

**A SOCIAL HOUSING POLICY  
For SOUTH AFRICA**

*Towards an enabling environment for social housing  
development*

Revised draft  
July 2003

# OUTLINE OF THE DOCUMENT

---

PREAMBLE.....	3
1. POLICY OBJECTIVES .....	4
2. DEFINITION OF SOCIAL HOUSING.....	4
3. GUIDING PRINCIPLES FOR SOCIAL HOUSING.....	5
4. MARKET NICHE OF SOCIAL HOUSING.....	8
4.1 NATIONAL PARAMETERS IN DEFINING THE MARKET NICHE.....	8
4.2 RESPONDING TO MARKET DEMAND.....	9
4.3 PRODUCT AND QUALITY.....	10
4.4 TENURE SECURITY.....	12
4.5 INTEGRATED DEVELOPMENT.....	13
5. LEGISLATIVE, INSTITUTIONAL AND REGULATORY ENVIRONMENT .....	13
5.1 LEGISLATIVE ENVIRONMENT.....	13
5.2 INSTITUTIONAL ARRANGEMENTS FOR THE SECTOR.....	14
5.2.1 <i>Social Housing Institutions</i> .....	14
5.2.2 <i>Roles and responsibilities of sector institutions/organisations and tiers of government</i> .....	16
5.3 SOCIAL HOUSING INSTITUTIONS ACCREDITATION.....	20
5.3.1 <i>Accreditation process</i> .....	20
5.3.2 <i>Local government support</i> .....	21
5.3.3 <i>Social Housing Accreditation Board</i> .....	21
5.3.4 <i>Accreditation criteria</i> .....	21
6. CAPACITY BUILDING IN THE SOCIAL HOUSING SECTOR.....	22
6.1 CAPACITY BUILDING OF HOUSING INSTITUTIONS.....	23
6.2 CAPACITY BUILDING OF OTHER SUPPORT ORGANIZATIONS.....	24
6.3 CO-ORDINATING CAPACITY BUILDING INITIATIVES.....	24
7. FINANCE FOR SOCIAL HOUSING.....	24
7.1 CAPITAL GRANTS FOR SOCIAL HOUSING PROJECTS.....	24
7.1.1 <i>Basic objective of subsidising social housing projects</i> .....	24
7.1.2 <i>Institutional and project eligibility</i> .....	25
7.1.3 <i>Specifying the grant</i> .....	26
7.2 SHI CAPACITY-BUILDING GRANTS AND ESTABLISHMENT COST GRANTS.....	27
7.3 TAX INCENTIVES FOR SHIS .....	27
7.4 RISK MITIGATION MEASURES AND ACCESS TO CREDIT.....	28
7.4.2 <i>Accreditation process</i> .....	29
7.4.3 <i>Default risk insurance scheme</i> .....	29
7.4.6 <i>Complementary policy initiatives</i> .....	29
8. POLICY IMPLEMENTATION: A ROLL-OUT STRATEGY .....	30
ANNEXURE A: LEGISLATIVE ENVIRONMENT AFFECTING SOCIAL HOUSING SECTOR.....	31
ANNEXURE B: STEP - WISE DIAGRAM OF SOCIAL HOUSING INSTITUTION (SHI) ESTABLISHMENT AND ACCREDITATION PROCES S .....	33
ANNEXURE C: INTERNATIONAL SOCIAL HOUSING DEVELOPMENT.....	35

**DRAFT SOCIAL HOUSING POLICY**  
*- Towards an enabling social housing environment in South Africa-*  
**REVISED DRAFT**  
**June 2003**

---

**PREAMBLE**

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

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

The Government remains committed towards the overall objective of the creation of sustainable human settlements and to achieve this the following key principles guide housing policy and strategy:

- (i) Restoring and furthering human dignity and citizenship
- (ii) Integrated development planning and funding alignment;
- (iii) Quality products and environments responsive to the demand of the target community;
- (iv) Inner city regeneration and rental housing provision;
- (v) Maximum private sector involvement, and
- (vi) A procurement regime compliant to the provisions of the Constitution, 1996 and the Public Finance Management Act, 1999.

The Government has acknowledged that the development of acceptable and sustainable medium density rental housing can only be realised through sustainable social housing institutions and adequate private sector involvement. Social housing has shown to be able to significantly address concerns around urban regeneration and improve housing densities. It clearly contributes to sustainable development, especially when location, integration, viability and sustainability are carefully considered. It has shown to promote the effective and efficient management of rental and/or collective forms of accommodation (with emphasis on long term management and maintenance) and stimulated an economic contribution by way of regular payments to local authorities for services provided. The sector is showing an ability to facilitate local economic development through supporting local economies and stimulating a fiscal benefit that exceeds public sector investment in housing. Therefore, the macro objectives of promoting citizenship, democracy and good governance are contributed to by social housing. Local authorities by implication have a key role to play as partners in social housing development.

To date, social housing has emerged as a result of fragmented organisational will, rather than as a result of a supportive policy environment. Social housing, in various forms, has been implemented on a pilot basis over the last five years, with the emergence of some 60 Social Housing Institutions (SHIs) to date. The social housing sector however, has been dependent on various international donors for funding support. This support is limited and finite, and alternative funding sources will have to be provided for the sector. To date, only limited private sector support and funding has been brought into the sector. This limitation is in large measure caused by the lack of a defined policy and regulatory environment.

To achieve its housing objectives and to provide coherence to the social housing sector, the Government will pursue the establishment, regulation and maintenance of social housing institutions through a structured and dedicated policy programme. This Social Housing Policy outlines the Government's proposed range of interventions as an overarching approach to stimulate the development of the sector. The overall purpose of this policy is to establish a mechanism in terms of which Government can create an enabling environment for the development, delivery and maintenance of the social housing sector required to deliver housing opportunities at scale in South Africa. In order to achieve this, the document suggests, *inter alia*:

- ? Changes to the institutional framework for social housing;
- ? A new funding framework for the sector to ensure that institutions are adequately funded to the point where their growth becomes organic without any further subsidisation; and
- ? A regulatory framework based on a best practice regime.

## 1. POLICY OBJECTIVES

The overall objective of this policy document is to create an enabling environment for the social housing sector to develop, grow, and deliver at scale. This policy document is an overarching document focusing on the basic principles, framework and institutional parameters required in the sector to ensure that viable, robust housing institutions are established and are operating in the sector. The housing institutions will be able to access different operational programmes under this policy, such as e.g. the medium density housing programme, for specific project development.

The specific objectives of the policy document are therefore:

- ? To define key terms to ensure common understanding and synergy in the sector;
- ? To lay down general principles for the social housing sector;
- ? To define the legislative, institutional and regulatory environment in which the sector will operate;
- ? To provide for a Government funding mechanism for the social housing sector to facilitate the specific targets noted in the policy;
- ? To promote capacity building for the sector; and
- ? To provide measures to encourage the sustainability and growth of the sector at scale.

## 2. DEFINITION OF SOCIAL HOUSING

Social housing and social housing policy must be clearly conceptualised and understood. Therefore, a clear definition of the concept and its relation to the broader housing development environment is required.

In the context of this policy, social housing is defined as:

**“A housing option for low-to-medium income persons that is provided by housing institutions, and that excludes immediate individual ownership”**

Clarification of the terms used in the above definition of social housing

In the context of this policy, a housing institution is defined as a legal entity established with the primary objective of developing and/or managing housing stock that has been funded through the grant programmes specified in this policy. The housing stock can be owned by the housing institution, or it can be owned collectively by a grouping of residents. Housing institutions should not be seen as short-term vehicles for

providing housing to a specified market segment, but are seen as robust, sustainable institutions, established to provide the social housing option. Housing institutions will therefore have to demonstrate financial and operational sustainability over time while adhering to the guiding principles for social housing.

Social housing is not an option for the very poor. By its very nature, persons accessing accommodation from housing institutions will have to earn a secure income, formally or informally, to be able to afford the rental or other periodic payment for accommodation. Furthermore, social housing cannot be limited to specific income groups if the broader integration, regeneration and market demand objectives are to be realised. The housing option therefore should promote a mix of income groupings covering both low income and medium income persons, as prescribed in the regulations for social housing from time to time. Government's funding objectives will, however, remain to be focused on the lower income end of the target market.

Although social housing in the context of the medium density and inner city regeneration objectives will only be affordable to the medium to higher income categories within the target group, social housing projects could still include initiatives where beneficiaries participate in the solution of their housing needs through the People's Housing Process. The programme could thus also cater for the lowest income categories under such circumstances. Ultimately the Members of the Executive Committee responsible for Housing of the Provincial Governments (MEC) will have to be convinced that a particular project represents a social housing approach solution as opposed to the normal project-linked subsidy projects via the People's Housing Process route.

Social housing primarily covers the rental tenure option and excludes immediate individual ownership by the residents. The social housing option is not intended to be used by beneficiaries seeking immediate individual ownership, as other options have been created within the Housing Subsidy Scheme to accommodate such needs. The social housing option, however, does allow for collective forms of ownership, on condition that the persons involved and being housed through collective ownership, are fully aware, understand and subscribe to these forms of collective ownership options. The conversion of these rental schemes into ownership options is not excluded. Such conversions, however, will only become viable options in the long term, and will be based on feasibility studies confirming the sustainability of such a conversion scheme and that of the SHI concerned. Under normal circumstances the conversion of rental schemes to sale options should not be considered within the first 10 to 15 years.

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

### **3. GUIDING PRINCIPLES FOR SOCIAL HOUSING**

This section sets out the principles for social housing that will guide the Government in creating an enabling environment for the delivery of social housing. These principles are the fundamental premises upon which Government will develop and apply its policy, legislation and regulations for the sector. These, therefore, comprise some of the premises upon which social housing institutions will operate and promote the growth and development of the social housing sector.

Social housing must adhere to the general principles laid down in the Housing Act, 1997 (Act 107 of 1997) Part 1 Section 2, as well as in relevant sections of subsequent legislation such as the Rental Act, 1999 (Act 60 of 1999). In addition, the policy must be read in conjunction with the White Paper on Housing (1994), the Urban Development Framework (1997) and with the National Housing Code.

