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HUMAN SETTLEMENTS
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Policy, Research & Product Development

KZN HUMAN SETTLEMENTS AFFORDABLE HOUSING POLICY

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ACRONYMS

AG	Auditor General
CBO	Community Based Organisations
FBO	Faith Based Organisations
FLISP	Finance Linked Individual Subsidy Programme
IRDP	Integrated Residential Development Programme
NDHS	National Department of Human Settlements
NGO	Non-Governmental Organisation
NHFC	National Housing Finance Corporation
NIA	National Implementing Agent
PFMA	Public Finance Management Act
PPP	Public-Private Partnership
RSA	Republic of South Africa
SHRA	Social Housing Regulatory Authority
TA	Treasury Approval

DEFINITIONS

Affordability	The amount an individual or a couple can afford to spend on a new home, based on their income and any deposit that they have available for the new home.
Gap market	Individuals earning between R 3 501 to R 22 000 generally find it hard to qualify for housing finance; their income is regarded as low for mortgage finance, but too high to qualify for the subsidy.
Financial Institutions	Mainly refers to the four main banks of South Africa (First National Bank, Standard Bank, Nedbank and ABSA) that provide home loans to individuals as well as Banking Association of South Africa.
FLISP Accredited development project	The specific FLISP projects in each Province that applicants can apply for through FLISP Property Developers. These are located throughout the country and can be accessed through the NHFC and DHS.
Housing Subsidy	The financial assistance that is provided through the FLISP to reduce the initial mortgage loan amount or augment the shortfall between the qualifying loan and the total house price.
Social Housing	A rental or co-operative housing option for low to middle-income persons at a level of scale and built form which requires institutionalised management, and which is provided by accredited social housing institutions or in accredited social housing projects in designated restructuring zones.
Public-Private Partnerships	Long-term contracts between the public and the private sector. The primary objective of PPPs is to ensure the delivery of well-maintained, cost-effective public infrastructure or services, by leveraging private sector expertise and transferring risk to the private sector (National Treasury PPP Unit, 2007).
Social Housing Institutions	A legal entity established with the primary objective of developing and/or managing housing stock that has been funded through the grant programmes specified in this policy, which institution has been accredited by the Social

Housing Regulatory Authority. Housing institutions typically take the form of either non-profit housing associations (registered in terms of Section 21 of the Companies Act) or housing co-operatives (registered in terms of the Co-operatives Act).

Land Availability Agreement

A comprehensive agreement or contract entered into between the original landowner and a developer or group of beneficiaries in terms of which a specific land parcel is secured for the benefit of the beneficiaries or developer, while the ownership remains with the original landowner.

1. INTRODUCTION

The provision of affordable housing is a vital component of the social transformation and empowerment efforts of government through-out South Africa. The department remain committed to accelerating human settlements delivery, while promoting social inclusion through the development of integrated, resilient, safe and sustainable human settlements in an open opportunity society. Affordable housing does not only incorporate the housing structure but includes the entire spectrum of environmental factors that make living acceptable and comfortable. Among them are good access routes, ventilation, sanitation and access to basic human need such as water. Housing affordability therefore involves the ability of households to consume other basic necessities of life such as food and clothing in addition to accessing adequate housing.

The affordable housing segment of the property market is comparatively growing much faster and is more robust than the middle to upper market housing segments. Research studies have shown that low and moderate-income earners are significantly constrained from accessing what is considered as affordable housing due to a lack of appropriately priced housing stock and rising house prices. Therefore, the State is mindful of the fact that a mortgage bond is not particularly suitable the only financing instrument for the poor as it is premised on households being able to demonstrate regular income as well as a credit and employment track record.

