far-reaching steps could include compelling the board or Chairperson of a non-performing SHI to step down. The necessary legal arrangements to make this possible will need to be effected. Moreover the question of whether the regulator should be a statutory body should be investigated.

A process for the accreditation of projects is also needed, in those cases where the private sector makes use of the social housing grant. In principle, responsibility for this should fall under the regulator, although the practicalities of detail and process in this regard still need to be outlined. As with institutions, these projects will also be subject
to management monitoring and compliance, with the regulator empowered with the necessary ‘teeth’ to protect the public interest. Sanctions could include financial sanctions such as repayment of the capital grant or portions thereof, or in extreme circumstances, foreclosure. Detailed performance criteria will have to be spelled out at the outset and carefully monitored over the lifetime of the project. In the regulation writing process attention will need to given to several issues, including what proportion of social housing units to non-subsidised units is acceptable. In addition, there will have to be provisions to secure the long term involvement of the private investor. Moreover in the case of the sale of the property, there would have to be provisions for the repayment of excess capital over the market value in relation to the book value.

The regulatory body proposed, the Social Housing Corporation (SHC), should start small, and expand gradually as its activities grow. It could initially be run by/or operate under the auspices of an existing department in the Department of Housing. The official work of the regulator should start as soon as possible on an interim basis, so that the initiation of the regulatory function will not be held hostage to the enactment of legislation to formally establish the new body. The work of the Programme Management Unit (PMU) of the SPSH contains most tasks the regulator will carry out. Subject to endowment with additional resources, the PMU could gradually spread this work to those SHIs not currently subject to its assessments, should these wish to be accredited and benefit from social housing grants.

In establishing the SHC cognizance should be taken of good corporate governance. In this regard attention should be given to the King Report on good corporate governance. In particular, adequate checks and balance must be embedded within the organizational structure of the SHC to organizationally separate responsibilities for the related functions of (i) institutional accreditation screening, (ii) project accreditation screening (iii) screening of project feasibility studies and making recommendations for capital grant awards, and (iv) performance/compliance monitoring.

6.3 Institutional Architecture

The 2003 policy document describes the different tasks of the various actors in social housing and provides an overall diagram of institutional linkages. Both need to be updated to take account of the present situation, and need to be aligned better to existing capacity constraints and existing institutional capabilities and proposals within the new housing strategy. Furthermore whilst the institutional architecture proposed must take into account existing actors and avoid the creation of new institutions unless absolutely necessary, the discussion of institutional arrangements should start from an assessment of what is necessary to make social housing policy work rather than start with existing actors and their capabilities. As a consequence it is proposed that the section/s on institutional arrangements in the current 2003 policy document be re-worked with reference in the first instance to a conceptual model of what is required and in the second instance to a consideration of current institutions and their capacities.

6.3.1 Conceptual model
The approach to the conceptual model is to on the one hand identify key roles that need to be performed within the sector as a whole and then on the other to specify rules for ensuring that role conflicts do not occur. 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 (e.g. allocation of capacity building grants), 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 (hardship insurance for renters, risk mitigation for debt providers), sector research and policy support, consumer education and protection and SHI interest protection.

As far as rules to prevent role conflict are concerned the following are suggested. Firstly actors/institutions should not be assigned contradictory roles or roles which create conflicts of interests (for example grant allocation and delivery functions ought not to be contained in a single institution because of the temptation to mask inefficient delivery performance by using grants to cover losses). Secondly where functions are strongly mutually supportive they can be made the responsibility of a single institution (e.g. grant allocation and policy formulation). Thirdly the roles of actors need to be clear and transparent, and in principle individual institutions should not carry too many roles. Fourthly new institutions should be created only if necessary. Problems of dysfunctional organizations should not (unless absolutely essential) be solved by creating new ones. Fifthly competition between actors involved in delivery, debt and equity financing, and facilitation is desirable. Finally, and most importantly, the institutional architecture should be underpinned primarily by the logic of achieving desired delivery (and not by other considerations).

The Table below provides a summary of the institutional architecture proposed in terms of the various sector roles and sector processes.
Table 2: SUMMARY OF THE INSTITUTIONAL ARCHITECTURE PROPOSED IN TERMS OF THE SECTOR ROLES & PROCESSES

<table>
<thead>
<tr>
<th>INSTITUTIONAL/ SECTOR ROLES</th>
<th>Leadership</th>
<th>Delivery</th>
<th>Funding</th>
<th>Regulation</th>
<th>Facilitation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DELIVERY PROCESS</strong></td>
<td>Local authorities (identifying restructuring zones)</td>
<td>Local authority provide land, infrastructure &amp; public environs</td>
<td>Provinces administer disbursement of approved grants</td>
<td>Province monitors local authority and SHI/private sector delivery</td>
<td>SHC disburses capacity building grants</td>
</tr>
<tr>
<td>Provinces (put forward restructuring zones for approval)</td>
<td>SHIs, PPP Private sector are housing delivery and management agents</td>
<td>NHFC and private sector loan funding</td>
<td>Federations set code of good practice for members</td>
<td>Service providers compete to provide capacity building services</td>
<td>Risk mitigation / guarantees to SHIs</td>
</tr>
<tr>
<td></td>
<td>Compile project proposals for approved restructuring zones and submit to SHC</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>REGULATORY PROCESS</strong></td>
<td>NDOH provides policy framework, sector co-ordination and programme funding</td>
<td>SHC accredits SHIs and projects</td>
<td>SHC approves grants</td>
<td>SHC annual performance monitoring and compliance of SHIs and sector players</td>
<td>SHC communicates zones to the sector and calls for projects</td>
</tr>
<tr>
<td></td>
<td>SHC manages the programme call for restructuring zones</td>
<td>SHC accredits private sector/PPP projects</td>
<td></td>
<td>SHC annual performance monitoring of sector players</td>
<td></td>
</tr>
</tbody>
</table>

6.3.1.1 Leadership

As far as leadership is concerned it is clear that the Minister and her Department (the NDoH) must provide policy and sector co-ordination leadership. NDoH provide leadership in developing and managing the Social Housing Policy implementation process, and devotes adequate human resources for that purpose: a dedicated national programme is necessary, if the regulator is initially located within the NDoH as suggested.

Programme management is currently a responsibility of the Provinces although the accreditation of local authorities to run such programmes is in principle possible. The National programme management of aspects of the social housing policy should be managed by national Government or it's mandated agent. This may require legislative
amendments but this is necessary not just in relation to social housing policy but also other aspects of housing policy.

More specifically it is proposed that the Social Housing Corporation proposed in the 2003 Policy document be tasked with, inter alia, the programme management of the social housing programme and associated restructuring funding stream, discussed below. Local authorities and provinces would in the first instance apply to the SHC for the approval of “restructuring zones” - those geographic areas identified for targeted investment. Thereafter, local authorities would apply to the SHC for the allocation of funds to feasible project proposals. Once approved, the funds could be allocated to the provinces to manage disbursement and project compliance. This concept of funding flows is elaborated below.

The current housing strategy proposes that the Department’s Support Programme for Social Housing (SPSH) assist with the capacity building of sector agencies in social housing, and with the set-up and operationalisation of the SHC.

It should be noted that the National Housing Finance Corporation (NHFC) currently does have capacity to undertake project viability assessments as well as assessments of institutional health and sustainability of SHIs. This capacity notwithstanding it is not recommended that NHFC be tasked with undertaking these assessments in any projects where it is advancing debt financing (because of potential conflicts of interest). In projects where it is not the debt provider (as in most PPPs for example), it should be called on as an agency basis to provide these services.

6.3.1.2 Funding

Social housing’s role in restructuring, referred to earlier in this document, calls for a reconsideration of funding flows and allocative responsibility. In the period after 1994 the emphasis was on delivering housing commodities to as many households as possible. The delivery of houses was 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 the new democracy—and most specifically the restructuring of society. This latter objective implies a more strategic investment in housing than the formula-based equitable shares allocations of the housing budget to Provinces implies.

It is proposed that a new funding stream be created through which local authorities and provinces can apply for access to social housing grants – a restructuring funding stream. The programme management of this stream would however be handled at a national level. There is already precedent for this which suggests that legislative changes might not be necessary. At present provinces can access two funding streams. 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 NDoH. Local authorities must make application (supported by a
business plan) to access these funds. We propose that a similar approach be used for the restructuring funding stream.

As suggested earlier, the SHC will manage the allocation of grants for viable projects whilst provinces will administer the disbursement of the funding and handle project level compliance. This is in line with the proposed roles of national, provincial and local government as contained in the housing strategy. The contractual relationships with the SHI will however need careful consideration. The roles of the province as captured in the 2003 document remain unchanged.

As far as capacity building grants are concerned there are several options. The first is that these are managed by the SHC. This has some benefits insofar as it centralizes all grant-making processes and makes planning and co-ordination possible. A second approach starts from the observation that capacity building is a role which may conflict with another key role envisaged for the SHC, namely regulation and more specifically institutional compliance management (ensuring that institutions comply with conditions of accreditation). This suggests that capacity building grants could potentially be administered by another agency. The SHC is however in a position to set the capacity building programme for the sector, based on the institutional assessment and performance in the sector and then allow for a variety of service providers to compete to provide the capacity building services.

Proposals regarding institutional arrangements with respect to debt financing remain the same as in the existing 2003 proposal.

6.3.1.3 Delivery

With regard to delivery, SHIs are envisaged to be a key delivery agent of social housing units (either as SHIs or via PPP’s). The description of roles and functions of SHIs in the 2003 document needs to be elaborated with emphasis on the development of viable projects in restructuring areas. In addition, the possibility of the private sector as a deliverer of social housing via accredited projects, has been introduced and needs to be incorporated into a revised document, with a description of roles and responsibilities.

