

PROVINCIAL HOUSING PLAN

Western Cape

Situational Analysis

Reference Module E

Capacity and Constraints
Land / Financial

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1. LAND AVAILABILITY

1.1 Institutional Responsibility for making Housing Land Available

NATIONAL GOVERNMENT

Section 239 of the interim Constitution of the Republic of South Africa (Act 200/1993) provides for the "competent authority" to issue a certificate confirming the vesting of all state land vested in either the national or provincial governments on 27 April 1994, and allowing for the Registrar of Deeds to endorse title deeds and register land accordingly.

In terms of the Disposal of State Land Act, 1961 (Act 48/1961) the Department of Public Works is responsible for the disposal of superfluous land for development.

The following institutional measures have been adopted (by formal agreement between the Directors General of the Departments of Land Affairs and of Public Works on 9 May 1997, endorsed by the National Cabinet) in order to streamline the accessibility and disposal of superfluous land no longer required for domestic purposes, for development:

- A provincial State Land Disposal Committee was established. It consists of representatives of the national Departments of Public Works and of Land Affairs as well as representatives of the provincial government. The committee has the power and the sole discretion to co-opt local authority officials when deemed appropriate, without creating a right for co-option. The committee will be responsible for identifying the extent and location of land required for state domestic purposes, including superfluous land, which could be used for housing development and residential reform purposes.
- It is the intention of the committee to approach provincial and local authorities to identify vacant state land within their areas of jurisdiction and submit proposals to the Provincial Committee for its use. These proposals are to be accompanied by information on time frames for implementation and approved procedures relating to funding for land development. Proposals and requests for land will be evaluated according to the land development objectives set for the local authority area, as well as to the Chapter One Principles of the Development Facilitation Act (Act 67/1995). These principles were also incorporated in the Western Cape Planning and Development Act.

In the White Paper on South African Land Policy, the National Government committed itself to:

- The use of state land for land reform, housing programmes being a priority. The sale of state land on the open market would only be considered if the land is unsuitable for state-assisted development.
- The release, disposal or transfer of national state land at a just and equitable price based on an analysis of comparable market sales, taking future use and location into consideration.

PROVINCIAL GOVERNMENT

Provincial Department of Housing and Planning:

The National Housing Board was abolished in terms of the Housing Act (Act 107/1997) and all immovable property situated within the Western Cape, as well as all immovable property acquired by the Premier with housing funds, was passed to the Provincial Housing Development Board of the Western Cape on 1 April 1998.

The Housing Act specifies that the Provincial Housing Development Board must administer and dispose of immovable property that it acquired. It also states that all undeveloped land must in the first instance be considered and utilised for housing development in accordance with national housing policy and an approved housing development project. The Act further provides for the transfer of land from the aforementioned Board to municipalities and laying down conditions relating to the administration, utilisation and disposal thereof. Immovable property will however only be transferred to a municipality if the Provincial Minister of Housing is satisfied that it has the capacity to administer the land in accordance with national housing policy.

This does not mean that all land will be transferred to municipalities as the Provincial Department of Housing also intends to dispose of some land in order to redistribute funds in municipal areas where no such land is situated.

Department of Public Works and Transport.

The Department of Public Works and Transport is responsible for the administration of all provincial state land. This includes land being utilised by other provincial departments such as Health, Education and Nature Conservation. The Western Cape Land Administration Act, 1998 (Act 8/1998), governs the disposal of this category of land.

The disposal of superfluous land no longer required for provincial domestic purposes is subject to the representations and/or objections submitted by interested parties, called for by a notice in the press. It has been indicated that certain steps are envisaged to identify potential uses in respect of superfluous land and on which basis land will be released for housing development. These aspects still need to be clarified between the Department of Housing and Planning and the Department of Public Works and Transport.

Parastatal Land.

The parastatals, such as Eskom, Safcol, Intersite, Transnet, Telkom and the CSIR are all governed by their own founding statute and have different mandates and responsibilities to government. All these bodies hold land that they might not require in future and which could possibly be considered for housing development.

Local Authority.

The land owned, administered or controlled by the MLCs within the CMA can be categorised according to the following:

- Land acquired with own finding
- Commonages normally acquired through state grants
- Land acquired in terms of conditions of township establishment/subdivision
- Land acquired with loan funding from the erstwhile National Housing Commission
- Land previously owned by the divisional Councils and development Boards (in the former Black townships) and which later vested in the Administrator in terms of the Abolition of Development Bodies Act (Act 75/1986)
- Land already transferred or in the process of being transferred from the provincial Department of Housing / Provincial Housing Development Board in terms of the Housing Act (Act 107/1997)
- Land in the former rural areas proclaimed in terms of the Rural Areas Act (Act 9/1987, House of Representatives) this applies only to Blaauwberg Municipality.

The administration or release of these different categories of land is governed by separate pieces of legislation and directives issued in terms thereof. These include the Municipal Ordinance, 1974, the Divisional Council's Ordinance, 1976, the Housing Act (Act 107/1997) the Abolition of Development Bodies Act (Act 75/1986) the Rural Areas Act (Act 9/1987, House of Representatives), the Local Government Transition Act (209/1993) as well as regulations issued in terms of the Black Communities Development Act (Act 4/1984). The land administration functions have not been centralised in all MLCs.

1.2 Legislative Framework within which land is released for Housing Development

The alienation of municipal land acquired with funding from the erstwhile National Housing Commission, the Housing Board and the Development Board (House of Representatives), the development and Housing Board and the National Housing Board, is subject to the provision of the Housing Act, 1997 (Act 107/1997) and previous directives issued in terms of housing legislation.

The alienation of all other municipal land, with the exception of land in the former Black Townships, is regulated in terms of section 124 (1) of the Municipal Ordinance, 1974 (Ord. 20/74) and section 123(1) of the Divisional Councils Ordinance, 1976 (Ord. 18/76).

As far as the former Black townships are concerned, the prescriptions of Chapters VI and VIA of the Black Communities Development Act, 1984 (Act 4/1984) relating to leasehold and the conversion of leasehold to ownership of property together with the regulations pertaining to land matters, are still in force. (See paragraph 15(3) of Proclamation 27 published in Provincial Gazette no. 5051 dated 28 May 1996 in this regard.)

MUNICIPAL ORDINANCE, 1974 (Ord. 20/74) AND DIVISIONAL COUNCILS ORDINANCE, 1974 (Ord. 18/1976).

In terms of the provisions of section 124(1) of the Municipal Ordinance (Ord. 20/1974), the Divisional Councils Ordinance (Ord. 18/1976) and the directives laid down by the former administrator (contained in Circular LDC/GOK 4/1993, dated 17 May 1993) the alienation of any land must be by means of public competition, accepting the highest offer as a rule.

The following are some of the exceptions:

- Where land is offered for sale by public competition, any remaining land in the same area may be sold out of hand by a council at the upset price of higher as long as it is satisfied that the market prices are stable. The determined upset price has to correspond with a reasonable market value and include any recoverable development costs such as municipal services and advertising and survey costs. A council is further obliged to review the position every two years and where a change in market prices is evident, to revert to alienation by public competition.
- It is permitted to sell land out of hand to non-profit-making organisations, subject to a reversionary clause in the case of sale below market value.
- Where a council has at its disposal a number of similar residential erven which are earmarked for the low income group and which the council wishes to sell by public competition, 20% of the erven must be reserved for out of hand sale. These erven must first be offered to prospective purchasers on a waiting list. If the erven remain unsold or if a waiting list does not exist, their availability must be advertised and offered to purchasers on a first come first serve basis. The selling price of such erven may be lower than market value but must be higher than development cost.
- The out of hand sale of closed streets, lanes and public open spaces to adjoining property owners is permitted, provided written notice has been served on all adjoining property owners.
- The out of hand sale of land to the state, provincial administration and other local authorities is permitted. All transactions to be on a market value basis, except where property acquired for the development of a less formal township and such township is again later to be transferred to a local authority.
- The out of hand sale of properties is permitted, subject to a reversionary clause in the case of sale below market value.
- The out of hand sale of property in exceptional cases where a council is of the opinion that public competition would serve no useful purpose or that it is in the interest of the community and council, is permitted. The alienation must be preceded by an advertisement calling for objections.

Where land is to be alienated for some or other form of development, including a business project, but the specific type of development envisaged is of cardinal importance, a Council is at liberty to call for development proposals including a monetary offer. Should it be desirable not to accept the highest tender or to accept a particular development proposal, the reasons for such decision have to be fully explained and recorded in the council meeting minutes.

HOUSING ACT, 1997 (ACT 107/97)

The provisions of section 14(3) (a)-(e) of the Housing Act, 1997 (Act 107/97) are applicable to:

- All land required with funding from the erstwhile National Housing Commission, the Housing Board (House of Representatives), the Development Board (House of Representatives), the Housing Development Board (House of Delegates), the Development and Housing Board and the National Housing Board; and
- All land of the former National Housing Board to be transferred to municipalities in terms of the provisions of section 15 of the Housing Act (Act 107/97).

The above-mentioned provisions can briefly be summarised as follows:

- Any undeveloped land must be utilised for housing in accordance with national housing policy and an approved housing project, and
- Any such land, which in the opinion of a council is not or will not in future be suitable for housing development must be sold at a fair market value.

It follows that a fair market value is the guiding principle in respect of the release or alienation of any land governed by the Housing Act (Act 107/97).

BLACK COMMUNITIES DEVELOPMENT ACT, 1984 (ACT 4/84)

The regulations relating to the determination of the price of public land (R. 1899/1986) issued in terms of the Black Communities Development Act, 1984 (Act 4/84) is still in force, but it is anticipated that they will become outdated in due course.