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

**Social housing:-**

- ? **Must promote the social, physical, and economic integration of housing development into existing urban and/or inner-city areas through the creation of quality living environments.** Social housing has the specific objective of achieving urban regeneration, especially in inner city areas. Social housing developments must consider and be based on integrated development planning. Therefore, social housing developments should be in line with local Integrated Development Plans (IDPs) and other related plans created for the promotion of integrated development in urban areas. Including in this concept is the need to address social facilities where projects are executed and the need for adequate space to accommodate recreation and other needs. Higher residential densities must be realised, while urban fragmentation and sprawl must be countered.
- ? **Must be responsive to local housing demand.** Housing institutions and their supporters must adequately demonstrate the demand for this type of housing option in areas where social housing development is planned or underway. Through being a demand driven housing option, participation from residents at different levels, phases of projects and in various forms needs to be accommodated within the operations of the housing institution as the provider of the housing option.
- ? **Must support the economic development of low income communities by ensuring that they are close to job opportunities, markets and transport and by stimulating job opportunities to emerging entrepreneurs in the housing services and construction industries.** Social housing has shown its ability to develop sustainable human settlements and *inter alia* mixed income communities in strategic locations. It is for this reason that vacancies in projects are generally low, and rental payments (in case of well managed institutions) are generally high. In addition, the housing services industry has a strong capacity to support the development of SMEs in services such as cleaning, security, plumbing, electrical and other maintenance functions.
- ? **Must ensure the involvement of residents in the social housing institution (SHI) and/or key stakeholders in the broader environment through defined meaningful consultation, information sharing, education, training and skills transfer.** Social housing must encourage and support residents in their efforts to fulfil their own housing needs in a way that leads to the transfer of skills and empowerment. Education, training and information sharing must take place before occupation by residents and must be done throughout the process in such a way that residents are able to make informed decisions about their housing and protect themselves as responsible housing consumers. Residents must participate in the administration and management of their housing option.
- ? **Must ensure secure tenure for the residents in social housing institutions, on the basis of the general provisions for the relationship between residents and social housing institutions as defined in the Housing Act, 1997 and the Rental Act, 1999- Chapter 3, section 4 (1) to (5).** This applies to all forms of tenure provided for within this policy. Residents need to be made aware of the tenure provisions of the social housing institution prior to and upon acceptance of these provisions as a form of consumer protection.
- ? **Must support mutual acceptance of roles and responsibilities of tenants and social landlords, on the basis of the general provisions for the relationship between residents and social housing institutions as defined in the Rental Act, 1999- Chapter 3, sections 4 and 5, in the Cooperatives Act, 1998 (Act 91 of 1998) as well as in the envisaged Social Housing Act.** Social housing is based on mutual respect for the rights of tenants and owners, and the speedy resolution of conflicts that may

arise. Social housing institutions and Government need to cooperate to develop a consensus on roles and responsibilities, educate all parties on these roles and responsibilities, and allow for effective implementation of the contractual obligations of all parties.

- ? **Must be facilitated, supported and/or driven by all spheres of government.** The roles and responsibilities of the various spheres of government with regard to facilitating, supporting and/or driving social housing should be clear to ensure efficiency and prevent unnecessary duplication. The role of local government is particularly significant in facilitating the implementation of social housing within their area of jurisdiction. The ability of this sphere of government to create an enabling local environment is critical to the success of the sector. Cooperative governance and coordination of resources between the spheres and within the spheres among different government departments, is key for creating and enabling a supportive environment for the delivery of social housing
- ? **Must promote the creation of sustainable, viable and legally independent housing institutions responsible for providing and/or developing, holding and managing social housing stock.** The establishment of viable social housing institutions, able to deliver at the scale that is required over the next few years, by its very nature, is a time consuming process. It requires extensive support, financially, administratively and technically from Government and other key stakeholders in order for the endeavour to be successful.
- ? **Must ensure transparency, accountability and efficiency in the administration and management of social housing stock.** Social housing institutions essentially operate as business entities. Therefore, transparency in the way that decisions are made, information is exchanged, and accountability and efficiency in the administration of the institution is essential for its establishment and for making social housing successful as a sector.
- ? **Must promote best practices and compliance with minimum norms and standards in relation to the delivery and management of social housing as a sector.** This is necessary to ensure consistency in housing delivery in the sector and the maintenance of an acceptable level of quality within the sector.
- ? **Must 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. Operational surpluses of social housing institutions must be reinvested in new social housing projects.
- ? **Must promote housing delivery for a range of income groups (including, *inter alia*, middle income, emerging middle class, working class and the poor) in such a way as to allow integration and cross subsidisation.** Through the regeneration of economies in local areas, social housing should be able to accommodate the actual needs of persons earmarked for assistance including those persons in the medium income categories, while increasingly reaching persons located at the lower end of the market. Social housing will therefore provide opportunities across the income streams. Government's grant funding will, however, be focussed on the lower income end of the target market.
- ? **Must operate within the provisions of the Constitution, 1996, the Public Finance Management Act, 1999, the Preferential Procurement Act and other statutory procurement prescripts.** These provisions indicate that fair and equitable competition regarding access to Government resources must be instilled at all interfaces between organs of the State and the suppliers of housing goods and services. The social housing policy will therefore comply with these requirements.

- ? **May be implemented by social housing institutions of various legal forms.** Social housing institutions may comprise not for profit legal entities, or profit oriented entities. The Social Housing Corporation (Corporation, see section 5.3.3) will determine whether the specific legal entity of an institution applying for assistance is appropriate or not within the context of this policy. The main objective of the entity must, however, be to provide housing to the target market. It should not include other objectives of interest that could compromise the sustainability of the institution.

#### 4. MARKET NICHE OF SOCIAL HOUSING

Considering the emerging development of social housing and the above criteria, it is necessary to review the potential market niche that can be accommodated through this approach. To date, the social housing market has been defined in terms of the standard subsidy beneficiary criteria, as outlined in the housing code, essentially viewing the market in terms of the subsidy income bands. This has resulted in a skewed, narrow segment of the housing market being eligible. In defining the potential market niche, it is therefore necessary to look at broader considerations than just the income bands. Two key dimensions are highlighted in considering the market niche for social housing:

- (a) to identify the market in relation to broader human settlement issues (IDP, regeneration, densification), i.e. bringing housing closer to jobs and other social facilities; and,
- (b) to identify the market in relation to identified beneficiary groups that would have a demand for social housing.

##### 4.1 National parameters in defining the market niche

As social housing is primarily an urban housing delivery option, it is important to note that 53% of the population of South Africa lived in urban areas in 2002. Therefore, it is reasonable that the social housing approach be focused in these areas as a housing option that is able to accommodate housing demand of low income persons drawn to urban areas. Rental housing formed 31% of the total housing stock in 1999, with the majority of this rental accommodation (69%) located in urban areas. This indicates that alternative tenure options such as social housing are probably most suited to urban areas (but not to the exclusion of rural areas).

**Table 1: Income distribution in accordance with housing subsidy eligibility band, 1996**

<b>Subsidy Categories (monthly household income )</b>	<b>Percentage of Population</b>	<b>No. of Households</b>
R0-R1500	64.1	6 457 251
R1501-R2500	10.2	1 030 531
R2501-R3500	5.8	581 690
R3501-R6000	9.1	915 362
>R6000	10.8	1 088 982
<b>Total</b>	<b>100.0</b>	<b>10 073 816</b>

*Census 1996*

Table 1 shows that the majority of households in South Africa fell within the lowest income band R0 to R1500 in 1996. It also indicates that 80% of the households in South Africa were eligible to qualify for housing subsidies, as they earned R3500 or less per month. Table 2 compares the 1996 census data with survey data from 2000, which indicates that the proportion of households in the lowest category has declined somewhat



(as has the absolute number) during the 1996-2000 period, while the proportion of households in the R 1501-R 3500 band increased significantly from 16% to almost 23% (a 40% increase in absolute numbers).

**Table 2: Proportion of households qualifying for housing subsidies per income category: 1996 and 2000**

Subsidy Categories (monthly household income)	1996		2000	
	Percentage of Population	No. of Households	Percentage of Population	No. of Households
R0-R1500	64.1	6 457 251	62.8	6 324 556
R1501-R2500	10.2	1 030 531	15.0	1 506 721
R2501-R3500	5.8	581 690	7.6	764 713
<b>Total</b>	<b>80.1</b>	<b>8 069 472</b>	<b>85.4</b>	<b>8 595 990</b>

*Census 1996 and October Household Survey, 2000*

However, tables 1 and 2 only indicate the potential maximum number of households that require access to housing, as they do not consider the households that are adequately housed across the various income bands. Table 3 shows the housing backlog per income category (1996 data – no such data are available for 2000).

**Table 3: Housing backlog as a percentage of households in the income bands (1996)**

Subsidy bands	No. of Households	No. of Households in Backlog	Backlog % by income group	Backlog as % of total backlog	Backlog as % of total households
R0-R1500	6 457 251	1 701 121	26.3	73.6	21.0
R1501-R2500	1 030 531	405 264	39.3	17.5	5.0
R2501-R3500	581 690	205 685	35.4	8.9	2.6
<b>Total</b>	<b>8 069 472</b>	<b>2 312 070</b>	<b>28.7</b>	<b>100.0</b>	<b>28.7</b>

*National Department of Housing*

Table 3 indicates that 28.7% of the households within the subsidy bands still required access to acceptable housing in 1996. It also indicates that the proportion of households still requiring a housing solution was highest in the middle income category of R1501-R2500, at 39.3% of total households in that income group. Within the current affordability parameters of the social housing models, households earning R1501 to R3500 can be accommodated. In 1996, this “viable” subsidy-eligible target group comprised about 611 000 households, or 26.4% of the total subsidy-eligible households still requiring a satisfactory housing solution. Table 3, however, does not provide insight into the tenure preference of the households in the backlog and only limited national data is available to provide insight into the affordability of the households in these income bands.

In terms of the definition of social housing in this policy document, and the objectives of the policy as an overarching policy initiative, it may be expected that social housing development based on this policy will primarily address the backlog in the R1501-R3500 target group. However, as SHIs are not barred from developing housing units through any of the other subsidy programmes (some work for instance with an “institutionalized” People’s Housing Process approach), the lower end of the backlog may also be addressed by them. In national terms, social housing will generate additional spatial and human settlement benefits, while providing access to an alternative housing option for low income persons. The provincial distribution will vary, as it can be expected that the demand for social housing will be more prominent in provinces with metropolitan and large urban areas. To further define the market niche for social housing, it is necessary to identify the specific resident groups who will require this form of accommodation.