Local authorities are logically responsible for the delivery of bulk infrastructure and public environment investments. The majority of the roles assigned to local government in the 2003 policy document will remaining, however the need to ensure performance and participation by local government in social housing is a key revision required. In this regard it is proposed that SHIs and Local Governments should enter into annual performance agreements (which suggestion is stronger that the memorandum of understanding proposal in the 2003 document). Partnerships between SHIs and 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 on this for its members in co-operation with NDoH.
Delivery (and operating) governance is an area which is underemphasized in the 2003 Policy document. Whilst the notion has a number of dimensions a key principle should be that LG councillors should not sit on the governance structures of SHIs because of potential conflicts of interest and the possible politicization of the delivery and operations processes (as is the practice in many other parts of the world). This is in any event in line with the requirements of the Municipal Systems (amendments) Act and the Municipal Financial Management Act both of which bar councilors from being board members of municipal entities. The role of SALGA in this regard is important particularly in terms of making LGs aware of the role, purpose and governance of SHIs.

6.3.1.4 Facilitation

Facilitation activities can and should be undertaken by a wide array of service providers (in competition where possible) and reference is made to many aspects of facilitation in the 2003 policy document. Reference should however be made under the training component of facilitation to use of the SETAS (a national competency framework for social housing should be created). Moreover reference should be made to the role of tertiary institutions (universities and technikons) and to the possible support from the housing budget for social housing-related education. Moreover risk mitigation facilitation (in the form of hardship cover or other forms of cover and support) for residents can be handled with government support via existing institutions such as HLGC and NURCHA. The revised policy document will not prescribe the roles for these players in the sector, but rather create an environment where the competition and provision of services by a wide array of service providers can take place.

6.3.1.5 Regulation

Most of the roles listed under regulation are logically allocated to the Social Housing Corporation (SHC). In the course of time NASHO could play an increasingly important role particularly in regard to self-regulation, at least as far as SHIs are concerned. Accredited projects, will however require ongoing SHC oversight. The SHC, as a new institution proposed in the 2003 policy document, was evaluated in the review. The conclusion of the Department is that it is needed. As previously noted, its establishment should however be incremental and draw on existing capacity where possible.

The new housing strategy proposed that in modeling the SHC, the Department will consider assuming the Social Housing Foundation (SHF) within the SHC as the training and capacity building department of the corporation. The strategy states that this model is only a concept at this stage, and needs to be researched in detail as part of the implementation of the strategy. This could potentially house the roles of capacity building, regulation and grant-approval within one organization.

It is proposed that NDoH commissions a detailed institutional assessment of the Social Housing Foundation to come up with alternative options for its institutional future, including for example, the option of absorption of SHF into the Social Housing Corporation. The assessment should also make recommendations as to the future funding of SHF activities/work plans. The establishment of the sector regulator, the
SHC, should be in phases, to ensure that a credible organization is established that is able to perform the roles assigned to it effectively.

Several other national sector agencies with a potential role in the social housing sector should be referred to in the document (although not necessarily in the diagram, which is social housing specific), particularly NURCHA (which inter alia has entered into a first loss guarantee agreement with the Gauteng Partnership Fund to cover private sector property management firms in the urban housing rental market in Gauteng).

**Summary comment:** The revisions to policy imply substantial changes in institutional arrangements, the details of which will have to be formulated in the writing of the guidelines. Importantly, this review introduces the concept of accreditation of projects in addition to accredited SHIs. The regulatory framework should be “light’ and enabling, but with the necessary power to impose strong sanctions. Key roles in the sector are identified and ways of avoiding role conflict are proposed. The establishment of the sector regulator, the SHC, should be in phases, to ensure that a credible organization is established that is able to perform the roles assigned to it effectively.

### 7 Capacity Building

#### 7.1 The need for capacity building

The 2003 policy document highlighted the weak capacity and poor governance practices in existing SHIs (2003: 22). In addition, the lack of knowledge-sharing and mutual learning within the sector has been acknowledged (2003: 22). Problems in the social housing programme have been subjected to rigorous scrutiny. The MidTerm Review and the Programme Management Unit of the Department’s Support Programme for Social Housing (SPSH) have concluded that two major initiatives are needed to rescue the social housing sector: firstly, strengthening the governance of SHIs, and secondly, improving the conditions which will facilitate the delivery of affordable housing through enhancing the core business operations of implementing agents such as SHIs.

Attempts to improve the situation have to date been ineffectual, with the capacity building efforts of the SHF showing poor results (Mid-Term Review, 2003). This has been hampered by the lack of a capacity building framework or policy to date, and a lack of recognition of and use of the core base of knowledge and experience (2003: 22).

The 2003 policy document proposes three areas of focus: capacity building of social housing institutions, capacity building of other support organisations, and the coordination of capacity building initiatives. In addition, a stronger regulatory environment for the social housing sector is proposed. In this regard, capacity building is linked to the introduction of accreditation for social housing institutions, with a related focus on strengthening the staffing of organizations.
This review proposes a shift in emphasis in this conceptualization. Rather than focusing on building the organizations in the first instance, this review highlights the need to develop sustainable projects. The building of capacity in a social housing institution to develop and manage these projects is seen to be an incremental process in which, to some extent, the provision of support is linked to the performance of the project. Support for growth in staffing will therefore be contingent on the generation of a yield which in time will be able to support such staff. This is aimed at avoiding the creation of dysfunctional organizations which have staff and overheads, but little to show in the ways of projects. In addition, the consolidation and growth of existing social housing institutions will be addressed.

In addition, the large re-structuring projects which are proposed need to develop systematic approaches to building up capacity, the costs of which should be capitalized into the project. Where these projects involve PPPs, SHIs must be involved in the project at an early stage, as mentioned above. Furthermore, as indicated in the 2003 document, there is a clear need also to build capacity of those organizations providing support to SHI’s (such as the Social Housing Foundation, National Housing Finance Corporation, National Association of Social Housing Organisations, etc.)

7.2 Nature of capacity building

This review has introduced the idea of social housing being delivered by the private sector in addition to social housing institutions. However, the concept of capacity building, and the support associated with this, is intended to focus mainly on social housing institutions, and the skills and capacity needed to run viable projects. Support will be offered in two broad areas:

- firstly around the skills needed to work with the components of and inputs into social housing projects, such as project packaging, outsourcing, use of technical advisors and financial literacy
- secondly, there will be support to the effective internal functioning of the social housing institution itself, on issues such as governance, human resource management, management systems etc

This support will be tailored to the stage of development of the institution concerned, with, however, an emphasis for new institutions on the skills needed to make a project viable. Further institutional support to an emerging institution will depend on its performance on projects. Capacity building will take the form of both training and on-the-job support.

The need for capacity building 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.

Table 2: Focus of capacity building
1. For new SHIs
Project packaging skills
Process management skills
Governance structure
Outsourcing
Use of technical advisors
Financial literacy

2. For existing SHIs: as above, plus
Governance skills
Human resource management
Property management
External relations
Systems

Table 3: Types of capacity support targeted to selected groupings

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<tr>
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<th>Existing SHI’s</th>
<th>New SHI’s</th>
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<tbody>
<tr>
<td>Staff and executive</td>
<td>Basic training for new staff</td>
<td>Basic training for new staff</td>
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<tr>
<td>boards</td>
<td>Training on the job</td>
<td>Training on the job</td>
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<td></td>
<td>Technical advisers</td>
<td>Technical advisers</td>
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<td></td>
<td>Technical Resource groups</td>
<td>Technical Resource groups</td>
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<td></td>
<td>Exchange experience/intervision</td>
<td>Exchange experience/intervision</td>
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<td>Supervisory boards</td>
<td>Assessing the institution</td>
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<td>Training</td>
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<td>Intervision</td>
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<td></td>
<td>Development of a Board code</td>
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<tr>
<td>Residents</td>
<td>Training</td>
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</tbody>
</table>

7.3 Funding for capacity building

The 2003 policy document refers to various SHI capacity building grants and establishment cost grants, as well as in-kind capacity-building support. These grants include a pre-establishment grant, establishment cost and capacity building grants for a maximum period of 5 years, and a further grant for SHI capacity building for a maximum period of 2 more years.

This review proposes two kinds of grants for capacity building and a new approach to gearing up staffing capacity. This new approach involves capitalizing the costs of staffing needed to realize and operate projects into the costs of the project, which would then be supported via the capital grants to projects which are discussed in more detail in Section 8.3 below. It should be noted that only accredited SHIs will be eligible for the general capacity building grants and the staff gearing support. The support would not be available to private sector actors involved in accredited projects except in those instances where the actors are BEE’s (black economic empowerment firms). However the private sector is eligible for the provisional accreditation grants. It is envisaged that capacity support to SHIs would continue until the SHI has generated sufficient reserves to deal with its own ongoing capacity building inputs.

7.3.1 Provisional Accreditation Grants
The provisional accreditation grants are comprised of two sub-components (also available to the private sector):

Project Acquisition and Feasibility grants: These grants 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 (see chapter 8 for a definition of this). While the grants are available to both new and established SHIs, they form essential support to start-up SHIs needing to demonstrate a linkage to projects in order to access pre-accreditation grants. This grant should be applicable to any new project, whether supported by a new or existing institution. The grants should cover the cost of any feasibility assessment required. The feasibility assessment should include a business plan for the institution demonstrating the sustainability of the institution on the basis of the net rental contributions from its rental housing portfolio. The amount should be determined on the basis of some benchmarked norms both in respect of operating costs but also in respect of operating criteria, financial management and governance standards. It should be noted that in cases where projects are initiated by actors other than SHIs, or where there is no institution in place yet, assistance in project packaging could be sought from the SHF if the necessary skills and capacity are not available in-house.

Pre-accreditation: These grants, similar to those proposed in the 2003 document, provide financial support to the process of preparing and submitting a proposal for accreditation. In addition, as with the 2003 document, it is proposed that the Social Housing Foundation could provide other forms of support towards the accreditation application process (such as assistance with business-planning).