These regulations only apply to the first alienation of land by a local authority and are mainly aimed at the allocation of leasehold. The price at which land is to be alienated is subject to approval by the Provincial Cabinet and determined on a market value basis, taking the following considerations into account:

- The beneficiaries for whom the land is earmarked
- Geological or other physical conditions
- Adjoining land use
- The purchase price of the land
- The location of the land
- Costs relating to township establishment
- Costs relating to the provision of infrastructure
- Interim interest which may be applicable
- Any commission payable to estate agents

1.3 Procedural And Regulatory Framework

Land has in the past been released or alienated by way of public auction, simple unconditional tenders, conditional tenders, advertised negotiation, proposal call and long-term leases, each with its own advantages and disadvantages.

PUBLIC AUCTION

This process is often used in the sale of commercial, industrial and up-market housing land with the only motivation being obtaining the highest possible price.

PUBLIC TENDER

Unconditional tenders are also intended to ensure that the highest possible price is obtained. The land could be offered for sale by tender, subject to conditions relating to the following:

- The type of development recommended by the tenderer;
- An acceptable surety for the amount of the tender;
- A basic sketch plan of the proposed development together with a proposed development programme; and
- Background information regarding business experience and past achievements of the tenderer.

Each tenderer and preliminary development proposal is considered on a merit basis.

PROPOSAL CALLS

The alienation of land by means of a proposal call is a way to achieve pre-determined development objectives relating to specific pieces of land. Town planning requirements, the provision of an engineering and a development programme as well as a monetary offer is used to achieve the objectives. Proposal calls may also result in joint venture agreements with the developer being granted development rights on the land in question or development may even be undertaken on the basis of a long-term lease.

ADVERTISED NEGOTIATION

This method is used in instances where a local authority is of the opinion that public competition is the sale of the land in question would serve no purpose or that the alienation would be in the interest of the community or council. The intention to alienate the land and to proceed with negotiations is then advertised for comment and objections. The nature of objections will determine whether the allocation and alienation of the land should proceed or whether any of the other processes described above should be followed.

LONG-TERM LEASES

The alienation of land for development by way of long-term leases has been successfully implemented with regard to large-scale commercial developments. Long-term leases could be the result of any one of the processes discussed above.

Evaluation of the suitability of present procedures and practices for the release of land for the provision of public housing (CMC study of the Procedure and Policy for the Release of Land)

When considering the release of large tracks of land for the development of public housing, the only real option available to the CMC or the MLCs is a proposal call with flexibility for negotiation. The focus is on the developer to initiate an acceptable development proposal that will contribute towards achieving the development objectives of the land under consideration. Conditional tender invitations, relating to smaller portions of land, may have the same end result as a proposal call, given that the requirements are structured in a similar way to that of a proposal call.

Development right grants and joint venture agreements are attractive to private developers since no capital outlay is required up front to purchase the land. The cost can, furthermore, be recovered from the selling prices of the individual serviced erven after township establishment, or from project subsidies approved by the Provincial Housing Development Board.

1.4 Review Of Land Information Sources

GOVERNMENT INITIATIVES TO IDENTIFY SUPERFLUOUS PUBLIC LAND

NATIONAL

The Department of Land Affairs identified the need for an up-to-date land information system as a basis for effective planning, development control of its land resources. A computerised National Information System was therefore developed. Its database contains spatially referenced land information and procedures for the systematic collection, updating, processing and distribution of data. The intention is to capture information on all public land, then identify superfluous land and determine its potential use. This will be the task of the Provincial State Land Disposal Committee.

The department of Public Works has developed its own asset register with information on state land, which has also been captured in the Land Affairs information system.

PROVINCIAL

The Department of Housing and Planning has initiated the update of their the assets register, in terms of land owned by the Provincial Housing Development Board as well as land acquired by the Administrator/Premier with housing funds in their capacity as local authority. The potential future utilisation of these land parcels will then be investigated with the intention of transferring the appropriate parcels of land to the relevant municipalities for the purpose of housing provision.

The Provincial Housing Development Board completed a property identification study for potential development sites within the Cape Metropolitan Area in March 2000. The first phase investigated the database of vacant and under-utilised commercial and industrial properties owned by the Provincial Housing Development Board. The second phase investigated vacant and under-utilised residential and non-commercial properties owned by the Provincial Housing Development Board. This investigation also captured Provincial Housing Development Board owned sites that are currently vacant but has no zoning or land use designation. The information captured is relevant to the generation of land development proposals

as motivation for a proposed rapid land release programme. The CMC Vacant Land study served as a source of information as well as a source for comparison.

Some years ago the Department of Housing and Planning engaged the services of the CSIR to develop a computer programme and to capture information on all vacant land within the Cape Metropolitan Area. This study was never completed but the programme and software is in the possession of the Cape Metropolitan Council.

The Department of Housing and Planning is assisting the Department of Land Affairs to capture information regarding provincial, metropolitan and district council as well as municipal land. The intention of Department of Land Affairs is to capture all information on a GIS database. Some progress has been made, but the process lost momentum due to a lack of capacity.

The Department of Public works and Transport has compiled a register of all land under its control. It is currently involved in the identification of land no longer required for domestic purposes, in co-operation with the different user departments. In terms of the Western Cape Land Administration Act (Act 8/1998) this information will eventually be publicly available.

CAPE METROPOLITAN COUNCIL

The Housing and Urbanisation Department has completed an inventory of all vacant land within the Cape Metropolitan Urban Edge. This study consists of an inventory of vacant and under-utilised properties in the CMA, mapped on GIS together with a database of all vacant land and property descriptions.

LOCAL AUTHORITIES WITHIN THE METROPOLITAN AREA

The Municipal Local Councils have taken certain initiatives to identified land, including public land, for the provision of public housing.

City of Tygerberg

This municipality is in an advanced stage of identifying all municipal land and its potential use. Consultants have been appointed to assist with the identification of land suitable for the provision of affordable housing.

South Peninsula Municipality

Certain parcels of land have been identified for housing. Contact has been established with the provincial Departments of Housing and Planning and of Education in order to gain access to the identified land.

City of Cape Town

All land parcels larger than 5 000 m² were identified. The potential of these parcels for housing is currently being investigated.

Oostenberg Municipality

Oostenberg Municipality is in the process of identifying all municipal land within its area of jurisdiction. Once this process is completed the potential future use will be investigated. Negotiations with the Department of Housing and Planning are underway to access certain parcels of land for housing development.

The CMC study to identify public vacant land covered the Blaauwberg and Helderberg municipal areas.

SECTION 21 COMPANIES

Although land owned by section 21 companies cannot be regarded as public land, these companies are regarded as important role-players in the provision of public housing. The role of the following four well established companies are therefore discussed.

Cape Utility Homes

Cape Utility Homes has over the years disposed of most of the large properties it because holding costs are becoming too expensive. They are currently experiencing problems in securing land from public authorities due to a focus on assisting emerging developers. Land is therefore acquired on the open market on a project basis and financed in terms of the housing subsidy scheme.

Communicare

This company is a reasonably large property owner within the CMA. Information on their land holdings is available in the form of a comprehensive property register. The company indicated that requests from local authorities to make land available for housing projects would be considered favourably at a negotiated price with market value as the basis.

Garden Cities

This company is no longer involved in lower income housing projects. It is however a large property owner within the CMA and it is agreed that it owns land suitable for the provision of public housing, which in fact is a burden to the company. Any approaches from a local authority to acquire such land would therefore be welcomed. Information on their landholdings is readily available.

Newhco

Newhco is currently involved in a number of smaller housing projects within the CMA and surrounding areas but indications are that they will soon be reconsidering their position as far as housing development for the lower income groups are concerned.

1.5 Blockages To The Making Available Of Land For Housing

In the CMC study on institutional blockages in the housing delivery process (prepared by Jondev), it was identified that in the registration of transfer of land process, conveyancers often experience delays in obtaining clearance certificates from Local Authorities. Conveyancers and attorneys attributed these delays to the lack of capacity in certain Local Authorities. It was noted that even though the rationalisation and restructuring of the MLCs was completed more than two years ago, these Local Authorities have frozen certain posts due to economic constraints and are unable to fill important positions.

1.6 Key Land Availability Issues And Their Implications For Housing Delivery

The following problem areas were identified in the CMC studies on *Procedure and Policy for the Release of Land*, and *Public Land and Housing*:

- **Insufficient public participation and consultation**

When the rights of people are affected they should be given the opportunity to express their views, and to comment on all the considered proposals or actions which could affect their rights. This has been accomplished in the past, and can be implemented in future by various processes intended to inform the community of their right to participate. The community should be given the opportunity to react to the proposed release of public land and to submit their comments and views. Various procedures are utilised to get these processes underway, but the procedures normally comprise of an advertising stage and a consultation stage.

In the advertising stage the public is informed of the intended release of land by means of a development motivation or a circular outlining the advantages and potential impact of the proposed development. This stage however sometimes unduly delays the release of land for housing development. The commission of inquiry into the time and the initiatives that are being wasted at provincial and local government levels in respect of physical development disciplines and related procedures recommended in their report of 7 October 1996, that:

- Advertising should be defined in a broad sense and the advertising process should be concluded within a set time frame that must not exceed thirty days.

- In defining advertising, any one or more of the following procedures could be incorporated into a policy framework to be adopted by a local authority:
 - A notice addressed to the affected parties;
 - The convening of a public meeting;
 - The posting of a notice on the affected property;
 - The publication of a notice in the media and in the language commonly used by the inhabitants of the particular area.

