

SUBMISSION

TO : HOUSING ADVISORY COMMITTEE FOR RECOMMENDATION TO THE MEC FOR HOUSING

SUBJECT : POLICY DIRECTIVE ON NON-CREDIT LINKED INDIVIDUAL SUBSIDIES

1. PURPOSE

The purpose of this submission is to establish a policy framework for non-credit linked individual subsidies.

2. BACKGROUND

- 2.1 Individual subsidies can be accessed by an individual himself (non-credit linked) or through a bank or employer organisation (credit linked).
- 2.2 A beneficiary may access an individual subsidy property to purchase a site with an existing top-structure or to develop vacant land.
- 2.3 Since the inception of the housing subsidy scheme, fraud was rampant in the individual subsidy market. The following were found to be the main causes of fraud :
- 2.3.1 Syndicates fictitiously created properties and buyers, which they use to construct a property sale transaction in the non-credit linked market, where no other organisations or institutions are part of the transaction. Fraud also occurred as a result of the payment system of individual subsidies. Individual subsidies were previously paid to a conveyancer on approval of a subsidy application. The funding was held in trust by the conveyancer. Conveyancers who formed part of such syndicates created fictitious properties and buyers. Since these fictitious properties were of their creation they failed to register properties and did not provide proof of such registration to the department.
- 2.3.2 Applicants also declared in their applications they were purchasing a site with a top-structure, when in actual fact, were purchasing a vacant site or a site with an informal dwelling. Due to the lack of building inspectorate capacity within the department, physical checks could not be done to confirm that a top-structure exists on the site.
- 2.3.3 Beneficiaries were also sold sites which could not be developed due to geophysical or topographical conditions. Some beneficiaries also had not constructed a top-structure on the site after having received a subsidy for the construction of a top-structure. The department did not have the capacity to check if the site was capable of being developed or if the beneficiary built a top-structure on the site.

- 2.3.4 Building inspectors made attempts to locate properties in order to do the required inspections. Their attempts were in many instances unsuccessful and they could not locate properties due to land legal issues and the overlapping of layout plans.
- 2.3.5 Beneficiaries, in addition were using the subsidy to enrich themselves by selling their subsidized properties almost immediately after acquisition. It was also found that family units were enriching themselves through the sale of a subsidized property from one family member to the next. No mechanisms were in place to prevent the sale of subsidized properties.
- 2.3.6 The application of individual subsidies to purchase vacant land was not encouraged or promoted in this province. The department was not convinced that a dwelling would be built on the site. Administration of subsidies on vacant land entails establishing a large administrative and building inspectorate component to process applications, administer residual payouts and undertake at least 3 site inspections per individual application. The department does not have the necessary building inspectorate and administration capacity. Residual payouts also pose a high risk for fraud to occur.
- 2.4 The department in June 2000 approved a policy, whereby individual non-credit linked subsidies are only granted in circumstances where the application is channelled through a financial institution or large employer organisations, who ensure that such applications are thoroughly checked and verified, i.e. credit linked. Applications channelled through financial institutions or employee groups are less likely to be fraudulent since there is a bond or employee loan registered over the property. The financial institution or employer also has the necessary administrative and technical capacity to administer applications and inspect sites which obviates us from effecting this control and establishing large administrative and building inspectorate components.
- 2.7 In October 2002, the policy section was requested by the KZNHAC to investigate the possibility of re-introducing non-credit linked individual subsidies. Part of their brief was to include stronger control measures and develop a policy with the intention of involving municipalities.
- 2.8 The policy component established an inter departmental task team comprising of representatives from all the Chief Directorates, regional offices and internal audit to investigate the viability of introducing non-credit linked subsidies.

3. **DISCUSSION**

- 3.1 The payment system for individual subsidies has been amended and payment is now only made upon registration of transfer. A pre-emptive right clause to prevent the sale of individual subsidized properties has also been introduced. The pre-emptive right clause may limit but does not stop the sale of subsidized property.

- 3.2 Although some changes have been introduced the department must conduct inspections on the site. Where a beneficiary is applying for a subsidy to purchase a developed property, the department must ensure that the site exists and has a top-structure constructed thereon, before the approval of that subsidy. Where a beneficiary is applying for a subsidy to purchase and develop vacant land, the department must :
- ensure that the site exists and that the site can be developed'
 - manage residual payouts; and
 - conduct regular site inspections to check if the site has been developed.
- 3.3 The task team established the following to still be areas of concern :
- 3.3.1 The department and municipalities, at this stage, still do not have the necessary administrative and technical capacity to conduct the necessary site investigations.
- 3.3.2 Despite the lack of building inspectorate capacity, properties, especially in townships cannot be located due to land legal issues and overlapping general plans.
- 3.3.3 A geotechnical engineer is the only competent professional to conduct the required soil investigation and ensure that a vacant site can be developed. The department nor most municipalities employ geotechnical engineers. These costly services will have to be procured for each individual application. The subsidy amount is limited and may not be sufficient to purchase and develop a site individually.
- 3.3.4 Applications in the individual non-credit linked subsidy market are primarily from beneficiaries who wish to purchase vacant land and build a house themselves. This involves the payment of residuals. Residual administration involves excessive and undue administration and will open the opportunity for fraud.
- 3.3.5 Beneficiaries will be required to make the necessary contribution. It will be very costly and administratively cumbersome to collect contributions on an individual basis.
- 3.3.5. Municipalities may be reluctant and not keen to administer this programme and cannot be compelled to undertake the required inspections for the department.
- 3.4 The Gauteng Provincial Housing Department does not allocate individual non-credit linked subsidies. The developer driven individual subsidy was initiated as an alternative means. The mechanism encourages municipalities to pool individual applications, which may be located one area or in a surrounding area. An application is submitted for a project with a small amount of beneficiaries (30 to 150), to be developed by emerging contractors.
- 3.5 The Western Cape Provincial Housing Department does not allocate individual non-credit linked subsidies on vacant land. Many applications are received from beneficiaries who