7.3.2 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. SHIs will apply and motivate for these grants, which relate to the non-establishment costs of capacity building such as staff training, on the job support, community building etc. The other component provides programme-related grants to support the social housing sector as a whole. These are intended for local, regional or national programmes which are aimed at more than a single institution or for other players in the environment (such as local authorities).

7.3.3 Social Housing for Restructuring Capital Grant

The approach described here is intended to replace the establishment grants in the current document. It is proposed that, for SHIs, the minimum institutional establishment costs related to the development of the first project should be capitalized into that project. This will increase the project cost and thus also the grant requirement. The grant can be drawn down on at intervals to hire up staff and ease cash flow requirements. The same approach can be followed in subsequent projects up to the
point that the institution has generated sufficient reserves and cash flow to finance its own staffing gearing.

For projects subsequent to the first project the following provisos would apply. Firstly the initial project would need to be operating on a viable basis. And secondly each subsequent project application for capital grant support will have to be accompanied by a business plan indicating the financial and staffing demand impact of the project on the SHI. The staffing gear up support will have to be clearly justified (both in relation to need and its own accumulated reserves) and should not be regarded as a right. Private sector projects are not eligible for the capacity building component of this grant.

It should be noted that the grant proposals outlined in Section 8 below ensure that SHIs who successfully deliver on their business plans will generate a positive cash flow and a contribution to reserves from year one. 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.

The advantage of using this approach is that it links staffing gear-up to viable projects in a very direct way. Moreover incremental gearing is linked explicitly to business planning considerations in a systematic way. Estimates of minimum staffing requirements linked to delivering viable projects will of course have to be carefully benchmarked.

Summary comment: Capacity building needs to focus on developing the skills in social housing institutions to manage viable projects and additional institutional support must be linked to the performance of functioning projects. There are two forms of capacity related grants: provisional accreditation grants and general capacity building grants. In addition, the gearing up of staff capacity in SHIs is supported through ensuring that the minimum institutional establishment costs related to the development of the first project are capitalized into that project. However this grant, and the demand-driven general capacity building grant is only available to SHIs and not to the private sector, except for BEE firms. However, all organizations can access provisional accreditation grants.

8 Financial Proposals

8.1 Introduction

A critical shift in the overall approach to the social housing policy is the emphasis on viable and sustainable housing projects, as opposed to institutions. The argument is that viable institutions result from viable projects. Consequently it is critical to define what a viable project is, and to determine how a viable project is measured.\(^4\)

\(^4\) The specific guidelines/parameters in respect of viability and sustainability will need to be established as part of the policy review process.
8.2 Existing Institutional Subsidy

In all social housing projects (outside designated zones), the existing institutional subsidy will apply. This application will be based on current requirements as per the housing code, and as prescribed, will be allocated and disbursed by Provincial Government. The allocation of such subsidies will be on the basis of qualifying beneficiaries in the designated income bands.

It is furthermore proposed that a review be undertaken of the alignment of the institutional subsidy process with the Social Housing for Restructuring Capital grants process which is elaborated below.

8.3 Social Housing for Restructuring Capital Grants

8.3.1 Overall Approach

A capital grant system is proposed which offers the possibilities to realize rental social housing. The proposed grant system will be connected to designated urban restructuring areas, where an in depth financial contribution is justified. The needs of a specific environment in terms of income mix and thus the rental pricing can be met on a project-by-project basis.

Where areas are not seen as urban restructuring areas, capital grants are in principle not available. This is not to say that a capital grant can never be applied for, but then strong evidence has to be produced to designate the area as a social housing restructuring zone.

The institutional subsidy will be continued for projects not located in designated urban restructuring situations.

8.3.2 Application

The objective of the capital grant is to realize sustainable projects over the expected lifetime of a project. Thus the focus is on viable projects. **A viable project is a project with a targeted minimum yield in relation to the total funding employed in the project over the funding life of the project (no residual value should be assumed)**. A viable project has to generate this kind of yield to cover non-specific

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5 In calculating the yield it is proposed that an Internal Rate of Return (IRR) be employed, where the rate of return is calculated after all expenses and provisions (excluding finance costs) have been accounted for in the project over its funding life. This yield must be sufficient to cover the cost of finance and to generate a contribution towards the running of the social housing institution as well as the SHI’s need to accumulate a capital reserve. It is recommended that the yield be indexed to the inflation rate excluding mortgage inflation (i.e. CPIX) and that a mark-up of 3% be applied to that (i.e. approximately 8% in current terms). As this yield is applied to the total capital employed, i.e. before excluding grants and subsidies, SHIs and private investors
overhead costs and to contribute to the necessary provisions and reserves for the project.

The calculation of the grant includes all costs (investment and running costs) and all income (rental income) over a total (assumed) operating period. The subsidy is calculated as the net present value of shortfalls and surpluses of the cashflows over a predefined period. This is based on assumptions in respect of the income mix, rental mix, rental increase, running costs, inflation and interest rate. The operating costs contains short term maintenance costs, long term maintenance provision, property rates, taxes, 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 mainly rental income.

The costing must accord with industry benchmarking. Costs and income are escalated in line with inflation over the lifetime of a project. This is crucial for viability. In addition the liquidity shortages (i.e. cash flow shortages) that will result from negative cash flows in the first few years of a project also need to be calculated and added to the capital grant amount in order to ensure that the project and institution are viable. It is proposed however that a distinction be made between the grant applied to accredited SHIs and the grant applied to private sector for-profit developers / investors who deliver social projects. In the latter case (i.e. accredited projects) the additional grant to cover cash flow shortages in the initial years should not be applied. In these instances the private sector will be required to invest equity in such social housing projects.

Although the grant is calculated over the lifetime of a project, it will be paid out up-front. This lowers the need for equity or loans and therefore is a strong risk mitigation incentive. The subsidy is a fixed amount. There are no adjustments during the lifetime of a project. Initial modelling indicates that the amount of the subsidy will vary between R 50,000 – R 80,000 per unit on a project-to-project base.

In respect of the proposal (in the 2003 Policy Document) of a maximum government funding level of 50% (of total capital cost), initial discussions addressed the issue of applying the social housing subsidy on a sliding scale basis in line with the specific income mix in each project. In particular there is some concern as to how to ensure that there is a consistent application of principles that ensures a particular outcome (performance) and that the project can meet the targeted income group needs. Further consideration will be given to this in the guidelines.

8.3.3 Eligibility Criteria

will be encouraged to maximize the social housing grant, i.e. to access as many qualifying beneficiaries as possible.

Current experience suggests that interest holidays and / or “balloon” payments in respect of loan funding do not adequately address this issue. The key determinant here is the ability to escalate rentals at sufficient scale and pace to meet the rising finance costs. Furthermore, the programme should seek to avoid unnecessarily complicated financial instruments and structuring and therefore an additional capital grant amount is proposed to address the liquidity shortages. Initial modeling suggests that this additional grant will be between 15% to 20% of the capital grant that would apply if liquidity in early years is not subsidized.
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 (without the liquidity cover) would be available for accredited projects.

As a capital grant, the amount of grant provided to social housing projects is fixed. However over time 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 of Housing. In addition projects will be required to meet the conditions of viability and sustainability which will need to be defined. Furthermore, each year the necessary adjustments have to be made in respect of determining the subsidy amount and applied to new projects that are initiated in that year.

While the qualifying criteria that must be met by each new project are not adjusted, once a project has been completed and becomes operational it is recognised that rentals will escalate annually with inflation. Such escalation, together with liquidity support should allow SHIs to generate substantial contributions to reserves in later years.

8.3.4 Key Assumptions

In both instances there are a range of critical assumptions that will need to be made in calculating subsidy requirements:

- Level of private sector vs public sector loan financing
- Cost of capital / interest rates
- Discount rate
- Rental escalation rates – initial discussions proposed the application of an escalation linked to CPI or CPIX.
- Levels of rental income viz. assumed household target group.
- Parameters of operating and other costs, e.g. should not exceed a percentage of total gross rentals. Initial discussion suggested that operating cost should escalate annually by at least CPI or CPIX.
- Treatment of Subsidy Eligible Income bands – consideration should be given to whether these should also escalate annually on some basis, e.g. CPI or CPIX.

In the guidelines process procedures will need to be developed to address the likely scenario that assumptions made are likely to deviate in the relatively volatile context of
the SA political economy. Periodic reviews and adjustments to subsidy allocations (additions or claw-backs) are recommended.

8.4 Debt Funding

8.4.1 Introduction

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 projects will not get funding for projects unless these 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 there is therefore likely to be very little gearing, and consequently social housing projects will need to look to the NHFC for funding until a track record is established. An option to be explored is the possibly of establishing a funding instrument for the sector to fund on a project by project basis (a fund that has a mix of public and private funding sources etc).

While the Financial Sector Charter might add some impetus, it will not overcome the need for a track record and a viable institution as well as viable projects. Finally it should be noted that there is little point in involving the private sector without risk transfer. The PPP model would ensure full risk transfer on day 1, but would require private sector control in respect of price, risk management and operating methodology.

8.4.2 NHFC Funding

As noted above in the short to medium term the primary source of debt funding for social housing projects is likely to have to come from the NHFC. In the longer term it is unlikely that the NHFC’s current balance sheet would be able to carry the envisaged number of social housing units. Consequently the long-term gearing of private sector funds will be crucial.

It is proposed that the NHFC 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. While securing debt at the most favourable interest rates is desirable, this should not limit the ability of the NHFC to mobilise funding for the housing sector. Softer interest rates than the NHFC currently charges would have the effect of allowing affordability targets to be met with lower up-front capital grants which would allow more housing units to be built for a given fiscal allocation. However government would have to accept that it will need to make regular topping-up contributions to the NHFC (with its own fiscal implications).
The option of fixed interest rates for a period would be advantageous to improved project and institutional viability. The possibility of affordable fixed interest rate products applicable to finance for home owners is currently being investigated both by the NHFC and the private sector. Such thinking should be extended to the social housing arena. It must be noted that the cost of funds is not the key limitation. Rather the availability of funds and the risk appetite of the NHFC are of concern. Consideration needs to be given to enabling the NHFC to raise money but also to enable the institution to take on higher risks to enable private sector participation. Additional government funding to the NHFC may be required.