The commission found that, in the consultation stage, the number of role players to be consulted are forever increasing and changing and the stakeholders often have different agendas or objectives, which makes it difficult to reach a reasonable degree of consensus. The result is that many promising projects are delayed or become non-viable as a result of an escalation in financial and development costs directly as a consequence of these delays.

Consultation needs to be streamlined to acceptable time periods and costs; these limits should be based on the perceived impact of the release of the land being considered and the development thereof.

- **Insufficient and unclear guidelines relating to proposal calls**

The release of land for housing by means of proposal call could be the most successful way of attracting private sector participation. This cannot be achieved if the document describing the procedures, requirements of the development, and adjudication criteria create uncertainties. The preparation of development proposals are, however, costly and prospective participants are often deterred by too much detail required in respect of township layouts, provision of engineering services, landscaping and financial commitments.

The time allowed for the preparation of proposals is a further important consideration.

- **Lack of co-ordination with the release of public land**

There is a lack of co-ordination in the identification and release of public land for housing development and a need to centralise decision-making on the release of substantial parcels of land for housing development. Co-operation between the CMC and MLCs and between the MLCs in this regard is currently entirely based on a voluntary basis. Fragmented control and decisions leads to conflict and will have a negative impact on the planning, development and provision of housing.

The Housing Act (Act 107/1997) as well as the White Paper on Housing sets out a role for the local sphere of government but does not specifically address the two tier metro model of local government operating within the CMA. It has not been clarified how the local housing functions should be assigned to the respective tiers of government. The intention of the Act is to transfer land for housing directly to the relevant municipality, on request.

The Western Cape Land Administration Act (Act 6/1998) provides for the Chief Executive Officer of an MLC to be informed of the intention to dispose of provincial state land, but no reference is made to the role of the CMC.

The Provincial State Land Disposal Committee could fulfil an important role in ensuring that state land is reserved for housing development. There are, however, some problems relating to unwillingness on the part of the provincial departments to deal with land under their control via this Committee. This problem is currently being addressed by the Directors General of the Provincial Administration and the relevant nation departments and indications are that the Provincial State Land Disposal Committee will soon be operational.

The housing problem in the MLCs differ remarkably as far as the availability of public land, resources, demands and capacity is concerned. The City of Cape Town is for instance in a stronger position to provide top-up housing subsidies, Blaauwberg is possibly in the best position to ensure that public land is made available for housing and yet Oostenberg is burdened with the fastest growing number of households in need of housing assistance. In the new Unicity it might become possible to commonly share the problem and pool resources to address the housing backlog effectively.

Although land is an important aspect in any housing policy, it is evident that the CMC and MLC departments responsible for land administration are not always represented at workshops or meetings where housing policy issues are discussed and therefore often not involved in the decisions formulated.

The following problems are experienced in all the MLC areas:

- Lack of centralised decisions on land due to poor co-ordination between MLCs and between different departments.
- Little private sector involvement in the provision of public housing
- Low rate of housing production
- Land shortages and accessibility of public land
- Affordability

Several initiatives have been taken to identify undeveloped land suitable for housing within the metropolitan area, but there appears to be inadequate participation at the local level in identifying land. This applies to land administered by both the national and provincial departments as well as the MLCs. It happens that a public facility is located and developed on a site merely because the land is in public ownership, but not necessarily because it is the most suitable site from a land use planning perspective. Each department is either already in possession of, or in the process of compiling information on land under its control. There is a need for a single CMA database on publicly owned land. It is therefore considered advisable to make an effort to build up a multi-disciplinary team with ongoing responsibilities with regard to the release of land in general and proposal calls in particular. In order to ensure continuity, different departments within the MLCs should for instance not be allowed to deal with land parcels merely in terms of the type of development required.

- **Community and developer negotiations**

In some instances, a developer initiates a development with the support of a beneficiary community without first consulting the land holding authority. The authority is then faced with a negotiated situation and an application to acquire the land in question, as happened with the Communicare development at Sir Lowry's Pass and Masipumelele and Newhco at Dal Josafat, where the Provincial Housing Board/Provincial Government was the landowner. The outright rejection of such a development offer to rather release the land on a competitive basis will undoubtedly have repercussions. This type of exceptional situation can however be resolved by way of an advertised negotiation.

It is anticipated that once the details of publicly owned land becomes common knowledge, the CMC or MLCs may be faced increasingly with such situations.

- **Release of land to section 21 companies**

Section 21 companies enjoy certain tax benefits, but it is possible for normal development companies to outperform them in certain circumstances. It is therefore considered justifiable to let section 21 companies compete on an equal basis with other developers in projects for beneficiaries from the lowest income group.

Although the section 21 companies own land suitable for the provision of publicly assisted housing they tend to steer away from development in this market. There is, however, a standpoint that they could provide better value for money and should therefore be given priority in the allocation of land.

- **Trading of development rights**

There has in the past been some speculation of development agreements with regard to public land allocated to private developers. This normally results in an increase of the price of housing. In order to curtail this practice, the cession of development rights from one developer to another should be prohibited.

- **Termination of development agreement or default by developer**

During the mid-1980s all private sector housing developments within the CMA virtually came to a standstill due to a drastic increase in interest rates. Many of these developments were taking place on public land in

terms of Land Availability Agreements entered into with the former Cape Provincial Administration and / or the House of Representatives. When cancelled, large sums of money had to be paid as compensation to the developers, either for improvements on or to the land, or based on the extent to which the value of the land has been enhanced.

Such problems can be minimised or even prevented by giving special attention to the legal terms of the development agreement. An indemnity clause can be included in the agreement in terms whereof a developer, upon withdrawal or cancellation, will have no claim against the authority involved based on anything done to enhance the value of the land.

• **Alienation and pricing of serviced sites after township establishment**

In terms of the policy guidelines accepted by the erstwhile National Housing Commission during the 1980s and amended by the Provincial Housing Board during 1995, the selling prices of serviced residential erven were to be determined on the basis of the cost of the land per m² plus the cost of services per m². An investigation by the National Department of Housing in 1996 confirmed that the selling prices of state financed erven had in many instances become duly expensive relative to prevailing conditions as a result of:

- Location, geotechnical and topographical conditions
- Interest on loans owing to the National Housing Fund accruing over many years
- Installation of level of services incompatible with market affordability
- Less than optimum location of the erven
- The accumulated costs incurred in securing the erven against invasion

As a result of this investigation the National Housing Board accepted a policy in terms whereof the selling prices of serviced residential erven are determined through a comparative market valuation by two registered independent valuers, taking into account the following:

- Recent comparative sales in the area
- The replacement cost of the erven
- General market demand in the area and the affordability levels in the market
- The appropriate target market for the erven
- The locality, quality and level of servicing as well as the size of the erven
- The principle of a willing buyer and a willing seller

This policy was implemented within the CMA and resulted in the following selling prices of serviced erven being approved in the different areas:

Township	Number of erven	Selling price of erf
Wallecedene	1 615	R 7 750.00
Bloekombos	1 780	R 7 750.00
Crossroads	650	R 8 842.00
Khayelitsha	25 450	R 7 496.00
Guguletu	267	R 7 878.00
Ocean View	1 200	R 7 500.00
Heinz Park	526	R 7 800.00
Masiphumelele (Noord Hoek)	420	R 8 258.00
Izamoyethu (Hout Bay)	750	R 8 000.00

With the approval of these selling prices by the Provincial Housing Board, an artificial market value was established, which may affect future housing developments.

Although the Department of Housing had addressed the residential component of a housing development, no attention was given to the affordability of the costly non-residential sites. In terms of the prescriptions of the Housing Act, 1997 (Act 107/97) it is clear that market value will be the guiding principle in the sale of any land developed in terms of the national housing programme. Allowance should, however, also be made for the release of land on a cost basis if cost (including holding cost such as capitalised interest, maintenance, levies and security) is less than market value.

1.7 Sources:

- CMC, Spatial Planning Department: An inventory of all vacant land within the Cape Metropolitan Urban Edge, Vol. 1 - 5.
- CMC (1999) Public Land and Housing.
- CMC (2000) Procedure and Policy for the Release of Land.
- CMC (2000) Research on Institutional Blockages in the Housing Delivery System, report prepared by Jondev Development Facilitators and Project Managers.
- Western Cape Provincial Housing Development Board (2000) Property Identification Study.
 - Vol. 1: Inventory of Vacant and Under-utilised *Commercial* and *Industrial* Properties;
 - Vol. 2: Inventory of Vacant and Under-utilised *Residential* and *Non-commercial* Properties

2. INFRASTRUCTURE

2.1 Introduction

This section deals with municipal services and includes a review of:

- internal, connector and bulk services with regard to norms and standards,
- sources of funding such as the CMIP and other programmes,
- sustainable infrastructure, and
- key issues pertaining to infrastructure and its effect on housing delivery.

2.2 Definitions

Municipal services are categorised as follows:

- **Internal services** refer to reticulated project-level infrastructure common to a housing project, such as water pipes for houses in the project.
- **Connector services** refer to infrastructure which links internal services to internal bulk services, such as connector pipes which link water reticulation pipes to distribution reservoirs.
- **Internal bulk services** refer to bulk infrastructure which services several communities, such as reservoirs, pump stations and treatment works.
- **External bulk services** refer to bulk infrastructure at a regional scale, such as bulk water supplied by water boards. External infrastructure is usually not a municipal asset.

2.3 Internal Services

2.3.1 Norms and Standards

The Housing Act requires the Minister of Housing to determine national norms and standards in response to the need for providing housing. These norms and standards define that municipal services of minimum acceptable level of service will be subsidised by the housing subsidy. Although maximum levels of services are not prescribed, there are limits imposed to its cost. This implies that if the cost of services exceeds the stated limit, the extra costs must be financed from supplementary sources.

