



KZN Housing

**uMnyango:
wezeZindlu
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HOUSING POLICY COMMUNIQUÉ

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POLICY GUIDELINE FOR PROJECT APPROVAL AND NATIONAL HOME BUILDERS REGISTRATION COUNCIL (NHBRC) ENROLMENT PROCEDURE

The Policy guidelines for Project Approval and NHBRC enrolment were approved by the MEC for Human Settlements and Public Works on the 9th May 2009. These guidelines aim to create uniformity in the approval process of all projects and ensure that all housing programmes are enrolled with the NHBRC as required in terms of the Breaking New Ground (BNG) Strategy, to enhance the housing product by addressing the quality of housing delivered. It provides a mechanism for retrospective enrolment of projects as proposed in terms of Section 6 of the Housing Consumer Protection Measures Amendment Act, Act 17 of 2007.

1. BACKGROUND

Since the implementation of the National Home Builder's Registration Council (NHBRC) warranty scheme in 2002, developers have circumvented the requirement to enrol housing projects with the NHBRC for various reasons. This has led to a compromised quality of houses being delivered. There was also uncertainty about the stages and number of enrolments required as well as retrospective enrolments. There was no formalised procedure to address these issues.

The warranty scheme of the NHBRC in respect of the subsidised housing market was implemented by the National Department of Housing with effect from 1st April 2002 to Greenfield housing projects only. In September 2005, the warranty scheme was extended to cover the following subsidy programmes:

- Greenfield Project Linked Subsidy projects;
- Consolidation Subsidy projects;
- Relocation Subsidy projects; and
- People's Housing Process, but only up to project enrolment stage

The exclusion of certain programmes such as rural, provided the basis for different approval processes to be implemented e.g. Project Linked Subsidy projects required Conditional Approval to enable In-Principle enrolment with the NHBRC while in the case of Rural Projects, Conditional approval was not compulsory but combined with Stage 1 approval.

NHBRC enrolment has been extended to all subsidy instruments (including rural, PHP, institutional (including social housing and other rental schemes) where new units are being constructed. Furthermore, in terms of Section 2 of the Housing Consumer Protection Measures Amendment Act, Act 17 of 2007, all home builders must be registered with the NHBRC with the exception of a person who uses his or her own labour to build a home for his or her occupation if the home is part of an approved PHP Project. According to Section 4 of Housing Consumer Protection Measures Amendment Act, an owner builder may, in terms of Section 29, apply to the NHBRC for exemption from Sections 10 (registration) or 14 (enrolment). These amendments necessitated a review of current approval processes to include NHBRC enrolment and risk assessment requirements.

2. GUIDING PRINCIPLES

- 1) Risk assessment must be undertaken irrespective of the subsidy instrument used. Practice has demonstrated that proper upfront risk management in the preplanning and packaging stage reduce the number of blocked and/or slow moving projects in the implementation stage. This reduces wasteful and fruitless expenditure in having to address critical issues that should have been identified upfront.

- 2) Risk assessment should be phased to be cost effective, hence, the first risk assessment should comprise of a desktop exercise which includes review of existing documents, plans, reports and site walkover (scoping) to verify development potential. Projects should not proceed if risk cannot be adequately mitigated
- 3) There must be quality housing for all. The standard patent and latent defects warranty for house construction must be included in all sale agreements and “happy letters”.
- 4) All housing development must ensure sustainable human settlement.
- 5) Effective and efficient processes need to be adopted to ensure speedy delivery.
- 6) Compliance with legislation in terms of NHBRC enrolment and the comprehensive Plan for Housing Delivery is required.
- 7) All projects need to be enrolled prior to the construction of any house subsidized by government.
- 8) The new National Housing Code will provide a basis to these guidelines that will serve to steer the process in KwaZulu-Natal.

3. NHBRC APPLICABILITY

The NHBRC warranty currently extends to subsidy programmes as outlined in Table 1, below:

Table 1: NHBRC Applicability

| Subsidy Instrument | Extent of Enrolment | |
|--|---------------------|--|
| | Project Enrolment | Home Enrolment |
| Project Linked Subsidy Projects | Yes | Yes |
| Relocation Subsidy Projects | Yes | Yes |
| Consolidation Subsidy Projects | No | Yes |
| People’s Housing Process | Yes | Optional where the builder is the owner, as defined in terms of the Housing Consumer Protection Measures Amendment Act, 2007 |
| Developer Driven Individual | Yes | Yes |
| Individual Subsidy(new development) | Yes | Yes |
| In-situ upgrade Projects | Yes | Yes |
| Rural Subsidy Projects | Yes | Yes |
| Institutional Subsidy Projects (new development) | Yes | Yes |

4. PROJECT PROCESS

The project process is generally made up of 4 stages. Risk assessment is done in 2 stages. The first is the Project Description Stage (Conditional Approval) and the second is the Project Feasibility stage. The third stage of the project process is the Implementation stage. The final stage is concluded by the project close-out.

4.1 STAGE 1: PROJECT DESCRIPTION (PREPLANNING AND CONDITIONAL APPROVAL STAGE)

4.1.1 General Issues

The project preparation starts at this stage where the project concept and estimated capital and operating budgets are determined, and preliminary risk assessments (desktop analysis) are done. Application can be made to the Department for Preparation Funding should financial assistance be required for in-depth analysis. A copy of the policy is available on the Department's website at www.kznhousing.gov.za.