2. BACKGROUND

The Finance Linked Individual Subsidy Programme (FLISP) was developed by the Department of Human Settlements to enable sustainable and affordable first-time homeownership opportunities to South African citizens and legal permanent residents earning between R3 501 and R22 000 per month, (the 'affordable' or 'gap' market). Individuals in these salary bands generally find it hard to qualify for housing finance; their income is regarded as low for mortgage finance, but too high to qualify for the government 'free-basic house' subsidy scheme. As a response to market needs, FLISP has been catalysed so that it will be linked not only to mortgage financing but also for all non-mortgage housing via diversified mortgage and non-mortgage offerings. Clarity will be detailed later in the document.

Another model for the delivery of affordable housing is the Social Housing Programme, which provides medium density, affordable, rental housing to low and middle-income households. In an attempt to find a solution to challenges of providing affordable housing, the Department conducted desktop research on affordable housing where Public Private Partnerships (PPP) are highly recommended. According to the report, success achieved from the PPPs within three major provinces in the country suggests that a solution towards the provision of affordable housing in KwaZulu-Natal requires that government, the private sector, institutional investors and non-profit organizations, work together in new innovative and collaborative ways. In view of the above, the Affordable Housing Policy seeks to explore different approaches on how the Department of Human Settlements can collaborate with the private sector and other key stakeholders in the provision of affordable housing for its beneficiaries.

2.1 Affordability definition

In South Africa, affordability is defined in terms of income. According to the National Department of Human Settlements (NDHS), affordability is defined as the amount an individual or a couple can afford to spend on a new home, based on their income and any deposit that they have available for the new home. The low incomes of many people have created a serious affordability problem in housing.

It must also be noted that, affordability is not only about being able to afford to buy or rent a house, but also being able to afford to live in it. This goes beyond meeting expenses related to operations and maintenance; it also involves considerations of transport, infrastructure and services. If a house is cheap enough to buy and run but located far from livelihood opportunities or amenities such as schools, it cannot be said to be affordable.

3. POLICY INTENT

The KZN Department of Human Settlements believes that everyone should have a housing opportunity which encompasses affordability, community integration, sustainability, and the affordable housing policy seeks to facilitate the provision of a wide choice of housing opportunities to meet the needs of the whole community in terms of tenure options and price ranges. This means providing high quality homes in mixed sustainable communities for those in need, expanding the opportunities for offering greater quality, flexibility, and choice to beneficiaries. This involves a tremendous amount of capital investment, maintenance, and operating expenditure, requiring significant budget allocation which government cannot afford without commitment from other stakeholders.

The state has been negotiating partnership agreements with the private sector and other stakeholders regarding provision of affordable housing and it has become clear that Public Private Partnerships can contribute a lot in making affordable housing a reality. A Public Private Partnership project concept is contemplated in order to catalyse private investment in the development of affordable housing units within the Province of KwaZulu-Natal. The policy seeks to provide a broad framework for the delivery of affordable housing. A comprehensive and prescriptive implementation guideline will be developed to inform the relevant processes.

4. OBJECTIVES OF THE POLICY

The affordable housing policy seeks to facilitate development of well-located and affordable housing opportunities for households excluded from market-driven housing options. The process involves coming up with innovative ways to incentivise the participation of the private sector in the provision of housing to a broader income spectrum, leveraging value appropriately. This will be done through partnerships that endeavour to:

- 3.1 Encourage innovation and efficiency through the combination of the public and private sectors' expertise and efficiency.
- 3.2 Facilitate access to adequate housing and quality living environments.

- 3.3 Allocate risk to the party that can manage it better in order to secure the best value for money.
- 3.4 Facilitate access to specialised management expertise and professional skills that will improve the quality of services provided and the level of customer satisfaction.
- 3.5 Improve access to the residential property market for middle-income households.
- 3.6 Improve fiscal sustainability and financial affordability for beneficiaries.
- 3.7 Ensure that affordable housing options target beneficiaries who earn between R3 501 and R22 000 per month.

5. APPLICATION OF THE POLICY

The policy will initially be applicable in urban and peri-urban areas in order to test its implementation where secure tenure options are possible. The intention is to extend its roll-out incrementally to other areas, in accordance with the Departmental plans. The challenge of affordability requires not just short-term fixes but also long-term strategies. Solutions will, therefore, need to address both the supply side and the demand side of the housing market, and involve public-sector, private-sector and non-profit stakeholders.