These norms and standards do have some flexibility and allow for increases up to 15% of the subsidy amount in the event of abnormal location of geographical conditions.

In practice, the National Norms and Standards merely serve as rough guidelines and in most cases the actual levels of services are determined by the relevant local authorities.

2.3.2 Level of Service

Internal services are a very important component of the total delivery process of housing. The costs to install these services typically amount to more than 40% of the full subsidy amount.

Local authorities who take over all services also carry the responsibility to operate and maintain those utilities. Officials from these authorities therefore usually argue for higher service standards, which implies lower maintenance costs. However, every cent spent on engineering services is one less for the house.

The expectations of the market with respect to minimum house size and the current maximum subsidy levels already render the viability of housing projects marginal. It is therefore the responsibility of all Government, Provincial and Municipal officials, as well as consulting engineers, to critically examine the level of services and specifications set for projects of this nature.

Many municipalities are unfortunately still too rigid in their approach and often insist on standards, which result in service costs in excess of the set norm of R7 500 per unit.

2.3.3 *Electricity Supply*

At present electricity is supplied at a retail level either by Eskom or by a particular municipality. Eskom supplies electricity in bulk to municipalities except for a small percentage of power which is generated by large municipalities such as Cape Town and Johannesburg.

The main source for funding of internal electricity services in urban low-income areas is the National Electricity Regulator (NER). The NER has been appointed by the government to manage funding provided by Eskom for electrification of low-income municipal areas. The NER receives applications for funding from municipalities on an annual basis, prioritises the projects and allocates the funding. The funding allocated is normally in the order of R2 000 which is sufficient to provide internal electricity services including service connections. This is dependant on the municipality concerned adopting realistic design standards. Despite attempts at national standardisation through NRS, there is still a large discrepancy between the various standards. The funding allocated by the NER is only sufficient to provide basic infrastructure. Should municipalities wish to have higher technical standards, they need to provide the funding themselves. Occasionally a contribution towards internal services is received from the housing subsidy amount in the case of a PHB project. This practice is however not recommended as it results in a reduced amount available for the house. There is also little coordination between allocation of NER funding and new PHB projects and this can give rise to problems for municipalities.

Some previously marginalised areas which were electrified by Eskom and continue to be supplied by them despite the areas being part of large municipalities. Rural and semi urban households are normally supplied by Eskom and funding is provided by Eskom. The government intends to revise the institutional arrangements for electricity supply in the near future. Details of the proposed reorganisation will not be discussed here since the exact scope and timescale for the proposed changes are still being debated.

2.4 **Bulk and Connector Services**

2.4.1 *Policy and Standards*

Government's infrastructure policy and standards stipulate that the housing subsidy may only be utilised to provide certain basic internal municipal services, the balance of the subsidy must be utilised for the housing unit. It is the responsibility of the municipality to provide bulk and connector services. These services may be financed through grant-funded programmes, counter funding by the relevant municipalities or loans from private sector institutions. A Provincial Housing Development Board will not approve a housing development project unless the municipality certifies that the necessary bulk and connector services are provided or will be provided to the development. Provincial Housing Development Boards will give preference to project applications where the required bulk and connector services are already available.

Policy in respect of bulk infrastructure standards is dealt with by the Departments of Water Affairs and Forestry, Transport, Mineral and Energy Affairs and Constitutional Development.

2.4.2 *Grant-funded programmes*

Recent and current grant-funded programmes for bulk and connector services can be summarised as follows:

- **Department of Water Affairs and Forestry**

This department has utilised RDP funds for both peri-urban and rural infrastructure programmes, and has worked through provincial planning forums to prioritise projects. Projects have been implemented by municipalities, water boards and community structures.

- **The Consolidated Municipal Infrastructure Programme (CMIP)**
- **Extension of the municipal infrastructure programme**
The municipal infrastructure programme and the extension of the municipal infrastructure programme were located in the Department of Constitutional Development, and were funded by the RDP fund. The programme has since been incorporated into CMIP.
- **Bulk and connector infrastructure grant programme**
This programme was initiated by the RDP office in 1995 and was located in the Department of Housing. It is also now incorporated into CMIP.
- **Other programmes**
Some national line departments make funds available for expenditure on infrastructure in urban areas, for example, for funds for metropolitan transport authorities for expenditure on roads. The Cape Metropolitan Council's housing department developed a few grant-funded programmes for bulk infrastructure. District councils also at times provide similar funding.

2.4.3 CMIP

CMIP is currently the largest bulk infrastructure funding mechanism and therefore merits some emphasis. CMIP was developed to consolidate various existing grant-funded programmes. The programme further aims to satisfy the following guiding principles:

- At least a basic level of services for all South Africans by 2008
- Long-term financial sustainability
- Strengthening the institutional capacity of municipalities
- A single, coherent funding process for municipal infrastructure
- Rapid improvement of delivery
- Housing and infrastructure delivery must be synchronised
- Integration of apartheid areas, and urban and rural service delivery

Although operated as a single programme, the CMIP funds three categories of infrastructure:

- The installation of new internal bulk and connector infrastructure for greenfield development.
- The upgrading of existing internal bulk and connector infrastructure.
- The rehabilitation of existing internal bulk and connector infrastructure, and the rehabilitation of internal services as appropriate.

Management of CMIP occurs at various levels. At national level the Minister for Provincial Affairs and Constitutional Development is responsible for CMIP. At provincial level it is the MEC for Local Government together with his or her department who must ensure coordination and implementation of the programme. Finally municipalities are responsible for identifying projects, fund applications and management of individual projects in terms of quality, progress and cost. Very important also, once a project has been completed, the municipality takes it over and becomes fully responsible for operating and maintaining the new service.

CMIP funds allocated in the Western Cape up to September 2000 amount to R295m. The following table illustrates the rural/urban distribution of these funds together with the number of beneficiaries.

Table 3.1: Rural/Urban Distribution

CMIP Rural/Urban Distribution up to Sep 2000	Funds Allocated	% of Total	Beneficiaries	% of Total
Rural	R105m	35%	902 555	26%
Urban	R190m	65%	2 522 726	74%
<i>TOTAL</i>	<i>R195m</i>	<i>100%</i>	<i>3 425 281</i>	<i>100%</i>

Similar to most other provinces, the majority of the funds have been allocated to water and sanitation project categories. The detail allocation per project category for the Western Cape is shown in the table below.

Table 3.2: Funds allocated per project category

Funds Allocated to Project Categories	Up to Sep 2000	% of Total
Water	R105m	36%
Sanitation	R 70m	24%
Roads	R 43m	14%
Solid Waste	R 5m	2%
Community Lighting	R 34m	11%
Storm Water	R 38m	13%
Training	R 0m	0%
<i>TOTAL</i>	<i>R295m</i>	<i>100%</i>

During recent interviews with housing officials at provincial and municipal levels it became clear that a bulk infrastructure programme is essential to ensure viable housing development. This sentiment was emphasised by an analysis of funding up to 31 March 2000, which showed that the CMIP allocation in the Western Cape amounted to 18% of the total subsidy value granted for the same period.

Various factors are considered when prioritising projects for CMIP allocation. One of the most important of these is a municipality's infrastructure investment plan, which is necessary for long term financial sustainability. This plan should also include details with regard to counter funding of projects.

2.4.4 Public sector funds

For new projects, it is currently the aim of CMIP that at least 30% of the connector and bulk infrastructure funds must be provided by the local authorities involved with the projects. The following table shows the proportion of public sector contribution up to September 2000 within the Western Cape.

Table 3.3: Source of funds up to September 2000

Source Funds up to September 2000	Rural	% of Total	Urban	% of Total	All projects	% of Total
CMIP Funds	R105m	63%	R190m	46%	R295m	51%
Public Sector Funds	R 54m	33%	R113m	27%	R167m	29%
Private Sector Funds	R 7m	4%	R112m	27%	R119m	21%
<i>TOTAL</i>	<i>R166m</i>	<i>100%</i>	<i>R415m</i>	<i>100%</i>	<i>R581m</i>	<i>100%</i>

Apart from the municipalities' own contributions, grants for bulk infrastructure are also obtained from the Cape Metropolitan Council (CMC) and the various district councils.

CMC's housing department has been funding bulk infrastructure for projects within the Cape Metropolitan Area since 1998. Available funds decreased from R33m in 1998/1999 to less than

R15m at present. CMC's definition of bulk infrastructure differs from what is used for CMIP. The CMC also have a bridging finance loan, the AMSLA, that is available on an ad hoc basis for emergency cases only. Once the municipality receives CMIP or other funding for these emergency cases, the loan has to be paid back to the CMC.

2.4.5 *Private sector funds*

Private sector funding consists of concessionary finance (eg from DBSA) and private sector loans. According to the recent national CMIP quarterly report, the Western Cape is doing well in terms of securing private sector funding for bulk infrastructure.

2.5 **Constraints**

The following list of constraints is a summary of this analysis with regard to infrastructure availability. Some are also the result of interviews with municipal engineers who have many years' experience in the field of housing.

2.5.1 *Levels of service*

Service standards and specifications differ significantly for various municipalities within the Western Cape. Although it is fair to allow some freedom, municipalities who continuously insist on standards which are unaffordably high, should accept financial responsibility for the resultant additional cost.

2.5.2 *Bulk earthworks*

According to the set norms, bulk earthworks must be funded as part of the subsidy and the CMIP makes no allowance for it. However, many housing projects are developed in the sandy areas of the Cape Flats. Parts of these areas are covered with steep dunes which consist of granular wind blown sand. The lowland areas amongst these dune ridges are on the other hand often extremely flat and the natural gradients are insufficient for drainage and development purposes. The result is that considerable bulk earthworks are required in order to create gradients that are viable for economic development. The costs of such bulk earthworks operations are often quite high with the result that the remaining amount of the subsidy is too little for a viable house.