## 4.2 Responding to market demand

The above principles for social housing require that social housing be a demand driven process, responsive to the housing needs in a specific area. It is therefore important to identify the potential target group for the social

housing option also in terms of social characteristics (apart from income and rural-urban considerations). Currently the typical nuclear family is not a predominant household form in South Africa, and therefore a variety of combinations of potential residents can be identified. Social characteristics of the target group for social housing are broadly identified as follows:

- ? Persons opting for the rental flexibility, considering their occupational mobility and the need for temporary accommodation;
- ? Persons utilising social housing options as a first phase in a process to individual ownership (deferred ownership) and/or better rental accommodation at a later stage when their affordability increases;
- ? Low income households who cannot afford inner city residential property prices and are forced to opt for affordable rental options such as provided by social housing institutions;
- ? Persons who wish to address their housing solution through a collective approach;
- ? Single individuals have been excluded from subsidy assistance to date; the Government needs to support housing access for this group, and social housing is well-suited to address this need;
- ? Persons requiring short-term accommodation such as vendors and others who sell produce in urban areas and who cannot afford to return nightly to their permanent residence in far-flung townships;
- ? Broken households where persons urgently need alternative accommodation due to a variety of circumstances;
- ? Singles with dependents who tend to opt for affordable social housing rental options;
- ? Persons with special housing needs but who are able to live independently, such as those with disabilities living with HIV/AIDs, including orphans and children. Co-operation would be required with the Departments of Health and Social development in order to accommodate this group;
- ? Single persons wishing to co-habit in rental accommodation.

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

What the above listing of possible beneficiary groups also indicates is that, in terms of the lifecycle needs of a family, social housing requires a wide product range, from rooms with shared facilities to communal housing, short stay accommodation, group housing to apartments or multi-unit dwellings.

### **4.3 Product and Quality**

In considering the nature of envisaged projects, the starting point is the demand in a specific area, as well as the environment where the project is planned. The product type will thus be demand driven and the context will determine the nature of the accommodation, whether it will constitute green fields or new build or upgrading or conversions of existing buildings. Whilst upgrading of existing buildings and conversions have been cost effective in the inner city areas of Durban, Johannesburg and Pretoria, and have allowed SHI's to develop a product range, from rooms to large apartments, this is not necessarily true for other urban centres in South Africa, where such opportunities are not available and where green field development may be a cheaper alternative.

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

Because of the inherent complexity of the model, project cost calculation models that are applied to project linked housing subsidy projects cannot be directly transferred to a social housing model, by, for example; multiplying the number of subsidies by the number of units in a multiple unit dwelling will not equate to the development costs of such a development. Social housing must be demand driven, rather than driven by a subsidy regime that was not designed specifically to cater for the more complex institutional housing solutions that have been developed by SHIs over the last five years. Social housing development has now reached the point where such project developments are financially unfeasible and unsustainable within the current subsidy regime, as well as spatially, in terms of quality standards, and in terms of their social environments, considering the compromises that have to be made to reach viability.

It is therefore important that the viability of social housing is seen in a broader context with a long term view in mind. Compromises on quality, spatial standards and the exclusion of social amenities will have a long term impact on social housing projects, they will remain projects, not environments. Social housing development therefore needs to be understood and quantified in a holistic manner.

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

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

It is important to achieve appropriate quality standards in social housing development for the following reasons:

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

Social housing development will conform to and exceed the norms and standards set by the Minister of Housing, the National Building Regulations and the standards imposed by the National Home Building Registration Council (NHBRC). Therefore, best practice benchmarks that are continually developed by SHIs will develop the quality standards in the sector, monitored by the Corporation. These benchmarks relate to quality and servicing standards and spatial norms, and will also be influenced by market demand.

If social housing is successful in improving people's lives through their living environments and access to opportunities, there will be a consequent improvement in their economic and social status. In the light of this,

social housing development must be flexible enough to cater for this, for example, a family may acquire a car and require secure parking, or at different times may require a different size unit. Consideration should be given to this in terms of whether social housing is a stepping stone to some other form of tenure or provides a flexible environment that caters for the entire lifecycle of a family.

#### **4.4 Tenure security**

The social housing sector will predominately allow for the rental tenure option as the preferred tenure option within social housing developments. However, other tenure options that allow for continued collective ownership and/or accommodation, such as co-operative ownership, are also admissible forms of tenure in social housing. A review of other potentially qualifying forms of tenure indicates the following:

Direct Individual ownership: This tenure option falls outside of the objectives of the Social Housing Policy. The sale of social housing units to tenants is not ruled out in the long term, but it is not envisaged that this will happen in the short to medium term. A number of social housing institutions are facing financial and administration problems, some of which are threatening the sustainability of the institutions, thus compromising the investment the Government has made in the form of institutional housing subsidies allocated to their projects. The sale of the SHI assets (the units) can hardly be considered an option under such conditions. However, it is clear that the social housing sector requires a potential direct intervention to ensure the sustainability of the institutions that currently operate in the market, the Corporation will have authority to insist on restructuring and/or merging the SHI with another entity, see section 5.3 below.

Sectional title: This form of tenure constitutes a complex tenure arrangement that is focussed on immediate and/or future (in the short term) individual ownership, and therefore is not suitable for social housing which is concerned with developing sustainable social (non-individually owned) housing stock for the future. This form of tenure is the only realistic legal option enabling instalment sale mechanisms (where the objective of the housing project is eventual individual ownership). The current programmes within the housing subsidy scheme already provide for individual ownership options. Where developers or housing institutions wish to provide housing for immediate ownership, these programmes could be accessed.

Share Block title: This tenure option represents a non-individual ownership option and therefore complies with the intentions of the Social Housing Policy. However, it is a relatively complicated arrangement and will require sophisticated systems to operationalise and maintain such schemes. It may thus not be a viable option under all circumstances, although it is not ruled out.

Title under the Communal Properties Act: This is judged to be a very weak form of secure tenure that was intended for application in cases of (predominantly rural) land restitutions where community property associations acquire rights to occupy land, excluding the right to alienate the land. It is considered not to be a suitable option for achieving the Social Housing Policy goals.

The conclusion is therefore that, in terms of admissible tenure options, the sector requires a consolidation approach that is simple to administer and which residents can comprehend. The most suitable options remains rental and co-operative ownership tenure. However the sale of units is not completely ruled out: in the long term and applications for the conversion of rental housing projects into housing for sale schemes could be considered, should adequate motivation for such an approach exist. Such conversions will be based on feasibility studies confirming the sustainability thereof and of the SHI concerned. The MEC will consider such applications and applications for conversion should under normal circumstances not be considered within the first 10 to 15 years of the project.

## 4.5 Integrated development

The principle of integrated development planning is fundamental to the Government's housing development approach. It is also the cornerstone for the creation of sustainable human settlements. It is therefore a requirement that all social housing project funding applications are supported by demonstrated demand for social housing in the framework of an approved Integrated Development Plan (IDP) of the relevant municipality. Municipalities will therefore be required to indicate the demand, and provide for social housing opportunities in its area of jurisdiction in their IDPs. A municipality needs to actively support social housing initiatives in its area of jurisdiction. This requires a close linkage with the local authority operating in the area, to ensure access to information and assistance in the identification of land and/or buildings for social housing. The following three elements of integrated development need to be considered by the SHIs:

1. *Physical and spatial integration* of social housing developments is required to ensure that the housing stock is well located within urban and inner-city areas. This will provide residents with easy access to *inter alia* transportation and transport routes, amenities and facilities, and thereby contributing to the quality of life of the residents. Co-operation and communication between government departments at all spheres is required to facilitate this.
2. *Social integration* should also be promoted through ensuring that SHIs do not discriminate in any way against residents, and adhere to the provision in the Rental Act (Act 50 of 1999). SHIs can also be effective in the creation of a culture, which supports the norms necessary for sustainable development and growth. Mixed communities, as well as mixed land use development form part of social integration, as this mirrors systems and processes in operation in urban and inner-city areas. The housing institutions therefore require some flexibility within their housing project developments to be able to respond to local demand. The MEC will have to be satisfied that the project meets the stated social housing policy objectives, and the Corporation will have to monitor this in terms of continuing compliance.
3. *Economic integration* can be ensured through considering the mixture of the income groups in social housing development. In some cases a predetermined beneficiary/residents mix has been specified by provinces, for example, that at least 80% of the residents should fall within the subsidy categories, with maximum 20% falling outside of the subsidy categories. These ratios are not supported by national policy, and flexibility must remain in this regard. The ratio could be considered collectively for all housing stock managed by the SHI, rather than for individual projects. The ratio must also allow for the growth of institutions to ensure that they reach sustainability within the low-to-moderate income market. The Corporation will have to monitor this aspect of SHI operations. On the other hand, the ratio could be set locally, considering the context within each urban centre rather than setting it nationally.

## 5. LEGISLATIVE, INSTITUTIONAL AND REGULATORY ENVIRONMENT

### 5.1 Legislative environment

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

- ? The nature and/or registration of the SHI's legal entity
- ? Tenure options offered by the SHI
- ? VAT and income tax legislation and regulation
- ? Land legislation
- ? Housing and Rental Housing legislation and regulations/guidelines
- ? Financial legislation
- ? Norms, standards and quality control rules and guidelines, and
- ? Provincial and local government-specific regulations

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

Through the implementation of a legal framework including sector specific regulatory provisions, the legislative environment currently governing social housing will be enhanced and streamlined. A Social Housing Act will provide this legal framework required for the regulation of social housing. The legislation and regulatory framework will be designed to ensure that the sector is well equipped to provide sustained delivery of social housing at scale, as well as protect the financial investment that Government and the private sector contributes to the sector through the social housing institutions. The Act will thus comprise the legal framework for the implementation of the social housing policy.

The Social Housing Bill currently under preparation deals with legal requirements for the promotion of a sustainable and viable social housing sector in South Africa, *inter alia* specifying the functions and legal forms of a social housing institution, specifying government support mechanisms, legislating the social housing regulatory framework in terms of SHI accreditation, and defining the roles and functions of sector agencies.