6. LEGISLATIVE FRAMEWORK

6.1 Constitution of the Republic of South Africa, Act 108 of 1996

The Bill of Rights, as enshrined in the South African Constitution, 1996, stipulates in Section 26 (1 & 2), that citizens should have the right to have access to adequate housing, and the state must enact legislations and take other reasonable measures within its available resources to achieve the realisation of the right to housing.

The Constitution is the principal piece of legislation that regulates public procurement. Section 217 of the Constitution requires all organs of government to apply the principle of fairness, equitability, transparency, competitiveness, and cost-effectiveness when contracting for goods and services.

6.2 Public Finance Management Act 1 of 1999

The Public Finance Management Act (PFMA) (RSA, 1999) regulates the management of finances in the national and provincial government. It prescribes the procedure for the effective and efficient management of all revenue, expenditure, assets and liabilities. It establishes the duties and responsibilities for public servants in charge of finances, with the aim of ensuring transparency, accountability and sound financial management in government and public institutions.

6.3 Regulation 163 - Treasury Regulation 16 (2004)

In South Africa, the Public-Private Partnership legislative framework is guided by the Treasury Regulation 16, in terms of the Public Finance Management Act, (RSA, 1999). National Treasury's PPP Manual (2007) guides public and private parties through the phases of the regulated PPP project cycles. An appointed accounting officer must enter into a PPP on behalf

of a Department and is responsible for registering the PPP with the National Treasury. If required, a project officer must also be elected. The accounting officer must conduct a feasibility analysis that, amongst other things illustrates that the agreement is affordable to the Department and offers a value-for-money solution. In that case procurement may proceed with the consent of the Treasury. Regulation 16 requires all PPP deals to obtain Treasury Approval (TA) for affordability, value-for-money and appropriate allocation of risk. This would be applied within a set PPP project cycle.

6.4 Housing Act, Act 107 of 1997

The establishment and maintenance of habitable, stable and sustainable public and private residential developments to ensure viable households and communities, in areas allowing convenient access to economic opportunities, health, educational and social amenities, in which all citizens and permanent residents of the Republic will, on a progressive basis, have access to: Permanent residential structures with secure tenure, ensuring internal and external privacy and providing adequate protection against the elements; and potable water, adequate sanitary facilities and domestic energy supply.

6.5 Social Housing Act, Act 16 of 2008

The purpose of the Act is to establish and promote a sustainable social housing environment and to provide for the establishment of the Social Housing Regulatory Authority in order to regulate all social housing institutions obtaining or having obtained public funds. The Social Housing Act also allows for the undertaking of approved projects by other delivery agents with the benefit of public money and to give statutory recognition to social housing institutions and to provide for matters connected therewith.

7. RELEVANT STAKEHOLDERS IN THE ENVISAGED PARTNERSHIPS

- 7.1 KZN Department of Human Settlements
- 7.2 Municipalities
- 7.3 KZN Treasury
- 7.4 Department of Public Works
- 7.5 Contractors/Developers
- 7.6 Banks/micro mortgage lenders
- 7.7 Non-Governmental Organisations
- 7.8 Housing Development Agency
- 7.9 Social Housing Regulatory Authority

8. IMPORTANT CONTRACTING PRINCIPLES

- 8.1 Packaging of proposal calls must be realistic and credible.
- 8.2 Realistic Land Development/Land Availability Agreements.
- 8.3 Proper cost/risk and benefit understanding and sharing.
- 8.4 Good practices in accountability and transparency measures must be maintained.