The key risks i.e. Land issues, geotechnical conditions, environmental conditions, social issues and bulk services must be identified and assessed to determine if the project is viable before submission for Stage 1 approval. If approval is granted, NHBRC in principle project enrolment must take place where applicable. In some cases, this may be combined with the project enrolment stage. Full project enrolment must take place prior to the construction of any house and/or the approval of the subsidy for top structure construction.

The level of detail required at the end of this process will vary depending on the nature of the project. For this reason it is strongly recommended that all authorities (including the NHBRC and Departmental representatives) be contacted upfront to ensure all requirements have been met, details of which are to be summarised in the submission to the decision makers of the Department. This should include the recommended stage for project and/or home enrolment, which should be done prior to the construction of houses.

PLEASE NOTE that:

- 1) The granting of "conditional approval" does not guarantee final approval of the project. No funds are committed. The budget is indicative only. The aim of granting approval at this stage is to acknowledge that the desktop work has been assessed and that it appears that the project could be supported subject to confirmation through more detailed analysis. In addition to this, obtaining existing technical reports (that serve as the basis for desktop analysis) can indicate some feasibility issues, e.g. historic geotechnical reports that might indicate high water tables, etc.
- 2) The Housing Code provides for actual expenses incurred in relation to the project description to be paid, once this stage is finalised. Consultants can be paid for the work done, irrespective of whether the project is approved or not. The critical determination is whether the work done was to the required standard. This would be determined by the scope of works. The Department and NHBRC have developed specifications to guide the nature and extent of work to be done, e.g. GHSF2 for geotechnical investigations; GHSF3 for town planning and land assessment work; and GHSF4 for Environmental assessments. These documents are available on www.nhbrc.org.za or on the Department's website at www.kznhousing.gov.za.

4.1.2 Exclusions

The Project Description stage is not applicable to Consolidation Subsidy Projects.

4.1.3 Rural (Informal Land Rights) Projects and Insitu upgrades

The principles outlined above will also apply to rural (informal land rights projects). In past practice, the project description and feasibility stages were combined into one approval process. However, NHBRC enrolment was not required at that stage and services were not always provided. Under the new housing code, these projects are now subjected to home enrolment. Similar risk assessment and processes are required as those outlined in 4.1.1 above, including the desktop analysis to be conducted.

The following should be noted:

- 1) The geotechnical requirements for each project. The NHBRC should be contacted upfront to determine the exact requirements to avoid delays with home enrolment processes, and the agreed process should be documented.
- 2) Copies of the NHBRC checklists are available on www.nhbrc.org.za or on the Department's website at www.kznhousing.gov.za.
- 3) Environmental Impact Assessments are not automatically waived. Where infrastructure services such as roads are to be provided, the environmental impact would need to be assessed. Some rural areas are also within heritage sites or have historic importance which might have to be addressed. The Department responsible for Environmental Impact Assessments must be contacted upfront to assess the nature of the application required.
- 4) The assessment of bulk services must be done in the context of the nature and extent of services to be provided.

4.2 STAGE 2: PROJECT FEASIBILITY

This stage involves more detailed work to address outstanding risks and to finalise the project concept, design and cost. More detailed reports are required in terms of the land, bulks, geotechnical conditions (including topography) environmental conditions and social issues. The specifications should be used to guide the minimum work required at this stage in respect of each of the key activities, see GFSH 2, 3 and 4. The more detailed Phase 1 Geotechnical report is required at this stage, and in the context of the variations in respect of rural and insitu upgrade projects, as outlined in paragraph 4.1.3, above. Note also that in most cases where consolidation subsidies are used, the Phase 1 geotechnical investigation might not be required.

The output documents for this stage substantially informs the approval processes in the implementation stage, e.g. development and town planning approvals.

Once these issues are clarified and evaluated then submission is made for final project approval. The project is approved in principle, based on a development programme and implementation phases are aligned to the subsidy applicable at the time. The first payment tranche amount for planning and design is aligned to the subsidy applicable at the time of signing the contract, whilst the balance is aligned to the prevailing subsidy applicable at the time of implementation.

The project agreement between the relevant parties is signed. NHBRC project enrolment should occur at this stage, alternatively, depending on the nature of the project, the project and home

enrolment should occur prior to the approval of building plans by the relevant authority, and approval of funding for top structure construction.

4.3 STAGE 3: IMPLEMENTATION

Project implementation begins after final project approval is granted, and typically construes three phases: Town Planning and Engineering Design; services construction; and house construction. The preliminary and Phase 1 geotechnical reports prepared in the preplanning and feasibility stages will substantially inform the town planning and engineering designs. Whereas aspects such as storm water control impact on the NHBRC warranty, engineering designs and layouts should be done in consultation with the NHBRC.

In the case of rural projects (Informal Land Rights), the geotechnical requirements may be less stringent, depending on the densities and number of units to be constructed in any particular area. The NHBRC is in the process of reviewing the geotechnical requirements in the context of rural (informal land rights) and would accept a minimum of eight (8) test pits per hectare of project house construction area for the Phase 1 geotechnical investigation. In the context of rural projects with dispersed targeted areas for house construction, the project house construction area is the total extent of the allocated piece of land, per household, upon which a house is to be constructed. More soil test pits may be required in areas with higher densities, such as Ingonyama Trust land in areas such as eThekweni. In other cases the number may be reduced depending on the nature of the project, and noting that this would draw on the professional integrity and indemnity of the geotechnical professional. The NHBRC should be contacted upfront to determine the exact requirements as far as trial pits are concerned to avoid delays with home enrolment processes.