## **5.2 Institutional arrangements for the sector**

### **5.2.1 Social Housing Institutions**

In 2003 there are about 60 social housing institutions (SHIs) operating in the country, in the sense that these institutions are developing and/or managing social housing as defined in Chapter 2 of this policy or are preparing to do so. Between them they have about 25,000 units under management<sup>1</sup>. Many of them currently face governance and management difficulties as well as financial problems. These are largely caused by relative inexperience in developing and managing housing stock for rental and other forms of tenure not conferring individual ownership, combined with an understandable eagerness to access institutional housing subsidies. In addition, the lack of supportive policy- and regulatory frameworks has compounded such problems.

The defining characteristic for legal entities to be considered as SHIs are:

- ? Institutions ensuring affordable, quality housing and maximum benefit for residents from public funding made available for rental housing (and other non individual ownership tenure options);
- ? Institutions that are focused on managing housing stock over the long term;
- ? Institutions that may be focused on developing housing stock together with the housing management function.

---

<sup>1</sup> The sector is thus still in its infancy as compared to the experience in other, mainly European and North American countries (see Annexure C for a summary).

Governance and management structures of SHIs need to ensure that the organisations demonstrate financial integrity and that they are a going concern. They also need to ensure compliance with regulations and requirements from the proposed Corporation and/or other requirements relating to the legal status of the organisation, including the requirements imposed by the legislation under which they are legally established, and additional provisions in the proposed Social Housing Act.

The admissible legal shape will comprise (both Section 21 and for-profit) companies and co-operatives, and the above therefore relates to the provisions relating to statutes/memorandum and articles of association, registration/incorporation, the main objective, annual accounting, auditing and reporting requirements in the Companies Act of 1973 and the Co-operatives Act of 1981. Some of these provisions require further specification in the Social Housing Bill (or in the “mother” acts, or both), which, for instance, for SHIs under the for-profit company and co-operative models, may specify that any surpluses generated will not be paid to members/shareholders as dividends, but will be ploughed back in the operations of the SHI or new social housing.

Depending on the nature of their operation three tiers of SHIs may be distinguished:

- ? **Tier 1 SHIs:** Umbrella institutions that primarily provide property management services, for a fee, to other, smaller institutions or SHIs, i.e. their clients are SHIs. Sometimes they may also deliver housing and assist in the establishment of these smaller institutions. Their mission tends to be the establishment and/or servicing of collective tenant organisations (tier 3 SHIs);
- ? **Tier 2 SHIs:** SHIs that develop, own and manage their own rental stock without any intermediary associations, i.e. they deal directly with their own tenants. These usually have a mission of building and/or acquiring housing property and making accommodation available to tenants for a fee, but on a non-profit basis;
- ? **Tier 3 SHIs:** SHIs that have been established by tenant groups as a mechanism for acquiring and managing their own housing. These groups tend to be based on some collective principle, and their mission tends to be accessing secure tenure and property management services for their members. Their priority is to serve an existing membership base in existing accommodation, and does not generally involve plans for expansion. Many of them involve lower income households, and therefore operate at a very low level, lacking resources, skills and capacity to manage property efficiently and effectively.

The proposed accreditation process will be designed to specifically accommodate the nature of the services that will/could be delivered by the various Tiers of institutions. Fundamental to the nature of the SHI will be satisfying tenure security arrangements. This pertains to both that of the institutions in relation to the housing stock in question as well as that of the residents in the project.

Social Housing Institutions are expected to:

- ? Develop and/or manage housing stock for low to moderate income residents
- ? Promote the creation of quality living environments for low and middle income residents
- ? Reinvest any operational surpluses in further housing development
- ? Initiate accreditation application and comply with the accreditation requirements of the Social Housing Accreditation Board
- ? Consult with local governments with a view to developing social housing stock within the framework of the IDP of the areas within which they operate
- ? Consult with residents through meaningful participation
- ? Inform residents on issues relating to consumer protection

- ? Observe and operate within a best practice and value regime as supported by national policy
- ? Comply under all conditions with the Ministerial National Norms and Standards in respect of Permanent Residential Structures, the National building Regulations and the technical standards imposed by the National Home Builders Registration Council, where applicable.

### ***5.2.2 Roles and responsibilities of sector institutions/organisations and tiers of government***

The various institutions and organisations operating within the social housing sector are not yet well aligned in terms of their specific purpose and functions. Initiatives and developments within the sector are therefore delayed and/or duplicated as communication between the various organisations is limited. Thus there is a need to re-align the functions of the various organisations in the sector and fill gaps where they exist. The proposed distribution of roles and responsibilities indicated below, is set out for that purpose, and will be enshrined in the Social Housing Act, if required beyond existing legal provisions.

Currently within the sector, institutions and/or organisations have been created to address the funding aspects (through institutional subsidies, loans and guarantees) and capacity building of SHIs. A key element, however, that has been missing from the sector to date is regulation. A detailed proposal to fill this gap is laid down in section 5.3.

As a national programme, the social housing policy proposes the following distribution of roles and responsibilities (summarized in diagram A):

**Government** is a key role player required to support, facilitate, promote and/or drive social housing development in South Africa. In conjunction with the roles and functions outlined in the Housing Act (Act 107 of 1997), the following sector specific roles and functions are defined for each sphere of government.

National government is expected to:

- ? Create an enabling environment for social housing, through the development of policy and enactment of legislation.
- ? Ensure attention to its constitutional responsibilities
- ? Provide a regulatory and legislative framework within which SHIs must operate
- ? Address issues that affect the growth and development of the sector
- ? Fund social housing programmes
- ? Establish institutional capacity to support social housing initiatives

As these functions are currently not articulated well for social housing specifically, it is envisaged that the National department of Housing establishes a directorate dedicated to oversee the operation of the social housing sector. More specifically it will assist the Minister of Housing in supervision of national sector agencies like SHF and NHFC, it will fine-tune and periodically update grant funding provisions for the sector, it will support the Social Housing Corporation (including handling its secretariat functions, see section 5.3.3). Additionally, it will facilitate interdepartmental co-operation (e.g. with the Departments of Social Welfare, Education, Health, Land Affairs and Provincial and Local Government), in as far as required for social housing development, and it will safeguard coherent donor support to the social housing sector.

Provincial government is expected to:

- ? Ensure fairness, equity, and compliance with national and provincial social housing norms and standards
- ? Ensure consumer protection



- ? Facilitate sustainability and growth of the social housing sector
- ? Provide a provincial legislative and regulatory framework, as appropriate, consistent with the national legislative and regulatory framework, and within which SHIs must operate
- ? Initiate and/or facilitate social housing-related capacity building for local government and SHIs, as appropriate, in conjunction with SHF
- ? Mediate in case of conflicts between an SHI and local government and resolve such conflicts, if required
- ? Administer project capital grant funding for social housing programmes and establishment cost grants for newly established SHI's, and monitor progress in terms of the grant allocation process; provincial governments may in terms of the provisions of section 10 of the Housing Act, 1997 accredit municipalities to administer national housing programmes that will allow such a municipality to administer grant funding.

Some provincial governments have found it useful to create a dedicated social housing directorate in their housing department to perform the above functions. Where there is significant volume of social housing, this may be emulated by other provincial governments.

Local government is expected to:

- ? Facilitate social housing delivery in its area of jurisdiction; as mandated by the Housing Act (1997), social housing opportunities must be specifically provided for in a local government Integrated Development Plan (IDP): social housing project locations may be included in its IDP accordingly, and it may further commit in its IDP to specific measures (e.g. to support the development of *in-situ* associated social facilities), in order to ensure an enabling environment for the social housing sector to develop and grow in its area of jurisdiction.
- ? Encourage the development of new social housing units and the upgrading of existing units
- ? Provide preferential access to land for social housing development
- ? Provide preferential access for SHIs to acquire local authority rental stock
- ? Provide access to municipal infrastructure and services for social housing projects and, where appropriate, provide local fiscal benefits (e.g. through rebates on municipal rates and service charges)
- ? Assist the SHI in its establishment stage through *inter alia* logistical and resource (financial, human and technical) support to the SHI for a specified period of time (generally until full accreditation has been achieved)
- ? Provide grant funding for the SHI in establishment stages and assisting with sourcing additional funding to support the activities of the SHI (including possible local government equity participation)
- ? Provide access to bridging finance for the SHI

It will generally be desirable to specify the extent of local government's support in a Memorandum of Understanding (supported by a Council resolution), co-signed by the provincial government. Large (metro) local governments may consider establishing a dedicated unit for their support functions to social housing development.

While it is understood that the above local government involvement will be critical to the success of social housing projects and SHIs, local governments must not manage SHIs directly. Local government representatives on an SHI board must not be involved in exercising management responsibilities, and neither should local government be over-represented on an SHI governing structure.

The *Social Housing Foundation's* roles and functions must be seen in conjunction with the mandate of the organisation outlined in the Housing Amendment Act (1999). In that context, the Social Housing Foundation is expected to:

- ? Provide capacity building and technical support to SHIs and local governments
- ? Promote the development and awareness about social housing
- ? Provide support for policy development in the sector
- ? Promote an enabling environment for the growth and development of the sector
- ? Certify the application for provisional SHI accreditation
- ? Award pre-establishment grants and capacity-building grants (in as far as the latter is not in kind from SHF)
- ? Assess the institutional sustainability of SHIs (in conjunction with the Social Housing Accreditation Board)

**The National Housing Finance Corporation's** roles and function must be seen in conjunction with its mandate as provided for under the Housing Act 1997. In that context the National Housing Finance Corporation is expected to:

- ? Provide improved access to loan funding for SHIs
- ? Assess the financial sustainability of SHIs (in conjunction with the Social Housing Accreditation Board)
- ? Provide and/or facilitate access to guarantees for loan funding from financial institutions
- ? Explore and support mechanisms aimed at gearing public funding for social housing

**National Association of Social Housing Organisations (NASHO)**

NASHO is a membership-based association of SHIs, established in 2002, with the following functions:

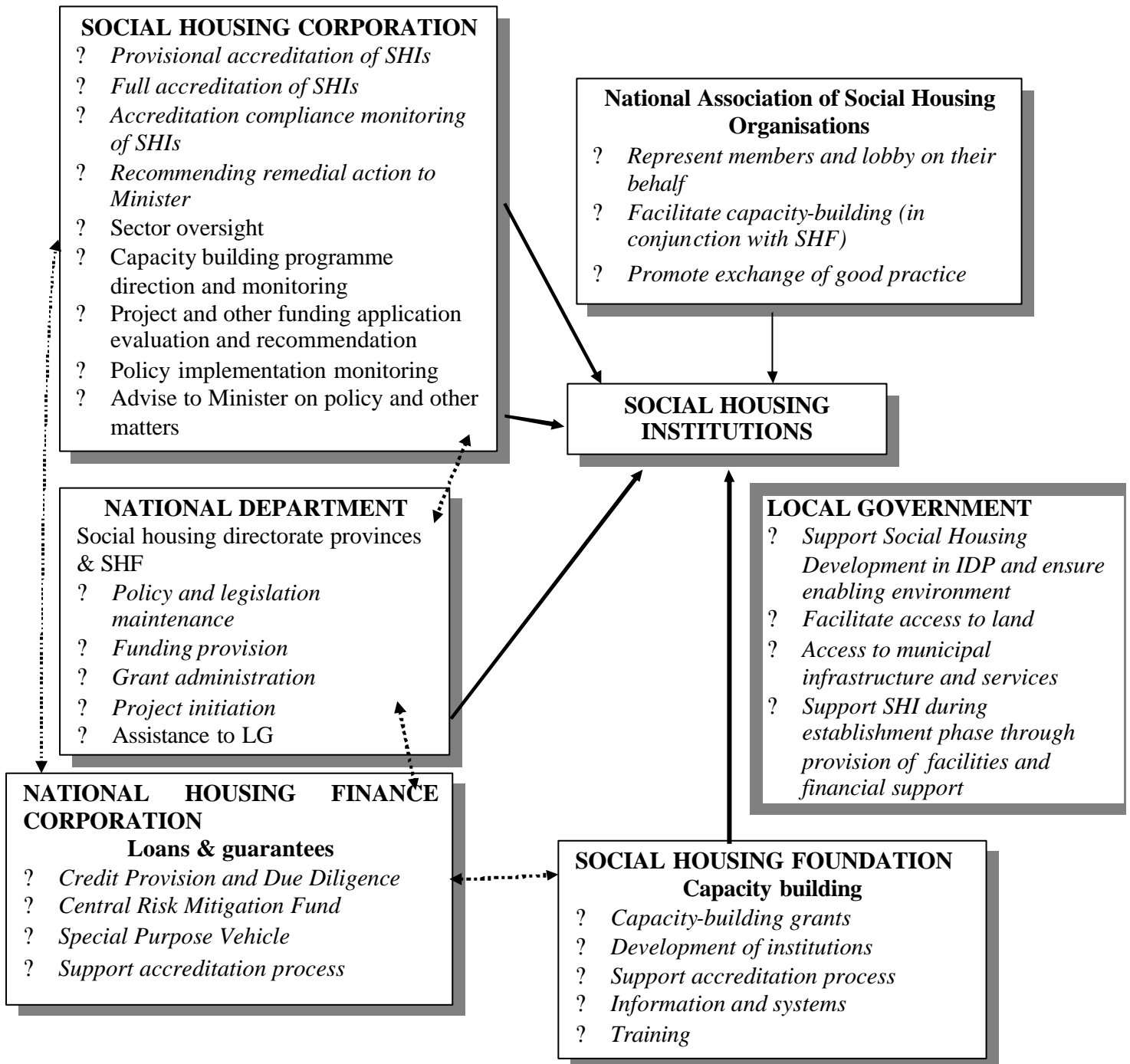
- ? representation and co-ordination on behalf of its members
- ? campaign and lobby on behalf of its members
- ? promote the social housing sector
- ? support individual SHIs
- ? promote capacity-building within the sector from the demand side (complementing SHF efforts)
- ? promote joint procurement by SHIs where this is efficient
- ? promote exchange of good practice among its members

Not all SHIs are members of NASHO. Moreover, there are different legal forms of SHIs. Therefore, some SHIs may form additional member-based associations to lobby on specific issues of concern and provide targeted assistance and/or services to their membership base.

**The National Home Builders Registration Council (NHBRC)**

The NHBRC has been mandated in terms of the Housing Consumers Protection Measures Act, 1998 to regulate the home building industry and to provide consumer protection. All persons, companies, organisation and institutions must ensure that they comply with the directives of the NHBRC before any building work is initiated.

**DIAGRAM A: SUMMARY OF INSTITUTIONAL FRAMEWORK OF THE SOCIAL HOUSING SECTOR**



## **5.3 Social Housing Institutions accreditation**

### **5.3.1 Accreditation process**

An SHI accreditation mechanism will be established to stimulate and regulate the SHI sector. It will provide incentives and compliance criteria for SHIs to ensure that their operational viability is safeguarded and will also provide a measure of comfort to any financial institution from which the SHI may wish to borrow for project development. In addition, it will provide an assurance to Government and the South African taxpayers that SHI project capital-, establishment cost- and capacity-building grants (sections 7.1. and 7.2) are well invested.

The accreditation process will have three major steps:

- ? preparation of the accreditation application: an intending applicant institution having an admissible legal status will prepare the documentation required for the application for provisional accreditation; to facilitate this, SHF support in kind and through a pre-establishment grant (meant to defray the costs of preparing all required documentation) will be available to the applicant institution, if required;
- ? provisional accreditation; this phase of accreditation will entail acceptance of SHI applications to be accredited - admission would be the entry point into the accreditation process, supported by access to an establishment grant of pre-specified magnitude and to capacity-building support by Social Housing Foundation, both meant to support the SHI to meet the accreditation criteria over a maximum five-year period;
- ? full accreditation, after the accreditation criteria (outlined in section 5.3.4. below) have been met in full.

Details of the process of SHI establishment and accreditation are shown in Annexure B.

The accreditation process will be endowed with a range of tools to enable SHIs to achieve full accreditation. These comprise:

- ? Access to pre-establishment, capacity-building and establishment costs grants (section 7.2) prior to and at the stage of provisional accreditation respectively, plus access to the social housing project capital grant (section 7.1) and linked housing credit from NHFC for a first (few) pilot project (s) at this stage, to be followed by subsequent project applications at the stage of full accreditation;
- ? The requirement for an SHI of adopting a monitorable operational business plan to be approved by the Social Housing Corporation (section 5.3.3 below) with objectively verifiable benchmarks, as a condition for continuing access to these favourable financing conditions. Non-implementation thereof will lead to remedial action and possibly ultimate withdrawal of accreditation;
- ? Institutions that do not engage in the accreditation process will not have access to any of the above support;
- ? For non-accredited SHIs that already have accessed institutional subsidy, refusal to engage will mean no further access to capital grant funding.

### **5.3.2. Local government support**

Local governments are generally envisaged to support the accreditation of SHIs in their jurisdiction. The extent of local government support may range widely (as noted in section 5.2.2 above), and could include a standard undertaking that the local government will provide project land and infrastructure for SHI projects which will require to be incorporated in the local government's Integrated Development Plan, standard municipal rates and service charges rebates or exemptions, the local government taking an equity share in the SHI or in its projects. It could also include an undertaking or willingness by the municipality to support bridging finance needs or credit requirements/applications of social housing institutions (section 7.4.3.).

Local government may also undertake to assume SHI restructuring co-responsibility together with funding agency(ies) in the event of SHI financial difficulties, if and when this will be required at the Social Housing Corporation's recommendation.

Local government, in any event, must ensure fair and equitable access to SHI accreditation of applying institutions within its jurisdiction. As noted in section 5.2.2 above, it will generally be desirable to specify the extent of local government's intended support in a Memorandum of Understanding between the SHI and the local government, co-signed by the provincial government.

### **5.3.3 Social Housing Corporation**

A Social Housing Corporation (the Corporation) will be established as fully fledged institution to oversee the social housing sector and as the accreditation agency to confer provisional and full accreditation to SHIs. It will also conduct compliance monitoring vis-à-vis the accreditation criteria. In that context it will make recommendations to the SHI and to the Minister on support measures required for the SHI to maintain its accreditation, or, in a worst case, recommend to withdraw its accreditation (and with that its access to social housing capital grant funding and to credit from NHFC). It will also advise the Minister on any matter related to social housing and all applications for grant funding will first be considered by the Corporation. before the approval of such applications will be granted. The Corporation will also direct and oversee the capacity building programme to be embarked upon as part of the strategy to operationalise social housing institutions. The Corporation's scope and functions will be laid down in a Social Housing Act and detailed in regulations under the Act.

Under the provisions of the Act, the Corporation will be established by the Minister of Housing as a Section 21 company or as a private company under the Companies Act.

In the interest of the independent judgement required to be exercised by the Corporation, the Corporation will not administer grant funding payments nor will it undertake related financial management of such grants.

### **5.3.4 Accreditation criteria**

- a) Provisional accreditation criteria to be used to screen an institution applying (the applicant) will comprise the following:
  - ? reconfirmation that general registration criteria as per the Companies Act or the Co-operatives Act have been met by the applicant (i.e. the legal status of the aspiring SHI is clear), and that it has, to date, met its annual accounting, auditing and reporting requirements as legally required, as demonstrated by appropriate records from the registrar of companies or co-operatives as the case may be, including the applicant's most recent audited annual accounts and director's report (where this applies);

- ? specific certification in the statutes/memorandum and articles of association that the applicant SHI function is to primarily deliver social housing on a financially sustainable basis;
- ? expression of willingness to develop financial and institutional benchmarks in the accreditation process (and to adhere to those), and to be assisted in their development by the Social Housing Foundation's capacity-building support (supported by certification from Social Housing Foundation);
- ? expression of support by local government, detailed in certification from the local government concerned (see section 5.2.2 and 5.3.2 above);
- ? submission of an acceptable business plan for five years, approved by the applicant's board, including a justified application for establishment grant, if so required; and
- ? agreement to participate in and contribute to specific default risk insurance schemes (as may be established under the auspices of the Department of Housing, NASHO or the Corporation, see section 7.4.3 below).

Provisional accreditation of the applicant by the Corporation will provide the applicant entry into the accreditation process, backed up by capacity building and establishment cost grant support (see section 7.2 below), and will make the applicant eligible to apply for project capital grant support and loan financing from NHFC for a pilot social housing project

b) Full accreditation criteria will include:

- ? a revised operational business plan, including an agreed set of achievable time bound financial and operational viability benchmarks;
- ? a positive assessment of one or more pilot projects implemented and under management;
- ? validation that the above legal requirements relating to statutes/memorandum and articles of association, annual accounting, auditing and reporting continue to be adhered to;
- ? agreement to participate in and contribute to specific default risk insurance schemes (as may be established under the auspices of the Department of Housing, NASHO or the Corporation – section 7.4.3 below) .

