PREFACE

This report was compiled at a time of major transition in the social housing sector. The SHRA, as the custodian of social housing, will be undergoing an intensive organisational development exercise in next six to twelve months, which will see us change the way we approach our mandate and interact with our stakeholders. The impact of these changes on the Sector and the results thereof will be reported on in a much more comprehensive 2016 State of the Social Housing Sector Report.
# TABLE OF CONTENTS

ABREVIATIONS & ACRONYMS .............................................................................................................. 4
EXECUTIVE SUMMARY ...................................................................................................................... 5
CHAIRPERSON’S FOREWORD .............................................................................................................. 6
CEO’S FOREWORD ............................................................................................................................. 8
INTRODUCTION...................................................................................................................................... 10
THE SHRA’S MANDATE ..................................................................................................................... 10
STATE OF THE SECTOR REPORT ........................................................................................................ 10
BACKGROUND TO SOCIAL HOUSING IN SOUTH AFRICA ................................................................ 11
DEFINING SOCIAL HOUSING IN SOUTH AFRICA ........................................................................... 11
LEGISLATIVE AND POLICY CONTEXT ............................................................................................ 12
CHAPTER 1: CURRENT SA HOUSING PICTURE .................................................................................. 13
DEMAND FOR SOCIAL HOUSING IN SOUTH AFRICA ...................................................................... 13
METROPOLITAN AND URBAN GROWTH AND IN-MIGRATION ......................................................... 14
CHAPTER 2: EXPECTATIONS OF THE SOCIAL HOUSING SECTOR WITHIN THE CONTEXT OF SOUTH AFRICA’S HOUSING PICTURE ........................................................................... 16
LEGISLATIVE AND POLICY FOUNDATION FOR SOCIAL HOUSING .............................................. 16
CONSTITUTION ...................................................................................................................................... 16
HOUSING CODE .................................................................................................................................. 16
COMPREHENSIVE PLAN FOR THE DEVELOPMENT OF SUSTAINABLE HUMAN SETTLEMENTS: BREAKING NEW GROUND (BNG) ..................................................................................... 17
THE SOCIAL HOUSING ACT (ACT NO 16 OF 2008) ......................................................................... 18
OUTCOME 8: SUSTAINABLE HUMAN SETTLEMENTS AND IMPROVED QUALITY OF LIFE .......... 18
THE NATIONAL DEVELOPMENT PLAN, 2030 .................................................................................. 19
MEDIUM TERM STRATEGIC FRAMEWORK (MTSF) ....................................................................... 20
CONCLUSION ....................................................................................................................................... 20
THEORY OF CHANGE......................................................................................................................... 20
KEY STAKEHOLDERS IN THE SOCIAL HOUSING SECTOR ............................................................... 23
POLICY MAKERS ................................................................................................................................. 23
CHAPTER 3: DELIVERY MECHANISMS ............................................................................................ 26
FINANCIAL MANDATE ....................................................................................................................... 26
FINANCIERS ......................................................................................................................................... 26
INSTRUMENTS FOR FINANCING SOCIAL HOUSING ...................................................................... 27
FINANCIAL COSTS OF SOCIAL HOUSING ......................................................................................... 29
CHAPTER 4: CURRENT STATE OF THE SECTOR ................................................................................ 30
REGULATORY MANDATE .................................................................................................................. 30
REGISTRATION AND ACCREDITATION OF SHIs .......................................................................... 30
ACCREDITATION PROGRAMME SEPARATED FROM INVESTMENT ................................................ 31
ABBREVIATIONS & ACRONYMS

CPI  Consumer Price Inflation
DFI  Development Finance Institution
DIGH Dutch International Guarantees for Housing Foundation
DoRA Division of Revenue Act
GPF  Gauteng Partnership Fund
IDP  Integrated Development Plan
IS   Institutional Subsidy
ISHP Interim Social Housing Programme
KPI  Key Performance Indicators
MoE  Municipal Owned Entity
MTEF Medium Term Expenditure Framework
NASHO National Association of Social Housing Organisations
NDHS National Department of Human Settlements
NDP  National Development Plan
NHFC National Housing Finance Corporation
NPO  Non-profit Organisation
NT   National Treasury
PFMA Public Finance Management Act
PSCs Provincial Steering Committees
PSPs Provincial Special Projects
RCG  Restructuring Capital Grant
RZs  Restructuring Zones
SH   Social Housing
SHF  Social Housing Foundation
SHI  Social Housing Institution
SHP  Social Housing Programme
SHiFT Social and Human Ideas for Technology
SHIP Social Housing Investment Programme
SHRA Social Housing Regulatory Authority
UDZ  Urban Development Zones
EXECUTIVE SUMMARY

The demographic picture of South Africa is one of continued urbanisation and this is projected to continue to at least 2030 (FFC, 2014). The influx to cities is largely made up of young people – and young families – searching for the economic opportunities that cities have to offer in addition, better education for their children, better access to health services and other amenities, and better living conditions generally. We must remember that the right of access to these factors are not negotiable – they are constitutionally guaranteed.

This report draws on indicators showing that a large portion of newer and long-standing residents in towns and cities have incomes that would make them eligible for assistance under the social housing programme (SHP). Yet the majority of them are poorly housed. They are effectively shut out of ownership (both RDP and private sector bonded housing) and are inadequately served by the private rental market. Furthermore, this report notes indicators which show, among low to middle-income city dwellers, a strong and growing preference for:

- Inner-city and inner-suburban locations;
- Rental over ownership;
- A medium to high-density housing typology (away from standalone houses).

Of all government housing interventions, the SHP is the only one that can truly meet this very specific and growing demand, one which is so critical to the broader goals of restructuring dysfunctional urban spaces and maximising access to socioeconomic opportunities.

This State of the Sector report reflects a social housing sector, including the SHRA itself, which is preparing to face the enormous challenge of meeting the Medium Term Expenditure Framework (MTEF) target of producing 27,000 units of housing by 2019. This challenge is the motivation for important changes taking place at the SHRA and in social housing finance which, if implemented, will unleash the potential of the sector to meet this ambitious target. As outlined more fully in this report, these changes include proposals to:

- Adjust the Restructuring Capital Grant (RCG) value and quantum;
- Adjust the income eligibility bands for social housing tenants;
- Improve overall transparency and functionality at the SHRA;
- Improve the SHRA’s oversight and monitoring functions post-grant;
- Introduce a simplified and more relevant accreditation process;
- Implement a reformed capacitation programme for delivery agents linked to project development and increased delivery rates.

A central message of this State of the Sector report is that it is vital for all stakeholders in the sector to work collaboratively towards a single vision. Rather than look backwards to past limitations we must look forward and plan together. It is within our collective power to ensure that the sector meets its challenges and delivers at scale.
CHAIRPERSON’S FOREWORD

I take great pleasure in presenting this State of the Sector Report, my first since taking up the position of Council Chairperson at the SHRA. A review of this report should give the reader the sense that both the SHRA and the social housing sector are undergoing significant change and that with such change come major opportunities.

The significant changes afoot in the sector are reflected in the composition of the SHRA Council. Last year, 2015, saw the appointment of nine new members of the Council and the reappointment of Ms NN Mbiza and Ms MJ Lamola. I bid a formal welcome to all new members of the Council who bring a vast range of skills and experience to this body. I would also like to acknowledge my immediate predecessor as Chairperson of the Council Mr Ahmed Vawda, who steered the SHRA through a challenging period of transition. As noted by the External Auditor, the Council he led fulfilled its responsibilities in accordance with the PFMA, Section 51. Mr Vawda also recognised that there were critical issues within the sector that had to be addressed in order for us to meet our Medium Term Expenditure Framework (MTEF) targets and helped set us on the right path to ensure that these issues are addressed in earnest.

Change in the sector has also been reflected at the SHRA in terms of new organisational leadership. I would like to extend a formal welcome to our newly appointed Chief Executive Officer (CEO) Mr Rory Gallocher who brings many years of managerial and social housing delivery experience to this position. He has an in-depth understanding of the social housing sector and a solid commitment to ensuring that the SHRA performs optimally and fulfils its mandate. Mr Gallocher and his team are already building solidly on the hard work undertaken by his immediate predecessor former Acting CEO Ms Sindisiwe Ngxongo. Facing many challenges in a complex environment, Ms Ngxongo diligently rose to the task and I bid her a sincere thanks as well as a farewell.

While the SHRA has accomplished a great deal since its establishment in 2010, there is no getting away from the fact that many stakeholders have, particularly in the last two years, raised important and valid concerns. While some of these concerns reflect broader challenges in the sector (particularly around capital financing), some are focused on governance issues at the SHRA.

Many stakeholders have felt that that there is uncertainty as to the accreditation process. We will address these concerns to ensure that the accreditation process is characterised by openness, equity, fairness and transparency. This will, in turn, help ensure the trust and support of our partners in the industry. Because concerns have been raised in the past, there is a need for the SHRA to demonstrate the completeness and reliability of our own work. While this function is usually provided by internal auditors, the Council’s Risk Committee, chaired by Mr SK Ganda, is considering ways in which to have the SHRA’s work expertly and independently verified. The recommendations of the auditors, should they have any queries, and require any further work by the SHRA’s management, will require the SHRA to communicate with the accreditation applicant about the matters raised by the auditors. In this event, I would ask SHIs to realise that such queries are in no way intended to increase an administrative burden, but are entirely in the service of ensuring complete transparency and the optimal functioning of the accreditation process.

The Accreditation and Compliance criteria, requirements and evidence indicators will be refined, presented and discussed with the sector by the end of June 2016 and then presented for consideration by the Council at the end of July 2016. All sector stakeholders will be consulted in this process.
Another concern expressed by some in the sector is that the Restructuring Capital Grant (RCG) award process is not perceived to be adequately transparent. Concerns have been raised about the standard form of the RCG contract, timeliness in payment administration and in technical monitoring. The SHRA is fully committed to providing a quality, transparent, smooth and accountable service in terms of the RCG award process and in post-award monitoring. The SHRA has also been moving toward the implementation of an effective human resource management strategy to ensure that adequate and sufficiently skilled resources are in place. The appointment of a permanent CEO has contributed significantly towards stabilising the organisation.

Finally, concerns have also been raised that the capacitation plan is not adequately linked to project development. As per the SHRA's Strategic Plan, we are fully committed to implementing a capitation programme to ensure that by the end of 2018/19, Social Housing Institutions (SHIs), provincial and municipal officials will have their skills developed and be trained to approve, deliver and manage social housing stock in a sustainable manner.

Pursuant to our mandate, the SHRA Council is fully committed to business integrity, transparency and professionalism in all our activities. As part of this commitment, the Council supports the highest standards of corporate governance and the ongoing development of best practice. But the SHRA Council, management and staff cannot be effective in isolation. As the CEO has emphasised, effective social housing delivery can only occur in close partnership with and in highly effective collaboration with all key stakeholders in the sector.

Key changes underway at the SHRA, in capital financing and more broadly in the sector will provide us with the means, the capacity and the opportunities to deliver housing at scale within the current MTEF period. This is a challenge I am supremely confident that we as a sector can meet.

Mr Zolile Thando Ngcakani
SHRA Council Chairperson
CEO’S FOREWORD

It is with a sense of both urgency and optimism that I present the 2016 State of the Sector report. The sense of urgency is fueled by the fact that 2019 is the end of the Medium-Term Expenditure Framework (MTEF). We as a sector must show improvements in terms of actual housing delivery by the end of the 4th quarter report of the current financial year – and in the next financial year, we must demonstrate a clear prospect of reaching the targets by 2019. The sense of optimism is fueled by the fact that important innovations in capital financing, accreditation and capacitation are in the pipeline which, combined with the dedication of and close collaboration with all stakeholders in the sector, will truly make it possible for us to reach these targets.