- 8.5 Partnerships need to be carefully planned, well-defined in scope and fundamentally clear in its objectives.
- 8.6 Project viability needs to be measured against a set criterion by the initiating partner to assist it in determining its potential suitability for procurement.
- 8.7 The selected model must provide value for money.
- 8.8 Tendering processes must be competitive, fair, and subject to proper due diligence in terms of the partnership.
- 8.9 The project must be responsibly managed throughout the term of the agreement.
- 8.10 All partnership projects should be guided by contracts, specific agreements, or a memorandum of understanding (MOU) between the Department or the relevant state agency and the private company. The contract should contain binding clauses on duties and responsibilities of all participating partners with delivery timelines.

9. FINANCE LINKED INDIVIDUAL SUBSIDY PROGRAMME (FLISP)

The FLISP is one of the instruments with which NDHS aims to increase the supply of affordable housing stock and invigorate the affordable housing market. Flisp was introduced in 2005, reviewed in 2012 and in 2018, the National Department of Human Settlements (NDHS) made some significant changes in the Programme's implementation guidelines. The remodelling of the Finance Linked Individual Subsidy Programme (FLISP) aims to ensure that the subsidy instrument is efficient, that it will achieve the intended redistributive policy objective and that it will have a positive impact on the overall affordable housing market.

As from 1 April 2022, persons who in the past could not qualify for FLISP, due to them not qualifying for a home loan or mortgage, will now be able to utilise other sources of finance to acquire a property. Amongst others, residents with a household income of R 3 501 – R 22 000 per month will be able to access FLISP through:

- the beneficiary's pension/provident fund loan
- a co-operative or community-based savings scheme, i.e., stokvel
- the Government Employees Housing Scheme
- any other Employer-Assisted Housing Scheme
- an unsecured loan
- an Instalment Sale Agreement or Rent-to-own Agreement

9.1 Institutional Arrangements

The MEC shall after consultation with the Minister, allocate an agreed percentage of the Human Settlements Development grant to administer FLISP. This will be guided by Section 12 of the Housing Act.

The following administrative arrangements shall apply

- Government Employees Housing Scheme administrator shall process all FLISP applications linked to it

- Employer Assisted Housing Programme (EAHP) administrator shall process all FLISP applications linked to it
- Provincial Departments shall process all FLISP applications linked to an approved Integrated Residential Development Programme (IRDP)
- The Department's FLISP unit will process all FLISP applications linked to it

10. STAKEHOLDER ENGAGEMENT

- 10.1 All stakeholders will have to work very closely in order to facilitate strong and successful partnerships with those involved and address the need for on-going communication and engagement.
- 10.2 A comprehensive communication plan and service level agreements needs to be drafted to ensure understanding amongst stakeholders. Details regarding roles and responsibilities of all stakeholders involved will be clearly articulated in the terms of reference and in the implementation plan that is to be drafted after the approval of the policy.
- 10.3 The support of key interest groups greatly increases the chances of partnership success, particularly in urban sectors. Therefore, this means that, they all need to be involved right from the start in order to establish strong ties which would include mechanisms for dialogue and meaningful engagements.

11. AFFORDABLE HOUSING OPTIONS

Government has committed itself through the social contract to work together with various sectors for co-production of Sustainable Human Settlements and improved quality of household life which includes, the achievement of the 2030 and 2050 vision for human settlements. It has become clear that the enormous challenge of human settlements development cannot be fully achieved without the mobilisation of the collective resources, capacity, knowledge, and skills of other partners outside government. Private sector's participation has been identified as a key strategic move in the provision of affordable housing in human settlements. There are also a variety of housing programmes that exist, via the prescripts of the National Government, to deliver housing that is classified as affordable and is targeted at households who earn less than R22 000 per month.

In an effort to achieve delivery for the affordable housing market, all IRDP projects must set aside a percentage of their yield for affordable housing. The percentage should be based on the demand as determined by the needs assessment undertaken in the project area.

The different approaches affordable housing options are explored below:

11.1 Assisted Self-Build Affordable Housing

Keeping homes affordable usually means finding ways to reduce the costs of land and/or construction or subsidising the costs of buying into a scheme, while also having a long-term strategy to limit the price that homes can be sold or rented for into the future. Self-build is one option that can be explored with beneficiaries that are willing to select this option to create affordability in the province.