## **6. CAPACITY BUILDING IN THE SOCIAL HOUSING SECTOR**

Capacity building is a major prerequisite for the development of robust housing institutions and the growth of the sector. Capacity building involves more than just education and training initiatives. The sector has built up a core base of experience and learning during the last 5 years of operation, which will be beneficial in informing and guiding the development of new housing institutions. Management and financial systems and processes guiding the daily activities of a housing institution have been developed by the pioneering institutions during this period, and need to be shared and expanded on within the sector. This is all the more important, as in many areas in South Africa, social housing is a new concept and therefore awareness, understanding and insight about the concept and process is still limited and continuously developing.

Therefore, capacity building for the sector will have to be based on a core base of knowledge and experience. Capacity building efforts should be linked to the accreditation process of the social housing institutions. This

will serve the purpose of ensuring that robust, adequately capacitated institutions are established and developed in the sector and support organizations, champions and drivers of social housing operate from the same core base of practice within the sector. Capacity building, the documenting and sharing of best practice in the sector are therefore key components towards the creation of an enabling social housing environment. The Corporation will govern and oversee the capacity building programme in collaboration with the Social Housing Foundation.

## **6.1 Capacity building of housing institutions**

Capacity building of housing institutions needs to cover the development of the SHI governance structures, management and staff, and the residents. Capacity building would also need to be responsive to the various stages of development that housing institutions go through in providing housing, as well as to the various types of housing institutions that can be established. Each of these stages of development requires a different combination of skills and expertise.

It is essential that good governance structures of housing institutions are established, and that board members understand and apply the obligations and requirements of good corporate governance. Education of board members for housing institutions, before and after they assume board membership, requires a targeted capacity building effort.

The management and staff of a housing institution form the heart of the operations. Human resource development needs to be aligned with the organisational development process of the housing institution. The housing institution also needs to be able to draw on the existing experience, skills and learning of other housing institutions within its area of operation and other areas of South Africa. NASHO has a key role to play in this regard in conjunction with the Social Housing Foundation and other capacity building role players and with the Government. Human resource requirements can be defined based on the experience of existing housing institutions and then refined over a period of time as more experience is gained. Resource pools need to be developed which can assist housing institutions specifically with project development, institutional development and housing management.

Social housing is a new concept to prospective residents. As part of broader housing consumer education initiatives, consumers would have to be made aware of the concept in order to have insight into the tenure choices available to them. Broader consumer education is the responsibility of all the role players in the housing sector.

The ongoing capacity building of residents in the housing institution however is the primary responsibility of the housing institution. Education, training and information sharing should be done in such a way that residents are informed about social housing and able to articulate themselves as responsible housing consumers. Participation by residents in the SHI is required, as a risk management mechanism and to ensure the empowerment of the resident's as citizens. SHIs should define the level and nature of resident participation in the SHI, based on the nature and context of the social housing development. The Social Housing Foundation can assist in exploring alternatives for participation within the SHI. The Corporation will have to monitor residents participation.

The capacity building programme must be developed, implemented and monitored on the basis of verifiable and measurable indicators to ensure that the objectives of the programme is achieved. The Corporation will manage and oversee this process.

## **6.2 Capacity building of other support organizations**

Government, especially local government, has a key role to play in supporting the growth and development of the social housing sector in South Africa. Yet, often at provincial and local government level, social housing is not fully understood and therefore support for the sector has been limited. Focused capacity building for provincial and local spheres of government is therefore required as part of the overall capacity building for the sector. This capacity building should be targeted to prepare and assist provincial and local government to adequately facilitate the growth and development of the sector. It should be integrated with the capacity building initiatives developed as part of the responsibility of each sphere of government. Capacity building should be funded with support from the Department of Housing's capacity building programme and co-ordinated with the Corporation and the Social Housing Foundation to ensure that resources are targeted in the right areas to complement social housing initiatives in the provinces.

The sector still has a limited skills and experience base that it can draw on to assist with capacity building. Therefore additional support organisations, educational institutions, professionals and existing private sector real estate practitioners need to be targeted and drawn into the sector. Mentorship agreements, the establishment of technical resource team pools and exchanges of information/experience between housing institutions and other real estate organisations staff are an important element in capacity building.

## **6.3 Co-ordinating capacity building initiatives**

The Corporation will manage and oversee the capacity building programme in collaboration with the Social Housing Foundation which has been established specifically to assist and facilitate capacity building and technical support to SHIs. The SHF will therefore play a key role in co-ordinating and facilitating capacity building initiatives for the sector. Promotion, awareness creation and capacity building of the sector form part of Social Housing Foundation's mandate. However, the organisation may form partnerships with other key role players, stakeholders and organizations that have a similar mandate, such as NASHO, to assist in fulfilling its mandate.

The Social Housing Foundation will also work with the South African Quantification Authority (SAQA) accredited education and training providers to assist the organisation with capacity building for housing institutions and other role players in the sector. These accredited education and training providers will ensure that education and training provided complies with SAQA requirements and links to the NQF, thereby ensuring the career development and/or continuous professional development of management and staff within the housing institution. Housing institutions will also be assisted by the Social Housing Foundation to access the Skills Development Levy funding from sector education and training authorities

# **7 FINANCE FOR SOCIAL HOUSING**

## **7.1 Capital grants for social housing projects**

### ***7.1.1 Basic objective of subsidising social housing projects***

Capital subsidies for social housing projects are justified by the need to support the overall social housing programme objectives: i.e. to deliver alternative housing and tenure options (other than immediate individual ownership) to low and middle income groups through institutionally managed provision in locations and through interventions where this is cost-effective. As noted in section 2 above, the target group for social housing is not only defined in income terms, but also in terms of specific deserving social groups for which



the above institutionally provided housing tenure options may have a particular attraction, including e.g. one person households, orphan-headed households, working mothers with a small children.

The experience with utilising the Institutional Housing Subsidy programme in social housing projects to date suggests that it works particularly cost-effectively (in terms of reaching target income groups) in the case of refurbishing existing buildings in inner city areas in the metros and large cities. This is primarily caused by the relatively low purchase price of the buildings to be refurbished, limiting the gap between capital cost per unit and the applicable subsidy amount. Moreover, to refurbish such buildings is important not only from a purely social housing point of view, but also from the broader perspective of inner city regeneration, and of developing low-to-medium income housing opportunities in proximity to workplaces (thus cutting commuting costs, - time and - risks, and contributing to overcoming spatial segregation).

However, in future, the above relative price advantage of existing inner city buildings may not continue to prevail (understandable as it is in South Africa's current development phase, it is out of key with common patterns of urban development). More structural incentives need to be instituted to ensure the sustainability of such important remedial action in the housing market. The social housing capital grant system is intended to facilitate this development.

The capital grant system for social housing set out below will replace, but is based on, the existing Institutional Housing Subsidy programme (and comparable transitional subsidies schemes applied at province level). The innovation in the new system is that it provides capital grants to support social housing projects of a particular description and delivery standards. The amount of the capital grant will be influenced by the project type, the design and the build form of the units and will be indirectly linked to beneficiaries incomes, in that annual project revenue will be estimated based on assumptions of income levels of beneficiaries and ability to pay a monthly rent/instalment.

The new system must be durable/sustainable and target a range of eligible project options to achieve the above social housing programme objectives.

In building a durable grant system, construction costs, operating costs and nominal household incomes are seen as dynamic variables over time, normally rising in tandem (but not necessarily at the same rate). The grant system will provide annually, explicit or implicit, adjustments of grant amount levels and household income eligibility levels to such dynamic movements in order to retain its sustainability and socio-economic validity, considering that Government support focus in housing will continue to be on the poor. Experience to date with the Institutional Housing Subsidy programme indicates that not providing for such adjustments may lead to affordability problems, rental payment defaults and an exodus of subsidy beneficiaries from approved projects.

### ***7.1.2 Institutional and project eligibility***

In order to maximise the application of programme benefits, the capital grant system for social housing is designed to provide incentives to enhance institutionalised rental (and other non-immediate individual ownership) housing opportunities for low to medium income groups (mainly in urban areas and other areas of high residential densities). This presupposes a qualified development and/or management institution. SHIs will meet the criteria for that, if their operations are guided by quality management procedures prescribed by the accreditation process (see section 5.3). This implies that, in a social housing policy context, capital grants will only be provided for projects of an SHI that has minimally achieved the first step in this accreditation process (i.e. it has been admitted by way of a provisional accreditation on the basis of its application and initial business plan, or is fully accredited).

Projects proposed for capital grant support must fall within and comply with a local government Integrated Development Plan (IDP), and must be endorsed by the local government accordingly, with an indication of the extent of envisaged local government support proposed (in-kind or financial – grant, loan or equity participation, or reduced service charges/local rates). Such support should minimally address project land and related infrastructure.

It is important to ensure a social mix of beneficiaries in any housing project context, and this applies particularly to institutionally delivered medium- and high density housing projects (new units and/or refurbishment, including hostel refurbishment) in urban areas. To stimulate this, such projects should have a mix of small and larger units (starting from a one-room unit suitable for single person occupancy through to one bedroom up to two-bed room units). The capital grant will however be provided only in respect of qualifying beneficiaries. Project applications for assistance under the programme must provide the MEC with adequate proof of the need for a specified design and resident/beneficiary mix.

### ***7.1.3 Specifying the grant***

Operationally, the aggregate grant amount for a project of the above description will be determined by specifying that the monthly rent/instalment payment payable by households/tenants in the target group is pegged at an acceptable percentage of their actual disposable income (currently ranging between 25% and 30% of gross monthly income), with the balance of the cost-recovery rent (inclusive of interest costs and adequate provision for recurrent O& M costs) to be covered out of the amortised capital grant over a 20 year period. The net grant will be determined by capitalising these annual shortfalls and will obviously be linked to the nature of the specific project.

Provincial and/or local government grants or subsidies as applicable must be taken in consideration first, either as cost-price reduction measures, such as e.g. free or subsidised land and infrastructure provision, or as a capital grant reducing the affordability gap in a similar way as the social housing capital grant. The social housing capital grant should thus comprise the residual capital grant needed to close this gap but should not exceed 50% of the total cost of a predetermined unit cost.