The sector as a whole is well aware of the challenges we face in reaching our targets. In a recent survey, stakeholders were asked to rank the issues affecting the efficient and effective operation of the social housing sector at present from most important to least important. The three most important elements respondents ranked were:

• The erosion of the value of the RCG and quantum;
• Income thresholds eligibility for households not being indexed;
• The operation of the SHRA.

Concerning the first two issues, a recommendation has been prepared by the National Department of Human Settlement (NDHS) and by the Department of the of the Presidency Monitoring & Evaluation Unit (DPME) to adjust the RCG quantum and income bands to enable the SHRA to unlock the pipeline projects and increase delivery in the remaining three years of the MTEF to reach the target of 27,000 units. The SHRA is working with the NDHS in an effort to seek approval for the proposals.

In terms of the SHRA itself: The Council, Executive Committee and staff are well aware that there are some specific things we need to do differently and we are fully committed to making the necessary internal changes and improvements in our operations. However, I must also emphasise the following: We cannot have a situation in which key stakeholders remain largely inactive whilst looking solely to the SHRA for direction and initiative. Simply put, the SHRA is not a “bread truck” – the agency has no mandate to directly deliver the final product. The SHRA in and of itself does not build a single unit of housing. To deliver at scale we as a sector must have co-production and a strong, focused mindset of collaboration. Working in close collaboration towards the same objectives - the SHRA, government departments in all three spheres, the SHIs and other important stakeholders, will have the ability to change dysfunctional hierarchies and poor working dynamics, and to truly get the machinery to function optimally in order to deliver as per our targets.

Increasing the capacity of SHIs to deliver on time and at scale will be critical. A revised social housing capacity framework will seek to achieve both multi-year project readiness and position SHIs to scale up. Importantly, the capacitation programme will be clustered with the Social Housing Investment Programme (SHIP) to accommodate this. A more programmatic and strategic approach will be adopted so that the capacitation programme supports the overall national housing programme intent.

A range of improvements will be made to the accreditation process in order to make it simpler, more relevant and more transparent. Among several innovations, the SHRA will split the accreditation process from the SHIP to ensure the independence of the accreditation and the regulatory process from the funding process, thereby establishing better governance controls.
The SHRA is committed to working more closely with local authorities to ensure that they fulfil their role, as clearly mandated in the Social Housing Act, of entering into agreements with implementing agents to develop social housing. This will unlock substantially more development.

To our colleagues and stakeholders who express the sense that the SHRA, and even the social housing sector itself, are in crisis, I would say this: A crisis can be a bridge to new opportunities. It can create a sense of resolve that provides the motivation and the drive necessary to make the required changes. It can unlock great underlying potential to break down dysfunctional practices, to better utilise our wide range of skills, knowledge and capacity, and to build and strengthen close, highly productive working relationships and partnerships.

While there has been positive feedback from the sector there have also been numerous concerns raised in regard to perceived managerial deficits at the SHRA, some which were reflected in a recent evaluation by the Department of Planning, Monitoring and Evaluation (DPME). Some SHIs have also said, in effect, “We have good projects, but the financial model doesn’t work.” While we at the SHRA accept and take responsibility for many of the expressed concerns, I would earnestly put the following scenario and question to the sector: Let us suppose that over the next year: 1) the SHRA’s managerial processes, stakeholder management, capacitation and accreditation functions improve in a way so as to make the development process easier and more seamless; and 2) income bands and the quantum of the RCG are adjusted so as to make development and operation more financially viable: Would the SHIs be willing and able to develop social housing at a significantly greater scale?

If this scenario comes to pass, and I trust that it will, the real question for the sector would no longer be: “How do we develop social housing with inadequate financial instruments and an under-performing regulator?” but rather: “Given the more realistic financing and income bands, and a more collaborative and enabling Regulator, is our Institution able to meet the challenges of developing and managing at scale?”

Mr Rory Gallocher
CEO
INTRODUCTION
The Social Housing Regulatory Authority (SHRA) was established in August 2010 by the Minister of Human Settlements in terms of the Social Housing Act, No. 16 of 2008. The SHRA derives its mandate from the Social Housing Act to invest in and regulate social housing. The SHRA is classified as a public entity in terms of Schedule 3A of the Public Finance Management Act.

THE SHRA’S MANDATE
The SHRA is a legislated entity responsible for regulating the Social Housing Sector and administering the Restructuring Capital Grant (RCG) subsidy allocation. In sum, the SHRA’s interventions are intended to ensure better risk management in the sector and encourage conditions for growing investment from the public and private sectors.

More specifically, the SHRA is mandated with the following roles under the Social Housing Act:

- Promote the development and awareness of social housing and promote an enabling environment for the growth and development of the social housing sector.
- Provide advice and support to the Department of Human Settlements in its development of policy for the social housing sector and facilitate national social housing programmes.
- Provide best practice information and research on the status of the social housing sector.
- Support provincial governments with the approval of project applications by social housing institutions and assist, where requested, in the process of designating restructuring zones.
- Enter into agreements with provincial governments and the National Housing Finance Corporation to ensure that implementation by these entities is co-ordinated.
- Provide financial assistance to social housing institutions through grants to enable them to develop institutional capacity, gain accreditation as social housing institutions, and submit viable project applications.
- Accredit institutions that meet the defined accreditation criteria as social housing institutions and maintain a register of social housing institutions.
- Conduct compliance monitoring through regular inspections and enforce compliance where necessary and intervene in the affairs of a social housing institution in cases of maladministration.
- Approve, administer and disburse institutional investment grants and capital grants and obtain applications for such grants through engagement with provincial governments and municipalities.
- Make rules and regulations in respect of the accreditation of Social Housing Institutions and the disbursement of government funds to them.

STATE OF THE SECTOR REPORT
The Social Housing Act requires that the SHRA produce a State of the Sector (SOS) report. The intention of the report is to reflect on the performance of the sector in order to identify and address challenges and to proactively plan for the social housing programme. The SOS report may also serve outline current initiatives in the sector and to inform policy changes.

This report is the second “State of the Social Housing Sector” report produced by SHRA and covers the Financial Year 2014/15.
The report provides a brief history and background to social housing in South Africa, looks at demand, briefly examines the purpose and potential of social housing and provides a review of the performance of the sector since the inception of the SHRA and the RCG programme. The report also reviews key successes and challenges in the sector that need to be addressed going forward and also briefly describes new initiatives for the sector, both planned and underway.

The report is structured as follows:

- Chapter One examines the current housing picture in South Africa and, more specifically, the demand for social housing.
- Chapter Two examines the expectations of social housing given the broader housing picture in terms of obligations under National Housing Policy.
- Chapter Three examines the tools and mechanisms utilised to deliver social housing.
- Chapter four examines and analyses the current state of the social housing sector in South Africa over the reporting period, as well as the investment made into the sector and the status of regulation in the sector.
- Chapter Five considers the future of social housing in South Africa and outlines some of the key issues facing the social housing sector.

BACKGROUND TO SOCIAL HOUSING IN SOUTH AFRICA

This section defines social housing in the South African content, provides a review of social housing in the international context, and reviews the development of social housing as a critical component of South Africa’s human settlements strategy over the last two decades.

DEFINING SOCIAL HOUSING IN SOUTH AFRICA

Different countries use the term ‘social housing’ for a range of types of housing topologies. In South Africa, however, ‘Social Housing’ specifically refers to rental or co-operative housing for low to medium income households, in the form of medium to high-density flat units. It is developed and then managed by Social Housing Institutions (SHIs) or other agents, and must be located in approved Restructuring Zones (RZs).

The basis for this understanding of social housing is contained in the Social Housing Act, 2008 (Act No. 16 of 2008) which defines social housing as:

“A rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management and which is provided by social housing institutions or other delivery agents in approved projects in designated restructuring zones, with the benefit of public funding.”

By definition, therefore, social housing is, therefore, rental or co-operative accommodation held by SHIs over a long period of time. It excludes individual ownership by residents.

Social housing in South Africa is not a means of mass delivery. It is primarily a mechanism to contribute to the residential restructuring of South African cities, giving low and moderate income households access to areas of the city with well-developed socioeconomic opportunities and affordable, effective public transport. Social housing is a tool through which to ensure greater social and economic integration, densification and increased functional mix in South Africa’s major cities.
**LEGISLATIVE AND POLICY CONTEXT**

Social housing has become an integral part of the South African Government’s human settlement strategy and is an important intervention in the broader effort to restructure, upgrade and densify cities and towns. Government’s current strategy with respect to social housing is reflected in four main policy and legislative documents: The Comprehensive Plan for the Development of Sustainable Human Settlements (2004); The Social Housing Act (Act 16 of 2008); Outcome 8: Sustainable Human Settlements and Improved Quality of Life (2010) and the National Development Plan, 2030 (2012).

The mandate and the expectations of social housing created by the range of legislation and policies in the context of the current housing and urban picture are addressed more fully in Chapter 2.

Scottsdene Project: Madulammoho Housing Association
CHAPTER 1: CURRENT SA HOUSING PICTURE

While great strides and accomplishments have been made since 1994 to address the rights of South African people to access to secure, affordable housing, some key statistics demonstrate the extent of this ongoing challenge.

According to Census 2011, approximately 1.25 million households live in informal settlements, 710,000 households live in backyard structures, while approximately 1.1 million households live in traditional dwellings. Not all of those living in formal dwellings can be said to be “adequate houses.” Census 2011 also showed that approximately 3.5 million households living in formal dwellings did not have on-site waterborne sanitation.

Figure 1: Housing circumstances of households earning below R6,400 in South Africa

It is critical to note that a great number of inadequately housed families do not qualify for assistance under the RDP (BNG) ownership programme. Eighty20 (2015) notes that one-third of households earning between R3 500 and R15 738, i.e. over one million households, live in inadequate dwellings. Eighty20 concludes that rentals are most noticeable in the gap and affordable market segments.

DEMAND FOR SOCIAL HOUSING IN SOUTH AFRICA

The Financial and Fiscal Commission (FFC) undertook a comprehensive study in 2014 entitled Understanding Housing Demand in South Africa. The report concluded that housing policy in South Africa had not sufficiently reflected housing demand. The FFC asserted that understanding demand will enable government, especially in metropolitan municipalities, to better plan and to provide for future housing needs. Using a sophisticated housing demand model the FFC determined that demand for housing will be the greatest in urban areas (CBD and intermediate suburbs) and that rental accommodation would be the most desired and appropriate form of housing. Significantly, the study also showed that there has been a shift from freestanding houses to housing in flats and townhouses in terms of preferred housing typology.

The FFC’s housing-demand model also examined the typology that would predominate by 2030 in the various locations. In accordance with the findings that an increasing number of households would prefer to live in the
CBD and intermediate suburbs, the model predicted that the number of flats and townhouses will increase by 14% and 4% respectively between 2011 and 2030. The model also predicted that, in the same period, houses on separate stands will decrease by 8%.

A core recommendation from the Commission arising from the report was that municipalities should:

“Plan for lower-income household rental accommodation (flats and townhouses mainly) in the CBDs and in newly created (or transformed) neighbourhoods in intermediate suburbs, which have lower densities than the inner city” (FFC, 2014:4).