8.4.3 Mobilising the Private Sector

The formal basis for mobilising private sector resources and transferring risk to the private sector is through the establishment of Public Private Partnerships (PPPs). While 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 managing the relationship. In addition, in accredited social housing projects undertaken by the private sector, the private sector investor will be required to invest equity and raise private sector debt funding for such projects.

8.5 Guarantees & Insurance Cover

8.5.1 Guarantees

A guarantee mechanism has been mooted as one possible response to the lack of private sector debt funding participation in social housing projects. Under such a scheme government would in effect underwrite projects with a guarantee to settle any debt in the event of default. Such a scheme is however not recommended at this stage for a number of reasons. Firstly, national government is uncomfortable with such open-ended commitments and has already indicated its discomfort in respect of similar initiatives. Secondly the social housing programme already envisages substantial government grant funding as well as debt funding via the NHFC. In addition the devolution of such guarantees to local government level remains highly unlikely as the majority of municipalities are insolvent. It should also be noted that under the revised programme parameters debt funding would be provided by the NHFC for all projects involving SHIs, while the envisaged PPP process would ensure that all additional debt funding required is secured from the private sector.

The recommendation above notwithstanding, it should be noted that the Department is not opposed to the idea of guarantee schemes in principle. The successful use of such schemes in other national contexts has been noted. The Department is also of the view

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7 In this regard, it should be noted that current negotiations between government and the Banking Council in respect of the Financial Services Charter envisaged the development of an appropriate fixed loan rate mechanism.

that the establishment of guarantee funds, initially with government funds and later with contributions from social housing beneficiaries (via rentals), should not be dismissed. In the course of time as the social housing sector “wins its spurs” and enjoys wider social credibility—the possibility of establishing guarantee funds should be revisited.

An option that should be considered immediately is the establishment of a specialist social housing investment fund which could comprise a mix of funding sources (i.e. NHFC and various private sector sources) in order to provide additional risk mitigation and an additional source of funding to the sector.

8.5.2 Insurance Cover

Many different insurance schemes to help both tenants and institutions deal with rental default are under discussion in the industry. HLGC for example already offers a range of products in this regard. Subscribing to such insurance schemes should not be made compulsory. Individual SHI’s should be free to choose from a variety of products offered by service-providers on a competitive basis in the marketplace. SHI’s may of course wish to use the collective muscle of their umbrella organizations (e.g NASHO) to negotiate favourable insurance deals for both themselves and their tenants. However the cost implications of such insurance must be assessed as this is likely to further increase the capital grant required.

Consideration should perhaps also be given to specific insurance cover in respect of industry specific risks, for instance social housing in Rustenburg would be reliant on a single dominant employer, i.e. the Platinum Industry. In such circumstances additional cover may be considered in the event of large scale industry disruptions or changed demand patterns to cover for disruption or mass retrenchment.

In addition it must be noted that the presence of insurance cover does not reduce the critical need for proper risk management especially with respect to credit checks, the need for upfront rental deposits, and the appropriate level of provision for default and bad debt. It must also be noted that substantial legal risks remain in respect of the ability to enforce evictions.

8.6 Risk mitigation

It is proposed that a more systematic framework for thinking about risk mitigation facing various actors in the sector be developed. The generic risks applicable to social housing projects that need to be considered are as follows:

8.6.1 Development Risk

This comprises the risks related to undertaking the rental housing development and includes two specific components.

- **Design and Construction Risk**: These are risks relating to ensuring that the designs are appropriate to market demand, and meet statutory and structural requirements
and that the development is built according to specification, within programme and budget, and without an exposure to unreasonable latent or patent defects. Furthermore, they entail appropriate responsibility and arrangements for dealing with the occurrence of the risk.

- **Marketing Risk:** This relates to the ability to secure leases on all units developed with tenants who comply with the income targeting parameters, and are willing and able to meet the rental obligations (and service payments to the local authority) on an ongoing basis.

### 8.6.2 Property Management Risks

This comprises of operating, revenue and market risks:

- **Operating Risks:** This includes the ability to manage the rental accommodation within the budgeted operating costs. This will include monthly costs such as administration, maintenance, leasing and service and statutory charges, as well as provisions for long-term maintenance and bad debts.

- **Revenue Risk:** This includes the ability to collect rentals consistently and to limit bad debts within the approved write-off provision, as well as the adequacy of such revenue in relation to the operating and project costs. In addition this may include, in some instances, the risk of arrears by tenants in respect of service charges to the local authority.

- **Market Risk:** This is the risk that stems from the possibility if a fundamental shift in market demand, e.g. collapse of an industry sector or the easy availability of cheaper private rental etc.

### 8.6.3 Financing Risk

This comprises of interest Rate and default / income interruption risk:

- **Interest Rate Risk:** Any unexpected or dramatic increases in the interest rate will negatively effect project and institutional viability as finance costs escalate. The impact would be to either inflate rentals and negatively effect affordability or alternatively require additional government funding.

- **Default / Income interruption:** This includes risk relating to defaults or interruption in rental payments resulting from illness, retrenchment and other causes. While some cover could be provided in terms of a short-term insurance cover, any longer term income interruption will negatively effect overall viability and sustainability.

### 8.6.4 Institutional Risk

There are a range of institutional risks that will need to be addressed and managed. Specifically these include:
Governance risks, pertaining to the proper and effective functioning of the board and its members in ensuring governance standards etc.;

Fraud and theft risk, in respect of management and staff dealing with rental collection and payments for services and other purchases;

System risk, relating to the collapse of critical IT systems such as the rent-roll etc.

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 should be to promote this process of appropriate risk management.

8.7 Tax Issues

8.7.1 Introduction

There are a number of critical tax issues that need to be addressed in order to assist the development of a viable and sustainable social housing sector.

The critical distinction that needs to be made is between tax-paying and tax-exempt institutions. Whilst the majority of social housing institutions may be section 21 institutions, they are not necessarily tax-exempt institutions.

It must also be noted that the tenure form adopted for a social housing project has an impact on its VAT status. It will accordingly be necessary to distinguish between rental housing, co-operative housing and projects selling units by way of instalment sale agreements.

From a taxation point of view a number of areas need to be considered:

- Vat treatment
- Income & donations tax
- Residential building allowances
- Duties and municipal Rates

These are addressed below

8.7.2 VAT Treatment (Exemptions)

Currently the letting of residential dwellings is defined as a “VAT exempt supply” which means that a Social Housing institution may not levy VAT on the rental and also may not claim input VAT on construction or operating costs.

Consequently VAT paid in acquiring the rental stock or developing the rental units cannot be reclaimed and needs to be recovered from tenants thereby increasing the rentals payable.

In addition the determination of rental housing as an “exempt supply” means that the currently applicable zero-rating of the housing subsidy is not applicable. Under zero-
rating no output VAT needs to be accounted for, but input VAT may be reclaimed. This favourable situation is not applicable in the case of projects that intend to provide rental accommodation.

Implications
The implications of the current VAT regime in respect of rental housing is that development and operating costs incurred result in a VAT charge on these input costs, which cannot be reclaimed as an input tax credit on rentals levied. These costs are therefore passed onto the consumer as a direct cost.

In addition the determination of rental accommodation as an “exempt supply” means that the zero-rating of subsides is not applicable, but is instead treated like any other input, with VAT payable on the amount. This effectively reduces the value of the subsidy by 14%. This payment it should be noted will have to occur in a lump sum, while recovery (if any) would be in the form of monthly rental charges over a period of time.

The negative impact is not only that the current VAT regime with respect to rental housing unnecessarily increases rentals and therefore results in reduced affordability, but also that investment in rental accommodation is discouraged as this potentially reduces investment yields.9

It should be noted these conditions do not apply either to residential projects which are sold to end beneficiaries (instalment sale agreements) or housing co-operatives. The VAT situation is different for housing co-operatives and institutions selling properties by way of instalment sale agreement. It is argued that co-operative tenure is not a lease but distinguishable from it and is therefore not an exempt supply. Input VAT can therefore be claimed and VAT must be charged on the transactions with the consumer. In the case of instalment sale agreements, VAT is payable on the monthly capital reduction but a practical arrangement can be made with SARS to fix the monthly amount and pay it to SARS in equal amounts over the repayment period.

Proposals
Currently the above concerns are being informally addressed by proposing to increase the amount of government subsidy provided to cover for the VAT. If the other input VAT related cost were added to this, the consequence would be further inflation of the government subsidy.

Consequently it is proposed that SARS be lobbied to:
• Classify residential rental as a VAT-able service10.

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9 A recent additional concern that has arisen is a case where SARS has treated the capital subsidy as income and therefore taxed it as such. This issue remains unclear, but if it indeed becomes SARS’ policy to tax subsidies as income this would have significant negative consequences for the sector.

10 It must be noted that this could negatively impact existing rental housing institutions and tenants, i.e. the impact would not be neutral as it would require VAT to be levied on rentals by all SHIs.
• Zero-rate the subsidy.

8.7.3 Income and donations tax (Public Benefit Organisations)

There are a number of tax exemptions available for public benefit organizations (PBOs), especially in respect of income and donations tax. However in order to derive this benefit, institutions must conform to the requirements of a Public Benefit Organisation and need to meet a number of criteria:

• Be an organisation of public character, non-profit with altruistic or philanthropic intent
• At least 85% of activities for the benefit of people in SA
• Registered with the Commissioner of Non Profit Organisations
• A range of governance and other parameters including staff remuneration, reporting requirements and accounting standards as set by the Commissioner.
• Trading activities must be restricted, i.e. cannot create market distortion

In addition the activities of the organisation must fall within defined public benefit activities. Currently the provision of rental accommodation is classified as a public benefit activity. However a number of conditions, both in respect of qualifying incomes of tenants and in respect of the precise nature of activity linked to this classification, create confusion as to the basis on which public benefit status will be applied to residential rental. This needs to be resolved.

