

SUBMISSION

TO : CHAIRPERSON : HOUSING ADVISORY COMMITTEE

SUBJECT : PROVINCIAL GUIDELINES : PREPARATION FUNDING

1. PURPOSE

The purpose of this submission is to obtain the approval for guidelines on the payment of preparation costs.

2. BACKGROUND

2.1 National Policy Provisions

- (a) In terms of the Procurement policy, municipalities will fulfil the role of developer and undertake housing projects.
- (b) That policy provides for municipalities to be assisted with funding for project preparation costs if they do not have sufficient funding for project preparation. The information from project descriptions and feasibility studies are an integral part of the MEC's risk assessment and funding allocation of projects. Such municipalities may submit fully motivated requests for financial assistance to the MEC, who may agree to render such assistance to his discretion. This is subject to normal budgetary and financial controls.
- (c) It also provides for the costs of compiling project descriptions to be paid to an applicant from the South African Housing Fund on acceptance of the project description by the MEC. This requires the provincial MEC to set aside funds for the payment of project preparation related costs, from the provincial housing fund.
- (d) If the project is approved, preparation funds paid from the Provincial Housing Fund will be deducted from the subsidy amount. Should a project not be approved as a result of the inability to make acceptable technical revisions, the costs expended from the provincial housing development fund will be recorded in accordance with financial directives and all documents will become the property of the Department.
- (e) Project preparation funding may include funding to assist municipalities to do the necessary preliminary investigations including land suitability, geotechnical investigations and related project packaging issues. All services procured must be in terms of procurement principles.

2.2 Comparison with former policy (Facilitation Funding Guidelines)

- (a) The principle is similar to the Facilitation Funding Guidelines of the former Provincial Housing Development Board, which may still guide Regional offices in preparing recommendations, provided the issues highlighted under 2.2(b) -(f) are noted.
- (b) The former policy provided for a 2- phased approach in terms of which the first stage (“Feasibility Assessment”), had to be completed before funding was released for the second stage (“Application Preparation”). At the time of adopting the policy, there was no procedural sifting mechanism in place. There was also not a facilitation component within the department that could assist with the facilitation aspects and pre screening required at the early packaging stages.
- (c) The department now has provided for a facilitation component and project management component which are actively involved in the packaging process.
- (d) Both the national and provincial processes now accommodate a sifting mechanism. The provincial policy provides for a project to progress from the “possible” >”potential”> “under preparation” > “active” stage. Check lists have been compiled for each stage and a project may not progress to the next stage unless the checklist has been signed off by the relevant departmental officials, and relevant information is attached.
- (e) The information required at first stage of the former guidelines is the same as that required in terms of the current “possible” packaging stage (provincial policy), which is the same as that required for a project description in terms of the national procurement policy. Likewise, the information required at the second stage 2 of the former guidelines is the same as that required in terms of the current “potential and under preparation stage” packaging stage (provincial policy), which is the same as that required for a feasibility report in terms of the national procurement policy.
- (f) Whereas the former guidelines had fixed amounts in respect of predetermined items, these costs are no longer realistic and some of the items are no longer relevant due to the “insourcing” of project management and facilitation functions. It may not be feasible to fix costs and items at this stage as the costing of items can vary extensively due to aspects such as available resources, job market, size and complexity of the project. It is suggested that these costs should rather be considered based on the budget and motivation provided in the business plan, as described in the procedure below.

3. PROPOSED GUIDELINES

(A) PROCEDURE FOR APPROVAL OF FUNDING

(iv) Municipalities who do not have sufficient funding may submit a written motivation and a business plan detailing the extent of preparation and the associated costs. The motivation is to include details on the following:

- (aa) need
 - (i) for the project
 - (ii) for funding
 - (iii) estimated demand
 - (iv) IDP status and project identification in relation thereto
- (bb) nature of project
 - (v) green fields/in-situ
 - (vi) subsidy mechanism where known
 - (vii) brief history of the project
 - (viii) location
 - (ix) target market
 - (x) current landowner
- (cc) beneficiary and development community details (where applicable)
- (dd) budget and programme (expected completion date/s of deliverables)

The application must prove to the department that the application is a deserving case. The Regional Office must check that the project meets all the criteria as contained in the “Possible Project checklist” and confirm that the application is a deserving case.

- (ii) Municipalities who have a Municipal Housing Operating Account(MHOA) may request permission to utilise funding from their MHOA for project preparation. (Ministerial approval is required in such cases but it is submitted that this should be delegated to the Head of Department to ensure equity in processes). The same issues as listed in (i) above is to be included in the motivation as well as an indication of the balance available within the MHOA (including actual cash value).
- (iii) Municipalities without a Municipal Housing Operating Account, or insufficient funds in such accounts, may request project preparation funding from this Department, for approval by the Head of Department.
- (iv) The respective Regional Offices must peruse the costs and must indicate if such costs are reasonable or not.
- (v) The Regional Office must thereafter prepare a submission to the Head of Department requesting approval of project preparation funding. The submission

must however be channeled through the respective Regional

- (vi) The application must also be measured against the Department's Provincial Housing Plan.
- (vi) Applications will only be considered where all requirements and issues identified in the departmental "possible" checklist have been resolved. Where this has not occurred, the application may not be considered, unless adequate motivation is provided. This will include requests received is for assistance to confirm land suitability (including valuation).
- (vii) Applications for considerations may only be for housing project preparation items, such as:
 - (a) preliminary geotechnical reports (including orthophotographic coverage and aerial photography) and mapping;
 - (b) stage 1 geotechnical reports (only where project descriptions have been accepted by the MEC, i.e the preliminary report has been done and the project has moved to the potential phase and/or has been granted "in principle" enrolment by the NHBRC, where applicable;
 - (c) environmental impact assessment reports; or
 - (d) items identified by the department (in consultation with the developer) as critical to the feasibility of the project, based on motivation and to the discretion of the Head of Department.

