

KWAZULU-NATAL DEPARTMENT OF HOUSING SUBMISSION

TO: THE CHAIRPERSON: KZN HOUSING ADVISORY COMMITTEE

**SUBJECT: GUIDELINES FOR THE UTILIZATION OF THE MUNICIPAL HOUSING
OPERATING ACCOUNT (MHOA) FUNDS**

1. PURPOSE

To seek approval from the MEC for the guideline on utilization of funds contained in the Municipal Housing Operating Account.

2. BACKGROUND

- 2.1 Before the new dispensation in South Africa, development needs for the different population groupings were addressed by their respective administrations and government departments.
- 2.2 This was achieved by the former administrations making funding available to Municipalities in the form of loans that were released on an advance basis to address the housing needs of communities.

These loans were granted in terms of the following legislation.

- (a) Former House of Representatives granted loans in terms of the Development and Housing Act (Act 2 of 1987).
 - (b) The former House of Delegates granted loans in terms of the Housing Development Act (Act 4 of 1987)
 - (c) The former House of Assembly granted loans in terms of the Housing Development Act (Act 103 of 1985)
- 2.3 Municipalities were in turn required to open various accounts such as the Community Facilities Fund, the Rental Reserve Fund and the Maintenance and Renewals Reserve Fund.
 - 2.4 The funds, which were provided, were to be used for the construction of dwellings, the provision of serviced sites to communities and community facilities. The dwellings or serviced sites were then either sold or leased to qualifying beneficiaries.
 - 2.5 In terms of section 14(4)(b) of the Housing Act No. 107 of 1997, “any debt or obligation of a municipality towards a former board in respect of any project or scheme, which was financed by means of a loan, advance or other finance, which was approved in terms of previous legislation, was extinguished.”
 - 2.6 However, the loans granted to beneficiaries for the purposes of acquiring dwellings were not extinguished and they were still obliged to fulfil their obligations as debtors, to the Municipality.
 - 2.7 Sections 14(4)(d) and 16(1) of the Housing Act, 107 of 1997, states that the net proceeds after deducting admin fees, insurance and bank charges derived from any letting or sale and monies kept in funds referred to in paragraph 1.3 must be transferred to a separate operating account of the municipality concerned.
 - 2.8 Section 16(2) further states that these funds “must be utilised by a municipality for housing development in accordance with the national housing policy and a housing development project approved by the MEC”.

- 2.9 The Department therefore has a role to play in ensuring that these funds are utilized for housing development purposes.
- 2.10 These guidelines aim to indicate the purpose and procedure to be followed when funds are to be utilized.

3. CURRENT SITUATION

- 3.1 Municipalities are currently utilising money from the MHOA without seeking prior approval from the MEC for Housing.
- 3.2 There is a lack of communication and co-ordination between the different components of the department and Municipal Housing Operating component of the department which is responsible for exercise of control over the MHOA.
- 3.3 The financial year of the municipalities is not concurrent with that of the department. This impacts on financial reporting to the department.
- 3.4 There appears to be confusion with regard to the available cash balances in these accounts.

4. UTILIZATION OF MUNICIPAL HOUSING OPERATING ACCOUNT FUNDS

The funds from the Municipal Housing Operating Account may only be utilized when all other sources of funding have been exhausted and should be utilised for the following purposes:

- 4.1 The Housing Act, 1997, defines national housing programme as “any national policy framework to facilitate housing development, including, but not limited to, any housing assistance measure to-
- (a) assist persons who cannot independently provide for their own housing needs;
 - (b) facilitate housing delivery; or
 - (c) rehabilitate and upgrade existing housing stock , including municipal services and infrastructure

It is submitted that each case will be considered on its merits.

4.2 Departmental Priority Programmes

The Municipal Housing Operating Account can be used to fund projects which are in line with the Provincial Department of Housing’s priority programmes as announced by the MEC for Housing for that specific financial year.

4.3 Repairs and Maintenance

Funds from the Municipal Housing Operating Account may be used for repairs and maintenance. Reason being, that the abovementioned is a component of the rental that a tenant pays for his/her unit. (The process outlined in paragraph 6, 4th bullet, must be followed for the approval of funds).

4.4 Conversion of Units from Rental to Saleable

With respect to the above, an application can be made to utilize the funds for the following purposes:

- (a) Upgrading of units;
- (b) Appointment of a Surveyor to undertake the subdivision function;
- (c) Appointment of technicians to inspect electrical circuits, the instalment of individual meters, etc;
- (d) Appointment of an Attorney to register the sectional titles;
- (e) Appointment of an agent to run the Body Corporate until such time that the Body Corporate is able to function on its own;
- (f) Opening of a township register;
- (g) Essential and emergency maintenance;

4.5 **Bridging Finance**

- (a) Bridging finance will only be granted to municipalities and that are statutorily unable to directly access alternative sources of bridging finance. If granted, the bridge financing should be repaid by the next financial year. Reason being, that the department could have a revolving bridge financing facility.
- (b) The National Housing Code proposes that a prime interest rate be charged as determined by the Provincial Administration's bankers. It is submitted that in the spirit of co-operative government and the promotion of inter governmental relations that a treasury interest rate be charged as determined by the Department of Finance: Treasury.

5. **PROCEDURE TO BE FOLLOWED**

The procedure, as depicted in the flowchart (Annexure A), should be followed when submitting an application to utilize funds from the Municipal Housing Operating Account.