In examining the South African housing mortgage (bond) market, Eighty20 (2015) found that, unsurprisingly, product penetration differs significantly by segment for various products. Mortgages are more common higher up the income pyramid. For households who earn R30,000 per month or more, 72 percent of them hold a mortgage. For households earning between R3500 and R10 000, however, a mere 8 percent of them hold a mortgage. Clearly, access to housing finance for ownership for this income group is extremely limited.

The growth in demand for rental housing in South Africa has been remarkable. In the 10 years between the 2001 and 2011 censuses, the proportion of South Africans who rented their homes increased from 19 percent to 25 percent, an absolute growth of over 30% in the number of households who rent. In urban areas, this figure increased from 26 percent in 32 percent (Census 2001 and 2011 data). Clearly, demand for affordable rental is greatly outstripping supply.

The very high demand for social housing is reflected in the low average vacancy levels in SHI-managed stock. The nine largest SHIs reflect vacancy rates of between 0,3 to 2,4% and vacated units are filled very quickly from pre-populated waiting lists (DPME, 2016). Demand for affordable rental from low- to middle-income households in South Africa continues to grow, particularly in major metropolitan centres.

The drivers of this high rental demand include continued high levels of in-migration to urban areas, lack of means to access/qualify for subsidised, owned housing for low to middle-income households; and sparse opportunities for gap housing. Census data (2011) indicates that over 1,5 million households within SHRA’s primary and secondary market live in informal settlements and backyard accommodation, indicating a large potential market for affordable rental accommodation. These income groups also have the highest number of households still living in hostel accommodation.

The slow economic growth of South Africa’s economy coupled with the rapidly expanding and largely urban-bound young-adult population will contribute to a decrease in demand for ownership and further increase demand for affordable rental.

**METROPOLITAN AND URBAN GROWTH AND IN-MIGRATION**

Data from Census 2011 indicates that 19% of the population moved between 2001 and 2011. Whilst migration shapes housing demand it does not, for lower to middle-income groups, necessarily shape the availability of affordable and quality housing options.

Drawing from its comprehensive study, the FFC (2014) concluded that South African cities, and the metros in particular, are experiencing increasing in-migration of rural people and noted that have a variety of housing needs.

The FFC (2014:132) concludes:
“Better understanding of what constitutes housing demand, where housing can best be situated and how households’ tenure choices and locations change over time will make it easier to plan for future housing needs, improve delivery and provide relevant housing stock in relevant locations. Failure to understand housing demand has led in some cases to inappropriate government interventions and poorly planned settlements.”

Most critically, however, the FFC predicted that there will be a steady shift from ownership to rental as the preferred form of tenure. The report projects that rental housing as a form of tenure is projected to increase from 47% to 64% between 2011 and 2030, a rise of 17%. The FFC also projects that ownership will decrease over this period. In terms of location, the report predicts that ownership will remain the preferred form of tenure in the peripheries or cities (and also in isolated towns and farms) but that will be starkly contrasted in the inner suburbs and inner cities where the demand for rental will soar.

The implications for human settlement policy are absolutely clear. The demand for well-located, rental housing affordable to lower to middle-income households has increased dramatically since 2001 and is predicted to continue to increase in the coming 15 years. This makes an extremely strong case for a well-resourced social housing sector responding to this demand caused through rapidly changing demographics by producing quality, well-located rental housing.
CHAPTER 2: EXPECTATIONS OF THE SOCIAL HOUSING SECTOR WITHIN THE CONTEXT OF SOUTH AFRICA’S HOUSING PICTURE

LEGISLATIVE AND POLICY FOUNDATION FOR SOCIAL HOUSING

CONSTITUTION

The most fundamental legal basis for social housing and for the SHRA’s mandate is embedded in the Constitution of South Africa Act 108 of 1996 (as amended). All other mandates have their origin here. In terms of the right of access to housing, Section 26 of Chapter two of the Constitution (the Bill of Rights) states that:

- a. Everyone has the right to have access to adequate housing;
- b. The State must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right; and
- c. No one may be evicted from their home, or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions.

However, the SHRA’s mandate under the Constitution is not limited to Section 26. The following areas of the Constitution of South Africa, have relevance in the derivation of the mandate of the SHRA:-

1. Chapter 1: Founding Provisions: Human dignity, the achievement of equality and the advancement of human rights and freedom;
2. Chapter 21: Freedom of movement and residence: Every citizen has the right to enter, to remain in and to reside anywhere in the Republic;
3. Chapter 24: Environment: Everyone has the right to:
   a. An environment that is not harmful to their health or well-being; and
   b. Have the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that:
      i. Prevent pollution and ecological degradation;
      ii. Promote conservation; and
      (iii) Secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development.

There are many ways in which social housing contributes to fulfilling this range of Constitutional mandates. These include providing access to adequate housing, promoting freedom of movement and facilitating access to well-located areas where most people had previously been excluded, and by developing housing in a higher-density, ecologically friendly manner.

HOUSING CODE

The overall rationale and high-level programme logic for social housing is articulated in the National Housing Code (NDHS, 2009). While asserting that the country has made great strides in human settlement development, the Housing Code identifies that there are numerous structural constraints preventing achieving fundamental change. It affirms that “obstacles arising from the economic structure and spatial patterning of South African society have proven stubborn and persistent (NDHS, 2009:11). Importantly, the Code acknowledges that some programmes have not only helped reverse these spatial inequalities but, in many
instances, has even inadvertently reinforced them. Social housing has the potential to help fundamentally reverse these spatial patterns and afford people greater access to economic opportunities.

The Housing Code specifically underlines a role for social housing in terms of its contribution to urban restructuring and renewal:

“There is a need therefore, to ensure that the links between processes of social restructuring and housing policies and instruments are brought into closer alignment. Social Housing can be used as a key instrument in this regard, and can “...contribute strongly toward the achievement of urban restructuring and urban renewal through urban integration and impacting positively on urban economies”. (National Housing Code Volume 6: Social and Rental Intentions, Part 3: Social Housing Policy).

COMPREHENSIVE PLAN FOR THE DEVELOPMENT OF SUSTAINABLE HUMAN SETTLEMENTS: BREAKING NEW GROUND (BNG)

Launched in 2004, the National Government’s Comprehensive Plan for the Development of Sustainable Human Settlements: Breaking New Ground (BNG) defined an important role for social housing in the broader housing framework.

Inter alia, BNG frames housing delivery more clearly as a means for achieving a set of broad socio-economic goals. A leading objective of BNG is to shift from a focus on the quantity of houses delivered to greater quality and more choice through a demand-driven housing approach. BNG, therefore, emphasised ‘sustainable human settlements’ instead of housing units. The policy also marked a shift from the delivery of RDP (ownership) houses to a broader range of housing programmes including the SHP. The BNG placed significant emphasis on social housing an important vehicle for urban renewal and inner city regeneration. This, in large part, reflects a core commitment to overcome spatial, social and economic exclusion.

Recognising that the renewal of inner city areas has become focused on commercial and high-income residential property redevelopment to the exclusion of low to middle-income households the BNG notes the important role of housing in a range of urban renewal interventions focused on urban centres and inner cities. Clearly underlining the critical importance of providing affordable inner-city housing the BNG commits government to encouraging the development of medium-density social rental housing. The BNG also emphasises the need for greater attention to social and rental housing as mechanisms to revitalise depressed property markets, including the lower-end rental.

The BNG also recognises the need to build institutional capacity within the social housing sector to support the anticipated scaled up delivery of social housing. This implied that the number of SHIs capable of managing the anticipated increase of social housing stock in a viable manner would have to increase. In order to support the establishment and maintenance of sustainable and viable SHIs which are able to develop and manage social housing stock of various forms, the BNG proposed the establishment of a national social housing accreditation institution through the provisions of the Social Housing Bill. The mandate of this institution (which in 2010 became the SHRA) is to “administer the accreditation and monitoring of social housing institutions that wish to apply for a capital grant for project execution.” (NDHS 2004:16). The BNG notes that SHIs are invited to apply for accreditation but also affirms that only accredited institutions may qualify for grant funding and capital funds to undertake projects.
THE SOCIAL HOUSING ACT (ACT NO 16 OF 2008)

The Social Housing Act provides the regulatory framework that reinforces government’s support to the social housing sector and sets out the framework through which social housing is currently implemented, funded and regulated. The purpose of the Act is to create an environment in which social housing is a viable and substantial component of the housing sector in which the public sector is empowered to act and the private sector is confident to invest.

Specifically, the Social Housing Act provides the legislative framework for the following key areas of importance to the social housing sector.

- To establish and promote a sustainable social housing environment;
- To define the functions of national, provincial and local governments in respect of social housing;
- To provide for the establishment of the Social Housing Regulatory Authority (SHRA) in order to promote, regulate and guide the investment of public money in the social housing sector;
- To provide the basis through which, and govern the use of public money for social housing by delivery agents in social housing projects;
- To give statutory recognition to, and regulate, SHIs; and
- To provide for the creation of Restructuring Zones.

OUTCOME 8: SUSTAINABLE HUMAN SETTLEMENTS AND IMPROVED QUALITY OF LIFE

In 2010, the National Government determined 12 outcomes as key foci of work between 2010 and 2014. Cabinet ministers signed performance agreements for outcomes linked to their Department’s areas of focus, and they are accountable for the achievement of these to the President. Each outcome has a limited number of measurable outputs with targets. Each output is linked to a set of activities that will help achieve the targets and contribute to the outcome. Each of the 12 outcomes has a delivery agreement, which in most cases involves all spheres of government and a range of partners outside government. Combined, these agreements reflect Government’s delivery and implementation plans for its foremost priorities.

Outcome 8 focuses on Sustainable Human Settlements and Improved Quality of Household Life. All public entities within the housing and social housing sector are required to align their activities to achieve the targets specified in Outcome 8, as the Minister for Human Settlements is accountable for these to the President. Outcome 8 comprises four outputs, and the performances of Departments are evaluated by the extent to which they achieve these targets:

- Output 1: Accelerated Delivery of Housing Opportunities
- Output 2: Access to Basic Services
- Output 3: Efficient Utilisation of Land for Human Settlements Development
- Output 4: Improved Property Market

The social housing sector falls under Output 1 of Outcome 8. In terms of this output, government aimed to provide 80,000 units of well-located and affordably priced rental accommodation units by 2014 (20 000 units per annum). Sub-Outcome 1 of Outcome 8 is adequate housing and improved quality living environments. Social housing plays a critical in achieving this as the sector implement projects that ensures spatial, social and economic integration. The Outcome 8 agreement also committed government to ‘tackling the affordable market in a more determined fashion’. Again, social rental housing plays an important role.
THE NATIONAL DEVELOPMENT PLAN, 2030

The need for government’s support of social housing is further reinforced by the National Development Plan 2030 (NDP). In addition, the Plan has implications for the way in which social housing is delivered. The NDP was developed by the National Planning Commission which was appointed in May 2010 by President Jacob Zuma. The Commission is an advisory body consisting of 26 people drawn largely from outside government chosen for their expertise in key areas. The Commission’s Diagnostic Report was released in June 2011 and set out South Africa’s achievements and shortcomings since 1994. This led to the development of a draft National Development Plan, released in November 2011. After a period of public engagement and refinement, the plan was approved by Cabinet in 2012.

Chapter 8 of the NDP provides the overarching framework and policy basis for interventions to fundamentally transform human settlements and the national space economy. The vision and policies contained in the chapter are of fundamental importance to the transformation of South African society as they seek to change one of the most insidious aspects of the old apartheid regime: the exclusion of the vast majority of people from desirable locations where they could build a quality of life and contribute to/benefit from the national economy.