By judiciously mixing unit types (with commensurate cost differentials), household sizes and household income levels, a balanced financing scheme ex ante will be set out in the feasibility study on the basis of which the capital grant will be applied for by the SHI. This is to be done in conjunction with a loan financing application to NHFC or other financial institutions (and an SHI equity contribution where possible) to cover the balance of total costs at a reasonable rate of return.

The actual occupants' income and net rental situation will be verified on a periodic basis (every year for the first 5 years) as part of SHI accreditation compliance monitoring procedures. Any annual positive or negative subsidy entitlement deviations found for the SHI will accrue to a subsidy equalisation fund to be maintained by the SHI, which will be subject to the Social Housing Accreditation Board's scrutiny.

The social housing project capital grant will be provided by the government through the provincial MEC/housing department. Based on the above principles, capital grant eligibility criteria will be established from time to time by the Minister of Housing in broad guidelines. The provincial governments will have project capital grant approval authority within these broad guidelines, and may further specify project eligibility criteria.

## **7.2 SHI capacity-building grants and establishment cost grants**

The SHI will be entitled to free in-kind Social Housing Foundation capacity-building support for the purpose of submitting its accreditation application and business plan. A pre-establishment grant will also be made available through Social Housing Foundation, if needed, to enable aspiring institutions to prepare the required documentation at the required standards to apply and qualify for provisional accreditation by the Corporation, as provided for in section 5.3 above.

After provisional accreditation, an SHI will be entitled to a combination of establishment cost and capacity building grants (to be specified in the business plan to be approved and out of which it can pay for further Social Housing Foundation support, if so required) for a maximum period of 5 years to full accreditation. At that point it will be expected to have reached a financial break-even situation<sup>2</sup>. Thereafter it will still be entitled to a further grant for capacity building for a maximum period of 2 more years. Capacity building cost items will be eligible for grant support as per Social Housing Foundation costing (on reimbursement or voucher basis).

Establishment cost grants will be provided to the SHI by the government through the MEC/provincial housing department upon provisional accreditation, at a normative level adequate to cover institutional overhead expenditure (not O& M costs specifically related to the individual building) for a typical SHI starting out with project development in its first year of operation. Normative (indexed) grant amounts linked to the number of housing units under management at different stages of development will be provided thereafter, up to the time that the SHI has reached its financial break-even point (however, establishment grant eligibility will cease two years after full accreditation). Coverage will be 100% of overhead costs in the first year with a declining proportion of such costs to be covered during subsequent years. Specific normative criteria will be laid down in guidelines prescribed by the Minister of Housing.

Establishment cost grants will be paid to the SHI concerned by the provincial government at the recommendation of the Corporation. The Corporation will issue such recommendation as part of its provisional and full accreditation award, and as part of its compliance monitoring, both during the accreditation period leading up to full accreditation, and for a maximum period of 2 years thereafter, if still required to reach the financial break-even point.

## **7.3 Tax incentives for SHIs**

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

Depending on their legal status, SHIs may utilise a range of income tax exemptions and/or favourable tax provisions. Income tax exemption will be possible for SHIs that are Section 21 companies by applying for exempt status under section 18a) and c) of the Income Tax Act. For SHIs with a different legal status, but which subscribe to SHI purposes in their legal statutes/memorandum and articles of association as may be applicable (including the requirement that operational surpluses will be re-invested in social housing), the government will review if it may grant similar tax-exempt status. Chapter 4 of the 2003 national budget

---

<sup>2</sup> If such a situation cannot be reached, a liquidation plan will need to be prepared, with the durable assets of the SHI to be sold to another SHI. A central risk mitigation scheme to cover short-term liabilities in the event of liquidation will need to be subscribed to by all provisionally and fully accredited SHIs, to be managed by the Social Housing Accreditation Board or a financial institution mandated to do so by the Board.

review specifically singles out institutions devoted to low-income housing and contributing to regeneration of urban areas.

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

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

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

## **7.4 Risk mitigation measures**

### **7.4.1 Risk mitigation requirements**

Social housing projects are generally part-funded by institutional subsidies (to be replaced by the capital grants described in section 7.1. above) and loans from NHFC, occasionally in conjunction with private financial institutions. Where this has occurred, the interest rate at which the loan has been provided carries a risk premium in keeping with the risk assessment by the lender. In addition, some SHIs have received capital grants through local and/or foreign donations, and some have obtained concessions (loans) from overseas development support agencies. In the short run, the effective demand for loan financing by SHIs is limited, due to the current capacity constraints of institutions on preparing, developing and managing viable social housing projects. For the overall low to medium housing market, it is broadly estimated that NHFCs currently available resources will be adequate to meet effective demand during the next 1-2 years, but that thereafter additional loan resources will need to be mobilised.

The Government has enacted the Home Loan Mortgage Disclosure Act (2000), and is preparing legislation for enactment in 2003, with the objective of ensuring financial sector investment in medium to low-income housing, including social housing. The legislation could specify lending targets and approved routes through which financial institutions will be able to meet their obligations. Investment in SHI projects will be one of these routes.

The funding and sector intervention programme proposed in this policy is therefore aligned with Governments objectives to ensure an environment within which private sector financial institutions could participate to their full potential. However the achievement of these objectives will be closely monitored and Government will revisit the funding regime of the policy, should the desired results not realise and could consider further risk mitigation measures.

#### **7.4.2 Accreditation process**

The first and foremost (and permanent) risk mitigation measure in social housing development, is constituted by the proposed SHI accreditation process (section 5.3 above). It incorporates strong incentives for budding SHIs to ensure that their operational house will be in working order, as otherwise they will forego accreditation and therewith, access to the project capital grant, capacity-building and establishment cost grants, as well as preferential access to long-term credit through NHFC. Therefore, the anticipated early operationalisation of the accreditation process, linked to the grant funding as indicated, is of utmost importance from a risk mitigation point of view. This will need to be coordinated with well-focused capacity-building efforts, at SHI level, particularly focusing on project preparation, tenant management and rent collection, and at NHFC, focusing on project appraisal and implementation monitoring, at SHF, focusing on effective capacity-building support, and at Government with regard to support to the proposed Corporation, and more generally, oversight of the social housing sector.

#### **7.4.3 Default risk insurance scheme**

Non-payment of outstanding housing dues often results from job retrenchment or disability/medical reasons (particularly related to HIV/AIDS). A specific risk mitigation scheme against this risk will be introduced sector-wide for SHIs, comprising a limited form of default risk insurance cover for such cases, for a maximum 6 months default period (this would give the tenant time to work out his/her best housing option, without compromising the SHI's financial position). Several SHIs are already employing such insurance cover, but premiums (and hence rent surcharges) vary. It is felt that a consolidated scheme will generate significant economies of scale, and thus reductions of insurance cost per unit. As a further risk mitigation measure, participation in and contributing to such a scheme will be a requirement for provisional and full accreditation. The scheme will initially be managed by NHFC, in co-operation with NASHO, which is expected to assume full management responsibility after a few years of experience with the scheme has been gained.

#### **7.4.4 Complementary policy initiatives**

As noted in section 7.4.1 above, investment through lending to SHIs is one of the options open to a financial institution to demonstrate compliance with the provisions of the proposed Act. The finalisation of the draft legislation in regard to the role and obligations of financial institutions are being attended to. Consideration may be given to designating loans to accredited SHIs as a most favoured option in terms of meeting lending targets, or mandating a minimum proportion of the target lending going to accredited SHIs. The Department of Housing will ensure consistency with the Financial Sector Charter provisions currently being negotiated.

The Prevention of Illegal Eviction from and Unlawful Occupation of Land Act (PIE). Eviction and property repossession on the grounds of non-payment of rent/hire-purchase charges after a reasonable process of warning/notice should not be considered illegal eviction in the context of PIE. The PIE Amendment Bill prepared by DoH submitted for Cabinet approval i.a. clarifies this, removing a major disincentive to financial sector involvement in low-income housing. It is envisaged to be enacted by end-2003.

## 7 POLICY IMPLEMENTATION: A ROLL-OUT STRATEGY

After final technical level deliberations in June 2003, the formal policy consideration process will proceed from DoH through Housing: MINMEC to Cabinet consideration, with an anticipated formal approval by early 2004, for it to take effect in FY 2004/5. To implement the Social Housing Policy, once adopted by Government, a range of action steps will need to be undertaken. Some preparatory steps require to be initiated prior to the formal adoption of the policy to ensure that there is no major time gap between the enunciation of the policy and its translation into concrete action on the ground. The major elements of the roll-out strategy are summarised in the table below with indication of timing and responsibilities.

### Summary of Roll-out Strategy Actions proposed

Action item	Action responsibility	Estimated completion date
1. Social Housing Bill finalisation and enactment, framing and issuing regulations	DoH/Cabinet	February 2004
2. Policy implementation launch	DoH	February 2004
3. Development of national communication/dissemination strategy	DoH/SHF	January 2004
4. National social housing capacity-building programme formulation	SHF/DoH	January 2004
5a. Social housing programme formulation: medium density housing programme	DoH	November 2003
6b. Social housing programme formulation: review and fine-tuning of presidential job summit programme proposals	DoH/NHFC	August 2003
7. Project capital grant, establishment cost grant, capacity building grant and pre-establishment grant and other operational guidelines to be incorporated in Housing Code	DoH	February 2004
8. Annual adjustment of grant amounts and budget estimates	DoH/Treasury	Each year in accordance with budget preparation time table
9. Legal establishment of Social Housing Accreditation Board (SHAB) with implementation/operational guidelines and budget provision	DoH	March 2004
10. Establishment of Social Housing Directorate (SHD) at DoH, including staffing proposal and budget	DoH	As soon as possible
11. Appointment of SHD director and staff	DoH	ASAP
12. Appointment of SHAB members and secretariat	Minister of Housing	March 2004
13. Operational start of SHAB	DoH/SHAB	April 2004
14. Establishment of compulsory specific risk insurance cover	DoH/NHFC/NURCHA	April 2004
15. Establishment of Social Housing Risk Mitigation Fund and staff appointment (as an option)	NHFC/SHF/NASHO	March 2004