It could therefore be argued that the cost of bulk earthworks should be financed from an alternative source, such as the CMIP.

2.5.3 *Reluctance to use new products*

Municipal officials and design engineers are often reluctant to change. In order to succeed, one should regularly examine the service standards and specifications set for projects of this nature.

This does not imply the provision of inferior services or products. However, the situation demands a critical assessment of new technologies and an innovative approach to design. Whenever new technologies, or products with a limited track record, are specified, it is inevitable that there will be an increased element of risk. However, this has to be accepted in a responsible manner as part of the challenge of providing houses to people who have never had that privilege.

2.5.4 *Lack of end user awareness programmes*

Successful housing development encompasses far more than just the installation of services and the building of houses. The process must be wide and should at all times anticipate and respond to the capacity needs of the beneficiary communities. For example, it is essential to implement end user awareness programmes in order to inform beneficiaries on aspects such as:

- the value and function of the services of which they will have the benefit of,
- the effect of littering on the functionality of these services,
- the responsibility that comes with owning a house and the importance of good housekeeping, and
- why it is important to pay for rates and electricity.

Such programmes, if implemented successfully, will instill house pride and result in a better neighbourhood in the long term. Failure to do so will on the other hand, result in abuse of services, general degradation of the area and resistance to payment of services.

In order to support above approach, local people should be trained and utilised to administer individual subsidy applications, sales administration and also to provide homeowners awareness training.

2.5.5 *Maintenance of services*

Maintenance operations of municipalities have in recent years become very strained due to ever increasing budget limitations. The housing development process has however now drastically increased their burden (only CMIP and its related infrastructure funds have added R580m of infrastructure since 1998!).

This has rendered many municipalities critically short of the capacity required to properly maintain the current infrastructure within their jurisdiction. General degradation is evident in these areas and in some instances it has resulted in the total collapse of certain services.

2.5.6 *Capacity of existing bulk services*

Many bulk services such as sewage treatment works and bulk water supply facilities are operating near capacity limits. Current indications are that little or no growth in capital budgets can be afforded over the next few years. At least three sewage treatment works in the CMA will soon become overloaded. There is however immediate need for housing development within the catchments of these works.

Similarly, bulk sources of potable water for Cape Town and some other towns in this province are becoming increasingly critical, especially considering the prevailing abnormal climatic conditions. Loss control through awareness programmes and “barefoot plumber” initiatives is essential to ensure successful demand management.

2.5.7 *Shortage of funds*

If one extrapolates the current ratio between subsidies and CMIP funds allocated it shows that in order to eradicate the estimated backlog of 300 000 houses for the Western Cape, approximately R994m of CMIP funds are still required. If this amount is evenly distributed over the next eight years it implies an annual CMIP allocation of R124m per year, only to finance the current backlog. The current year allocation to the Western Cape amounts to only R86m and indications are that these allocations will decrease in future.

2.5.8 *Synchronicity between infrastructure and housing delivery*

Although this is a guiding principle of CMIP there is still a need for improved synchronicity. This also applies to the NER (electricity) and the current CMC bulk infrastructure fund. Another problem is that the approval processes differ for each of these funds.

2.5.9 *Lack of capacity at local authority level*

Many municipalities are not always knowledgeable on different funding sources and how each works. This especially applies to private funding and the claiming back of VAT. In some cases local authorities do not plan their infrastructure requirements properly. Others lack political willpower to address their housing backlog.

2.5.10 *Political motivation*

Approval of funding is in some instances driven by political motivation rather than need.

2.5.11 *Current Environment Legislation*

There is no doubt that current environmental requirements add significant time to the approval process for housing projects. Input cost rates invariably increase each year but the subsidy amount unfortunately remains constant over longer periods. The time lag due to environmental approval processes therefore result in a further devaluation of the subsidy amount.

2.6 Summary of key issues

In view of the above analysis it is important that the following key issues be considered when setting out to draft a new housing strategy for the Western Cape:

- Levels of Services
- Awareness Programmes
- Maintenance Programmes
- Capacity of existing bulk services
- Shortage of funds
- Coordination between departments
- Capacity of local authorities
- Restructuring at local government level
- Environmental legislation

2.7 References

- 1) *Department of Housing: The National Housing Code*
- 2) *Department of Constitutional Development: The Consolidated Municipal Infrastructure Programme Handbook, Third Edition, 1998.*
- 3) *Department of Provincial and Local Government: CMIP Quarterly Report, July-September 2000*
- 4) *Personal Interviews:*
Mr. A Fourie: Provincial Administration: Western Cape
Mr. W Loots: City of Cape Town: Blaauwberg Administration
Mr. J van der Linde: Overstrand Municipality

3. FISCAL SUPPLY

3.1 Background

In order to develop a five year strategy and a 3 year business plan, it is necessary to review the past and current fiscal circumstances in order to determine the capacity and constraints related to subsidised housing in the Western Cape.

The aim is to make this document user-friendly by addressing key issues in each category. These will be shown in italics and summarised in Item 7 of this report. Support documentation and statistics are filed in a separate volume with cross-referencing for convenience.

Certain data returns on capacity and constraints are expected to flow in and updated throughout the term of the assignment. It is intended that the reference volumes remain alive. This is necessary, particularly in the light of unknown circumstances due to

- Uni-City and local authority demarcation changes
- The new and untried Housing Code
- Update of incomplete and imperfect research returns

3.2 National Government

Unless otherwise specified, data and assumptions sourced from National and Provincial Government.

3.2.1 Subsidy Allocations and Spending

Overall allocation

Figure 1 below tabulates annual National budgets, actual spending, rollover and accumulated rollover (cash flow) since 1994.

FISCAL YEAR	BUDGET APPROVED	ACTUAL EXPENDITURE	ANNUAL ROLLOVER	ACCUMULATED ROLLOVER
1994/1995	2692.8	1335.2	1357.6	1357.6
1995/1996	1800.0	931.0	869.0	2222.6
1996/1997	0.0	1937.9	(1937.9)	288.7
1997/1998	3135.0	3135.0	0.0	288.7
1998/1999	3170.0	3024.5	146.0	434.7
1999/2000	2925.0	2720.6	204.4	639.1
2000/2001	2997.9	814.7	2183.2	2822.3

All figures are in R millions

Figure 1

Source data can be referred to in Reference Volume - Section A – 01.

Please note that the roll over for the year 2000/2001 will reduce with expenditure up to 31 March 2001. However, indications are that over R500 million will remain unspent. The main reason given is poor budgeting and delivery in certain provinces. For example, the Eastern Cape has been allocated a substantial allocation increase over the last year. However, it is expected that its actual expenditure will be less than 40% of budget. The intention of the large allocation was to address rural housing shortages in the Province. In reality, planning procedures, land issues and several other constraints resulted in the inability to utilise the available funds.

When National policy emphasis changes (e.g. to rural housing), it is unrealistic to alter allocations immediately, as the entire development process cannot change direction and start housing delivery in a single year. Such transitions are gradual and budgets should also be gradually adjusted over a period of several years. Sudden changes result in wasted effort, resources as well as a slow-down in housing delivery.

It also seems to be an ongoing constraint that most provinces are unrealistically ambitious on housing delivery but technical and procedural capacities do not match these ambitions. Consequently, this has also contributed to the National Department being unable to budget correctly, resulting in National under spending. The Western Cape has been able to spend its allocation and it is ironical that it currently finds itself short of subsidy funds in a National environment of under spending.

Thus it can be concluded that, in spite of sufficient budget capacity, the National Department finds it difficult to allocate its subsidy funds efficiently.

Reference Volume - Section A – 02 contains statistical and graphic data supplied by the National Department related to housing delivery in the provinces since 1994 as well as number of subsidies and projects.

Whereas this data is not directly relevant to this report, it provided relevant background.

People’s Housing Process Budgets

The National Department and the People’s Dialogue have provided data in this section.

The National Department makes separate allocation for the provinces for the People’s Housing Process. The Department’s allocation schedule as at 30 June 2000 can be found in Reference Volume - Section A – 03.

The People’s Dialogue and the Homeless Federation lead this process in South Africa. It is still a small delivery methodology but rapid year on year growth is a key feature. Figure 2 below indicates this.

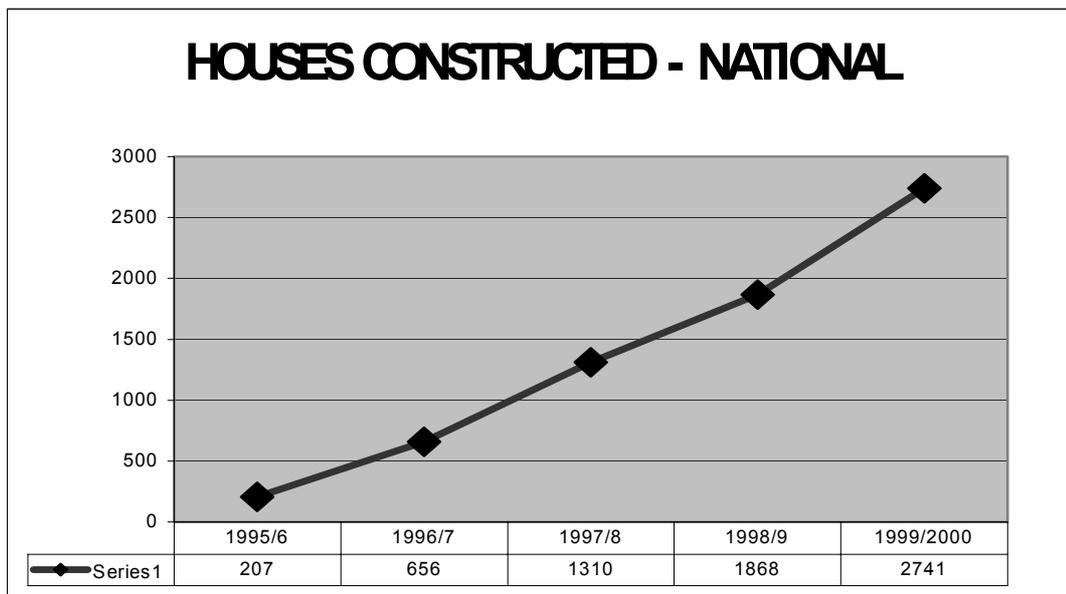


Figure 2

Up to December 1999, 6 182 houses were delivered nationally (1 758 in the Western Cape) all to homeless families with very limited incomes. Only 42% of these homes nationally benefited from subsidies. 53% of the Western Cape homes benefited from subsidies. The balance of the funding came from loans and savings, which will be described more fully in the report on Financial Supply, Items 5 and 6.