(B) PROCEDURE AFTER APPROVAL

- (iii) An agreement will be entered into between the Department and the municipality, which is also to include time frames of the expected milestones, as defined in the business plan.
- (iv) The funding will be paid to the municipality upon approval of the application. Where the municipality does not have a municipal housing operating account, a separate interest bearing account must be opened. Interest that accrues to this account must be deposited into the Municipal Housing Operating Account. Municipalities must then proceed to open a Municipal Housing Operating Account.
- (v) Claims for the respective project preparation services must be verified by the Regional Office prior to payment by the Municipality to the service provider.

- (vi) The municipality must submit a report to the Department (Head Office) confirming that all the indicated project preparation work has been completed, and forward a copy to the Regional Office, on submission of the final claim. The report must also include expenditure details and all interest that has accrued to their Municipal Housing Operating Account.
- (vii) Municipalities who utilised funds out of their MHOA must deduct the costs from the subsidy amount and put the funding back into the said account once the project is approved and the agreement is finalised. The municipality must provide proof that the Project Preparation Funding has been deposited back into their Municipal Housing Operating Account when they submit their monthly reports on the MHOA.
- (viii) Project preparation costs will be deducted from the subsidy amount once the project is approved and the agreement is finalised in projects where funding was obtained from the Department.
- (ix) Should a project not be approved as a result of the inability to make acceptable technical revisions, the municipality must :
 - (a) Terminate any professional services contracts relating to this project.
 - (b) Submit all documents and reports procured for the project to the MEC together with a project close out report specifying reasons for termination of the project, and;
 - (c) Submit a final account for all costs incurred.
- (x) Costs expended from the provincial housing development fund will be recorded in accordance with financial directives and all documents will become the ownership of the Department, on payment of the final account.
- (xi) The department will maintain a database with the Project Management Chief Directorate at Head Office of projects that have received project preparation funding to ensure that these projects are followed up and approved and that the respective funding is deducted from the approved subsidy amount.
- (xii) Where the municipality does not have a municipal housing operating account, or has insufficient funds in such account, project preparation costs will be borne out of the Provincial Housing Fund Account.

4. MOTIVATION

- 4.1 The intention of national policy is for the municipality to be the developer of housing projects. Municipalities may not have resources available to submit project descriptions and/or feasibility studies, as required in the new procurement regime. The national policy provides for the MEC to agree to make resources available for the preparation of project agreements.
- 4.2 The national policy dictates that certain critical information is required in the packaging

process. It also provides for municipalities to be reimbursed for costs incurred in the process. It is anticipated that requests will be forthcoming from municipalities. Guidelines are required for the implementation of the provisions of the national policy.

- 4.3 The above guidelines are aimed at facilitating the packaging process and to expedite delivery in areas where municipalities lack the necessary resources to package housing projects for people in the area.

5. FINANCIAL IMPLICATIONS

- 5.1 The national policy requires the MEC to ensure that sufficient funds are set aside in the Provincial Housing Development Fund to pay for services in relation to project preparation (project description and feasibility study stage).
- 5.2 Funds are available to accommodate requests.

6. LEGAL IMPLICATIONS

- 6.1 The policy is in accordance with the new procurement policy (national).
- 6.2 An agreement will have to be concluded between the municipality and the department, upon approval.
- 6.3 The delegation to the Head of Department to approve the expenditure of funds from the Provincial Housing Fund for project preparation is to be confirmed.
- 6.4 Consideration to be given to delegate approval of the use of a municipal housing operating for the purposes of project preparation, to the Head of Department. Such delegation may be assigned in terms of section 15(d) of the KwaZulu-Natal Housing Amendment Act, 2000 (Act 8 of 2000), as amended.

7. RECOMMENDATION

That:-

- 7.1 The procedure for preparation funding applications as contained in paragraph 3 above be approved.
- 7.2 The delegation to the Head of Department to approve expenditure from the Provincial Housing Fund, in respect of project preparation funding, be approved.

- 7.3 The delegation to the Head of Department to approve expenditure from municipal housing operating accounts for the purposes of project preparation funding, be approved.

**MS N. MTHEMBU :ACTING CHIEF DIRECTOR
PROJECT MANAGEMENT**

DATE

**ADVOCATE E. M. KHOZA
CHAIRPERSON : KZNHAC**

DATE

APPROVED/ NOT APPROVED / APPROVED AS AMENDED

**MR D.H. MAKHAYE, MEC
MINISTER OF HOUSING**

DATE