The NDP commits government to “respond systematically, to entrenched spatial patterns across all geographic scales that exacerbate social inequality and economic inefficiency (NPC 2012:260). It also affirms that the state “will review its housing policies to better realise constitutional housing rights, ensure that the delivery of housing is to be used to restructure towns and cities and strengthen the livelihood prospects of households (noted by NDHS, 2016).” Social housing has the potential to be one of the prime vehicles in the realisation of the redressing of inequitable spatial patterns and affording the possibility of a decent livelihood many thousands of households.

The NDP affirms that social housing has the ability to address a wide range of needs, is well geared to promote social mobility and can well accommodate households who require transience. Indeed, the “broad scope” potential of social housing, and its utility as a flexible and multi-purpose instrument, is clearly recognised by the NDP.

Specifically in reference to rental accommodation, the NDP underlines the need to:

- Enact enabling policies and implementing instruments to support the development of an appropriate housing mix in inner cities; and
- Give greater attention to the need for rental accommodation across income bands

In the context of social housing provision and creating a dynamic, accessible and integrated future urban landscape the NDP also notes that where housing is provided, “greater emphasis should be on rental housing as many individuals do not settle permanently in towns and cities, or require interim accommodation before they do so, and special incentives and subsidies should be designed to make affordable, large-scale high density housing possible in inner cities, on well-located land parcels, taking into account property markets”

The National Planning Commission’s strategy (as set out in Chapter 8 of the NDP) is to address the apartheid geography and create the conditions for more humane – and environmentally sustainable – living and working environments – is one in which social rental housing can, and perhaps must, play a primary role. In short, the NDP identifies an agenda for government which must:

- Respond to entrenched spatial patterns that exacerbate social inequality and economic inefficiency.
- Implement to achieve a creative balance between spatial equity, economic competitiveness and environmental sustainability.
• Expand personal freedoms by providing the residents of South Africa with greater choice of where to live.
• Support individuals, communities and the private sector in engaging with the state on the future of the spaces and settlements in which they live.

Given the right set of conditions and support the social housing sector has the ability to contribute to all of these objectives of the NDP.

MEDIUM TERM STRATEGIC FRAMEWORK (MTSF)
This MTSF is the National Government's strategic plan for the period of 2014 to 2019 and outlines the strategic objectives and targets for each portfolio. This includes the commitment to implement the NDP. The MTSF sets out the actions Government will take and targets to be achieved. It also provides a framework for the other plans of national, provincial and local government.

An important focus of the MTSF is the development of sustainable human settlements and improved quality of household life. The MTSF notes that settlement patterns across the country are dysfunctional and that well-located land is expensive. The Framework commits itself to breaking apartheid spatial patterns and integrating residential and commercial hubs in our cities and towns. In doing so the MTSF envisages what it terms a "multi-segmented social rental housing programme." Among other interventions, the MTSF calls for enhanced institutional capabilities for effective coordination of spatial investment decisions, with a target of 49 municipalities assigned or accredited with the housing function.

The MTSF calls for the current housing subsidy instruments to be reviewed inter alia to encourage more efficient spatial development patterns. This includes public transport planning and alignment with residential development as a key element in achieving social and economic transformation in urban areas. Social housing is a key enabler to these objectives and can contribute substantially to the MTSF’s vision of improved access to affordable housing, well-integrated and better located human settlements.

The MTSF target for the SHRA is to deliver 27 000 social housing units within this period. In line with the MTSF target, the SHRA developed a new Strategic Plan for the period 2014 – 2019. The focus is on the delivery of units, effective regulation and creating an enabling environment for the development of social housing.

CONCLUSION
Social housing has a broad and multi-layered constitutional, policy and legislative mandate to contribute to the transformation of South African society. This mandate is fulfilled through contributing towards spatial, economic and social restructuring. As detailed in Section 1, demand for well-located, medium-density rental housing for low to middle income has increased substantially and will further increase. The basis for – and the need for - social housing production at scale is very clear.

THEORY OF CHANGE
Both the DPME Evaluation (2016) and National Treasury’s Expenditure and Performance Review (2016) articulate key aspects of the Theory of Change underlying the Social Housing Programme (SHP). The Theory of Change makes reference to the underlying assumptions, socioeconomic factors and objectives of the SHP and then addresses the basic programmatic factors required to make the programme successful. In brief sum, the theory of change includes the following considerations and factors:
• Historical spatial planning patterns which have excluded poor (predominantly black) households from key urban centres;
• The need to utilise state subsidy to facilitate access for lower-income households to well-located urban areas (i.e. subsidised accommodation) for such households;
• The need for medium-to-high density to optimise the limited well-located land available
• The function of social housing in affording improved access to education, health care, social facilities and services as well as economic opportunities;
• The role of social housing as a catalyst for local economy development, and direct and indirect employment.

The Theory of Change also outlines the critical programmatic features required in order for the SHP to actualise the above factors. Again in brief summary, these include:

• A Social Housing sector that delivers at a reasonable level of scale;
• The need for SHIs to be sustainable from a business perspective (i.e. able to generate sufficient returns to ensure long-term asset preservation, additional project development, balance sheet growth, etc.), to enable them to develop and effectively manage a growing portfolio of projects;
• The recognition that project viability is the result of good management of projects by SHIs, and effective regulation of SHIs and approval of projects by the SHRA.

The SHRA is confident that the implementation of the proposals to adjust the subsidy and income bands, to improve accreditation and oversight, and to capacitate the sector, among other initiatives (as outlined in this report) will bring about these critical programmatic features as envisioned in the Theory of Change,
The Theory of Change narrative has been translated into a logical programme analysis presented graphically below (Source: DPME, 2016 and National Treasury, 2016)
KEY STAKEHOLDERS IN THE SOCIAL HOUSING SECTOR
The key stakeholders making up the social housing sector include:

- Policy Makers - key government departments agencies in all three spheres of government;
- Delivery Agents (SHIs and private sector providers and contractors)
- Financiers
- Support Organisations, such as SHIFT and National Association of Social Housing Organisations (NASHO)

POLICY MAKERS
The policy makers within the social housing sector are national, provincial and local government. The roles of each of these spheres of government are specified in the Social Housing Act. These roles are summarised in the table below.

<table>
<thead>
<tr>
<th>Role Player</th>
<th>Role in respect in Social Housing</th>
</tr>
</thead>
</table>
| **National Government:** Oversight, legislation and regulation, ensuring compliance and funding frameworks. | - Create and uphold an enabling environment for social housing, by providing the legislative, regulatory, financial and policy framework for the delivery of social housing;  
- Ensure compliance with its constitutional responsibilities;  
- Address issues that affect the growth, development or sustainability of the social housing sector;  
- Institute and fund the social housing programme;  
- Allocate funds from the Department's budget for the operational costs and commitments of the SHRA;  
- Determine norms and standards to be adhered to by provinces and municipalities; and  
- Monitor the SHRA. |
| **Provincial Government:** Planning for, resourcing and administering social housing investments. | - Ensure fairness, equity and compliance with national and provincial social housing norms and standards;  
- Ensure the protection of consumers by creating awareness of consumers’ rights and obligations;  
- Facilitate sustainability and growth in the social housing sector;  
- Mediate in cases of conflict between a social housing institution or other delivery agent and a municipality, if required;  
- Submit proposed restructuring zones to the Minister;  
- Monitor social housing projects to ascertain compliance with prescribed norms and standards;  
- Administer the social housing programme, by approving projects; and  
- Approve, allocate and administer capital grants, in the manner contemplated in the social housing investment plan, to approved projects. |
| Municipalities: Planning for, resourcing and initiating projects. | • Encourage the development of new social housing stock and the upgrading of existing stock or the conversion of existing non-residential stock;  
• Provide access to municipal rental stock, land and buildings for social housing development in designated restructuring zones and to municipal infrastructure and services for approved projects, and  
• Initiate and motivate the identification of restructuring zones.  
• (In respect of Municipalities with Assigned powers, approve, allocate and administer capital grants, in the manner contemplated in the social housing investment plan, to approved projects). |
| --- | --- |
| SHRA: Sector regulation & investment Coordination | • Advice and information to the Department of Human Settlements  
• Register and accredit SHIs;  
• Recommend Restructuring Zones;  
• Set principles for, regulate compliance and accreditation and act on non-compliance;  
• Regulate the investment public funds in social housing projects and programmes; and  
• Report on compliance (both in respect of individual SHIs and sector-wide). |

Source: DPME (2016)

Municipalities can decide the extent to which they wish to engage in the social housing sector and this will depend on the extent of need within their area of jurisdiction for this type of housing. There are three ways in which a municipality can fulfil its role in the delivery of social housing, namely facilitation, support or direct engagement. Facilitation comprises the municipality creating a suitable and productive environment for social housing delivery. Support would indicate a higher level of involvement would include actively encouraging delivery, such as making land available for development and assisting an SHI to undertake a project. Direct engagement indicates a situation where the municipalities themselves establish their own SHI.
The following Flowchart provides an overview of the key stakeholders in the social housing sector and their key points of interaction.

Source: DPME (2016)
CHAPTER 3: DELIVERY MECHANISMS

FINANCIAL MANDATE
The Social Housing Act requires the SHRA to manage the investment of public funds for social housing development, using the Social Housing Investment Plan and its RCG instrument (see below), in order to expand the number of social housing units under management in the sector and reach specific targets.

Funding is provided annually from National Government through two streams:
1) A direct allocation of capital funding to the SHRA from National Treasury disbursed through the NDHS; and
2) Funds allocated to the Provincial Governments in terms of the Annual Division of Revenue Act (DoRA).

FINANCIERS
Financiers in the social housing sector include the following:

- **National Housing Finance Corporation (NHFC):** The NHFC is required by the Social Housing Act to provide loan finance for SHIs. Some SHIs indicate that accessing this funding is difficult (because it takes so long for approvals to be obtained) and it is expensive as it is offered at rates above prime. Others, particularly those SHIs that have existing facilities or have had past loans with the NHFC, are accessing this finance.

- **Gauteng Partnership Fund (GPF):** The GPF was established with equity provided by the Gauteng Department of Human Settlements for the purpose of providing finance to facilitate rental accommodation in the province. The GPF is the custodian of the IS in Gauteng, and coordinates the IS programme on behalf of the provincial government. The GPF also provides bridging finance and offers loans at the lowest interest rate currently. However, such loans are only available to SHIs operating in Gauteng and there is a limit (R46 million) to the amount that the GPF is prepared to lend to one institution at any one time. The GPF also provides some capacitation support. There is no equivalent of the GPF in any other province.

- **Development Bank of South Africa (DBSA):** The DBSA does not offer loan finance to all SHIs, but only to institutions that are owned by a municipality (e.g. JOSHCO).

- **Commercial Banks:** While to date commercial lenders have only played a minor role in loan finance to SHIs (including Absa Devco and Nedbank) this is an area of interest that the SHRA is keen to develop (see Attracting Private Sector Investment section in this report).

- **International Financiers:** Dutch International Guarantees for Housing (DIGH) had been active in the sector for many years providing loan finance. DIGH has now closed this function of its operations but there is a possibility that a South African-based finance company may take over part of DIGH’s loan book. The French Development Agency (AFD) has also provided funding for the social housing in the past and discussions are taking place between the AFD and NASHO concerning a possible lending programme for high-performing SHIs.
INSTRUMENTS FOR FINANCING SOCIAL HOUSING

The funding of social housing projects requires a combination of government subsidies, equity from SHIs and debt finance. No single initiative is solely utilised to fund social housing development and the social housing funding model incorporates a range of components working in synergy. The most important of these are as follows:

- **Restructuring Capital Grant (RCG):** The RCG is administered by SHRA, and stands at R125,615 per unit in 2015. This has not been escalated since the inception of the programme in 2008 but a current proposal, if adopted would see this increase to R155,000. An additional variance is available based on the number of units in the “primary target market” – R749 per 1% allocation to primary beneficiaries (which may not exceed 70% of total units). The RCG is a subsidy that flows from NDHS to SHIs via the SHRA. This subsidy also required project level detail as the basis of allocation. A total of R2.5 billion has been spent by the NDHS since 2004 to support social housing. These funds are a combination of capital and operating expenses. The capital is the RCG that flows via SHF / SHRA to SHIs for projects; while the SHF and SHRA received funds for establishment, on-going operations including compensation of employees (CoE) and capacity building.