11.1.1 Proposed approach

The Department will make land available to the qualifying beneficiaries, utilizing the Integrated Residential Development Programme (IRDP) and the Serviced Sites Policy. Land acquisition is perhaps the most important and complicated piece of the affordable housing puzzle. The process would entail, passing the qualification criteria, definition of the dimensions of the land to be acquired, determination of value, and procurement through a fair process. The idea is to help qualifying household to gain access to the serviced and tenure secure land, which would give them power to approach a variety of stakeholders for assistance in accessing additional resources to improve their housing and settlement conditions. This includes, for example, employers who will be more willing to provide their workers with affordable loans and donations to help them.

Households will be expected to mobilize their own resources to invest in housing for their own use. In that case affordability will be facilitated by availability of a subsidy (access to land), savings, disposable income, credit availability, household, and community contributions. The assisted self-build model may involve the following options:

- Individual self-build: - an individual purchases a plot of land and builds a house to live in. They may do some or all the build themselves or employ a builder, architect, or project manager to oversee the build.
- Group self-build: - a group of people come together to design and develop a custom build housing development which they then live in. They may build this themselves or with help from a developer to manage the project.
- Developer-led custom build: - a developer divides a larger site into individual plots and provides a design and building service to purchasers. This gives people a chance to customise existing house designs to suit their needs and can sometimes offer a chance to finish the house internally.
- Community-led: - housing projects who help a group of people to build mostly affordable homes together, either individually or in cooperation with a builder or housing provider. This could utilise Community Land Trusts, which often take a long-term formal role in the ownership, stewardship, and management of the homes to ensure they remain affordable in perpetuity. Alternatively, housing co-operatives can own or lease properties and rent them to their members who also manage and control the housing.
- Cohousing: - a cohousing project involves a constituted group of people creating their own neighbourhood of homes, with shared facilities such as a communal house.

This approach has a great potential to unleash opportunities for many local builders to get involved in helping all the additional people who now have land to start to improve their living conditions using resources at their disposal. Self-builders are more likely to contract and employ local small builders living in the area who are willing and able to undertake the small-scale work contracts that residents require. This will involve a comprehensive training programme, where self-builders are supported all the way by a dedicated team of professionals. This has the added benefit of developing professional skills that might lead to future employment for the self-builders.

Other elements of housing support include supporting communities and households, that form part of a development project:

- to work together as part of bulk buying schemes to access cheaper building materials and construction services;
- providing a community managed data base of active builders and material suppliers in a particular community; providing skills training in construction skills; and
- providing households with information on how to build and/or manage the building of their own houses.

11.1.2 Risk Mitigation

Authorities are often uncomfortable with this approach to housing development because it is generally unregulated and often results in compromised designs with poor orientation, and safety and health issues compromised because of poor quality materials used. The Department will enable partnerships with self-builders and assist by introducing measures in order to ensure compliance with the minimum standards. With the required support, households can build a complete basic structure, which they can then improve on over time as and when they have the funds. The Department may support self-build in the following ways:

11.2 NHFC collaboration with private developers

The National Housing Finance Corporation is a state-owned Development Finance Institution with a principal mandate to broaden and deepen access to affordable housing finance for the low and middle-income households. The NHFC has been tasked nationally to administer and facilitate delivery and access to the Finance-Linked Individual Subsidy Programme (FLISP), which provides poor, and low to middle income households with access to adequate housing.

11.2.1 Proposed Approach

NHFC will provide project/development finance to developers involved in the development of affordable housing for sales to the low to middle income earners. This is short-term development finance for the purpose of servicing of sites, construction of top structures that are either free standing and/or sectional title. This will be bridging finance to private developers who are undertaking projects with funding for a small percentage of their project which will cater for the gap/Flisp market. Bridging finance entails offering funding to

contractors and developers to cover costs of a housing project before subsidy funding is granted. This type of finance is short-term based and assists contractors and developers with a revolving facility finance. This type of finance is designed to avoid construction stoppages on construction sites while work in progress invoices are processed by clients or other offices, for example Municipalities, Provinces, Deeds offices, etc.

