



## **KZN Housing**

**uMnyango:  
wezeZindlu  
ISIFUNDAZWE SAKWAZULU-NATAL**

# ***HOUSING POLICY COMMUNIQUÉ***

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***Umuntu ngumuntu ngekhaya – Houses, Security & Comfort***

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## **INTERIM GUIDELINES FOR THE PEOPLE'S HOUSING PROCESS IN KWAZULU-NATAL**

The People's Housing Process as contained in the National Housing Code did not address all the requirements of PHP. In order to address those requirements the National Department of Housing has amended the Policy since September 2005. The amended Policy is currently being revised by National Housing, Although the National Enhanced People's Housing Process Programme has been approved at MINMEC, this programme will only be effective from 1 April 2009. **Details of this programme is attached for information purposes only. ( Annexure A.)** The Province is part of the pilot process and projects have been identified to test and develop detailed guidelines. A task team has been established at the National Department to deal with the development of the guidelines.

It should be noted that it is the National Department's intention to phase out the current PHP policy by 31<sup>st</sup> March 2008. It is therefore strongly recommended that the new interim guidelines (based on the current PHP policy), be implemented for urgent PHP projects only.

The KZN Province has come up with the following guidelines, as an interim measure. (Note these interim Guidelines must be read in conjunction with the National Policy Framework and Implementation Guidelines for the PHP Delivery Mechanism approved in September 2005(copy attached) and will be enhanced by the provincial guidelines for the use of the Establishment Grant Funding).

At the onset of the project, an assessment of the beneficiary community must be done to determine the viability of adopting the PHP route by investigating the following:

- the stability of the beneficiary community and its leadership,
- their commitment to the process if adopted; and
- availability of skills.

The intention to use the PHP option must be made known upfront to ensure that the project is implemented with the knowledge of this intention from the onset.

Organisational, technical and administrative assistance must only be outsourced after it is determined in the assessment of the beneficiary community that the required skills are lacking.

**N.B. The current Provincial PHP policy is withdrawn.**

The National People's Housing Process Policy Framework may be accessed on the Department's National website at [www.housing.gov.za](http://www.housing.gov.za)

## **POLICY TO DEAL WITH THE EFFECTS OF INFLATION ON HOUSING PROJECTS**

A policy to deal with the effects of inflation on housing projects was approved by the MEC on 21 December 2007. All projects including new projects that may become blocked for whatever reason beyond the control of the developer can be dealt with in terms of the policy.

The approach to deal with escalation of project costs where developers failed to comply with the approved development programme to meet targets due to circumstances beyond their control and did not succeed to deliver on time, will be as follows:

- The **BER-BCI and or the Haylett Formula Index applicable** for that period must be used in applications for escalation funding.
- The request for escalation must be substantiated by proof of cost escalation measured against the agreed product price.
- The amount claimed must not exceed the applicable subsidy quantum for that financial year.

The alignment of the subsidy quantum will be applicable to approved projects that have to address the effects of inflation on material and labour costs. This approach will be as follows:

- Applications for the alignment of the subsidy quantum must not include changes in the number of sites or any other conditions of a project as originally approved by the MEC.
- Alignment of subsidies will only be applicable to undeveloped sites of the project.
- Where the project was approved prior 1 April 2007 and the house specification is not aligned to the new two-roomed 40m<sup>2</sup> house (i.e. project approval related to the 30m<sup>2</sup> minimum top structure), the adjustment of the subsidy must be linked to the prevailing subsidy amount applicable for that financial year for current and blocked projects as approved annually by Minmec. In these cases, the difference of the 15% variation should apply, should it be applicable (i.e. 15% variation on the product cost). Where the variation was previously applied in respect of services, however, no new variation should be calculated.
- Where the project was approved on or after 1 April 2007 and/or the house specification is aligned to the new two-roomed 40m<sup>2</sup> house, the subsidy could be aligned to the new subsidy quantum applicable at the time.

Any variation amount is to be calculated in terms of the variation calculator. Such alignment will only apply to units not completed, and any variation should be calculated accordingly.

- The subsidy adjustment must be included in the project agreement by means of an addendum.
- All adjustments in respect of the alignment of the subsidy must be in line with the revised development programme.

- All agreements including the Tripartite Agreement that is entered into should be strictly managed and must spell out the measurable targets and penalties.
- It is suggested that to alleviate future applications for inflation linked funding, project applications be submitted in phased portions in terms of the National Department of Housing Guidelines for a Phased Development Approach i.e. \*Phase 1 consisting of the cost of the production of a serviced stand and Phase 2 consisting of the cost of the top structure. This means that the subsidies allocated may differ from the specific housing subsidy amount calculated annually. i.e. the serviced stand may be based on the subsidy for the 2008/9 year, etc. Such phases should take cognisance of all activities that can take place during this period.
- Projects should also be phased in terms of the number of achievable sites within a financial year, as per the agreed development programme. Thus care needs, to be taken to ensure realistic development programmes are submitted.

All applications for inflation funding must be submitted through the respective regional offices for onward transmission to the General Manager: Project Management. The following documents must be attached to the appropriately motivated submission:

- A letter of request from the municipality
- A revised development programme including the associated cash flow
- A cost breakdown of applicable items
- House plans and specifications if first request for top structure escalation
- Result sheet of variation calculator signed by town planner or geo-tech engineer (required for 40m<sup>2</sup> top structure only – copy of the GE2 form in the case of projects approved prior to 1 April 2007)
- In the case of blocked projects, a detailed motivation as outlined in the National “Unblocking of Blocked Projects strategy”

All submissions compiled by project monitors must be verified by the respective project team leader and Regional Manager before onward transmission for approval to the General Manager

## **GUIDELINES FOR THE UTILISATION OF THE ESTABLISHMENT GRANT FUNDING**

The department is currently experiencing problems with the monitoring of the establishment grant funding(EGF). There are no reporting systems and procedures in place to ensure effective monitoring of these funds. It often happens that the monies expended are not aligned to the development program, and as a result the funding is exhausted before the project is complete.