- **Institutional Subsidy (IS):** The IS is administered by provincial human settlements departments. Currently, the IS is valued at R110,000 per unit and has been increased periodically in line with Construction Price Inflation along with other national subsidy instruments. This subsidy is an instrument constant over the period of the study. The IS flows from National DHS to Provincial DHS as one part of the Human Settlements Development Grant (HSDG). The subsidy quantum is a set amount and requires project level detail (unit numbers) as the basis of allocation. A total of R3,589,189,225 or 3.3% of the total HSDG grant flowed to Provinces as Institutional Subsidies to support the delivery of social housing (DPME, 2016). This is a capital contribution towards delivery. Operating expenses are considered separately. (Note that the application of the Institutional Subsidy is not uniform across provinces).

- **Equity from the SHI:** Equity contributions are sought in respect of the Social Housing Policy. In most cases SHIs are required to invest some equity in social housing projects. Currently, this is limited to an average of 3% of total capital costs in social housing projects. As the sector and SHIs mature, it is likely that the level of equity invested will increase, thereby gradually reducing the reliance on subsidies. However, the ability of SHIs to generate equity is affected by the need to deliver and maintain quality products in good locations, and to maintain tight rental target levels. It is, therefore, unlikely that most SHIs in South Africa will be able to detach itself from subsidisation in the foreseeable future.

- **Debt Finance:** Balance of financing for social housing is to be provided by debt. Currently, the bulk of debt finance is provided by Development Finance Institutions (DFIs), mainly the NHFC and the GPF. It should be noted that the SHP is the only subsidy programme to raise significant amounts of debt as a prerequisite for project implementation.

The ways in which the range of funding sources are utilised, and the purpose of that funding in policy terms, is shown in the figure below. (Note that the actual proportions will vary by project and institution and that the figures are general indications).
It is estimated that the subsidy portion of an average social housing project, combining the RCG and IS will provide around 60% to 70% of the finance needed to develop that project. The remaining 30% to 40% needs to be raised through equity from the SHI and loan or debt finance.

In most cases equity comprises less than 10% of the total project finance requirement, and debt finance accounts for approximately 30% (Centre for Affordable Housing Finance in Africa 2012). A few SHIs have secured loans from private banks but most of these have been limited in scope. The vast majority of debt financing is obtained from the National Housing Finance Corporation (NHFC), the GPF, and (historically) from DIGH. Given this financing situation, it is clear that the SHP has a complex housing funding model requiring the utilisation of a range of funding sources.

The following chart shows the average funding component for 12 SHIs by Equity, Subsidy and Debt

Source: SHRA
FINANCIAL COSTS OF SOCIAL HOUSING

The DPME Evaluation (2016) reports that funds invested in RCG-approved social housing projects constituted approximately R4,57-billion throughout the period of the ISHP and SHIP programme, inclusive of SHIP 5. This figure includes RCG and IS, debt, equity and other shareholders capital and is broken down as follows:

- Public Subsidy (National RCG and Provincial IS) comprises R1,92-billion of RCG subsidies at the national level (42% of total SH finance and funding) and R1,11-billion of provincially-sourced IS subsidies (24%).
- R1,12-Billion of Debt finance (25% of total SH funding and finance) flowed into SH in total, predominantly from the NHFC, GPF and DIGH. Therefore, a majority of the debt finance required comes from publicly-established and supported entities (NHFC as a national Human Settlements State Corporate, GPF as a provincially established and supported State Corporate).
- R0,34-billion of Equity and Shareholders Contributions (7% of total social housing funding and finance) and R0,084-Bn (2% of total funding and finance) donor funding.

In terms of financial revenues and sustainability of the SHP it is noteworthy that:

- A cost-benefit analysis (CBA) in 2010 determined that social housing has at least double the life of RDP housing and is more fiscally sustainable than RDP the long term (SHF, 2009).
- The CBA showed that while RDP housing creates a substantial lifecycle cost burden to municipalities this is not the case with social housing. While RDP unit costs are lower, these costs are carried by municipalities and not by residents;
- Since the inception of the RCG, no single project has defaulted on debt repayments to financiers (NHFC, GPF or DIGH);
- Rent collected from tenants contribute not only to maintenance of the subsidised stock but also to the public fiscus through the payment of rates and services changes to municipalities;
- In the rare incidences of a projects or institutions being in financial crisis due to rent boycotts, emergency financial arrangements have been made. This suggests that SHIs are able to manage and make contingencies in crises such as these.
CHAPTER 4: CURRENT STATE OF THE SECTOR

REGULATORY MANDATE
A core mandate of the SHRA is to regulate SHIs. In terms of the Social Housing Act, all projects funded through SHRA, regardless of where they are located and how they are funded, are now subject to regulation by the SHRA. No unregulated SHI is able to procure RCG funding from the SHRA, although private sector companies do not need to be accredited to apply for RCG funds. This is in order to ensure the significant state resources that have been, and are currently being channelled into social housing via participating SHIs are prudently invested and monitored over time. This requires the SHRA to undertake retrospective regulation of SHIs that had obtained institutional subsidies prior to the SHRA’s establishment.

The Act sets out the basis by which an SHI can be established, registered and accredited by the SHRA. SHIs must be registered with, and report regularly to the SHRA on their performance. This comprises the submission and approval of quarterly progress reports and full annual reports. SHIs are also required to obtain approval from the SHRA on their corporate governance, risk management and risk strategy policies with regard to development, operational, financial, property management, human resource, market, institutional and compliance risks; personnel and systems, and internal control and audit models.

REGISTRATION AND ACCREDITATION OF SHIs
The Social Housing Act, Section (13)(3) states that “An institution wishing to carry on the business of social housing must in the prescribed format apply to the Regulatory Authority for accreditation”. Section (13)(6) also states that “Should a social housing institution comply with all the qualifying criteria, it shall be accredited as a social housing institution in terms of the Act and its details should be entered in a register kept for this purpose by the SHRA. The qualifying criteria for the accreditation of SHIs are found in the Social Housing Regulations 3(1-9).

The SHRA operates a Register for all SHIs. Once registered, SHIs follow an accreditation process undertaken in conjunction with the SHRA’s Regulatory Division. Each SHI is evaluated on the basis of its capacity to meet a set of operational and financial objectives and is then categorised.

The reconstruction and development of a new accreditation process began in 2014 together with consultative engagements with the SHRA’s stakeholders. The result was communicated to the sector in a stakeholder engagement workshop on the 9 March 2016. The revised process will contribute towards a more streamlined, transparent and effective process which will ultimately simplify the accreditation process. This will require significant changes written into the accreditation rules and will ultimately need to be approved by the SHRA’s Council. While (as of April 2016) the rules have not been finalised, some of the key proposals are as follows:

- There will only be two categories of accreditation (for SHIs): Conditional and Full Accreditation.
- There will no longer be a category for Pre-accreditation.

A programme will be developed to support the applicants that are not accredited but have applied for accreditation in order to capacitate applicants with the potential of becoming accredited SHIs. However, conditionally accredited institutions will also qualify. The granting of conditional accreditation means that the institution must still become fully accredited.
There are 7 elements of qualifying criteria, Regulations 3(1-9) are;
1. Legal form;
2. Not for profit status;
3. Good governance;
4. Financial sustainability;
5. Tenant management;
6. Property management;
7. Property development.

All are considered Critical Qualifying Criteria, except for new accreditation applicants without any existing stock, for whom Tenant management and Property management are non-critical.

For established SHIs with existing stock applying for accreditation, if it is found that they meet all 7 elements of the above Qualifying Criteria the institution will be granted a Full Accreditation Certificate. If the applicant meets all 5 of the Critical Qualifying Criteria (but not one or both of the remaining two which are non-critical) they will be conditionally accredited. Conditional Accreditation Certificates will be valid for two years and, very importantly, will be linked to a conditional compliance plan supported through the SHRA’s Capacitation Programme.

In most circumstances newly established SHIs embarking on their first project would have no way of proving in their applications that they have good tenant management and property management records. But if they meet the 5 Critical Qualifying Criteria, they will be awarded conditional accreditation.

The SHRA will commit to working with conditionally accredited institutions and undertake capacitation with the objective that the institution will become fully accredited within a two-year period. This would usually include capacity development in tenant management and property management but may also include other areas of need. In the two-year period, SHIs will strive to graduate from Conditional to Full Accreditation.

Full Accreditation Certificates will be valid for five years. During this period, the fully-accredited SHI will be subject to the compliance monitoring set of rules. Thereafter, the SHI will have to reapply for accreditation six months before the certificate expires.

**ACCREDITATION PROGRAMME SEPARATED FROM INVESTMENT**

From 1st April 2016, the Investment function at the SHRA will operate independently from other functions (such as accreditation, compliance and capacitation) and become an entirely separate programme. The Accreditation programme will be separated from these other functions to ensure its independence and lessen any potential conflict of interest. This is a crucial risk mitigation measure and should improve the efficacy and integrity around the accreditation of entities and projects. The Accreditation programme will be based on risk management and quality management strategies. Once projects have become accredited, they will be handed over to the Investment programme to manage the project and to close out on completion. The role of the Compliance Division will come into play once projects are up and running.

One main objective of the separations of functions is to ensure that the accreditation process is open, equitable, fair, transparent and as simple as possible – while at the same time being efficient and cost
effective. This is precisely what is required per the Accreditation Rules – which is a SHRA policy document. The change was also motivated by feedback from the sector that the existing accreditation process was not sufficiently transparent and that the requirements were not well communicated.

INDEPENDENT AUDIT
The SHRA is planning to undertake a risk assurance exercise to have the reliability and completeness of its work assessed and verified. In most instances an exercise such as this would be undertaken by an internal auditor. However, in order to ensure maximum transparency in this audit, the Council’s Risk committee is considering ways in which to have the SHRA’s work independently examined by a qualified external and independent entity. The SHRA will use the information produced by the audit to ensure openness, equity, fairness and transparency in the accreditation process.

As part of this exercise, all 61 existing SHIs and the 21 new applications for accreditation will be subjected to an independent audit between April and June 2016. The auditors may have additional queries and require further work by the SHRA’s management. If they do, this would require the SHRA to communicate with the accreditation applicant about the matters raised by the auditors.

All applicants wishing to be reaccredited will be asked to apply in July 2016 after risk assurance exercise has been completed. This process will be concluded no later than 30 November 2016 (the accreditation cycle runs March to November) and will result in the issuance of accreditation certificates. The SHI also has the right in terms of Regulations 12 (1-7) to request (in writing) a review of any decision made by the SHRA as regulator that directly affects them as an institution.

CHANGES TO COMPLIANCE AND MONITORING FUNCTIONS
Significant innovations are also being made at the SHRA in terms of compliance and monitoring, specifically in terms the SHRA’s regulations 6(1-2). The reporting requirements and indicators will be refined and redeveloped. The proposed changes will be presented to and discussed with the Sector by 30th June 2016, for consideration by Council on 27th of July 2016 at the ordinary meeting. The indicators were considered by the SHRA Executive Committee in early 2016 which had which had many comments on the accreditation rules.