During services infrastructure construction, site by site classification of geotechnical conditions are confirmed (thus concluding the Phase 2 geotechnical investigation report). The home enrolment application and approval of building plans must be submitted at the end of this stage, before top structure construction activities commence.

Warranty certificates will be released once the final quality check requirements in the house construction phase have been met.

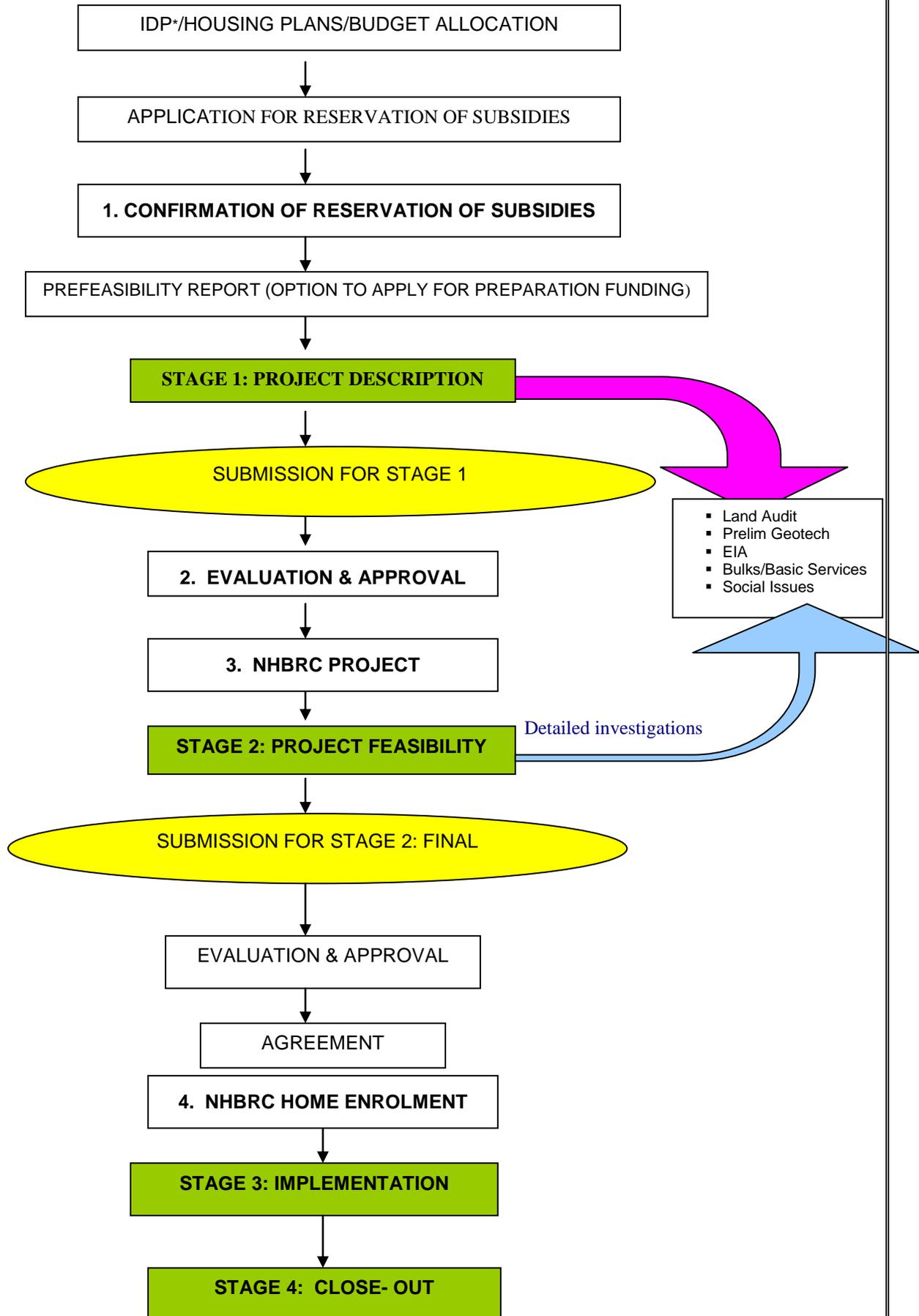
4.4 STAGE 4: CLOSE-OUT

Project close-out is an ongoing administrative process during which compliance, variations and other key aspects are recorded. In the context of this document, it will also include verification that all reports have been received, payments have been made for work done (including NHBRC enrolment fees), and warranty certificates have been issued.

4.5 PROJECT APPROVAL AUTHORITY

All stage 1 and 2 applications must be submitted through HEAC for approval by MEC.

KWAZULU-NATAL DEPARTMENT OF HOUSING PROJECT PROCESS



5. NHBRC ENROLMENT PROCEDURE

The 2 stages of enrolments must be undertaken by the developer and the Department of Human Settlements must be simultaneously informed of this enrolment in writing to enable payment.