The NHFC strives to be an effective partner for the private and public sectors in responding to the challenges of fast tracking the delivery of affordable housing to improve the quality of life for all South Africans. It provides finance to social housing institutions, property practitioners and private lenders/banks for ownership or rental housing purposes, including inner city renewal developments. They facilitate the increased and sustained private sector investments and participation in the under-served segment of the housing market in the following ways:

- Private Rental Units
- FLISP Units
- Bridging Affordable Units
- Bridging Affordable Serviced Sites

11.2.2 Application for Funding

The current service delivery model is initiated by the intermediary and developer who go through several processes before reaching the NHFC at the financing application phase. The process to receive the funding from NHFC is highly manual, with the application process requiring the applicant to physically submit their documents to the NHFC at one of its branches. The credit approval process is done internally and makes use of applications such as Microsoft excel to run models. There is no cloud-based storage, and all documents are stored physically, with some being stored locally. The disbursement process is automated in that the funds are released from the NHFC bank account into the applicant's designated account. From there, the financial intermediary will provide loan funding to the end-user, with the developer designing, constructing, selling or renting and managing the property. On the collection and repayment side, the repayment by the primary customer is done online via banking streams.

11.3 The Department to collaborate with large/corporate employers

Under this approach, the land is owned by the Department and the objective is to develop the land for uses beyond the scope of what the Department could afford. This would be achieved through collaborations with the private sector. The approach is based on willing partners working out a mutually beneficial arrangement which delivers a housing environment that is socio-economically inclusive and affordable. This includes development on Departmental land for an affordable mix of uses and housing markets. The critical aspect in this case, is the cross subsidisation that needs to take place specially to make the financed linked housing work and the developer has a responsibility to ensure that aspect is catered for.

The Department is willing to do more in order to support affordable housing development by leveraging its own land and building asset register as a point of access for developers. This would be an attempt to reduce barriers and cost drivers preventing affordability. The Department would work with municipalities to proactively zone land parcels and service them prior to release to support mixed-use developments. The private sector can be expected to contribute to efficiency gains in the development of land, construction, operations, and maintenance for affordable housing through the use of technology, better management and construction practices. Delivery of projects at a lower cost and, without cost and time overruns, can potentially contribute to availability of affordable housing

The Department will communicate the plan and the intention transparently and upfront and call for partnerships through:

- a) **Expression of Interest:** Department will call for expression of interest from private developers. This will be a call to acquire and develop state land with conditions. The advert will clearly spell out the required role for private sector players and that of the Department.
- b) **Competitive Bidding:** Department to call for bids from private developers and a normal tendering process through bidding will be followed. The request for proposals should clearly state approximate or anticipated density and unit count, affordability expectations including the income level(s) to be served and any other terms under which the property, or development rights, are offered.

This option may be implemented through making serviced stands available to private developers who would provide affordable housing options for the gap market through the Integrated Residential Development Programme (IRDP) and Finance Linked Individual Subsidy Programme (FLISP). This may include both ownership and rent-to-buy tenure options catering for the affordable housing market. The developer will have a responsibility to ensure that the plan caters for cross subsidisation in order to make the financed linked housing feasible.

11.3.1 Land Acquisition and Securing Title

The Department needs to identify parcels of vacant or underutilized strategically located state land inside the urban edge to be released for affordable housing projects. The land release plan must indicate the number of affordable units targeted in all projects.

In all cases when government owned land is disposed of to the private sector the provisions of the Public Finance Management Act (PFMA) and the Municipal Finance Management Act (MFMA) will apply. Within the prescripts of the PFMA and MFMA the creative use of suitable land should be negotiated with the applicable private developer. Land preparation work needs to be undertaken at each identified project site. This will enable the developer to make a fair assessment of development costs and any risk factors. The cost of land acquisition is one of the most important components of the cost of housing and the Department plans to provide an important opportunity to developers which reduces the direct cost of housing to struggling households, as the land can be made available to the end user at a subsidised rate.