The purpose of this guideline is to ensure that the establishment grant fund is monitored effectively by putting reporting systems and procedures in place. The Support Organisation (SO) must timeously submit reports to department in the required formats. The establishment grant funding must be used for its intended purpose and cash flows must be aligned to the development program of the project.

### **1. CALCULATION FOR THE ESTABLISHMENT GRANT FUNDING**

- The formula for the calculation of the EGF is:  
  
2.5% of maximum prevailing subsidy amount (MPSA) X no. of beneficiaries.
- The funding per beneficiary but may not exceed the amount as calculated using the formula
- The actual amount applied for must be motivated by a business plan that sets out in detail the planned activities, acquisitions and costs associated with the running of a support organisation for the entire lifespan of the project.

### **2. APPLICATION FOR ESTABLISHMENT GRANT FUNDING**

When applying for establishment grant funding the following must be taken into account.

- How much funding is required? This amount cannot exceed the calculation based on the formula in paragraph 3.1
- The operational costs of the SO. The business plan must indicate each of the activities that will be undertaken and the costs attached thereto.
- The resources that will be required for example, human resources, computers etc.
- The roles and responsibilities of the stakeholders i.e. the Provincial Housing Department, the Municipality and the SO
- Support that the SO may require from the Municipality or other departments
- A skills audit of the beneficiary community must be conducted. The audit will assist with identifying the training needs of the community.

### **3. THE BUSINESS PLAN**

The following information must be included in the business plan.

- Type of project for example, consolidation, institutional etc.
- No. of beneficiaries
- Duration of the project.
- The SO must list the activities that will be undertaken for the duration of the project and the costs attached thereto.
- How the cost was determined and proof thereof must be submitted with application.
- The business plan must also indicate the support and training that will be provided to the beneficiary community- who will provide the training and how the training will be financed.

### **4. TYPE OF ACCOUNT**

- If the SO is a municipality a specified bank account in terms of the Municipal Finance Management Act must be maintained.
- If the SO is not a municipality a trust account must be opened in the name of the SO.
- If the SO is a municipality all payments will be made in the name of the specified account.
- If the SO is not a municipality all payments will be made in the name of the trust account
- The interest on the bank account may be used to pay bank charges, and thereafter credited to the specified account/trust account.
- When the project is completed the outstanding credit balance in the trust account or specified account must be transferred to the MHOA of the respective municipality. Proof of such transfer must be submitted to the MHOA sub-directorate.

### **5. PROCEDURE FOR PAYMENTS**

The Support Organization when submitting payments must provide the following information.

- The name of the account
- The name of the person who is raising the invoice
- The amount claimed previously
- The balance in the EGF
- A cash flow forecast must be submitted
- A copy of the invoice
- A copy of the payment must be submitted to the Municipal Housing Operating Account Sub-directorate of the Department

## **6. PROCEDURE WHEN THE PROJECT IS BLOCKED**

In the event of the project becoming blocked the following procedure must be followed.

- If the project has not commenced no draw downs must be made against the EGF.
- If the project becomes blocked after the project has commenced all draw downs must stop. The SO must negotiate the suspension of services. Payment may be made for essential services for example, a lease agreement. It must be noted that payments must be stopped to avoid funds being depleted before the project is completed.
- When the project becomes unblocked a revised cash flow that is aligned to the new development programme must be submitted. All payments must be submitted as per the procedure in paragraph 3.5.

## **7. PROCEDURE FOR THE MONITORING OF THE EGF**

- The EGF will be monitored by the Municipal Housing Operating Account sub-directorate
- The Project Management sub-directorate must ensure that all supporting documents (as outlined in paragraph 3.5) required for payment are submitted. The Project Management sub-directorate must make a copy of the payment available to the Municipal Housing Operating Account sub-directorate.
- All payments must be made in terms of the business plan and/or cash flow forecast.
- All payments must be aligned to the project milestones so that the establishment grant funding is not depleted before the project is completed.
- Professional fees must be claimed proportionately between the EGF and the project budget. The fees must be according to the norms.

## **8. PROCEDURE FOR MONITORING USE OF EQUIPMENT PURCHASED WITH EGF FUNDING**

- An assets register must be maintained of all furniture and equipment that is purchased.
- Equipment that is obsolete or can no longer be used due to fair wear and tear must be written off. When writing off is undertaken a representative from the MHOA component must be present. The person representing the MHOA must sign such write off and disposal of the equipment.
- Furniture and equipment which can still be used after the project is completed may be transferred to another project in order to reduce costs on the new project. When equipment is transferred to a new project a representative from the MHOA component must be present. The MHOA representative must sign off the transfer of the equipment and furniture to the new project.

## **9. PROCUREMENT**

- If the SO is a municipality, the procurement policy of the municipality must be adhered to.
- If the SO is not a municipality it must ensure that goods and services are procured in a fair, equitable, transparent, competitive and cost effective manner.
- The SO must have a system/policy in place for evaluating all quotations or tenders received.
- The SO must prevent irregular, fruitless and wasteful expenditure.

## **10. REPORTING**

- The SO must maintain proper financial records (in terms of accounting practices) of its affairs.
- The SO must submit monthly reconciliation reports to the Department by the 7<sup>th</sup> working day of the following month.
- Asset register of furniture and equipment purchased must be maintained and must be made available to the MHOA sub-directorate on request.
- Audited financial statements must be submitted to the MHOA sub-directorate no later than four months after the end of the SO's financial year.