5.1 Stage 1: Project enrolment:

Applications must contain the following:

- ◆ Details of Developer and Developer's NHBRC Registration Number.
- ◆ Name of MEC.
- ◆ Unique KR approval number.
- ◆ A copy of the project descriptions including the preliminary geotechnical report.
- ◆ Schedule of proposed subsidy variations for project in the form of the subsidy variation formula for the project issued by the MEC.
- ◆ An indicative project programme.
- ◆ Proof of Scheduled payment to NHBRC.
- ◆ A copy of the feasibility report and all reports referenced in the feasibility report.
- ◆ Phase 1 geotechnical investigation

5.2 Stage 2: Home enrolment:

Applications must contain the following:

- ◆ NHBRC project enrolment number.
- ◆ MEC name and unique confirmed approval number.
- ◆ Developer name and NHBRC Registration Number.
- ◆ Project name, location and phase.
- ◆ Number of units covered by the application.
- ◆ Home enrolment report.
- ◆ Site details and erf numbers based on approved Surveyor General's Layout.
- ◆ Phasing details and estimated start and completion dates of each phase.
- ◆ Plot numbers with type of subsidy applying in each case.
- ◆ Names and NHBRC registration numbers of any subcontracting home builders to be used in the construction of specific homes and the erf numbers of the homes that they are to build.
- ◆ The names, ID details and experience of the project manager and key staff.
- ◆ Proof of Scheduled payment to NHBRC.
- ◆ Phase 2 geotechnical report

5.3 RETROSPECTIVE ENROLMENTS

Application of retrospective project enrolment for PHP and other projects for which enrolment had not occurred, should take place where no top structure is built, or less than 10% of the top structures are built and units are unoccupied.

6. APPLICATION

All new projects must follow the above procedure from date of approval of this policy and as summarised in the table below. New rural projects enrolling for Stage 1: Project enrolment, must in the interim be done in consultation with officials from the NHBRC who will deal with each project on its own merit until the appropriate procedure and documentation is designed and adopted for such projects.

Projects where feasibility or final approval has not been granted, rural projects that have completed stage 1 (tranche 1), or other projects where top structure construction has not commenced, should be considered in terms of Retrospective Enrolments.

Table 2: Summary of Project packaging, geotechnical investigations and NHBRC enrolment

| Packaging stage | | Geotechnical Investigation | | PHD Payment milestones | NHBRC Enrolment |
|-----------------|---------------------|--|--|------------------------|---|
| Stage 1 | Project Description | Prelim Geotech | | Preparation funding | Project enrolment |
| Stage 2 | Feasibility Stage | Prelim Geotech and Phase 1 Geotech | | | |
| Stage 3 | Implementation | Townplanning and Engineering Design | Check design impact on warranty scheme | Tranche 1 | Home Enrolment Warranty certificates |
| | | Services construction | Phase 2 site specific classification | Tranche 2 | |
| | | House construction | | Tranche 3 | |
| Stage 4 | Close-out | Compliance confirmation and change- and quality management records | | | |

Documents relating to the above processes, including the recommended procurement documents, can be found on the NHBRC website at www.nhbrc.org.za under the tab “subsidy sector” then “technical documents” or may be accessed on the Department’s website at www.kznhousing.gov.za

N.B

- All Municipalities involved in housing development are reminded to register with the National Home Builders Registration Council (NHBRC) annually.
- All applications for enrolment must be submitted through the office of the relevant Regional Manager. Annual registration for the Department of Human Settlements will be done by Project Management.
- Regions must attend regular task team meetings with the NHBRC.
- The NHBRC will have to submit proposals for rectification to the Department for consideration.

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NATIONAL NORMS AND STANDARDS FOR THE CONSTRUCTION OF STAND ALONE RESIDENTIAL DWELLINGS FINANCED THROUGH NATIONAL HUMAN SETTLEMENTS (FORMERLY HOUSING) PROGRAMMES

The National Norms and standards for the construction of stand alone residential dwellings financed through National Human Settlements Programmes was approved as part of the working document in November 2008 and was effective retrospectively from 1st April 2007. It was approved as part of the working document in November 2008. It replaced the National Norms and Standards contained in the National Housing Code, 2000. All residential developments that will be undertaken through the finance provided in terms of the National Human Settlements Programmes must comply with these norms and standards.

1. INTRODUCTION

In terms of the provisions of section 3(2)(a) of the Housing Act, 1997 (Act No. 107 of 1997), which came into effect on 1 April 1998, the Minister of Housing must determine national policy, including national norms and standards in respect of housing development. Section 3(3) furthermore provides that the national norms and standards referred to, includes norms and standards in respect of permanent residential structures but are not limited thereto.

The then Minister of Housing introduced such norms and standards in terms of the provisions of the Housing Act, 1997 (Act No.107 of 1997) in December 1998. The Comprehensive Plan for the Creation of Sustainable Human Settlements, approved by Cabinet on 1 September 2004 also known as Breaking New Ground (BNG), inter alia advocates the enhancement of the National Norms and Standards for housing products to be delivered through the National Human Settlements Programme. The objective of creating sustainable housing developments through quality and durable products that comply to minimum standards and giving effect to the objectives of the Housing Act, 1997 (Act No. 107 of 1997) is also supported.

In terms of the provisions of section 1 (vi) of the Housing Act, 1997 (Act No. 107 of 1997) which came into effect on 1 April 1998, "housing development" means:

"the establishment and maintenance of habitable, stable and sustainable public and private residential environments to ensure viable households and communities in areas allowing convenient access to economic opportunities, and to health, educational and social amenities in which all citizens and permanent residents of the Republic will, on a progressive basis, have access to:

- a) permanent residential structures with secure tenure, ensuring internal and external privacy and providing adequate protection against the elements; and
- b) potable water, adequate sanitary facilities and domestic energy supply".