It is important to note that a key implication of the legislation is that the beneficiaries within a project / institution must fall within the subsidy bands, which limits the possibilities with respect to income mixing.

In addition the provisions of Section 18A enable a donation to a registered PBO to be deducted for tax purposes from taxable income. Furthermore, the PBO is exempted from any donations tax in respect of the receipt or giving of donations.

Key implications that need to be noted in respect of the above are as follows:
• Tax exemption is not automatically available for a non-profit distributing entity (e.g. Section 21). Rather these entities will need to apply for and meet the requirements of public benefit organisation status.
• Where tax exemption is granted the exemptions applicable in respect of donations tax as well as Section A is also applicable. However an important point to note is that the institution will need to specifically request each individual exemption.
• Tax exemption is not applicable to housing cooperatives in view of their legal form and the fact that members gain from the institution. It is highly unlikely that this will change and consequently housing cooperatives will not qualify as PBOs.
• Critical to PBO status is the limitation on trading activities in the Act. Effectively a PBO is not allowed to conduct any trading activities unless a number of conditions apply such as the fact that there is no market distortion that is created as a result of its activities. There are mechanisms for the Minister to approve trading activities, but this has to date not been applied or tested.
• In addition there are concerns as to the restrictive nature of the income requirements to meet PBO status. It is not entirely clear in the Act, but it suggests that the
majority if not all of the beneficiaries need to fall within the below R3,500 subsidy band. On this basis many of the existing housing institutions are not likely to meet the PBO requirements.

In light of the above it is proposed that:
An amendment be sought to the Act clearly specifying rental housing accommodation provision as a public benefit activity and that the specific income targeting requirement be stipulated.

8.7.4 Residential Building Allowances

Section 13 of the Income Tax Act provides for a deduction by a taxpayer erecting a new building or buildings but not for conversions or upgradings.

The deduction from the taxable income of the taxpayer, for the first year of assessment and thereafter, is for 2% of the cost of any residential unit erected by the taxpayer under a housing project or the taxpayer (the residential building annual allowance). Also deductible is 10% of the cost of the residential unit as an initial deduction in the first year (the residential building initial allowance).

In addition accelerated depreciation is available for the cost of the erection, extension, addition or improvement of any commercial or residential building in an urban development zone equal to 20 per cent of the cost of the taxpayer of the erection or extension to that building which is deductible in the year of assessment during which that building is brought into use for the taxpayers trade, and five per cent of that cost in the 16 succeeding years of assessment.

In the case of improvement of an existing building where the existing structure or exterior framework is preserved, 20 per cent of the cost of the improvement, extension or addition is deductible in the year of assessment during which the part of the building is improved, extended or added, is brought into use for the purposes of the taxpayers trade and 20 per cent for each of the succeeding four years of assessment.

There are detailed provisions on the areas which may be declared as an urban development zone (only certain municipalities qualify) and the conditions where under they qualify, which require the active participation of municipalities.

Implications
It is important to note that the residential building allowances and accelerated depreciation are not applicable to tax-exempt institutions. While a structure could be instituted to enable a non-profit SHI to benefit from the accelerated depreciation allowance, this practice is complex and not desirable.

Consequently, the designation of the Urban Development Zones (UDZ’s) for Accelerated Depreciation Mechanism for construction & refurbishment will not be of any significant benefit to a non-tax paying institution.
Proposals
The policy should seek to align its initiatives to encourage private sector development of social housing projects with those of the UDZ’s. Measures should be sought to help streamline the process of interacting with local government and accessing the benefits of UDZ’s.

8.7.5 Property Duty and Rates

In respect of duty and rates, three issues need to be noted: transfer duty, stamp duty and municipal rates.

Firstly, transfer duty is payable when property is acquired by a social housing institution. However, an approved tax exempt public benefit organisation is exempt from transfer duty by virtue of the provisions of section 9(1)(c) of the Transfer Duty Act 40 of 1949\(^\text{11}\). The transfer of properties to individuals not exceeding R150,000.00 also do not attract transfer duty by virtue of the provisions of section 2(1) of the Act. Transfer duty is only relevant where there is a sale or an instalment sale.

Secondly, any instrument executed by or on behalf of an exempted public benefit organisation is exempt from stamp duty by virtue of the provisions of section 4(1)(f)(i) of the Stamp Duties Act 77 of 1968. This is of particular relevance where a social housing institution would pass a mortgage bond over its property in favour of a financier. There is a general perception that stamp duty does not apply where bonds are registered in respect of affordable housing but there does not appear to be an exemption to this effect.

Leases of course also attract stamp duty and the exemption of instruments executed by public benefit organisations would assist public benefit organisations which transactions would otherwise be subject to stamp duty, calculated on a sliding scale depending on the period of the lease. Also exempted is an institution, board or body exempted under section 10(1)(cA)(i) of the Income Tax Act carrying on public benefit activities.

Thirdly, the Local Government: Municipal Property Rates Act 6 of 2004 in section 8(2) of the Act provides that a municipality may apply differential rates to various categories of owners, specifically mentioning public benefit organisations. This could be of benefit to social housing institutions.

The implications of the above are as follows:
- Where SHIs are public benefit organisation no transfer duty or stamp duty is required to be paid.
- An option exists for municipalities to reduce the rates applicable to social housing institutions.

\(^{11}\text{It should be noted that there is also a restriction in Section 30 in respect of certain assets that a public benefit organisation may hold and transfer. Also exempted from transfer duty are certain institutions, boards or bodies exempted from tax in terms of section 10(1)(cA)(i) of the Income Tax Act carrying on public benefit activities.}\)
Proposals
Local government to be encouraged to provide a more favourable rates dispensation in respect of social housing.

8.7.6 Concluding points

The four most critical issues that need to be addressed are the VAT on rental accommodation; the zero-rating of subsidies in the case of rental; the revision of the Act in respect of defining social housing as a public benefit activity exempt from the trading activity restrictions; the revision of the Act in respect of the restrictive nature of the income bands for PBO activities. Overall, however it must be noted that in view of the significant benefits that accrue to public benefit organisations (not applicable to private developers), these social housing institutions are likely to be required to focus significantly on the lower end of the market.

8.8 Fiscal Implications

8.8.1 Purpose

The intention of this analysis is to understand in broad terms the short to medium term fiscal implications of the proposed social housing grant for government in order to inform the policy debate as well as influence budgetary allocations. In addition the analysis assesses the sensitivity of the proposed mechanisms in respect of different scenarios. Finally the analysis should assist in guiding the budgetary allocation to this programme and provide a basis for estimating the annual number of units that could be delivered by the programme over a period of time.

It is important to note that the spreadsheets used are not a detailed financial model.

8.8.2 Background

The current social housing policy revisions propose a number of delivery mechanisms for social housing, including:

- Social housing as a special housing intervention where higher levels of government investment are provided for in identified urban redevelopment zones. Within these zones delivery could occur via existing or new accredited SHIs, large-scale PPP projects and private sector investors in accredited projects.

- In addition social housing for special social need groups (disabled, aged, infirm etc.) should be considered where these institutions can access the special social housing grant irrespective of their location.

- Conventional social housing delivery outside of designated urban restructuring zones where the existing institutional subsidy instrument would apply. (This has not been included in the financial implications).
Central to these proposals is the allocation of a significant amount of government capital in the form of social housing grants within designated urban restructuring zones.

8.8.3 Social Housing grants

Two typical social housing grant arrangements have been applied in developing the financial implications:

- **Arrangements applicable to Social Housing Institutions**: This is a capital grant to cover a portion of the development costs as well as critical liquidity shortages in the first few years of operation. Typically there would be no equity in these projects with the residual amount of funding after application of the grant being provided by the NHFC as debt. This would only be applicable to SHIs.

- **Arrangements applicable to accredited social housing projects developed by the private sector**: This capital grant covers a portion of the development cost, but no funding for liquidity shortages. A minimum equity level of 20% of the total funding required has been assumed. On this basis it is unlikely that these projects could support more than 60% of the total units within the subsidy band without requiring a further intervention in respect of liquidity.

Financial spreadsheets have been prepared to calculate, in relative concise but simple manner, the order of magnitude of subsidy required for ongoing sustainability of social housing developments.

These results have then been related into fiscal implications for government. The initial findings are set out below.

8.8.4 Analytical limitations

Key limitations that need to be noted

There are a number of key limitations to the analysis that need to be noted:

- Capacity assumptions have been made with respect to the ramp-up of delivery and the total number of units to be delivered annually.

- The analysis has made certain assumptions in respect of unit type, income and development type mix.

- The analysis has been developed to calculate, in broad based terms, the fiscal implications. It is not a tool to be used to calculate the financials of respective housing institutions and developments, and does not incorporate:
  - depreciation and taxation
  - fund utilisation and re-investment differentials
  - profit margin and risk pricing provisions that would generally be applied to different quantums by respective institutions / developers.
All of the key input variables in respect of number of units, cost assumptions, income mix as well as funding structure can be changed in order to test various scenarios.

8.8.5 Assumptions

The following assumptions have been made with respect to the base run analysis:

- Each project comprises 60% subsidy band units, with an average starting rental of R 837 / unit; and 40% of units for the R 3,500 to R 7,500 income band with average starting rental of R 1,750 / unit.

- Starting operating costs assumed (including default and vacancy provisions) are R 500/ unit.

- Notwithstanding regional and develop type differences, a starting development cost assumed is an average of R 101,640 per unit.

- An escalation for the development costs over the 5-year period at an average of 5% pa to allow for "construction s-curve" has been allowed. The average 5% escalation has been used as if applied on a straight line basis as this would be close to current construction escalation rates of between 8% and 10%. Whilst unit sizes may differ with associated rental differentials, all units are assumed to be of the same quality and level of finish, irrespective of income targeting.