The Department will facilitate the development of affordable housing through the release of land to developers by way of Land Availability Agreements as opposed to the sale of the land to developers. This will contribute to the affordability of the housing to be developed as it reduces the impact of a holding cost while it also provides for the local authority to monitor and ensure that there is no profit or speculation in the land price component of the development. It also offers the added benefit of being able to ensure and monitor that the target income group of between R3 501 and R22 000 in fact benefits from the development. A Land Availability Agreement will be entered into with the private developer, making the land available for development whilst allowing for the finalisation of transfer processes.

11.3.2 Institutional Arrangements

Practically, partnerships on government land involves more than one sphere of government and the method taken is to identify the key roles that need to be performed. With respect to the key roles the following have been identified:

- a) The KZN Department of Human Settlements as administrator of subsidies will facilitate implementation of the PPPs by putting in place an appropriate enabling environment. This includes favourable policies, an implementation strategy, and a legal and institutional framework.
- b) The municipality as the provider and maintainer of services will facilitate relevant approvals, identify state land that is under-utilised and suitable for affordable housing and ensure bulk service provision.
- c) The National Department as a developer or facilitator via the Housing Development Agency will undertake the land administration and acquisition processes.
- d) The private developer will take the leading role in identifying and implementing PPPs including carrying out of feasibility studies, mobilizing resources, risk sharing, monitoring and evaluation, and providing technical expertise and managerial skills.
- e) Other stakeholders: these include financial institutions, academic institutions, Non-Governmental Organizations (NGOs), Community Based Organisations (CBOs), Faith Based Organisations (FBOs), employees, trade unions, environmentalists, political leaders, community groups, sector interest groups and public in general. This category is expected to support the implementation of PPPs through monitoring and evaluation, dissemination of information in order to create an understanding of the nature and benefits of PPPs in their areas of interest.

11.3.3 Funding and/or Finance

The Department will provide land and further provide funds in a form of subsidies to qualifying beneficiaries and the resultant reduction in land costs will create an opportunity to assemble a more attractive investment with the private sector. The private developer will be required to secure its own finances to build, maintain and operate the facilities to meet the public sector's requirements.

The developer can monitor the price of the end product and ensure that the specific target market benefits from the development and there are no holding costs in respect of the land on the part of the successful developer. The cost of the product will be informed by the input costs and lending limits of financial institutions to the target income groups to ensure affordability.

Private-sector developers finance construction projects with a view to recovering costs by selling or renting out the developed housing units.

11.4 Affordable Housing Delivery through Social Housing Partnerships

Social housing is defined in the Social Housing Act, 16 of 2008, as a rental or co-operative housing option for low to medium income households at a level of scale and built form which requires institutionalised management, and which is provided by Social Housing Institutions (SHIs) or other delivery agents in approved projects in designated restructuring zones, with the benefit of public funding. The Department is already implementing social housing projects which offer rental housing units that are closer to work opportunities and transport nodes. In this case, a private operator, under contract, operates a publicly owned asset for a specified term. Ownership of the asset remains with the public entity. The Department builds and outsources a service from a private entity to operate and maintain the asset for a specified period. Partnerships here are between the public sector, private entities and non-profit organisations.

SHIs, who are entrusted with the responsibility of developing and managing social housing in terms of the Social Housing Act, Act 16 of 2008, are nationally regulated by the Social Housing Regulatory Authority (SHRA). The Social Housing Act also allows private developers with experience in affordable rental housing to also perform this function. The Social Housing Institutions and PPPs are envisaged in the social housing policy as the vehicles for social housing delivery. The SHI's are categorised as non-profit organisations that develop social housing stock using institutional subsidies, grants from the SHRA together with loan funding from the National Housing Finance Corporation (NHFC), donor funding, and local authority grants. The target group for social housing is the R1 500 to R22 000 per month income group. This group corresponds with the low and gap housing market.