Against this background, the previous Minister of Housing introduced the revised National Norms and Standards, including prescripts regarding the housing typologies that will be financed through National Human Settlements Programmes in future with effect from 1 April 2007.

2. GENERAL PRINCIPLES

Any specification or definition of norms and standards for affordable housing should ideally be performance based. This encourages innovation by allowing a variety of building systems, materials or techniques to be combined to meet the set performance requirements.

While there are many technologies that can be used to produce a house that will meet a performance specification, it is essential that the resulting structure is acceptable to the community members who

are the potential “buyers” of the housing products. It is advisable that the acceptability of any proposed building system is tested in the earliest phase of project development and certainly, before the construction contract relating to the superstructure of the dwellings is officially approved and finalised.

3. RELEVANCE OF THE NATIONAL BUILDING REGULATIONS (NBR) TO AFFORDABLE HOUSING

The NBR as published in the Government Gazette from time to time apply equally to affordable housing and to luxurious housing developments. The NBR consist of performance standards for buildings, without prescribing how these are to be achieved.

The SABS 0400(now SANS 10400) publication, relating to the application of the building regulations contains both the NBR and a set of “deemed-to-satisfy rules”. The rules are provided to assist designers to meet the performance requirements set out in the regulations. It deals with conventional construction only, is not regulations, nor does it have the force of law of the NBR. For example:

Deemed-to-satisfy rule HH2.4 requires that the width of any continuous strip foundation shall not be less than 600mm in the case of a foundation to a load-bearing or free standing masonry wall.

There is no need to comply with this rule if in the opinion of an engineer:

- a) Ground conditions are so poor that more sophisticated foundations must be used, or
- b) The combination of building load and founding conditions is such that the strip foundation can be reduced in width, or omitted altogether.

On presenting either alternative to the municipality, it will be accepted as complying with the relevant building regulation, if it is shown to be the result of a rational design by an appropriately qualified, competent person.

4. PROOF OF COMPLIANCE WITH THE NBR

There are several methods of persuading a municipality that a particular design complies with the requirements of the NBR, namely that the building will be constructed in accordance with:

- a) A design that conforms in all respects with the Deemed-to-satisfy rules set out in SABS 0400; (now SANS 10400)
- b) A certificate issued by the Board of Agrément SA, that is,
 - an Agrément Certificate, or
 - a MANTAG Certificate; and
- c) A rational design prepared by a competent person. Unconventional building methods, systems or components, are covered by an Agrément Certificate. This provides an assurance of fitness for purpose of non-standardised building and construction products and systems, by evaluating these against prescribed performance criteria.

A MANTAG Certificate is a distinct type of Agrément Certificate dealing with:

“acceptable safety and health criteria for houses and related outbuildings, non-residential schools and primary health care centres in areas where the local authority is of the opinion that the type of construction is appropriate, given that in these areas it is of paramount importance that the buildings be erected at the lowest possible cost.”

“Rational designs” are normally presented in relation to the structural strength and stability of a dwelling and much less frequently, in relation to:

- a) Resistance to rainwater penetration;
- b) Damp proofing;
- c) Fire protection;
- d) Lighting and ventilation; and
- e) Drainage.

However, there is a tendency for regulatory authorities that are presented with a rational design, to assume that it covers all aspects of the work. For this reason the National Department insists that the competent person must:

- a) Clearly identify those aspects of the building that are the subject of the rational design;
- b) Inspect for compliance with the rational design; and
- c) Assume full professional responsibility for the subsequent performance of the subjects covered by the rational design.

All aspects of the work that are not the subject of the rational design, must comply with the Deemed-to-satisfy rules of SABS 0400 (now SANS 10400) or be covered by a Certificate issued by the Board of Agrément SA.

5. THE ROLE OF THE NATIONAL HOME BUILDERS REGISTRATION COUNCIL (NHBRC)

The NHBRC was established in terms of Section 2 of the Housing Consumers Protections Measures Act, 1998 (Act No. 95 of 1998) as a statutory body with the prime objective to provide consumer protection through the regulation of the home building industry.

In terms of the provisions of the said Act, all home builders must be registered with the NHBRC and a home builder may not commence with the construction of a home unless the home is enrolled with the NHBRC. The NHBRC has also published Home Building Manuals and the technical requirements contained in the said manual are enforced by the NHBRC.

The Housing Subsidy Scheme was made subject to the provisions of the said Act with effect from 1 April 2002 and all houses that are to be constructed through the application of the housing subsidy amount only must be enrolled with the NHBRC and these houses will therefore be subject to the following technical specifications:

- a) The NBR;
- b) The Standards introduced by the NHBRC; and
- c) The National Norms and Standards contained in this document.

The NHBRC requires the results of a geological survey of a particular stand or site and will evaluate the findings of the report and may require that specified precautionary measures be provided in respect of municipal engineering services and/or the dwelling to be constructed.