- Debt financing has been assumed to be at a fixed rate of 11% pa (prime), with loan instalments commencing only after project completion (only from following year onwards) for a period of 20 years. The effective interest rates applied thus equates to 11.57%, that is the nominal annual compound monthly rate (NACMR), as conventionally applied.

- Both operating costs and revenues assumed to commence during delivery period (1st year) but operational costs at only 75% and revenues at only 50% of that of ongoing annual amounts.

- Unit delivery over first 5 years is as follows:
  - Year 1: 2,500 units
  - Year 2: 3,750 units
  - Year 3: 5,625 units
  - Year 4: 15,635 units
  - Year 5: 22,500 units
  - Year 6 onwards: 22,500 units per annum

- A total of 50,000 units has been assumed as the delivery for the first five years.

Assumptions in respect of operating and revenues are as follows:

- Full operating costs in year one have been provided for and capitalised in the total development costs;

- 30% of operating revenues in year one have been assumed and capitalised.

- Rentals remain fixed for each new project. But once a project has commenced rentals are escalated at 5% per annum each year for that project.
- Operating costs have been assumed to escalate at 5% per annum.
- The calculated NPV of total subsidy and capital costs over 5 year delivery period under consideration has been discounted at 11% pa.
- An assumption has been made that private sector provides 20% equity, i.e. developments are funded by debt, subsidy and equity (private sector), where the private sector develops accredited projects.
- SHIs developments are assumed to be funded by debt and subsidy only.

8.8.6 Performance Parameters

The spreadsheet has been iterated to establish a base case that meets the following performance parameters:
- An internal rate of return on total funds employed (including subsidies) to exceed 0% over the 20 year period.
- For private sector investors, an internal rate of return on equity (20% of total funds employed) of 15% real (or 19% nominal) or higher after subsidies and finance costs.
- No cumulative operating deficits are incurred in the initial years of operating.

8.8.7 Calculated Results

**Social Housing Institutions:**
The required subsidy per unit (for all units in a particular project) is an average of R 62,650 per unit. This equates to about 53% of total development costs.

**Private Sector Investors:**
For these developers, a 20% equity component is applied in respect of total development costs.
The required subsidy per unit in a project is on average R 43,200 per unit. This equates to about 37% of total capital costs.

8.8.8 Budgetary Implications

For a budgetary period of 5 years, the total subsidy amount required will be:
- R 3,13 billion where only social housing institutions are involved in the development; and
- R 2,16 billion where only the private sector developers are involved.
The above assumes a 60:40 subsidy / non-subsidy unit mix delivering 50,000 units.
8.8.9 Fiscal Analysis and Sensitivities

The base case was stress tested to establish the impact of key variables on the subsidy amount and fiscal requirements.

The key variables tested included:

- **Run 1:** Start rentals escalate from 1st year onwards at the escalation rate of 5%.
- **Run 2:** Subsidy band / non-subsidy band unit mix of 70:30.
- **Run 3:** Average rentals in subsidy band reduced by 20%, i.e. from R 837 / unit to R 669 / unit.
- **Run 4:** Development costs escalate at 8% per annum, not 5% per annum.
- **Run 5:** Operating costs increase by 30% from an average of R 500 / unit to R 650 / unit.

The results are tabulated below.

<table>
<thead>
<tr>
<th>Run</th>
<th>Average Subsidy Per Unit (all units)</th>
<th>Subsidy as % of Capital Costs</th>
<th>Total Subsidy Amount (5 yrs) R billions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SOCIAL HOUSING INSTITUTIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base case</td>
<td>R 62,650</td>
<td>53%</td>
<td>R 3,13</td>
</tr>
<tr>
<td>Run 1</td>
<td>R 55,275</td>
<td>47%</td>
<td>R 2,76</td>
</tr>
<tr>
<td>Run 2</td>
<td>R 76,000</td>
<td>65%</td>
<td>R 3,80</td>
</tr>
<tr>
<td>Run 3</td>
<td>R 77,300</td>
<td>66%</td>
<td>R 3,86</td>
</tr>
<tr>
<td>Run 4</td>
<td>R 67,250</td>
<td>53%</td>
<td>R 3,36</td>
</tr>
<tr>
<td>Run 5</td>
<td>R 101,400</td>
<td>87%</td>
<td>R 5,07</td>
</tr>
</tbody>
</table>

| **PRIVATE SECTOR INVESTORS** | | | |
| Base case | R 43,200 | 37% | R 2,16 |
| Run 1     | R 41,700 | 34% | R 2,08 |
| Run 2     | R 55,700 | 48% | R 2,78 |
| Run 3     | R 57,000 | 49% | R 2,85 |
| Run 4     | R 52,560 | 42% | R 2,63 |
| Run 5     | R 79,800 | 68% | R 3,99 |

From the above, key sensitivities and conclusions are:

- The participation of the private sector with equity, results in a lower capital grant than that required for SHIs and 100% debt financed (after grant) projects.
- The mix of subsidy band / non-subsidy band units has a significant impact on the grant (overall) required, i.e. a 10% increase in subsidy band units and corresponding...
decrease in non-subsidy band units, results in about 25% increased grant required for SHIs, 35% for private sector.

- The viability of projects, specifically in respect of operating deficits in first 5 years is highly sensitive to increases in operating costs. Increasing operating costs by 30% from R500 / unit to R650 / unit while maintaining capped rentals, results in about a 69% increase in grant required.

- As above, viability and operating deficits are also sensitive to rental decreases. A 20% decrease in average subsidy band rental, results in a 25% increase in grant required.

8.8.10 Fiscal Implications of Capacity Building Grants

Provision should be made for:

- Between R 50,000 and R 75,000 for project feasibility studies per project on a risk sharing basis. Allow R 10 million per annum.

- Between R 50,000 and R 75,000 for SHI accreditation (follow on from feasibility grant) or R 10 million per annum.

- R 20 million per annum for capacity building grants to be utilised for specific capacity building initiatives.

The total fiscal implication of the capacity building grants is estimated at R 40 million per annum.

No provision has been made for operating support grants. This requirement has been accommodated by allowing for the full operating costs in year one of development to be included in the total development cost.

Summary comment: The focus is on developing viable projects, with viable institutions developing out of these. The existing institutional subsidy will apply outside of designated restructuring zones. Within these areas, the Social Housing for Restructuring Capital Grant applies. A distinction is made between SHIs and private sector organizations in calculating the value of this grant. In the short term NHFC will be important in providing debt funding, but in the long term gearing of private sector funds is crucial. A guarantee mechanism is not recommended at this stage. Subscribing to certain insurance schemes should not be made compulsory. A more systematic framework for thinking about risk mitigation should be developed, however it is not possible to develop generic responses to all risks at a policy level. With regard to tax, the two most important issues to be addressed are the VAT exemption or zero-rating on the government grant, and the revision of the relevant Act in respect of the definition of social housing as a public benefit activity. With regard to predicting fiscal implications of the proposals in this document, there are a number of key limitations to the analysis and a range of key input variables. Using certain assumptions, estimates of the average size of the grant have been made, as well as the total subsidy amount over five years.
Estimates have also been made with respect to the annual amount needed for capacity building grants.

9 Alignment

The 2003 social housing policy document has addressed various issues with respect to the alignment of the policy with other policies, strategies and contextual issues. However this discussion is spread throughout the document and is not unpacked in a systematic manner in which alignment issues are immediately apparent to the reader.

Specifically, the 2003 document does not clearly address issues of vertical and horizontal equity, as well as alignment with the housing market in order to minimize distortions in this market. The document is not specific on whether the social housing policy is intended to be a targeted instrument with a smaller reach and scope or whether it will be used as an instrument for scale delivery. Furthermore, the existing policy document needs to be updated and aligned with the new strategy and direction of the National Department of Housing.

This section outlines the alignment issues that need to be considered and comments on the extent to which the social housing policy is supportive of and supported by other initiatives. Three primary areas of alignment which are considered are the 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 NDOH programmes and other government department programmes.

9.1 Areas of alignment

9.1.1 Alignment with national government priorities

This review has made a strong case in Section 3 for social housing to be used as an instrument of urban restructuring. This conceptualisation aligns with broader national priorities highlighted in the President’s state of the nation address (21 May 2004), including his emphasis on the integration of human settlements and on racial integration. 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 to linking with the urban renewal programmes.

Recent statements by the National Minister of Housing echo the President’s words and emphasise the need for rental housing programmes for the poor, and the importance of racial, spatial and economic integration (see statements of 25 May, 10 June, 15 July 2004) These priorities are captured in the programme of action for NDoH in the Social Cluster report of the Cabinet Lekgotla of 21 May 2004 (see Outline of government plan of action at www.info.gov.za/issues/poa/social.htm). Social housing supports these
objectives in providing a rental housing option primarily for the low income earner, and is specifically targeted at addressing integration issues both within the projects and through the location of projects in ways that contribute to urban spatial restructuring. In this regard social housing is not intended to be an instrument that will achieve large scale delivery of housing in the short to medium term but is rather to be used as an explicitly focused intervention.

The mandate of the NDOH in the social cluster complements that of the Department of Provincial and Local Government (DPLG). DPLG is the lead Department co-ordinating and directing the efforts of the three spheres of government towards effective urban development and urban renewal priorities (Outline of govt plan of action for the social cluster www.info.gov.za/issues/poa/social.htm). The social housing programme, led by NDOH, can serve as one of the instruments in fulfilling DPLG’s objectives of, inter alia, addressing “socio-economic exclusion and deprivation” (Outline of govt plan of action at social cluster www.info.gov.za/issues/poa/social.htm).

9.1.2 Alignment with principles of vertical and horizontal equity

Vertical equity focuses on interventions that are directed to supporting access to housing for the poor rather than supporting those who are able to provide for their own housing needs within the market. Horizontal equity focuses on ensuring that everyone in the same socio-economic situation has access to a product of comparable overall value, or alternatively, that the use of products of differing value can be justified using an equity argument.