In terms of the legislation, policy and procedures, the delivery requires a strong co-operation between the Municipality and the accredited Social Housing Institutions (SHI) that are responsible for the development of social housing and importantly the long-term property management. Private for-profit entities (developers and investors) are able to develop and/or manage accredited social housing projects for low-income residents in restructuring zones by accessing the restructuring capital grant. The restructuring capital grant is only applicable for the rental tenure, in projects that have been approved by the SHRA. An accredited project is a project in which government makes a subsidy contribution in order to make rental units that are provided by a private sector party more affordable to those eligible for social housing. At the end of the project's lifetime, the public sector which is the SHI retains the stock.

The Department will continue to explore ways in which private developers can collaborate with government in the social housing rent-to-buy option in order to further diversify its housing opportunities.

11.4.1 Land Acquisition & Securing Title

Inherent to this programme is the identification by municipalities of areas for structural transformation to be targeted for investment. Interventions include services provision, infrastructure maintenance, and crucially the delivery of social housing. The Department provides land and funding to the private partner that is in turn responsible for carrying out the development and management of the housing units for a specified period.

11.4.2 Funding and/or Finance

The Institutional Housing Subsidy Programme provides top-up funding to the capital grants accessed through the SHRA by SHI's to construct and manage affordable rental units.

Institutions may acquire and upgrade or convert existing buildings for rental housing purposes. The subsidy is paid to provide subsidised housing on rental. The institution also needs to invest capital from their own resources. The lender could invest in the social housing sector through providing project funding to an SHI or a private sector landlord to undertake a project in which social housing forms a part of. In this case the landlord (SHI or private sector) acts as developer and then manages the property over the long term. There are a few such institutions that warrant further consideration as viable partners. This would be a medium-term loan where the exit is achieved through the rental stream as in a normal loan to support rental housing.

11.4.3 Institutional Arrangements

Partnership agreements are set up through open procurement processes.

- a) Department: Assist in the accessing of well-located land for the long-term use for social rental housing, and to access the relevant grant financing through the national and provincial government streams.
- b) Social Housing Institution/Private Developer: Facilitate the development of social housing stock that makes social housing projects viable in the medium and longer term.
- c) SHRA: Regulate the entire sector and ensures compliance to legislative prescripts.
- d) Lenders: Invest in the partnership through providing funding for the development of the units.

The approach taken is to identify the key roles that need to be performed within the sector as a whole and then to specify rules for ensuring that roles do not conflict. With respect to key roles. The following are identified:

- a) Leadership: This refers to overall sector development, policy and programme development and national programme management.
- b) Funding: This includes the approval of projects and the allocation of grants/subsidies for programmes and projects. In addition, it refers to the management of grants for facilitation as well as the provision of loans.

- c) **Delivery:** This includes the production of accommodation units, as well as the delivery of infrastructure and public environments. It includes delivery initiation and governance.
- d) **Regulation:** This involves accreditation, monitoring compliance of institutions and ongoing monitoring. It also refers to the restructuring zone initiation and restructuring zone approval.
- e) **Facilitation:** This includes capacity building/support, risk mitigation, sector research and policy support, consumer education and protection, and SHI interest protection.

12. PROJECT DEVELOPMENT MONITORING AND EVALUATION MECHANISM

- 12.1 The Sustainable Human Settlement's (SHS) district offices shall monitor and manage the performance of the partnership projects and advise accordingly if reviews are necessary.
- 12.2 Quarterly review reports shall be compiled by the district's SHS Directorates to ensure that the terms and conditions as well as services agreed to in the concession agreement are implemented in good spirit.
- 12.3 The Policy, Research and Product Development unit will monitor and conduct a review of the policy after three years of implementation.

ILLUSTRATION OF AFFORDABLE HOUSING OPTIONS