6. THE NATIONAL NORMS AND STANDARDS FOR STAND ALONE RESIDENTIAL DWELLINGS FINANCED THROUGH THE NATIONAL HUMAN SETTLEMENTS PROGRAMMES

6.1 HOUSING LAND

It is confirmed that for purposes of this document, in accordance with the MINMEC decision, the cost of acquisition of land for housing development is not part of the funding provided through the Housing Subsidy Scheme. Housing land will be acquired in terms of a separate dedicated Housing Land Programme including a separate funding mechanism. The land price in respect of each individual stand will however be taken into account in determining the actual product price of the residential property created through the housing subsidy scheme. This will also be required in terms of the calculation of the NHBC enrolment fees and to ensure that the subsidy beneficiary is informed regarding the total value of the housing product allocated to him/her.

6.2 NORMS AND STANDARDS IN RESPECT OF MUNICIPAL ENGINEERING SERVICES

6.2.1 General conditions

Bulk and connector services located outside the boundaries of project sites and which are provided by municipalities/service providers must be financed through internal sources of revenue of municipalities or other resources and may not be financed out of the Integrated Housing and Human Settlement Development Grant (IHAHSG).

A municipality may, in instances where it has the capacity, provide additional funds for the provision of municipal engineering services and/or the construction of houses, or a combination thereof, to enhance the end products to be delivered through the National Housing Programmes.

6.2.2 Standards for internal municipal engineering services

The internal reticulation services must be funded from alternative funding resources. However, as a last resort option in cases where no other funding resources are available the internal reticulation services may be funded from the provincial annual housing development funding allocated by the Minister.

The level of the engineering services to be provided is determined by the provisions of the relevant National Housing Programme. For instance, the Programme: Upgrading of Informal Settlements provides for considerable discretion regarding the township layout and infrastructure design and standards. This means that a particular informal settlement layout may be required to ensure higher densities and in achieving this objective, not every residential property may have a road access. However, in general, all residential properties created through the National Housing Programme must at least comply with the levels of services indicated in the following table:

Table 1: Minimum Level of Services permitted in terms of the National Norms and Standards

| TYPE OF SERVICE | MINIMUM LEVEL |
|------------------------|---|
| Water | Single standpipe per stand (metered). |
| Sanitation | VIP or alternative system agreed to between the community, the municipality and the MEC. |
| Roads | Graded or gravel paved road access to each stand. This does not necessarily require a vehicle access to each property |
| Stormwater | Lined open channels. |
| Street lighting | Highmast security lighting for residential purposes where this is feasible and practicable, on condition that such street lighting is not funded from the MIG initiative or from other resources. |

6.3 NORMS AND STANDARDS IN RESPECT OF STAND ALONE PERMANENT RESIDENTIAL STRUCTURES (HOUSES)

6.3.1 Minimum size and facilities

The minimum size of permanent residential structures to be provided by means of the housing subsidy, is 40 square metres of gross floor area. Each house as a minimum must be designed on the basis of:

- a) Two bedrooms;
- b) A separate bathroom with a toilet, a shower and hand basin;
- c) A combined living area and kitchen with wash basin; and
- d) A ready board electrical installation where electricity supply in the township is available.

The above is an extract of the Technical Guidelines as contained in the New Housing Code. The detailed Technical Guidelines document may be accessed on the Department's website at www.kznhousing.gov.za

Please note that the document still refers to the old SABS Codes. The New code numbers can be obtained from the South African National Standards website at www.sabs.co.za

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GUIDELINES FOR THE TRANCHE PAYMENT SYSTEM FOR ADVANCE PAYMENTS

The guidelines for tranche payment system for advance payments were approved on 13 July 2009. The purpose of the policy guideline is to revise the tranche payment system in the Province in order to improve control. Payments will be linked to deliverables relating to a particular financial year to be achieved. In instances where upfront tranche payments are made such payments will be linked to the development programme of the project.

These guidelines are applicable to all instances where funding is advanced for works still to be done, irrespective of the subsidy instrument (People's Housing Process, Project Linked varieties, Rural, Institutional, etc). Advance payments can only be done to organs of state and in terms of the relevant financial laws, prescripts and regulations. The following provincial requirements, in addition to those defined in terms of National Housing policy are to be considered in ensuring the efficient implementation of the tranche system and advance payments to municipalities:

1 GENERAL REQUIREMENTS

- 1.1 The municipality/section 21 company must open a separate account for each project.
- 1.2 Advance payments and sub-milestone payments will be paid into the primary bank account and must be immediately transferred to the separate project account.
- 1.3 Interest less bank charges must be transferred to the Municipal Housing Operating Account.

2. REQUIREMENTS FOR SUB-MILESTONE PAYMENTS

- 2.1 All payments to service providers, including contractors will be from the funds advanced and only in respect of the value of work done to ensure that value for money is achieved.
- 2.2 An implementing agent may claim for interim payments for achievement of sub-milestones within a tranche up to the maximum amount allocated in the respective tranche.