The new set of compliance and monitoring rules is characterised by greater clarity and is very understandable. The draft rules will, however, be further refined by mid-2016 to ensure there are no duplications and that any unnecessary or cumbersome aspect of the rules is removed. The SHRA is continuing to work on compliance side of the rules which need more attention because they are less advanced than the accreditation side of the rules. Broad consultation with the sector will take place before the final version of the rules is re-tabled at Council on 27 July 2016.

REGULATORY PERFORMANCE
The DPME Evaluation (2016) concludes that the social housing regulatory environment has been a positive factor in the sustained growth of the sector since 2008 but cautions that, more recently, the regulatory function may be becoming a disincentive to sector growth. The report identifies the need to consider greater rigour but reduced administrative burdens in SHI regulation. The SHRA’s proposals to streamline and simplify the accreditation process (into a two-tier system with Full Accreditation Certificates valid for five years) will aim to
balance the stringent regulatory requirements the SHRA is mandated to administer with the need to ensure that an unreasonable administrative burden is not placed upon the SHIs.

PERFORMANCE OF THE SOCIAL HOUSING SECTOR
Research by NASHO reported in their document the Social Housing Vision 2030 (a work in progress) noted that in 2013 there was an estimated total of about 32,000 social housing units in the country spread across an estimated 25 urban areas but predominantly in 9 metro areas, eThekwini, Msunduzi, Nelson Mandela Bay, Buffalo City, Johannesburg, Tshwane, Mangaung, Cape Town and Ekurhuleni and 3 local municipalities in Sol Plaatjie, Middleburg and Emahlaleni.

More recently, the DPME Evaluation (2016) indicates that, in terms of the delivery of social housing projects and units over the Interim Social Housing Programme (ISHP) and Social Housing Investment Programme (SHIP) between 2007/08 and 2014/15, “18,922 units of subsidised social housing have been approved by the SHRA in 68 separate Restructuring Capital Grant (RCG) projects across ten municipalities in seven provinces”.

The DPME also highlights the fact that “overall, SH project approvals increased between 2007/08 and 2012/2013 (in which the maximum number of twelve projects comprising 5,121 units was approved). Project approvals have been rapidly declining in the years since then”.

In terms of fulfilling the social housing mandate of contributing towards spatial, economic and social restructuring through access to affordable well-located housing for low to medium income households, the draft DPME (2015 V 2.0:46) concludes that social housing “generally delivers well-located rental units, predominantly through Greenfields development of good quality units on previously vacant land, in intermediate locations where SH contributes to infill and densification of the built form between inner city and township areas.”

The DPME report also recognises that the relative advantages of social housing in terms of its location between traditionally racially separate areas, the facilitation of access to transport routes and economic opportunities indicates that social housing is generally more effective than other interventions in relation to its “spatial, economic and social restructuring impact”. It is also recognised that social housing plays an important part in contributing to the restructuring of the existing low-density inner city settlement pattern through creating a more dense built form and by in-filling vacant land, and providing a more balanced set of unit types and sizes within affordability bands.

Social housing is an important element of inner-city revitalisation strategies of several cities. In a March 2016 presentation to the Parliamentary Portfolio Committee on Human Settlements, the NDHS (2016) noted that the Department, in close partnership with the SHRA, has initiated and implemented projects in line with the inner-city revitalisation strategies in municipalities including Umlazi, Johannesburg, Cape Town and Tshwane. Under the banner of a Nine Point Plan to facilitate local economic development in inner-cities. The Department (2016) emphasised that this initiative is part of the response to improve access to social rental accommodation.
REACHING TARGETS
The DPME Evaluation (2016) also concludes that SHIs have been generally effective in reaching target household income categories in the primary and secondary market but cautions that the non-indexation of income bands has made this increasingly difficult to achieve. Income band “leakage”, that is, the tenanting to households with incomes above the threshold, and concentrations of rentals at the income threshold maximum, has become more common.

Importantly, rental arrears in the social housing sector are low compared to what they were prior to SHRA regulation and are now generally in line with private sector rental providers. The nine largest SHIs reflect arrears of only five percent. The level of bad debt write-offs are relatively low across the sector, (DPME, 2016). The following graph shows the breakdown of unit allocation between primary and secondary market tenants, of 21 regulated SHIs. The relatively low allocation to primary market tenants at many SHI’s is indicative of the difficulty many Institutions find in making it viable to rent to this market in significant numbers. However, the experience of SHIs such as FMHC, FRESCO and GMHC illustrate that it is possible to do so.

Source: SHRA

TOTAL SOCIAL HOUSING STOCK UNDER MANAGEMENT
At the end of the 2014/15 financial year, there were 20 447 units under regulation. The majority of units are managed by fully accredited and conditionally accredited SHIs. The objective is that all units will ultimately be managed by fully accredited SHIs to achieve the intended impact and sustainability of the social housing programme.

As of March 2016, there were 61 SHIs which had sought accreditation, which have been processed and evaluated, and had achieved certain levels of accreditation. Of the 61 SHIs, 8 are fully accredited, 41 are conditionally accredited and 12 are not accredited (pre-accreditation) and do not yet qualify for RCG funds. All applicants have been made aware of the outcome but, as of April 2016, have not officially received an accreditation certificate.
SOCIAL HOUSING INVESTMENT PROGRAMME (SHIP)
The Social Housing Investment Programme (SHIP) has been functioning since Financial Year 2010/11 and Round 6 is being processed as of April 2016. The status of each SHIP round is summarised below:

SHIP 1: The first phase of RCG awards under SHIP was in 2010/11. A total of five projects were awarded to develop 1050 units to a value of R141 million. As of March 2016 four of those have been completed and one is still under construction.

SHIP 2: This round was completed in two phases. In SHIP 2A (2012/12) 6 contracts were awarded RCG grants to develop a total of 2640 units to a value of R340 176 785. Of these 5 have been completed and one is still under construction, In SHIP 2B (2012/13) a further nine projects were approved to develop a total of 1339 units to a value of R 173 041 323. To date, 7 of these projects have been completed, one is still under construction and one more is currently on-hold.

SHIP 3: (2012/13) A total of 12 contacts were awarded in SHIP 3A to produce 1818 units to a value of R230 046 070. Three have been completed and three are still under construction. In SHIP 3B (2012/13) a further 6 contracts were awarded to produce 3303 units to a value of R414 906 345. As of March 2016, one is complete, two are under construction, one is on hold and one was not implemented following a review of financial viability.

SHIP 4: (2013/14) A total of 7 contacts were awarded RCG grants to produce a total of 2277 units at a value of R257 200 000. Of these, one is contracted under construction, two are not yet contracted but are under construction, in two of them the Conditions Precedent (CP) and the Financial Closure (FC) milestones have been met and in one the CP milestone has been met.

SHIP 5: (2014/15) A total of 11 grant contracts have been awarded to produce 5398 units at R 678 117 850 (year just ended). Status currently shows that only 1 of these projects is complete (to produce only 8 units) and only 1 is under construction (to produce only 154).

SHIP 6: This is the most recent round (current year) the applications for which closed in March 2015. A total of 28 applications have been received and are being processed. Combined, the 28 proposals would yield a total of 12,249 units at a value of R1,571,066,805. As of March 2016, a total of 1305 units were already under construction to a value of R196 336 245. As of this date, the following batch – approximately 18 projects – were not yet under construction but would produce a total of 7455 units to a value of RCG R936 459 825.

The slow pace of development in SHIP 5 is of concern to the SHRA and will be addressed. The situation creates considerable difficulties in that the money of a particular financial year is contracted in (i.e. committed in a contact) but not actually being spent in that financial year. This is not a suitable cash-flow approach and puts the SHRA in a position of having to justify retention of services. The SHRA is fully committed to working closely with the SHIs and all relevant stakeholders to ensure that delivery occurs not only at scale but at an acceptable pace.

The table below sets the RCG budget allocation, the annual unit target, the value of the RCG awarded, the number of units awarded and the actual number of units delivered for each of the completed SHIP cycles.
The Project Pipeline refers to a snapshot of the set of development projects presently “in motion,” somewhere between application and completion. Projects that have potential will be identified, prioritised and allocated accordingly on the SHRA’s Project Pipeline. It also allows for the investment of Institutional grant funding to be made available to address capacity of SHIs in terms of institutional development and improvement of accreditation, project packaging, and risk management. This process enhances and grows the number of project opportunities within the Pipeline. The SHRA Project Pipeline Framework outlines the process to identify potential projects that could qualify for Capital Grant funding. The Pipeline Framework has been approved by the SHRA Council and will be implemented in 2016.

The major objective of the Framework is to align the delivery process of social housing amongst all the stakeholders and ensure that the process for delivery of homes to rent for the intended beneficiaries is seamless and continues to improve, because of the involvement of SHRA as the Regulator.

The objective(s) of the Project Pipeline Framework are:

- Alignment of the delivery process and responsibility for the SHRA, the Municipalities, the provinces and all the delivery agents;
- To identify and assess projects to be included in the Social Housing Project Pipeline.
- Develop a process and procedures for the collection, processing and dissemination of data, information and statistics.
- To drive readiness of the projects for accreditation and later for allocation and disbursement of capital grant approval and Institutional investment grant.
- To develop a cash flow model that will enable the SHRA and the NDHS to budget appropriately for the SHP.
- To align the pipeline to the budgeting processes of the provinces and municipalities and ensure that social housing is always catered for in the strategic business planning processes of the provinces and municipalities.

The DPME evaluation (2016) estimated that if its specific recommendations are implemented, a pipeline of projects could be facilitated to deliver up to 20,000 units over the MTSF period. Importantly, the DPME (2016) also projected that by the end of the MTSF period in 2019, the social housing sector should have a sustainable...
and growing pipeline of around 5,000 units per annum. The pipeline-related recommendations by the DPME included such factors as capacitating the SHRA, reviewing standards and targets (e.g. including bachelor units and shared facilities) and improving the monitoring and evaluation mechanism.

Significantly, the DPME Evaluation (2016) also expressed concern that there was no acknowledged social housing project pipeline at any Metro or municipality, nor at any Province. In determining the reason for this the report cited, misalignment and lack of coordination between the stakeholders, the failure of the SHRA to develop agreements with key role players; and the Provincial Steering Committees (PSCs) not operating effectively. The SHRA fully commits itself to working with key municipalities and provinces who are similarly committed, towards securing the development of project pipelines. The relevant authorities that govern particular localities will be the focus of the SHRA’s capacitation programme on a strategic partnership basis. The PSCs will also be the focus of capacity support in the short term where this is a need identified by the stakeholders.

PROVINCIAL SPECIAL PROJECTS (PSPs)
National Treasury (NT) has independently instigated an investigation into the PSPs. SHRA will await the outcomes of that investigation in order to determine the way forward on this matter. The SHRA has been, and will continue to be, under pressure to help improve the performance of housing delivery. Although partnering with provinces in order to scale up delivery provides the SHRA with the opportunity to assist provinces to meet targets, such partnering also brings with it a number of risks. The results of our initial endeavours of working together with the provinces to improve on housing delivery were not successful as SHRA did not have the necessary systems, policies and procedures in place at that time. Although the credibility and reputation of the SHRA were compromised, it also provided us with an opportunity to identify gaps and streamline our systems so that going forward we will be able to minimise the risks associated with partnerships of this nature and ensure greater transparency and accountability.