Figures 3 and 4 below reflect data related to housing delivery and subsidy utilisation, respectively.

HOUSES CONSTRUCTED 1995 - 1999						
Region	1995/6	1996/7	1997/8	1998/9	Apr/Nov 99	Total
Kwazulu	48	156	302	508	543	1557
East Cape	29	171	318	370	295	1183
South Cape	30	88	80	118	81	397
West Cape	20	88	289	502	859	1758
North Cape					4	4
Free State	25	30	38	40	43	176
Gauteng	35	90	217	240	251	833
North West	20	33	56	60	45	214
Mpumalanga			10	30	20	60
TOTAL	207	656	1310	1868	2141	6182

Figure 3

SUBSIDIES RECEIVED		
Region	Subsidies	As % of Houses Built
Kwazulu	506	32%
East Cape	718	61%
South Cape	262	65%
West Cape	923	53%
Free State	99	56%
Gauteng	0	0%
North West	105	49%
Mpumalanga	0	0%
TOTAL	2613	42%

Figure 4

The following key issues should be related to fiscal capacities and constraints.

- *The Western Cape People’s Dialogue is the leader in delivery in this process but has received less subsidy allocation than Eastern Cape or Gauteng.*
- *Delivery in the Western Cape has accelerated faster than that of national delivery rate. In addition the growth curve is constant, indicating a deliberately managed increase in delivery capacity. Compare Figure 5 below to Figure 2. Limited national allocations would severely stifle this process.*

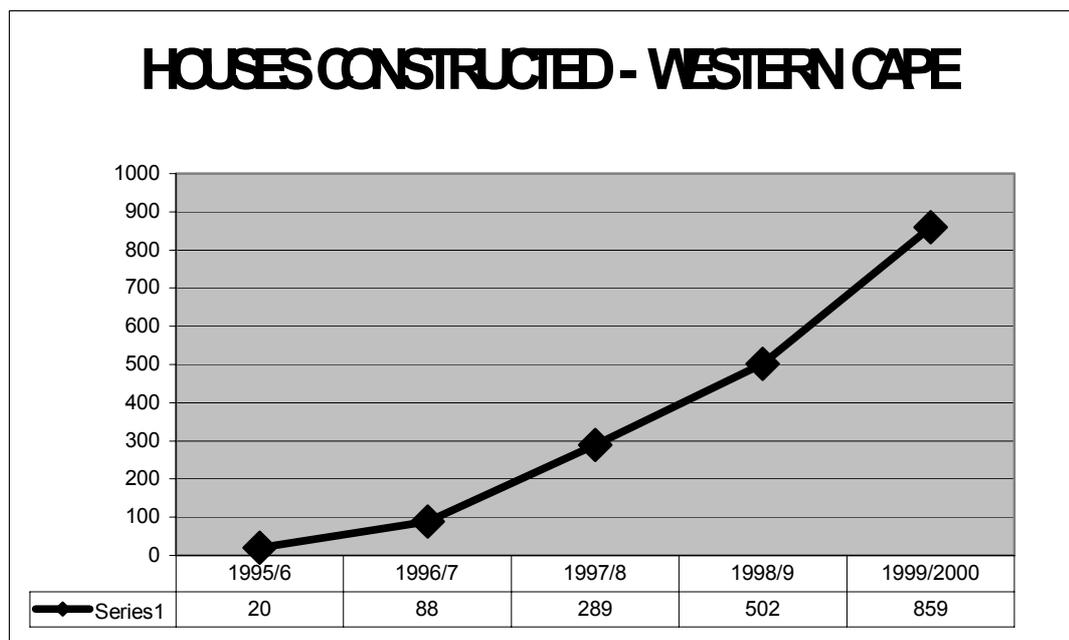


Figure 5

If this growth pattern is to be sustained in the Western Cape for another 5 years, a further 11 500 subsidies would be required as follows:

Fiscal Year	No. of Houses	No. of Subsidies @ 53%
2001/2002	1 200	636
2002/2003	1 650	875
2003/2004	2 200	1 166
2004/2005	2 850	1 511
2005/2006	3 600	1 908

However, the following constraints and disadvantages of the current methodology is likely to have a severely negative impact, if they remain unaddressed:

- Identification and acquisition of economically and locationally suitable land
- Consultation processes are cumbersome and decision making is time-consuming
- Inadequate expertise, training and supervision negatively effects product quality
- Doubt over sufficient organisational capacity to maintain growth pattern
- Doubt over sufficient capacity for deposits, savings and loan repayments
- Likely reduction in subsidy allocations
- The process seems to be limited to the very lowest income groups

If the above factors can be successfully addressed, some very positive factors favour this development methodology:

- Excellent “buy – in” from beneficiaries and community leaders
- Deposits, savings plans, “sweat equity” and “soft” loans result in larger homes
- Developed communities experience lower crime rates

Housing Subsidies from the Department of Land Affairs

Housing subsidies have been available from this department

Utilisation of this fiscal resource in the past in the Western Cape has been limited but statistics are still awaited from the Department.

The local deputy director, Ms Sue Middleton advises that the Department is no longer approving applications for these subsidies. Policy discussions at national level have shifted responsibility to the housing department.

Consequently, this national fiscal resource should not be included in future planning.

3.2.2 Fiscal Support Facilitation

The National Government has facilitated and provides fiscal support to various State and semi-independent corporate bodies, who play a significant role in subsidised housing nationally. These include

- NHFC
- DBSA
- NURCHA
- SHDF

The fiscal support received by these bodies is not directly relevant to the capacity and constraints of the fiscal supply to the Western Cape. However, their approval and allocation procedures are cumbersome and generally rely on prior subsidy approvals. Long delays in finalisation can prove disruptive to the Province’s annual budgeting.

The financial relevance of these funds will be reported on in the “Capacity and Constraints for Housing Delivery” in the Western Cape relative to Financial Supply.

It is interesting to note that a new body, the Rental housing Development Company is currently being formed to fund urban housing projects approved by the Presidential Job Summit Housing Lead Project Committee. Government will provide one third of the funds from the Provincial housing subsidy allocations and the Poverty Relief Fund. The private sector will provide two thirds of the required funds. The intention is to facilitate the delivery of mainly rental housing stock. Nationally, 50 000 homes are targeted for the first 3 years, with a further 100 000 homes to follow thereafter. It can be assumed that at least one project of 5000 homes will be allocated to the Western Cape over the next 3 years.

3.3 Provincial Government

3.3.1 Subsidy Allocations and Spending

Impact of National Allocation

Figure 6 below tabulates annual Western Cape allocations, actual spending, rollover and accumulated rollover (cash flow) since 1994.

FISCAL YEAR	BUDGET APPROVED	ACTUAL EXPENDITURE	ANNUAL ROLLOVER	ACCUMULATED ROLLOVER
1994/1995	335.7	284.1	51.6	51.6
1995/1996	205.6	156.7	48.9	100.5
1996/1997	0.0	235.2	(235.2)	(134.7)
1997/1998	392.2	392.2	0.0	(134.7)
1998/1999	380.5	407.7	(27.2)	(161.9)
1999/2000	351.0	381.1	(30.1)	(192.0)
2000/2001	341.5	117.1	223.8	31.8

All figures are in R millions

Figure 6

Figure 6 above reflects a constant capacity in the Western Cape to spend (even overspend) on its budget. This pattern is unique to the Western Cape and this figure should be compared to Figure 1, which clearly indicates substantial under-spending on a national basis.

No national budget allocations were made in the 1996/7 fiscal year and all provincial allocations were funded from unspent funds of the previous 2 years.

It can be seen that at the end of 1999/2000, the Western Cape had overspent on its allocations since 1996/1997 by some R192 million. In the absence of response to our enquiries, it is not certain how this was funded. It is assumed that a redirection of underspent amounts in other provinces could have been the source.

Source data can be referred to in Reference Volume - Section A - 01.

Figure 7 below is a graphic representation of historical and predicted allocations to the Western Cape.