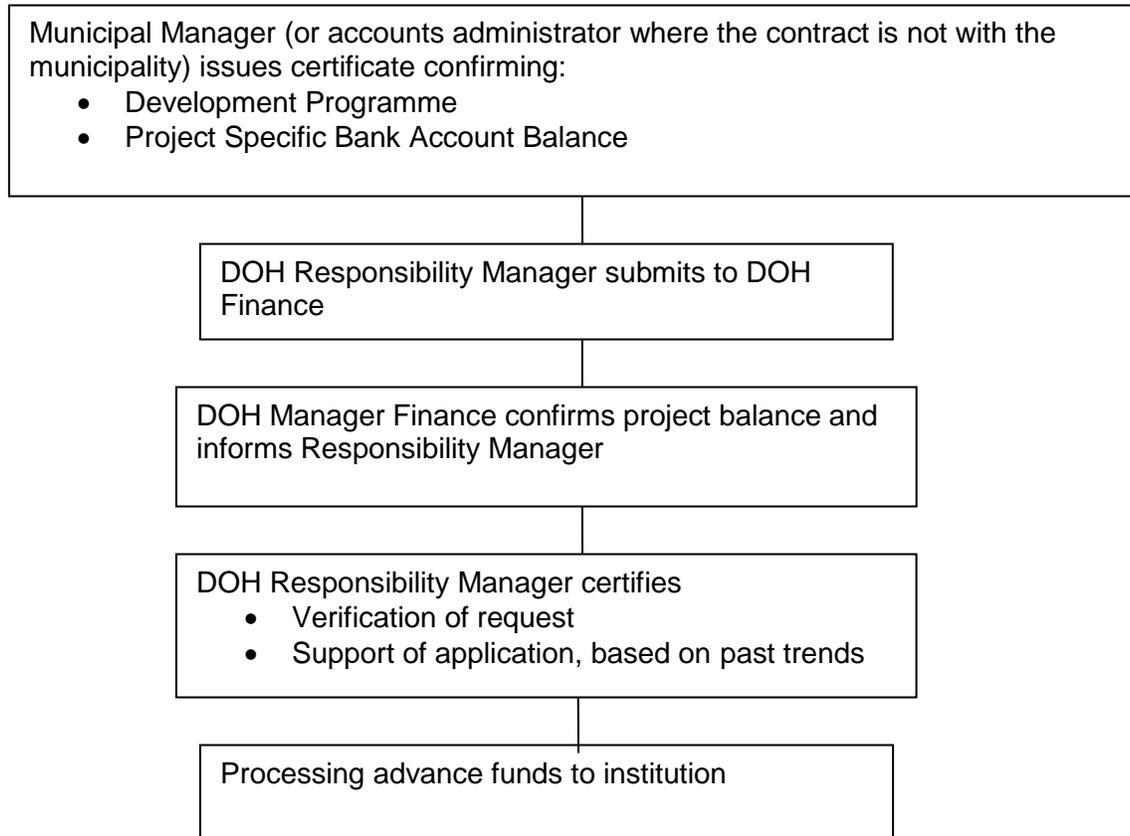
3. REQUIREMENTS FOR ADVANCE TRANCHE PAYMENTS

- 3.1 In instances where advance payments are paid the project management component (or component responsible for managing the implementation of the contract) must submit a motivation based on the criteria that was assessed and must include a realistic development programme and cash flow on a phased approach.
- 3.2 Funds advanced to municipalities must be spent in the financial year (1 April to 31 March), as required in terms of the Division of Revenue Act (DORA). Any funds not spent will have to be recovered as required in terms of the said Act. Care must thus be taken to ensure realistic development programmes and project budgets are in place, and this should be properly certified (see paragraph 3.4 below).
- 3.3 The project Memorandum of Agreement must specify the terms of the advance payments and the unit responsible for monitoring the Municipal Housing Operating Account must be informed of such terms.
- 3.4 Prior to the release of advance funds, a certificate will be submitted by the municipality, signed by the Municipal Manager, confirming the balance of funds in the particular project account, its development programme and its projected monthly

expenditure for the financial year (1 April to 31 March). These documents should be sent to the Regional Manager or Responsibility Manager responsible for overseeing the project on behalf of the Department, who will forward the document to the Finance Component for endorsement.

- 3.5 The Manager responsible for Finance or his/her delegate, will confirm in writing the balance of funds in the project specific account.
- 3.6 The Responsibility Manager for the component implementing and/or overseeing the project), will confirm in writing that his/her component has assessed the application, and based on performance trends that the release of advance funds is supported. This process is summarised as follows:

Figure 1 : Release of advance funds



NOTE : DoH = Department of Human Settlements

- 3.7 Further tranche payments will be released only on proof that at least 80% of the work to be done in terms of the programme for the previous advance, and relevant obligations in terms of the Memorandum of Agreement in respect of the said milestones has been completed. This provision applies to the completion of milestones within a tranche, only. Advance funds for further tranches can only be released once all milestones have been completed, as stipulated in terms of the agreement and in terms of policy, and provided all the required certificates for proof of completion are attached and complies with the provisions of policy.

4. ASSESSMENT CRITERIA FOR ADVANCE PAYMENTS

The municipality's capacity must be formally assessed and signed off by the Chief Operating Officer and the Chief Financial Officer, in terms of the criteria listed below, before being approved to receive Tranche Payments on a project. This assessment must be conducted at the inception of each project and be updated on an annual basis within 3 months of receiving the audit report for the preceding financial year. In the case of existing projects, this report will be required before any further tranche payments are made (after the approval date of this guideline).