INSTITUTIONAL INVESTMENT GRANTS
The SHRA’s Institutional Investment function has, to date, focused largely on the award of institutional investment grants as a response to requests received on an ad-hoc basis. As noted in the Strategic Plan, however, this function needs to be extended in accordance with a capacitation development framework and ultimately a growth and development strategy to include the full range of grants as set out in the Social Housing Policy. The targeted award and planning of these grants should ensure maximum impact on the SHP as well as full sector capacitation, sector research and strategic stakeholder engagement.

INTERVENTIONS
The SHRA is empowered to intervene if it is satisfied on reasonable grounds that there has been maladministration by an SHI. This intervention comprises informing the SHI and supporting it in addressing the problem. Should the SHI not cooperate in this regard the SHRA is then mandated to take over the administration of the Institution.

OTHER SHRA FUNCTIONS
RESEARCH
A research function is assigned to the SHRA under the Social Housing Act but has not to date been developed as a formal organisational programme. It is recognised, however, that a deeper and broader understanding of the sector, and the socioeconomic environment in which it operates, would improve not only the ability of SHRA to perform its functions (in terms of Regulation, Investment and Intervention) but may also assist delivery agents in their development and business planning. The SHRA is committed to developing its research capacity in the service of providing critical information to strengthen the sector and ensure that our delivery targets are met. In the coming year, the sector will be consulted to help the SHRA create an appropriate research agenda to grow the national housing programme.

PARTNERING WITH OTHER ORGANISATIONS
The SHRA partners with a range of other government and non-government organisations and entities including:

- National Association of Social Housing (NASHO)
- National Housing Finance Corporation (NHFC)
- Provincial Rental Tribunals
- Provincial Departments of Human Settlements
- Provincial Steering Committees
- Service providers Municipalities Funders and financial institutions
- Other Human Settlements sector entities and stakeholders

ATTRACTING PRIVATE SECTOR INVESTMENT
The Social Housing Policy emphasises the need to maximise private sector involvement as a key principle to guide housing policy and strategy. The policy asserts that growth in the delivery and management of social housing will best be achieved through the involvement of the private sector and emphasises the need to:

“Promote the use of public funds in such a manner that stimulates and/or facilitates private sector investment and participation in the social housing sector. Public sector investment should be used to gear the private funding provided for social housing in order to obtain maximum benefit for both the social housing institutions and its residents (Social Housing Policy 2003:6).

To date, the private sector has not played a primary role in financing, delivering and managing social housing in as envisaged by the Social Housing Policy.

The Treasury Expenditure and Performance Review (2016) identified and analysed four possible roles for the private sector.

- As a developer of Stock: Operates as a contractor to SHIs, in order to develop stock on a turnkey basis OR designing, financing and building stock that is then transferred to SHIs to manage. Treasury (2016) notes that this option is generally not favoured by SHIs who aim to keep tight control over the design, build and finance process in order to ensure development outcomes
- Private companies functioning as ‘Social Housing Institution’: This would entail mobilising private sector property management capacity into the social housing market.
- Private Sector as Financial Product Providers: Identified potential for private sector entities to structure financial products of relevance to SHIs. This could include guarantees, insurance products, syndicated funds, securitised portfolios and partially or fully-underwritten lending portfolios.

- Private Sector institutions functioning as social housing financiers providing financing to projects and/or SHIs. To date, however, only a few financial institutions have provided financing but this is an area of significant potential as the sector stabilises and grows and as well-functioning SHIs further establish reputations as financially sound institutions.

A 2012 report prepared for Nedbank by the Centre Affordable Housing in Africa investigated opportunities for private sector investment in social housing. The report envisaged that by around 2020 there will be some larger SHIs operating in the sector that will be well managed and will have a substantial amount of rental stock, which will result in an income stream that can be used to gear commercial loans.

Research undertaken by NASHO (2015) concluded that a strong regulatory framework, especially the accreditation process and how SHIs are regulated, has an important impact on risk management for lenders. The report notes that beyond the regulatory context, private lenders want to see strong professional with sound governance, strong leadership and a good balance sheet. Viable projects with solid cash flows and healthy debt coverage ratio are also critical (a function of the funding mechanism).

It is important to note that a number of existing, more established SHIs have developed successful relationships with private lenders and that these “leading” SHIs can perform an important role in addressing the reluctance of the private finance sector. The following examples illustrate the benefits of such relationships.

**FLEURHOF DEVELOPMENT IN GAUTENG**

Fleurhof Views is the first social housing projected developed in Fleurhof Ext 2. The 440ha land area of Fleurhof Ext 2 comprises various types of residential units and forms of tenure that have specific economic target markets – Fully subsidised RDP/BNG housing, Gap, Social rental, Open market rental and Affordable bonded housing. This development undertaken by Calgro M3 on a turnkey basis for Madulammoho Housing Association in Johannesburg.

For this project Calgro M3 accessed project finance from Absa Devco. To meet Absa DevCo’s concerns regarding the risk of subsidy payout on a timeous basis, the SHRA put the entire subsidy commitment into an escrow account to guarantee its availability, and then paid out the tranches as agreed into the Imprest Account. No other guarantee was offered. The mechanism worked. Absa DevCo was sufficiently confident of the availability of funding and on this basis made its loan available. A tripartite agreement was signed between the SHRA, the SHI and the developer.
ISIP, a property development company (Other Delivery Agent) was awarded grant funding for 1168 units in Klerksdorp. This is a first social housing project for the North West Province. The project was funded through a mix from the National Empowerment Fund and NHFC. The contractor on the projects is Stefanutti Stocks which is a JSE listed company. To meet the NEF’s concerns regarding the risk of subsidy payout on a timeous basis, ISIP and Stefanutti Stocks put the entire subsidy commitment plus the senior debt facility into an escrow account to guarantee its availability, and then paid out on proven expenditure in line with the JBCC contract between the parties.

SHI ACCREDITATION

In the 2014/15 financial year, the SHRA awarded Full Accreditation to 8 SHIs and Conditional Accreditation to 40 SHIs. Pre-accreditation was awarded to 12 SHIs, 2 of them with existing stock and 10 of them without existing stock. One Co-operative was awarded Conditional Accreditation, A total of 5 institutions withdrew their applications while 8 applications were declined by the SHRA. This is demonstrated in the following Pie Chart.

The table to the left shows the total target number and the actual number of SHIs that had been accredited by the end of each financial year from 2011/12 to 2014/15. It is noteworthy that by the end of 2014/15 the actual number of entities accredited had exceeded the target number by 6.
The figure to the right shows the percentage of units allocated per accreditation to the end 2014/15. (44%) percent of units were developed by conditionally accredited institutions, 40% of units were developed by conditionally accredited institutions, while 16% of units were developed by Pre-accredited institutions. (Note that there will no longer be a category of for Pre-accreditation).

As demonstrated by the following graphic – in the 2015/16 financial year: 8 pre-accredited SHIs became conditionally accredited, 1 pre accredited SHI became fully accredited and 1 conditionally accredited SHI became fully accredited.
The following table gives a breakdown of the accreditation status of SHIs over the last four financial years:

**Number and Accreditation Status of SHIs 2011-2014**

<table>
<thead>
<tr>
<th>Accreditation Status</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Accredited</td>
<td>1</td>
<td>3</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Conditionally Accredited</td>
<td>17</td>
<td>15</td>
<td>12</td>
<td>13</td>
</tr>
<tr>
<td>Pre-Accredited</td>
<td>N/A</td>
<td>15</td>
<td>23</td>
<td>28</td>
</tr>
<tr>
<td>Withdrawn</td>
<td>N/A</td>
<td>N/A</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Declined</td>
<td>8</td>
<td>0</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>

The map below shows the number of accredited SHIs and units under regulation per province as of the end of 2014/15.
SHI PERFORMANCE

The following chart sets out the findings of the areas of weakness among the 61 accredited SHIs. These are important findings that will help inform the capacitation programme (as described in this report). The number given at the top of each bar denotes the number of SHIs out of the 61 assessed.

![Graph showing areas of weakness](image)

Each of the seven main performance indicators probed by the assessment are represented in the above chart. However, each of these assessment areas are further broken down into sub-indicators (ranging from two to ten). The findings of the assessment of each sub-indicator of each of the seven indicators are shown in the following bar charts.

![Sub-indicator performance for Legal Form](image)

![Sub-indicator performance for Not for Profit](image)
GOVERNANCE

<table>
<thead>
<tr>
<th>Category</th>
<th># of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Composition</td>
<td>24</td>
</tr>
<tr>
<td>Risk Management</td>
<td>25</td>
</tr>
<tr>
<td>Policy Development</td>
<td>25</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>15</td>
</tr>
<tr>
<td>Transfer of Stock</td>
<td>1</td>
</tr>
<tr>
<td>Policy Approval</td>
<td>1</td>
</tr>
<tr>
<td>Board Charter</td>
<td>19</td>
</tr>
<tr>
<td>Founding Documents</td>
<td>19</td>
</tr>
<tr>
<td>Fraud &amp; Corruption System</td>
<td>18</td>
</tr>
<tr>
<td>Legal Compliance</td>
<td>22</td>
</tr>
</tbody>
</table>
FINANCIAL SUSTAINABILITY

<table>
<thead>
<tr>
<th>Category</th>
<th># of Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired Financial Performance</td>
<td>3</td>
</tr>
<tr>
<td>Reporting Anomaly</td>
<td>4</td>
</tr>
<tr>
<td>Reporting Inefficiency</td>
<td>26</td>
</tr>
<tr>
<td>Key Staff Capacity</td>
<td>1</td>
</tr>
<tr>
<td>Imprest Account Funds Not Returned to SHRA</td>
<td>1</td>
</tr>
<tr>
<td>Policy Approval</td>
<td>1</td>
</tr>
<tr>
<td>Financial Business Plan</td>
<td>1</td>
</tr>
<tr>
<td>Policy Development</td>
<td>19</td>
</tr>
</tbody>
</table>
PROPERTY MANAGEMENT

<table>
<thead>
<tr>
<th>SERVICE</th>
<th># OF CASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDING CONDITION AUDIT REMEDIES</td>
<td>3</td>
</tr>
<tr>
<td>LONG TERM MAINTENANCE PLAN</td>
<td>3</td>
</tr>
<tr>
<td>POLICY DEVELOPMENT</td>
<td>25</td>
</tr>
<tr>
<td>MAINTENANCE RESERVES</td>
<td>1</td>
</tr>
<tr>
<td>RENTAL INCREASE SYSTEM</td>
<td>23</td>
</tr>
<tr>
<td>RENT SETTING POLICY</td>
<td>22</td>
</tr>
<tr>
<td>VACANCY MANAGEMENT</td>
<td>1</td>
</tr>
<tr>
<td>RENT COLLECTION SYSTEM</td>
<td>21</td>
</tr>
<tr>
<td>POLICY APPROVAL</td>
<td>2</td>
</tr>
</tbody>
</table>

PROPERTY DEVELOPMENT

<table>
<thead>
<tr>
<th>DEVELOPMENT TYPE</th>
<th># OF CASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLICY DEVELOPMENT</td>
<td>24</td>
</tr>
<tr>
<td>POLICY APPROVAL</td>
<td>1</td>
</tr>
</tbody>
</table>
CHAPTER 5: IMPLICATIONS FOR SHRA AND SOCIAL HOUSING GOING FORWARD

The DPME evaluation (2016) concludes that the policy motivation for social housing to intervene in an area of housing market failure by providing good quality, well-located rental housing affordable to low and middle-income households remains strong. It is widely acknowledged that left alone South Africa’s housing market will simply not provide a sufficient supply of affordable rental accommodation for these income groups. The continued and in-migration to cities, particular metros, as detailed in this report, adds further weight to this conclusion.