6. **MINIMUM REQUIREMENTS IN TERMS OF APPLICATION FOR THE UTILISATION OF FUNDS FROM THE MUNICIPAL HOUSING OPERATING ACCOUNT**

Application for Funding

In order for further consideration to be given to requests for the utilization of funds from MHOA, the under-mentioned information must be incorporated into the application:

- # The applicant must provide a comprehensive motivation to highlight the need to utilize the funds. The motivation should include what steps have been undertaken to access funding from other sources. It is the responsibility of the applicant to adequately demonstrate that all other avenues of funding have been exhausted. In addition, the implications for not obtaining the necessary funds needs to be highlighted.

It must be adequately demonstrated that the utilization of the funds are required to facilitate sustainable housing development and that it is in accordance with the national housing programmes/ a housing development project approved by the MEC (as per Section 16(2) of the Housing Act, 1997 (Act No 107 of 1997).

- # A business plan must also be provided to illustrate how the funds will be utilized. This must include a costing schedule/cash flow. The utilization of the approved funds will in effect be monitored by the Department in terms of the approved business plan and as such any changes to the approved business plan must be submitted to the Department for authorization prior to the changes being effected. Project managers and professional that are appointed must be BEE compliant, and projects must be implemented in terms of EPWP.

- # The current available cash balance of the MHOA account must also be provided.

- # In order to prevent the unauthorised usage of funds from the Operating Account concerning urgent repairs and maintenance such as leaking geysers, burst water pipes, etc.. The following process must be implemented:

An application for approval to utilize funds for anticipated expenditure regarding urgent repairs must be submitted prior to the commencement of the Municipality's financial year. Such applications must provide sufficient details reflecting how the funds are anticipated to be expended during the forthcoming year and should be based on historical costs. In addition, comprehensive details reflecting how the approved funds for the previous year were expended must also be provided. In addition, supporting documents such as quotations, invoices, etc. must be available for audit/inspection purposes.

- # Applications for all other repairs/maintenance must be submitted to HAC for consideration. Such applications must be accompanied by three standard quotations to demonstrate competitiveness and transparency and must be in compliance with the Procurement Act and Regulations of the Province. It is incumbent upon the applicant to ensure that quotations are valid at the time of submission to HAC. In addition, the applications must be supported by relevant technical reports.

7. GENERAL REQUIREMENTS APPLICABLE TO MUNICIPALITIES

- # Audited Annual Financial Statements must be submitted to the Department no later than 4 months after the close of the Municipality's financial year.
- # Quarterly (June-July) Movement Reports ITO MHOA (Income/Expenditure) must be submitted to the Department by the 7th working day of the following quarter. If there is no movements a nil return must be submitted.
- # Quarterly (June-July) Asset Disposal Reports (Section 14(4) (d)(V) must be submitted to the Department by the 7th working day of the following quarter.
- # Assets Registers I.T.O housing stock must be maintained.
- # All expenditure to have prior MEC approval and copies of the approvals must be made available for inspection.
- # All monies used from the MHOA without prior approval from the MEC must be recovered by the Department.

8. FINANCIAL IMPLICATIONS

The utilization of funds from the Municipal Housing Operating Account will only be authorized once departmental funding, in a particular financial year, has been exhausted, with the exception of the budget requirements for repairs and maintenance.

9. MOTIVATION

The implementation of the above guidelines would ensure that there is no inconsistency in the utilization and procedure followed when requesting to utilize funds contained in the Municipal Housing Operating Accounts, throughout the Province.

10. LEGAL IMPLICATIONS

An agreement will have to be concluded between the municipality and the Department upon approval of the use of funds from the Municipal Housing Operating Account.

11. RESOLVED:

11.1 That the funds from the Municipal Housing Operating Account may only be utilized when all other sources of funding have been exhausted and should be utilised for the following purposes as specified in paragraph 4 above:

- a) assist persons who cannot independently provide for their own housing needs;
- b) facilitate housing delivery; or
- c) rehabilitate and upgrade existing housing stock, including municipal services and infrastructure
- d) Departmental priority programmes.
- e) Repairs and maintenance.
- f) Conversion of Units from Rental to Saleable.
- g) Bridging finance.

11.2 That each case will be considered on its merits.

11.3 That the procedure, as depicted in the flowchart (Annexure A), should be followed when submitting an application to utilize funds from the Municipal Housing Operating Account.

11.4 That the minimum requirements in terms of application for the utilisation of funds from the municipal housing operating account as contained in paragraph 6 above be adhered to.

11.5 That the general requirements applicable to municipalities with MHOA:

- (a) That audited Annual Financial Statements must be submitted to the Department no later than 4 months after the close of the Municipality's financial year.
- (b) That quarterly (June-July) Movement Reports in terms of the MHOA (Income/Expenditure) must be submitted to the Department by the 7th working day of the following quarter. If there are no movements a nil return must be submitted.
- (c) That quarterly (June-July) Asset Disposal Reports (Section 14(4) (d)(V) must be submitted to the Department by the 7th working day of the following quarter.
- (d) That Assets Registers in terms of housing stock must be maintained.
- (e) That all expenditure to have prior MEC approval and copies of the approvals must be made available for inspection.
- (f) That all monies used from the MHOA without prior approval from the MEC must be recovered by the Department.

Annexure A

Process to use funds from Municipal Housing Operating Account (MHOA)

Municipality submits a formal application to the relevant Regional Office to request authority to utilize funds from the MHOA in compliance with the requirements of the guideline document



Regional Office considers request and prepares submission for the Housing Advisory Committee's (HAC) consideration



The Submission is forwarded to the MHOA section for comment prior to submission to HAC



The Submission is then submitted to HAC by the Regional Office



The Request is considered by HAC and a recommendation is made to the MEC



MEC approves/disapproves the request for the utilisation of Funds From MHOA



*Outcomes of decisions/conditions to be communicated to MHOA Section.
Copies of agreements/conditions applicable to MHOA to be submitted to MHOA Section*



MHOA section monitors the usage of the funds from the MHOA