Should the municipality or organ of state not be able to satisfy the criteria listed below, the normal progress draw system for payment of completed work would apply (subject to the approval of the project)

- The performance trend over a three year cycle in terms of previous housing project development programmes, correct reconciliations and a dedicated and functioning housing unit.
- If there was any non- performance by the municipality over the three year cycle and this was due to circumstances beyond their control then reasons for such non-performance must be taken into consideration.
- In instances where it is not possible to obtain records over a three year cycle, financial records gathered from the municipality, institutions or from Department of Co-operative governance and Traditional Affairs and/or Office of the Auditor-General should be considered.
- The component responsible for monitoring the Municipal Housing Operating Account (MHOA sub-directorate) must provide comment on the manner in which the municipality manages its financial records. The municipality must have proper accounting systems and procedures in place to manage advance and sub-milestone payments.
- In instances where a municipality has not undertaken a housing project, Department of Water & Environment Affairs or the Department of Co-operative Governance and Traditional Affairs in respect of MIG funding must be consulted to determine the performance of the municipality in their projects.
- The audit report from the Auditor-General for the 3 preceding financial years must be unqualified specifically with regard to financial issues. A "Going Concern" qualification paragraph in the audit report will automatically result in the disqualification from receiving Tranche payments.

5. REQUIREMENTS FOR RELEASE OF PAYMENTS

Once the project agreement has been signed, the following will apply:

- 5.1 Payments will be released according to the current policy i.e. advance and milestone payments will be paid by the municipality to the service provider only upon authority from the department.
- 5.2 The Project Management Regional Office (or office responsible for monitoring the implementation of the contract) will notify the Subsidy Administration Directorate. The Subsidy Administration Component will capture the relevant information and submit the request for payment to the Finance Directorate in order for the required funds to be released to the municipality.

- 5.3 The release of payments for milestones will be based on an invoice submitted to the Regional Office which will determine compliance with the project agreement and confirm that the work has been completed. Thereafter, the claim must be submitted to the Subsidy Administration Directorate that will capture the relevant information and issue a letter of release to the Regional Office which will then forward the letter to the municipality to authorize payment.
- 5.4 In instances where advance payments have been released in terms of the development programme proof of completion of the milestones linked to the particular tranche payment must be submitted prior to the release of the next tranche payment.

6. CONTROL OF TRANCHE PAYMENTS

- 6.1 The project monitor, or official responsible for monitoring the project, will be responsible for ensuring that all supporting documents for the release of sub-milestones are submitted by the developer.
- 6.2 Prior to certifying the documentation for payment the project monitor must conduct a site inspection to confirm that the respective sub-milestone(s) have been achieved.
- 6.3 In instances where advance payments have been released, the project monitor must ensure that the development programme milestones linked to the respective tranche payment is complete prior to approving the release of the next tranche payment.
- 6.4 Non-compliance must be assessed against the agreed development programme. Reasons for deviation must be clearly stated, and a programme of corrective action must be formally recorded.
- 6.5 If the project becomes blocked no further tranche payments will be released until the project is unblocked. If the blocking of the project is the fault of the developer, the developer will bear all escalations linked to the particular tranche payment.

7. MONITORING OF TRANCHE PAYMENTS

- 7.1 The MHOA sub-directorate will be responsible for monitoring advance payments by ensuring that:
 - Funds advanced are kept in a separate account,
 - Proper reconciliation of such funds is done on a monthly basis.
 - Interest accumulated on the funds less bank charges are transferred to the MHOA.
 - Ensure that funds are paid out for activities authorised by the Department.
 - Report any irregularities relating to the finances to the Manager responsible for overseeing the implementation of the contract for necessary action to be undertaken against the municipality/section 21 company.
 - Such Manager must within 30 days notify the municipality of the irregularity and the consequences should this not be corrected.
 - Any irregularities not corrected within 3 months of being reported, will result in any advance funds held by the municipality being recalled by the Department.

- 7.2 Project management, or the component responsible for managing and/or overseeing the implementation of the contract, must ensure that advance payments are used for the purpose as indicated in the development programme.

8. REPORTING FOR ADVANCE PAYMENTS

- 8.1 The municipality must maintain proper financial records of the separate project account. The supporting documents must be maintained in an orderly manner and must be readily available for audit by the MHOA sub-directorate.
- 8.2 The municipality must submit financial reconciliation reports by the 7th working day of the next month to the MHOA sub-directorate.
- 8.3 When the project is completed the municipality must submit a close out report by the 7th working day of the next quarter to Project Management and the MHOA sub- directorate.

9. CONTRACTUAL ARRANGEMENTS

- 9.1 The agreement between the Department of Housing and the developer must be project specific.
- 9.2 Contracts must be managed and penalty clauses must be implemented where monies are not used for their intended purpose as stated in the development programme.

N.B The assessment checklist for advance payments is attached as Annexure A

-----END-----

ASSESSMENT CHECKLIST FOR ADVANCE PAYMENTS

The attached checklist must be completed to ascertain the need for advance payments (*tick where applicable*)

- 1. Municipality has a dedicated and functioning housing unit.
Yes
No

- 2. Performance trend in previous housing development over a 3 year cycle was satisfactory.
Yes
No

- 3. If no, provide reason for non- performance.

- 4. Reconciliations correct.
Yes
No

- 5. The Performance records over 3 year cycle are attached.
Yes
No

- 6. If **no** above, 1 of the following is attached.
 - a) Financial records from Municipality
 - b) Financial records from Institution
 - c) Financial records from DoC G&TA

- 7. Recommendation by MHOA sub-directorate on financial management by Municipality attached.
Yes
No

- 8. Where no housing project was undertaken, performance of other Departments i.e. Co-operative Governance & Traditional Affairs or Water & Environment Affairs , projects was satisfactory.
Yes
No

- 9. Audit report from the Auditor General’s office on 3 preceding financial years contains a “going concern” paragraph.
Yes
No