## ANNEXURE A: LEGISLATIVE ENVIRONMENT AFFECTING SOCIAL HOUSING SECTOR

<i>Regarding legal entities</i>	
Companies Act (section 21 companies and private companies) no. 61 of 1973	For the registration of the legal entity. Set criteria to which the legal entity must adhere and report on (see governance)
Trust act (trusts) Trust Property Act 51 of 1988 Co-operative Act of 1981 (co-operatives)	Guides the registration of trust as legal entities Guides the registration of co-operatives (primary and secondary) and states the requirements of the registrar of co-operatives
Pending co-operatives policy and strategy and revision of co-operatives bill	Amendments to the 1981 co-operatives legislation and providing direction, focus and specific support for the sector. The support proposed needs to be tailored to support the housing co-operatives as well as other co-operatives
<i>Regarding governance</i>	
King 2 report on corporate governance	Sets out corporate governance requirements for public and private companies.
Public Finance Management Act for SHI established with support from local authorities (PFMA)	Sets out specific reporting and operational requirements for parastatals and SHI funded or supported by (local) government
<i>Regarding operations</i>	
Constitution, Act 108 of 1996	Right to access housing Eviction only possible through an order of court i.e. security of tenure
White paper on housing, 1996	Framework for the operation of the housing development sector
Housing Development Act 107 of 1997	Principles for the development of housing Framework for operating in subsidy market Defining roles of the key players in the sector
Rental Act 50 of 1999	Details government responsibility in the rental housing sector Lease agreement requirements Landlord tenant relationships through the establishment of tribunals Treatment of deposits and limitations on rent increases
National Housing Code	Details of using the various subsidy instruments available under the capital subsidy programme
Provincial housing legislation and policies	Captures provincial enhancements to the housing subsidy scheme and policy to be adaptive to the context in the province
Local authority policies and bylaws  PIE – Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 Skills Development Act	Captures local area specific requirements that residential property owners have to adhere to and maintain. Linked to the town planning and zoning Significantly affects the ability of an SHI to evict defaulting residents as the process is long and costly. From the Department of Labour and linked to overall national skills development, employers are required to pay a levy for employee skills development that can be claimed back from sector education and training authorities against a predefined skills development plan. Small SHIs would be exempted from this.
Community Reinvestment bill (CRA)	Proposed to bring private financial institutions into the low income housing sector. SHIs could benefit from funding from these organisations to diversify their funding sources and spread risk
<i>Regarding development and land</i>	
Development Facilitation Act, 1995	Comes in to play when accessing land for the development of social housing. The principles in

	Chapter 1 are applicable in all provinces.
Town planning legislation – provincial ordinances	Comes in to play when accessing land for the development of social housing and zoning land for social housing development
Municipal housing plans and integrated development plans and provincial development plans	Defines nodal areas targeted for development, details public funding available for the areas identified. Assists in planning the location of housing developments
NHBRC/Consumer Protection Measures Act	This applies during the development stage of a project and will affect the SHIs if they act as developers of the project. The additional levy added for NHBRC cover adds to the cost of construction of the product and in the case of rental units adds a third level of insurance to the development, whereas in the case of instalment sale does not necessary benefit the prospective homeowner as transfer occurs after year 4
<i>Regarding Social Housing tenure options</i>	
Share block Act	For the registration of a Shareblock title development. Only one project has used this as a vehicle to date – Seven buildings
Communal Property Associations Act 28 of 1996	Communal property associations is a collective form of ownership used mostly by PHP. Not yet tried in social housing, but has similarities to the co-operative approach
Co-operatives, 1981	Applies to the co-operative ownership of land
Sectional titles Act	Applies to sectional title developments under the social housing umbrella
Alienation of Land Act	Applies to the instalment sale process
<i>Regarding taxation</i>	
VAT Act	Zero-rating of subsidies for VAT not applicable to rental housing development. Therefore SHIs doing rental have to pay the input VAT and cannot claim this back.
Income tax legislation	Income tax exemption for the SHIs
Property Rates Bill	Regulating the property rates regime



**ANNEXURE B: STEP-WISE DIAGRAM OF SOCIAL HOUSING INSTITUTION (SHI) ESTABLISHMENT AND ACCREDITATION PROCESS**

<b>Steps required</b>	<b>Stakeholders</b>	<b>Outcome</b>	<b>Process</b>	<b>Support needs</b>
1: Legal establishment of intending SHI	Initiators	Legal entity admissible as SHI	Compliance with regulations under concerned Act	Legal support, SHF briefings
2: Preparation of legal documents and business plan by intending SHI for provisional accreditation	Applying institution, SHF, local government	1) Completed application for provisional accreditation submitted to SHAB; 2) in-principle agreement about local government support 3) SHF certification of application	Compilation and agreement on implementable business plan: discussions, workshops; compliance with provisional accreditation criteria	Pre-establishment grant through SHF and in-kind SHF support as needed, information from local government, NASHO and existing SHIs
3: SHAB consideration of application	SHAB, applying institution, SHF, local government	1) SHI provisional accreditation awarded; 2) Establishment cost grant and capacity-building grant awarded	Review and verification of application documentation by SHAB staff	Training of SHAB staff
4: Pro forma application to provincial government for establishment cost grant for first year	SHI and provincial government	Establishment cost grant approved by MEC	Processing of SHAB award	SHAB and/or SHF assistance in grant application, if needed
5: Application to SHF for continued SHF support	SHI and SHF	Capacity-building grant approved by SHF	Processing of SHAB award	SHAB assistance in grant application, if needed
6: Recruitment of CEO and staff of SHI	SHI Board	SHI adequately staffed for initial development	Advertisement, vetting and interviewing of staff; establishment of staff terms and conditions of service	SHF assistance, if needed
7: Preparation and submission of project preparatory feasibility, i.a. specifying project capital grant and borrowing requirements	SHI, consultants, SHF, DoH, NHFC	Completed and SHI-approved feasibility study submitted to MEC and NHFC	Recruitment of consultants, review of outputs, internal SHI approval of feasibility study	Support out of establishment costs and capacity-building grants to finance consultants; assistance by NHFC and SHF as needed
7: Approval of feasibility study by provincial housing department and NHFC	SHI, provincial government, NHFC	Approved feasibility study, capital grant and NHFC loan	Review of feasibility study by MEC and NHFC staff	Training of MEC and NHFC staff
8: Project implementation	SHI, local government	Housing ready for occupation	Construction tender preparation, award and site supervision	Assistance from consultants, training of SHI staff
9. SHI administrative system development	SHI	Administrative system installed, tested and ready for use	Consultation, purchase of systems, installation and trial run	Advice by NASHO and other SHIs, training of SHI staff (under SHF auspices)
10: Beneficiaries selection and tenorial contract	SHI, beneficiaries	Housing occupied	Interviews, contractual	Advice by SHF on standard procedures

			processing	and forms
11: Finalise and implement O&M arrangements, tenant relationships and rent collection and administration	SHI	Well-functioning social housing project	Develop and implement guidelines, rules and regulations	Advice by SHF, NASHO and other SHIs
12: annual review of business plan by SHI with revised establishment cost grant application and application for continued SHF capacity building support	SHI		Internal reviews of adjusted business plan	SHF support as required
13: Annual compliance monitoring by SHAB based on SHI documentation and project progress – sanction of next year’s grant request	SHAB, SHI	Approved business plan and grant awards	SHAB staff reviews of adjusted business plan	
14: Repeat of steps 9-10 for second project	as above	as above	as above	as above
15: Step 11-13 repeat cycles, depending on project sizes and annual business plans reviews	as above	as above	as above	as above
16: SHI application for full accreditation process	SHI	Complete application, complying with accreditation criteria	Compilation and internal review of documentation, discussions, workshops	SHAB and SHF support as needed
17: SHAB approval of accreditation application	SHAB, SHI	Accreditation award	Review of application by SHAB staff	SHAB staff training
18: Annual SHAB compliance monitoring	SHAB, SHI	Continued accreditation	Review of benchmark reports submitted by SHI	SHAB staff training

## **ANNEXURE C: INTERNATIONAL SOCIAL HOUSING DEVELOPMENT**

Housing associations are the most commonly known institutional form of social housing delivery, and can be found all over the world. Social housing has a long history in European countries. However in South Africa the concept and practice of social housing is relatively new. To facilitate the growth and development of the South African social housing sector, it is therefore necessary to reflect on the experiences and lessons learnt about social housing internationally and use it as a guide.

Social housing originated in Europe over 100 years ago but developed dramatically after both World Wars largely because of the housing needs during the post-war reconstruction period. It is particularly strong in the Netherlands, Belgium, France, the United Kingdom and Scandinavia. There is also a significant public housing programme in the United States and Canada. In the latter two countries, however, as with many developing countries in Latin America, Asia and Africa, private rental provision for low income families is more dominant than the state sponsored housing associations sector.

Housing co-operatives (democratic housing associations where members co-operate to achieve the aims of the organization), are popular in the United States, Canada, France, and Scandinavia. Some countries in Southern and Eastern Africa such as Kenya, Zimbabwe and Tanzania also promote housing co-operatives.

The two most common ownership forms of social housing internationally are:

- a) State or municipal ownership and
- b) Not-for-profit housing associations and co-operatives.

In general, municipal ownership has the longer history and in many countries is still the larger sector. However, the balance is changing in response to economic and political policies that are supporting the development of independent social housing institutions.

The most significant aspect of social housing in the countries noted above is the substantial financial support they have received from government. Governments have generally provided substantial capital subsidies to cover the costs of developing acceptable quality units, funds to cover running costs on an annual basis to ensure that rents are affordable to the target population, land at reduced costs, and tax incentives to registered social housing institutions. Guarantees have also been provided to encourage the entry of private financial institutions into the social housing market. On the basis of government support over the past 100 years, over 50% of all housing provided in the Netherlands is provided by social housing institutions, and over 14 billion pounds has been advanced by the private financial sector to British social housing institutions. Increasingly these well established institutions are becoming self-sufficient, over time through targeted support from government.

Another significant feature of social housing in Europe is the increasing use of regulation through the encouragement of a best practice regime. In order for institutions to access state funding and support, they would have to prove acceptance and ongoing adherence to a range of benchmarks set by a government appointed regulator.

A final lesson of importance from the international social housing experience is the increasing commitment to break down the concentrations of poverty that previous policy implementation permitted. Current policy and practice focuses on developing mixed income communities. These are seen as a mechanism of urban development and economic growth, especially for low income groups (families, single parent families or individuals) who can then take advantage of the economic, social and educational opportunities created within such developments