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. Concerns may arise that the value of the subsidy proposed for this social housing is significantly greater than that available for other forms of state housing assistance (eg RDP housing). However, horizontal equity is addressed in this instance in two ways: through retaining the stock produced for the long term advantage of the poor and not transferring the benefit of ownership to individual occupants, and secondly, through specifically using these projects for the larger goal of urban restructuring.

9.1.3 Alignment with the housing market

It is recognized that the introduction of social housing will have an impact on the market in some areas. However, these impacts are both positive and negative in nature, and to the extent that market impact is negative, an argument can be made that these influences are, to a large extent, outweighed by the benefits of social housing on a locality. Nevertheless, an element of distortion is cause for concern, and is countered in this review by the proposal that the private sector is also able to access social housing grants for social housing projects.
This proposal is related to the concern that social housing might negatively impact on the market by squeezing out the private sector, which may be unable to compete with the quality and cost of the subsidized social housing accommodation. This is only a consideration in areas where the formal private sector is currently active in this target market, which is fairly limited and is not the case in a number of the restructuring areas where social housing could play a role in future. Even in established areas the squeezing-out argument is countered by the positive externality of social housing projects - the beneficial influence that a well-managed and well-maintained facility has on its neighbourhood, and consequently the opportunities created for the market for the further provision of similar accommodation. Furthermore, area-based initiatives, particularly those structured as PPPs, stimulate investment opportunities for the private sector, and, in fact, allow for a planned segmentation of the market. Over and above these arguments, the shortage of accommodation in the country as a whole, and particularly the shortage of rental accommodation, make a squeezing out scenario unlikely.

Notwithstanding these arguments, it is recognized that in some areas at least, such as inner-city Johannesburg, the private sector may well have the motivation and capacity to participate in social housing, and this involvement should be facilitated. To this end, the idea is to enable the private sector to access social housing grants for social housing projects within restructuring areas. Under these circumstances, the projects will be accredited and monitored, as discussed earlier. This private sector delivery through accredited social housing projects, therefore, should significantly limit the market distorting potential of these proposals and encourage further delivery.

9.1.4 Alignment with national housing policies / instruments and rental housing strategies

In-principle alignment of the social housing programme with national housing priorities have been noted above. In addition, the concern in national housing policy with vertical and horizontal equity has been addressed above. Further to this, the social housing policy relates to a number of existing housing programmes and instruments, most notably the following:
- institutional subsidy
- the hostels policy
- the phasing out of government stock and the discount benefit scheme
- the job summit.

The institutional subsidy has been used for social housing projects to date. For the new projects in restructuring areas proposed in this document, a new social housing grant is planned as discussed in Section 8. However it is proposed that the institutional subsidy remains in place for use in areas that fall outside the defined restructuring areas. This is important to ensure horizontal equity within the policy by ensuring that areas outside of the identified restructuring areas can benefit from social housing projects, if they can demonstrate viability. Small scale initiatives, initiatives that follow an installment-sale approach, transitional and communal housing, and other initiatives for “vulnerable groups” would be covered by this instrument.
The hostel redevelopment programme predominantly focuses on the conversion of existing single-sex hostels into family units. Some of these hostels are located in areas where an SHI could consider the refurbishment of this accommodation for social housing purposes, using the social housing or institutional subsidies as appropriate. It should be noted that the social housing policy actively promotes the provision of accommodation for a variety of household forms, including single people. A word of caution should however be aired. The conditions at some of the more challenging hostels are such that social housing policies and SHIs cannot realistically be expected to provide development solutions. The use of social housing regarding hostel accommodation should be judicious. But it is part of the solution.

The phasing-out programme for public housing stock involves disposing of existing state rental housing through the discount benefit scheme. In some areas however there has been slow progress in selling off the stock. The transfer of unsold stock in restructuring areas to SHIs may be a solution in these instances but again judicious implementation will be applicable. In some instances the reasons for residents refusing to purchase may make it impossible to effectively run a social housing project. However as with the hostels situation, social housing could be a useful and important tool within some projects.

With respect to the Job Summit our position is that to the extent that this initiative envisages the handover of rental stock produced via PPPs to SHIs, it should in future be considered as an integral part of the social housing programme. As such the Job Summit projects would access social housing for restructuring grants and other grants/facilities associated with the social housing programme. The only difference is that because it is a PPP the national programme management would be conducted on behalf of national Government and the Department’s Social Housing Corporation by the NHFC (see the suggestions made re institutional architecture in Chapter 6). Also as noted previously, it is recommended that SHIs are involved in Job Summit PPP’s at inception and that accreditation is a condition for access to finance.

Forthcoming programme areas of the national department which may have alignment implications are the medium density programme and the informal settlement programme. Details of these programmes have not been finalized; however broad issues of alignment are noted here.

The medium density housing programme aims to address amongst other things the current imbalance in housing typologies (we have a preponderance of single family units on single lots) and to support the provision of rental accommodation for the poor. The social housing policy proposals presented here are strongly aligned with the intentions of this programme. To begin with it will be recalled from Chapter 2 that because of the specific role envisaged for social housing in social restructuring (which has strong spatial components), a specific requirement of SHIs is that they must be involved with multiple unit management for rental in multi-unit complexes (townhouses, row houses, multi-storey units etc but not detached single family units. It is also clear that the medium density housing programme envisages the use of SHIs as the primary delivery agents.
The informal settlement upgrading programme envisages a more holistic approach where projects are funded rather than households. In such an approach it should be noted that social housing may be one form of a variety of housing (and other) interventions which may be relevant to the resolution of challenges associated with informal settlements. For example in Alexandra one of the major problems is the availability of land to address the de-densification of hugely overcrowded informal settlements there. One solution is to build medium density social housing complexes on the land that is available. In the past this would not have been possible because under the institutional subsidy regime social housing has simply not been affordable to the very poor. The new restructuring grants change this but it should be noted that social housing should be judiciously used in informal settlements. Experience elsewhere (Westrich, Cato Manor) has shown that where social housing is provided in close proximity to informal or incremental housing—pressures (often in the form of boycotts) often arise for the conversion of the social housing to ownership. It is important therefore to ensure that the SHIs running the projects are amongst the strongest available and that units are provided only in multi-unit complexes.

9.1.5 Alignment with other government initiatives

Various initiatives located in one or other of the three spheres of government have a geographic focus which social housing could reinforce. Examples are the Blue IQ economic initiative and the Gautrain transport project of the Gauteng Provincial Government. The Department of Trade and Industry's projects such as Coega and the proposed East London IDZ are other examples.

The principle applied in many government initiatives of the clustering of investment around nodes, such as in the multi-sectoral Urban Renewal projects of the Department of Housing and DPLG, is well-supported by social housing. Other examples where social housing could play a role and benefit from associated development include local authority projects such as undertaken by the City of Johannesburg's Development Agency (JDA), which focuses on urban renewal and urban regeneration, both in the inner city and in other selected localities such as Randburg.

It should be noted that the social housing policy will require local authorities to play a significant role in defining the restructuring zones and supporting the development of social housing projects.

Summary comment: This review specifically highlights areas of alignment and conflict between the social housing policy and other initiatives and priorities. The policy makes a positive contribution to many of the state’s areas of focus and is similarly reinforced by other programmes.

10 Roll-out strategy
The 2003 policy document ends with a final chapter with proposed follow-up actions in preparation for the implementation of the policy along specified timelines. This needs to be updated and adjusted to the above proposals. In particular, three additional items deserve special consideration:

- the development of guidelines for the identification/proposal and approval of designated restructuring areas – criteria outlining the features of such areas need to be developed and bottom-up procedures for proposal consideration need to be defined;
- the development of guidelines for local government involvement in Social Housing implementation, to be developed in co-operation between SALGA and DoH;
- the putting in place of interim regulatory arrangements; given the task at hand, the proposed establishment of a designated social housing directorate will not be adequate and should be replaced by the establishment of the interim regulator under a Departmental Programme, Social Housing Development and Regulation, building on the work of the SPSH PMU and functioning in that capacity until such time as the SHC has been operationally established under the Social Housing Act.

### Summary comment:

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.

The timeframes in the strategy fit with timeframes proposed by the Departmental team working on the policy review and therefore the Roll-out section of the policy will be amended to accommodate these time frames.

The timeframes for the submission and approval of the revised social housing policy are therefore:

- Submission of key issues document to NDOH strategic management meeting by 4 October 2004
- NDOH strategic management meeting on 11 October 2004
- Revision of social housing policy document during October 2004
- Submission to Head of Housing meeting on 14 October 2004
- Heads of Housing meeting on 28/29 October 2004
- Revision of social housing policy following Heads of Housing meeting in November 2004
- Submission to Minmec meeting on 11 November 2004
• Minmec meeting in 25/26 November 2004
Source documents

QUINDIEM CONSULTING (2004) Feasibility study into the provision of hardship cover for members of Nasho. March 2004 HFRP

SISULU, LN (2004) Housing Department budget vote debate, NCOP on 11 June 2004
SISULU, LN (2004) Housing Minmec meeting briefing on 15 July 2004
SOCIAL HOUSING FOUNDATION (2004) Social Housing Trends September 2004
SOUTH AFRICAN CITIES NETWORK (2004) People and places: an overview of urban renewal. SACN
SUPPORT PROGRAMME FOR SOCIAL HOUSING (2004): Curative organizational diagnostic reports of 14 social housing institutions.
Annexure A: List of discussion forums and attendees

The process of the social housing policy review had to be organised to be able to:
- Draw on the original working groups established as part of the 2003 social housing policy development process
- Draw on the new players in the sector and bring them up to speed on the process, therefore the process had to be as open and transparent as possible
- Draw on the findings of various documentation and research that has been generated in the sector over the last 6 months and specifically the information from the restructured SPSH programme
- Ensure the involvement of the International consultants through the MOU with VROM and counterpart South African role players. The involvement of other international players already working in the country also had to be utilised in the process.