CHALLENGES FACING THE SECTOR

There are a range of challenges facing the sector which have been recognised by key sector players themselves and well as external agencies such as the DPME (2016) and Treasury (2016). The most significantly identified challenges are as follows:

- SHI Capacity: While there has been significant progress in improving overall skills and capacity within SHIs, many institutions still do not have the necessary level of skills in key areas of governance.
- The ability of the existing SHIs to deliver: Related to the above issue of capacity is the concern as to whether at least some existing SHIs can expand sufficiently to deliver the number of units for which there is funding.
- Access to loan finance for SHIs: The reluctance of private sector financial institutions to fund projects in the social housing sector limits the ability of SHIs to access the matching loan funding required.
- Affordability for tenants: Both the economy and escalating costs undermines tenant’s ability to make rental payments.
- Impact on integration and the restructuring of cities: The extent to which the RZs are an effective mechanism for achieving the key requirement of integration and restructuring is questioned. The DPME Evaluation (2016) concludes that there are too many RZs and often they are too large for social housing projects within them to make a sufficient impact.
- Matching the RCG and the Institutional Subsidy: There is a need for better alignment between the restructuring grant and the institutional subsidy. There is a need for stronger coordination within the sector specifically around the Project Pipeline.

Some of these challenges are reflected in the SHRA’s own findings as reflected in the bar charts of the previous section. Of particular note is the lack of policy development in SHIs the areas of governance, financial sustainability, property management and property development in many SHIs.

PROJECT FEASIBILITY AND SUSTAINABILITY

In terms of securing project feasibility and SHI sustainability, proposals will be tabled before Cabinet to adjust the RCG quantum and income bands to enable the SHRA to unlock the pipeline projects and increase delivery in the remaining three years of the MTEF to reach the target of 27,000 units. Critically, Treasury has noted the need for this proposal.

In February 2016, National Treasury released an Expenditure and Performance Review of the funding model for social housing. Among a range of findings the review identified the need to:
- Increase the RCG quantum to compensate for the lack of annual escalation since 2008 and the implementation of annual inflationary increases in future;
- Raise eligible Income Bands for the Primary Market from R3 500 to R5 500 household income per month, and for the ceiling from R7, 500 to R10 000 household income per month to compensate for the lack of indexation since 2008 and index these income bands every three years; and
- Explicitly allow for a CPI-linked or similarly indexed annual rental escalation in social housing projects.

**CAPACITY IN THE SECTOR**

Underlining the critical role of the SHRA as Capacitor, the DPME Evaluation (2016) noted that while the Institutional and Funding framework of the social housing programme is complex, there are clear roles and responsibilities in respect of the key stakeholders. The report affirmed that the most significant of these is the SHRA which is tasked with investing in the sector on behalf of government and SHIs as the implementing agents responsible for developing and managing social housing stock. The sector requires substantial capacitation in key areas if the delivery targets as set out in the MTEF are to be reached by 2019 and the SHRA is fully committed to ensuring that such capitation support is implemented.

In sum, capacity building in the sector needs to primarily focus on:
- Building the capacity of SHIs and the sector to achieve its identified and desired objectives which are the number of units targeted for delivery in terms of the MTSF (currently 27 000 units delivered by 2019), and
- Building the knowledge base and advancing the field (expanding public/political understanding of social housing delivering support services, connecting networks, promoting/developing joint ventures, documenting best practice and research in the sector);
- Building the capability of individuals to meet the output requirements of their organisations
- Ensuring that these organisations are aligned to strategic intent for the sector.

The current Strategic Plan (2014-19) commits the SHRA to a programme of capacitation (also called “institutional strengthening”) which includes

1) Assessment and management of funding interventions to assist SHIs to improve operational performance and expand capacity for future growth; and

2) Project Improvement, which entails the provision of funding for work that will assist project applications to be stronger and be more likely to procure Restructuring Grant assistance.

The SHRA will adopt a more programmatic and strategic approach to ensure that the Capacitation Programme supports the overall National Social Housing Programme intent. Capacitation will have a locational and restructuring focus. The relevant authorities who govern particular localities will also be the focus of the SHRA’s Capacitation Programme on a strategic partnering basis (Municipal and Provincial Strategies). Local areas identified for a restructuring focus will be supported through a capacity assessment and a capacity plan. The SHRA will enter into contracts with municipal authorities to support their local strategies and with implementers to make sure that their planned projects are commenced and completed.

As previously noted, the PSCs will also be provided with capacitation support where the need is identified by the stakeholders. A revised Social Housing Capacitation Framework will seek to achieve both multi-year project readiness and position SHIs to scale up.
Capacitation will take place to ensure proper alignment at local authority level between the provincial budget, the local authority plan, the SHI and the national programme, Local areas identified for a restructuring focus will be supported through a capacity assessment and consequential capacity plan.

Importantly, the capacitation programme will be clustered with the social housing investment programme to accommodate a multi-year project planning approach that will ensure both project readiness and achieve restructuring results. What this will ensure for the capacitation programme is that it is not de-linked from the sector’s objective to restructure towns and cities, nor is de-linked from the sector’s objective to produce housing at scale.

The capacitation programme and the investment programme are critically interlinked. Key areas of the capacitation programme that reflect this alignment include:

- Implementation of the Institutional Investment Grant Programme in terms of the approved guideline and policy to also assist with technical support services and advice and other support to the sector;
- Development of a growth and development strategy, of which this framework will form the basis and to also be informed by the implementation of the grant programme;
- Determining the state of the sector on an annual basis to assist with the monitoring and evaluation process;
- Undertaking research in terms of an agreed research agenda, to be reviewed on an annual basis and to also ensure co-operation with other sector stakeholders, such that product development (unique and specialised products for the sector), capturing of best practices in the sector and building an information hub for the sector, advocacy and policy development work may be appropriately prioritized, undertaken and informed;
- Aligning sector stakeholders and facilitate and strengthen networks and partnerships.

The categories of capacitation are:

- Pre-accreditation grants
- Staff gear up
- Project feasibility grants
- General capacitation grant
- Section 12 and other interventions concerning the regulatory sections of the Social Housing Act.

**FUTURE OF SOCIAL HOUSING IN SA**

While it identified numerous challenges in the sector, the DPME evaluation concluded that there continues to be a need for the social housing programme and that the programme has delivered value for money in terms of the utilisation of public funds for the development viable rental stock over the medium to long term. Significantly, the report also emphasised that the social housing programme is the only state subsidy programme to gear public money with significant private investment.

While noting that there were reservations regarding the efficacy of certain aspects of the social housing programme the DPME evaluation acknowledged the potential of the sector to deliver substantially greater value for money. The SHRA, and indeed the sector itself, is strongly committed to realising that potential. Positively the report also noted that that the levels of directed policy outcomes, transparency, control and regulation, and delivery of accommodation in relation to public money invested, in the social housing programme exceeds most other public subsidy programmes.
The Evaluation also concluded that the social housing policy and regulatory framework is generally sound and has been an important stabilising factor in the growth and development of the sector. This conclusion was qualified, however, by the finding that there have been flaws in implementation. As, set out in this State of the Sector Report, the SHRA, in full partnership with its key stakeholders, is fully committed to implementing the required changes to ensure successful regulation of and investment in social housing.

Underlining the fundamental soundness as well as the uniqueness of the social housing programme the DPME (2016:70) reports asserts:

“The creation of a portfolio of affordable rental units that does not directly or adversely compete with other (non-subsidised) rental sub-markets in most areas, is financially sustainable in the medium to long term, and benefits more than a single beneficiary household in the lifetime of a single subsidy contributed, is unique amongst all state subsidy programmes.”

Highly significantly, the report also concluded that role of social housing and SHIs play in contributing better quality to the lives of residents can create inter-generational benefits that break the cycle of deprivation. This helps ensure that, over the long term, social housing residents and their children are not only less likely to fall into poverty but become part of what is sometimes called a ‘virtuous housing cycle.’ In this cycle, tenants pay rent, housing stock and environments are maintained, and the SHIs contribute on-going revenue streams to municipalities through rates and service charges.

The DPME evaluation (2016) concluded that while social housing was never intended to be a mass housing delivery programme, the sector has not fully met its potential as a creator and deliverer of affordable rental accommodation. While noting that the sector grew at a steady pace over the first five years and that ISHP and SHIP programmes and delivered stock that has generally met its primary and secondary markets, the report also expressed concern that delivery may stagnate in 2016/17 unless urgent actions are taken. These concerns were based on what the DPME report identified as:

- Limited pro-active investment in the development, capacitation and growth of SHIs and a capacitation programme that does not fully recognise the needs of and the complexity of the sector;
- An inflexible regulatory framework and complex accreditation processes with increased administrative burdens;
- Continued erosion of social housing project feasibility (and hence SHIs long-term sustainability) due largely to the gradual erosion of the value of the RSG and unrealistic income bands for tenants.

Invigorated with new organisational leadership and an influx of skills, the SHRA, in full partnership with key stakeholders in the sector, is in the process of developing and will implement:

- A capacitation programme to be clustered with the social housing investment programme to accommodate a multi-year project planning approach that will ensure both project readiness and achieve restructuring results; and
- A new accreditation programme which will be split from the ensure the independence of the grant and the regulatory process from the funding process, thereby establishing better governance controls.
The SHRA is further committed to improving its technical monitoring to help ensure that once funds are transferred, the Authority will have hands and feet on the ground to ensure that what is being built achieves the objective of the vision.

Another key recommendation arising from the DPME Evaluation (2016) was that the SHRA urgently engage with the larger, more stable SHIs, and the Provincial and City authorities where they are located, to agree upon the basis by which projects are identified and included on the SHIP. It is noteworthy that the NASHO Social Housing Vision 2030 report (in progress) makes a similar case and notes that it is the larger, more well-established SHIs that will be more likely, if properly supported, to produce higher numbers of units in the short term. Importantly, the DPME Evaluation (2016) clarifies that this recommendation for the SHRA is not intended to discourage the development of new SHIs, but rather to recognise the reality that social housing development capacity for the remainder of the MTSF period will predominantly come from existing well-established SHIs.

OVERALL CONCLUSION
It is evident that the social housing sector has played a crucial role to date in terms of providing well located rental stock for the targeted low to medium income households. However, the full potential of social housing to substantially contribute to the national priority of restructuring of the South African urban fabric to address structural, economic, social and spatial dysfunctionalities and contribute to the overall functioning of the housing sector has not yet been fully realised. The Social Housing Programme has great potential to be a central component and lead-catalyst of a broader coordinated restructuring framework, the successful implementation will require strong and highly collaborative cross-sector and inter-governmental coordination efforts. If the changes and innovations for SHIP capital funding, accreditation, SHI capacitation and other initiatives outlined in this report are successfully implemented, the social housing sector is will be fully prepared to be part of this endeavour.
REFERENCES


National Department of Human Settlements (2016): Responses to SONA and Budget Speech – 2016 Mr M. Tshangana (Presentation made to the Parliamentary Portfolio Committee on Human Settlements – (8.3.1016)


Presidency (2008): For Outcome 8 Delivery Agreements: Sustainable Human Settlements and Improved Quality of Household Life


SHRA: Annual Report 2014/15

SHRA (2016): PowerPoint and verbal presentation and ensuing discussion at the Social Housing Consultative Forum 9 March 2016, led by SHRA CEO Rory Gallocher


A Social Housing Policy for South Africa: Towards an enabling environment for social housing development Revised draft (July 2003).