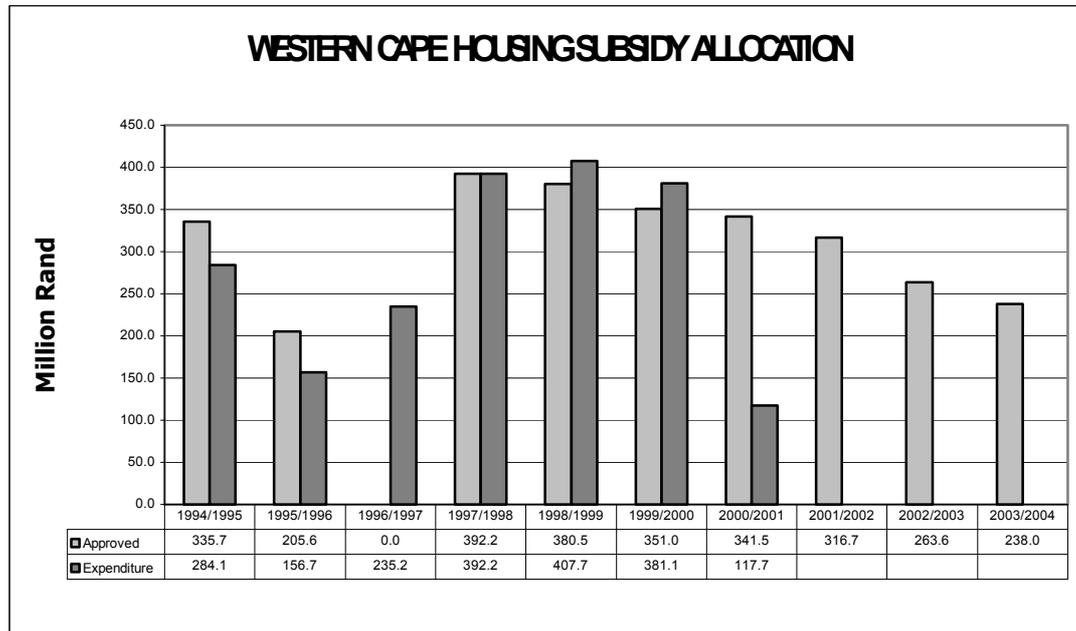


Figure 7

Historical data was provided by the National Department (Reference Volume – Section A - 01) and the predictions were provided by the Provincial Department based on communication with the National Department.

The key fiscal constraint is demonstrated graphically in Figure 7. Allocations have been declining since the 1998/1999 fiscal year and this trend is predicted to continue, in spite of apparent under spending.

Impact of Provincial Allocations

A table of provincial allocations of subsidies to projects in various local authorities can be referred to in Reference Volume - Section A –4.

Figures 8 & 9 below analyse the allocations based on location and programmes.

ANALYSIS OF SUBSIDY ALLOCATIONS BY TYPE			
Type of Subsidy	No. Approved	Amount	%
Project Based	84090	R1,303,112,582	81.87
Individual	0	R0	0.00
Institutional	336	R6,182,400	0.39
Consolidation	5303	R42,325,778	2.66
People's Housing Process	1660	R13,491,550	0.85
ISLP	22785	R226,555,978	14.23
Totals	114174	R1,591,668,288	

Figure 8

ANALYSIS OF SUBSIDY ALLOCATIONS BY LOCATION (Project, Individual & Institutional)			
Location	No. Approved	Amount	%
Cape Town Metro	28901	R449,362,566	34.32
Other Areas	55525	R859,932,416	65.68
Totals	84426	R1,309,294,982	

Figure 9

It has been difficult to establish a pattern or methodology, except that the vast majority of allocations are outside the metropolitan area.

Given the demographics as reflected in the Population Demographics Module (it is estimated that 65,7% of the Western Cape population live in the Metro), it is surprising that some 66% of the current allocations are for other areas.

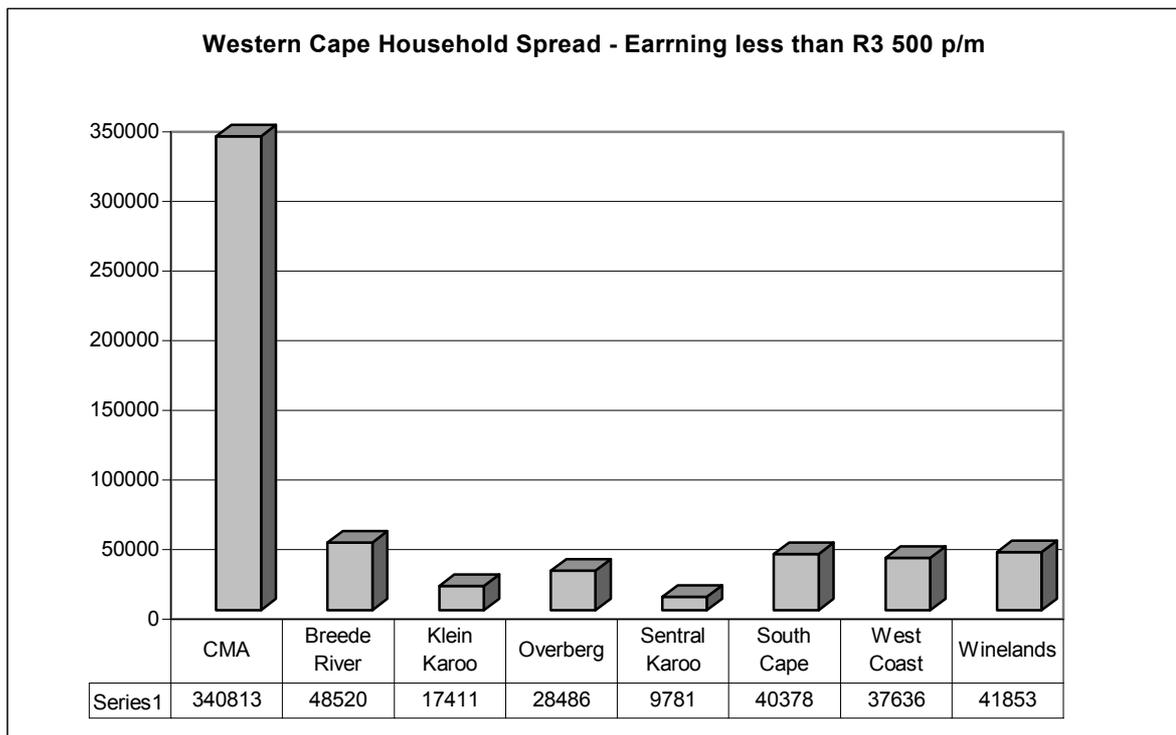


Figure 10

564 878 out of a total of 985 470 households (57.32%) in 1996 in the Western Cape earned under R3500 per month. Of these, 340 813 households (60.33%) reside in the Cape Town Metropolitan Area.

At the workshop on 1 November 2000, senior Provincial officials indicated that allocation prioritisation was highly influenced by pressure to deliver housing to the full extent of the national allocation to the Western Cape.

In the light of widespread housing shortages, it is very creditable that fiscal budgets are fully utilised. However, we report pressure prioritisation as a constraint, which will be addressed in the 5-year plan.

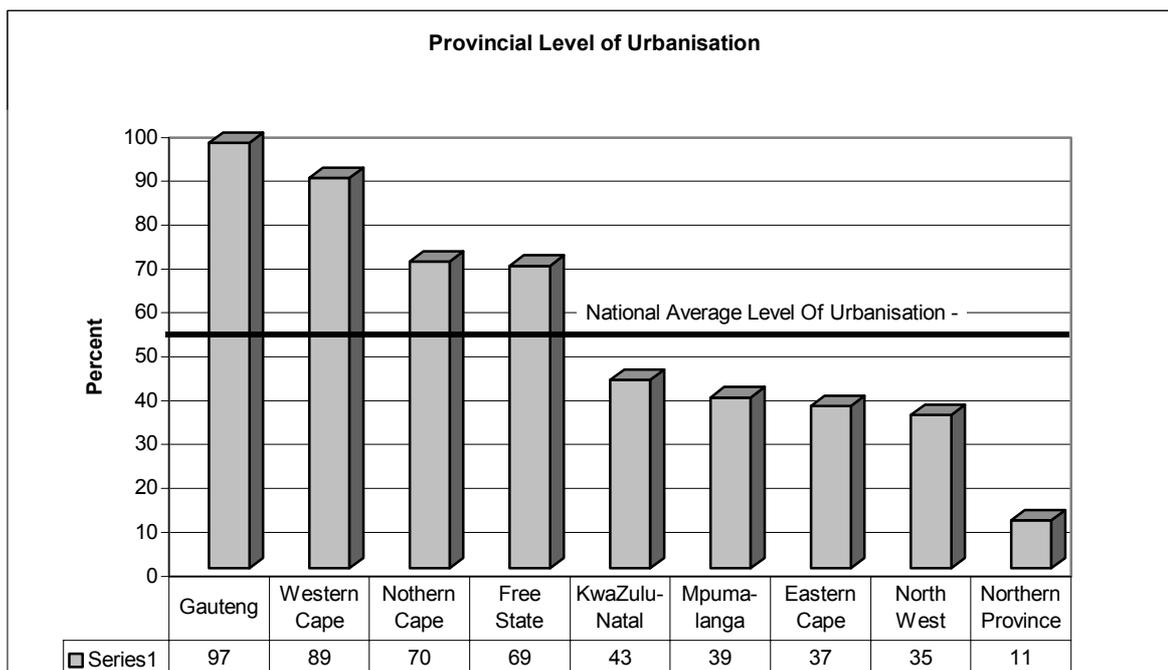


Figure 11

The national policy shift to rural housing must be seen as a further constraint if it is inflexible, as the Western Cape is 89% urbanised. Given the particular needs of the provinces with urbanisation levels above the national average, such circumstances should not be overlooked and national government needs to allocate its funds based on the varying urban / rural relationships in each province.

3.3.2 Other Provincial Fiscal Supply Funds for Housing Projects

As these funds are utilised for infrastructure they will be reported on in the module on Infrastructure Availability. This also applies to non-provincial funds for infrastructure (e.g. NER).