With these principles in mind, the process was structured as illustrated in Figure 1.

The review process as led by the NDOH Chief Director for the Support Programme for Social Housing in conjunction and with project management support from the Social Housing Foundation and International Dutch technical assistance sourced through the MOU signed with the Netherlands. A secretariat was formed to drive the work that needed to be done. The secretariat was composed of the following members:

<table>
<thead>
<tr>
<th>SECRETARIAT</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Rory Gallocher</td>
<td>NDOH</td>
</tr>
<tr>
<td>Dan Smit</td>
<td>International consultant</td>
</tr>
<tr>
<td>Mario Damen</td>
<td>International consultant</td>
</tr>
<tr>
<td>Andre Ouerhand</td>
<td>International consultant</td>
</tr>
<tr>
<td>Emile Wegelin</td>
<td>International consultant</td>
</tr>
<tr>
<td>Bert Emmerich</td>
<td>International consultant</td>
</tr>
<tr>
<td>Arie Diephout</td>
<td>NDOH/SPSH</td>
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<tr>
<td>Odette Crofton</td>
<td>SHF</td>
</tr>
<tr>
<td>Sarah Charlton</td>
<td>Consultant</td>
</tr>
<tr>
<td>Francios Viruly</td>
<td>Consultant – Property statistics</td>
</tr>
</tbody>
</table>

Two sets of teams or brainstorming groups (illustrated in Figure 1) were formed to inform the work that had to be done, namely
- an overarching Project Team, looking at the overall framework and social housing policy document and
- four Working Groups looking at four elements of the social housing policy - funding framework; capacity building; linkages with other programmes in the NDOH and regulation of the sector.

The following meeting sessions were held as part of the policy review process:

<table>
<thead>
<tr>
<th>Meetings</th>
<th>Dates</th>
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<tr>
<td>Project team meeting</td>
<td>29 July 2004</td>
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<tr>
<td>Working group 1</td>
<td>4 August 2004</td>
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<td>Working group 2</td>
<td>5 August 2004</td>
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These meeting sessions served as brainstorming sessions on issues where the secretariat required more information and insight to enable the formulation of proposed revisions of the social housing policy. The meeting sessions also served as feedback sessions on the ideas and proposals generated by the secretariat. The meetings were minuted to ensure that the issues discussed could be captured in the review documentation.

Participants were also requested to send submissions in writing to the secretariat on certain issues of the policy review. The secretariat also met one-on-one with key sector organizations and players in order to clarify specific issues and ideas affecting the sector organizations. A full list of the participants is provided at the end of this section.
FIGURE 1: STRUCTURING THE PARTS OF THE POLICY REVIEW PROCESS

- **Submission to NDOH structures and processes**
  - Project team
  - Led by Dan Smit
  - Alignment & Review of Social housing policy
  - Review framework & funding instruments
  - Financial modelling
  - Draft guidelines

- **Working group 1:** Funding framework
  - Review framework & regulatory instruments
  - Draft accreditation guidelines

- **Working group 2:** Regulatory framework
  - Review framework & regulatory instruments
  - Draft accreditation guidelines
  - Draft capacity building process and plan

- **Working group 3:** Capacity Building framework
  - Review framework & capacity instruments
  - Draft capacity building process and plan

- **Working group 4:** Interrelationship
  - Review interrelationships with NDOH programmes & other govern departments
  - Draft guidelines

- **Revise Social housing policy**
  - Justification for revised approach
  - Funding implications
  - Institutional implications

- **Alignment & Review of Social housing policy**

- **Project team**
  - Led by Dan Smit
LIST OF PARTICIPANTS ATTENDING THE PROJECT TEAM AND WORKING GROUP SESSIONS

<table>
<thead>
<tr>
<th>PROJECT TEAM</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Brian Moholo</td>
<td>SHF</td>
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<tr>
<td>Mark Napier</td>
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<tr>
<td>Yusuf Patel</td>
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<td>Trevor Mitchell</td>
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<tr>
<td>Luxien Ariyan</td>
<td>NHFC</td>
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<td>Morgan Pillay</td>
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<td>T Masimini</td>
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<tr>
<td>Paul Jackson</td>
<td>TUHF</td>
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<td>Taffy Adler</td>
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<tr>
<td>Paul Jackson</td>
<td>TUFT</td>
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<tr>
<td>Luthando Vutula / Morgan Pillay</td>
<td>NHFC</td>
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<tr>
<td>Elize Stroebel</td>
<td>GPF</td>
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<tr>
<td>Mathew Nell &amp; assoc</td>
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<td>Motseki Mokoena</td>
<td>JHC</td>
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<td>Aref O Osman</td>
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<tr>
<td>Steven Ragwala</td>
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<td>Richard Thatcher</td>
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<td>Hanli Pieterse</td>
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<td>Dusan Botka</td>
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<td>Malcolm MacCarthy</td>
<td>City of Cape Town</td>
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<tr>
<td>Hendrik Greyling</td>
<td>REAM</td>
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<tr>
<td>Gafee Vengadajellum</td>
<td>Consultant</td>
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<td>David Moreme</td>
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<td>Harmen Oostra</td>
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### WORKING GROUP 3

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<tr>
<td>Mpolai Nkopane</td>
<td>SPSH</td>
</tr>
<tr>
<td>Samantha Naidu</td>
<td>NDOH</td>
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<tr>
<td>Norman Sekotlong</td>
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<tr>
<td>Alistair Clacherty</td>
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<tr>
<td>Frank Burger</td>
<td>SALGA</td>
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<tr>
<td>Mball Sikhosana</td>
<td>eThekwini housing</td>
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<td>Eliza Moore</td>
<td>Rooftops</td>
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<tr>
<td>Fred Waggenaar</td>
<td>NHBRC</td>
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<tr>
<td>Patrick Lemmens</td>
<td>First metro / Nasho</td>
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<tr>
<td>Stuart Talbot</td>
<td>Yeast City housing</td>
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<td>Tebogo Phadu</td>
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### WORKING GROUP 4

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<tr>
<td>Julie Bayat</td>
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<tr>
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<td>Eliza Moore</td>
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<tr>
<td>Laselo Segwe</td>
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<tr>
<td>Roger Matlock</td>
<td>Abahlali Housing Association</td>
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<tr>
<td>Belinda Cowden</td>
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<td>Robert Sibiya</td>
<td>KZN province</td>
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<td>Dumisa Matyumza</td>
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<tr>
<td>Andrew Wiseman</td>
<td>Nasho / OHHA</td>
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<tr>
<td>Goodman Matampi</td>
<td>Transnet Housing</td>
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<tr>
<td>Joel Mnkunqwana</td>
<td>City of Cape Town</td>
</tr>
<tr>
<td>Heather Dodd</td>
<td>TWR/Architect</td>
</tr>
<tr>
<td>Ewarts Malape</td>
<td>City of Johannesburg</td>
</tr>
<tr>
<td>Ronald Eglin</td>
<td>Afesis-Corplan</td>
</tr>
<tr>
<td>Sunday Ogunronbi</td>
<td>Department of Land Affairs</td>
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<tr>
<td>Sithole Mbenga</td>
<td>SACN</td>
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One-on one Interviews were held with the following people:

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
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<tbody>
<tr>
<td>Eugene Perumal</td>
<td>Gauteng province</td>
</tr>
<tr>
<td>Elize Stroebel</td>
<td>Gauteng Partnership Fund</td>
</tr>
<tr>
<td>Steven Ragwale</td>
<td>Gauteng Registrar</td>
</tr>
<tr>
<td>Pekwe</td>
<td>Gauteng province – capacity building</td>
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<tr>
<td>Vish Supersad</td>
<td>Banking Council</td>
</tr>
<tr>
<td>Sharon Lewis</td>
<td>National Treasury</td>
</tr>
<tr>
<td>Samson Moraba</td>
<td>NHFC</td>
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<td>Luthando Vutula</td>
<td>NHFC</td>
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<tr>
<td>Frank Burgers</td>
<td>SALGA</td>
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</table>
Social Housing Task Team Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr A E Vawda</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Mr D von Broemsen</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Mr R Gallocher</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Mr A Diephout</td>
<td>Department of Housing [Technical Resource Person]</td>
</tr>
<tr>
<td>Dr M Napier</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Ms J Bayat</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Ms N Mbele</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Mr T Masimini</td>
<td>Department of Housing</td>
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<tr>
<td>Ms H Pieterse</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Mr W Jiyana</td>
<td>Department of Housing</td>
</tr>
<tr>
<td>Mr B Denton</td>
<td>Western Cape Province</td>
</tr>
<tr>
<td>Ms P Sebakeng</td>
<td>Northern Cape Province</td>
</tr>
<tr>
<td>Mr P Nyonie</td>
<td>Mpumalanga Province</td>
</tr>
<tr>
<td>Mr M A Netshifhefhe</td>
<td>Limpopo Province</td>
</tr>
<tr>
<td>Mr T Phadu</td>
<td>NCASA-SACHA</td>
</tr>
<tr>
<td>Mr L Sekele</td>
<td>Gauteng Province</td>
</tr>
<tr>
<td>Mr R Sibiya</td>
<td>KwaZulu-Natal Province</td>
</tr>
<tr>
<td>Ms L Sigaba</td>
<td>Eastern Cape Province</td>
</tr>
<tr>
<td>Mr J Mosikili</td>
<td>Free State Province</td>
</tr>
<tr>
<td>Ms O Crofton</td>
<td>Social Housing Foundation</td>
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<tr>
<td>Ms Y Verzyden</td>
<td>Ministere vrom the Netherlands</td>
</tr>
<tr>
<td>Mr Z Matsela</td>
<td>South African Housing Co-operative</td>
</tr>
<tr>
<td>Mr D Morema</td>
<td>NASHO</td>
</tr>
<tr>
<td>Mr F Burgers</td>
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