In sourcing all different fiscal supplies for housing, applications have to be submitted to various bodies. Concurrent applications can lead to abortive work by both applicants and the funders, as failure of any one application could prove fatal, rendering other approvals as useless. The costs and delays of this uncoordinated process of securing public monies are considered a constraint, which will be addressed in the 5-year plan.

3.4 Metropolitan Authority Fiscal Housing Support Funds

Infrastructure Funding

This is reported on in the module on Infrastructure Availability.

Please note that the constraint referred to in Item 3.2 of this document is applicable in this case as well.

Accelerated Managed Land Settlement Programme (AMLSP)

Details of this programme can be referred to in Reference Volume - Section A - 05. This is a new CMC programme with only 1 project in operation.

It is significant to Western Cape capacity in that it creates housing opportunity through granting bridging finance against the first draw of a housing subsidy (max R 6000), which will become available in future.

MLC's identify suitable land and are responsible for planning and installing basic services, progressively.

The programme is targeted to families who are living in crisis conditions or on land that is not suited to housing.

The current annual budget is R5 million, so the programme is still relatively limited, but growth is likely.

Even though tri-partied agreements are entered into between the PHDB, CMC and the MLC, the effects on budgets and future allocations must be carefully planned.

Impact of the Uni-City

The housing funding programmes of the CMC and the MLC's are varied in quantum and character. The new Metropolitan Authority will undoubtedly consolidate these in future.

It is a constraint that much of the current data may not be relevant to the proposed 5-year plan.

3.5 Local Authority Fiscal Housing Support Funds

Insufficient reliable Data

Insufficient data has been received (or is unavailable), to quantify total municipal fiscal contribution to housing in the Western Cape. However, Reference Volume – Section A – 06 contains a comprehensive 1-year-old assessment of all the MLC's spending on housing. The value of such data for forward planning would be limited due to the imminent restructuring of important local authorities.

However, the following are noted:

- In the metropolitan area, over R96 million was obtained in 1998/9 for housing projects over and above the subsidy, as follows:
 - MLCs' own funds - R6,413 million
 - CMC bulk/link infrastructure fund - R41,880 million
 - CMIP/BCIG - R42,912 million
 - NER - R4,868 million

- Most local authorities do not provide direct funds for housing. All have indirect costs related to housing included in their budgets.
- Some local authorities contribute land (or land value), bulk and link services, design services and/or municipal services to housing projects.
- At least one local authority provides housing subsidies.
- There appears to be a high (and possibly unrealistic) expectation from national government on local authority budgets to increasingly support housing and community development. Recently, the burden of providing free services to lower income groups has been placed on local authorities. Given the impact of past levels of non-payment, it is uncertain how this will affect local authority budgets. In addition, local authorities have been encouraged to give 50% rates discounts to certain housing projects. In these circumstances, it would be unrealistic to predict any meaningful increase in fiscal supply for housing from local authorities in the next 5 years, without massive increases in municipal rates and service charges from its paying citizens.

Cape Town City Council

At least 4 MLCs have embarked on the formation of Housing Associations. They are in

- Cape Town
- Blaauwberg
- Tygerberg
- South Peninsula

Only the first 2 are operational, with Cape Town being the only one enjoying a high level of fiscal support and consequently growing housing delivery.

The Cape Town Community Housing Company is owned by the City Council and the NHFC.

They are currently working on 17 projects. House delivery has commenced on 8 of these. Over 400 houses have been completed and sold to date.

They have not utilised any PHDB subsidies but the City Council has committed R92 million from their special operating account, to be utilised as subsidies of R18 400 per unit.

In addition, they have committed R25 million per year for 5 years, to be utilised as R5 000 per unit top-up funding.

Further, they raise an additional loan of R4 500 to R12 000 per unit for top-up funding.

Consequently, this is a vehicle with considerable housing delivery potential. It has taken long to reach the delivery phase.

It is uncertain of what impact the Uni-City will have on its ownership, funding, land allocation, planning services and operating strategy.

Apart from the City Council, appropriate use of Special Operating accounts for housing is not evident at this stage.

3.6 Fiscal Capacity And Constraints Of Land And Housing Stock

Background

- Although this report reflects a declining allocation of subsidies to the Western Cape, the need and demand for subsidies continue to grow.
- Housing delivery capacity is under utilised and specialist delivery mechanisms such as the People's Dialogue and Cape Town Community Housing Company are steadily increasing delivery.
- Unused public vacant urban land with some level of bulk infrastructure is a cost liability and often a social, security and/or health threat.
- Public housing stock is general a cost burden on the owner/responsible authority due to high maintenance costs, low rentals and wide spread non-payment. The recovery shortfall on the rental stock to the Metropolitan local authorities is estimated at R85 million annually.

These four negative factors contain the potential for creating a fiscal resource for sustainable delivery of housing in the Province and this principle will be explored in later parts of the Provincial Housing Plan.

However, the nature of data available (Reference Volume – Section A – 06) on this resource is not detailed enough to develop on a proper Business Plan. Although some local authorities have detailed reports on some of their assets, a phased and comprehensive Provincial audit is highly recommended. This should be followed by a similarly phase Business Plan.

As land asset values can only be fully realised in the medium to long term, valuation and analysis of housing stock should be a priority. Figure 10 below reflects the best estimates available related to rental housing stock in the metropolitan area only, and would give some idea of relatively short term potential.

DESCRIPTION	BLAAUWBERG	CAPE TOWN	OOSTENBERG	TYGERBERG	HELDERBERG	S. PENINSULA	UNKNOWN	TOTAL VALUE
Houses	1132	10103	2236	7718	860	6185	0	
Est. Value	R53,770,000	R479,892,500	R106,210,000	R366,605,000	R40,850,000	R293,787,500	R0	R1,341,115,000
Flats	323	9143	0	5567	624	1092	0	
Est. Value	R9,690,000	R274,290,000	R0	R167,010,000	R18,720,000	R32,760,000	R0	R502,470,000
Hostels	0	1500	0	0	961	0	2250	
Est. Value	R0	R11,250,000	R0	R0	R7,207,500	R0	R16,875,000	R35,332,500
Total Units	1455	20746	2236	13285	2445	7277	2250	<u>R1,878,917,500</u>
Total Units							49694	

Values based on an estimated average of: R47,500 per house
 R30,000 per flat
 R7,500 per hostel unit

Figure 10

3.7 Summary Of Key Issues

- National subsidy allocations are not only based on performance of the provinces. Short-term changes in policy emphasis have resulted in over allocation to other provinces at the expense of the Western Cape.
- Allocations to the Western Cape are declining each year, in spite of excellent delivery in various programmes.
- There is insufficient co-ordination between the PHDB, other Western Cape funding departments and the CMC in processing funding applications from various sources.
- The full impact of local authority restructuring on their housing budgets and policy cannot be assessed at this stage. Insufficient reliable data is available to assess future capacities and constraints.
- Housing institutions are set to play a major role in housing delivery. Fiscal support is relatively low key but essential.
- Appropriate use of municipal Special Operating Accounts needs to be re-enforced.
- Vast Public land holdings and housing stock can be used to create a funding resource to make up for declining subsidy allocations.

3.8 References

01. Letter from National Department - Reference Hsp2/2/1
02. Housing Delivery Graphs
03. Housing Fund Allocations (Provincial) As At 30/6/00
04. Allocation of Funds to Western Cape Projects As At 31/7/00
05. Accelerated Managed Land Settlement Programme In The CMA
06. Financial Assessment of Affordable Housing to Local Government In The Cape Metropolitan Area

4. FINANCIAL SUPPLY

4.1 Background

A key issue in the module dealing with the fiscal supply for subsidised housing in the Western Cape is predicted decreasing annual allocations of Government subsidy funds.

The historical financial products available to subsidy beneficiaries have largely disappeared and/or lost their real value.

In these circumstances, the role of other new funding resources becomes increasingly important. The current status of each resource shown on our “Table of Contents” is briefly described and key issues are shown in italics and summarised in Item 7. The newer financial resources have only been effectively applied for the past few months in the Western Cape, so historical statistical information is unavailable.

Support documentation and statistics are filed in a separate volume with cross-referencing for convenience.

4.2 Mortgage Funding For Subsidised Housing

A total of 6 337 subsidised houses in the Western Cape have been supported with mortgage bonds with a total value of R287,9 billion.

A list of lenders as well as a split by local authority can be found in Reference Volume - Section B - 01.

The statistics provided were not time related so it is not possible to graphically demonstrate annual trends.

However, interviews have revealed that most lenders no longer favour the use of mortgage loans for funding subsidised buyers, especially if employers do not provide guarantees.

Non-payment and complicated recovery problems are given as the main reasons. It can thus be expected that this type of funding will only be available to the very limited number of subsidy beneficiaries who can provide acceptable additional guarantees.

4.3 Non-Mortgage Funds

4.3.1 Micro lending to Subsidy Beneficiaries

No reliable or useful statistics are available for this type of funding because the house does not serve as security, thus the lender has no control or interest in how the loan funds are applied.

These loans are generally small, with very high interest rates and short repayment periods. Generally, beneficiary provident funds have been used as security.

These loans are not generally affordable and are not always used for home construction. The threat to the borrower's provident fund is also a negative factor. Future planning for subsidised housing development should not include this form of funding.

4.3.2 Unsecured Beneficiary Loans for Housing

Most financial institutions and other lenders are working on this type of funding for subsidised housing beneficiaries. They provide conventional security to the source funders but security for the beneficiary's loan is based on the borrowers credit record, stable employment and sufficiency of disposable income. Although very few loans have been made thus far, this seems to be the major top-up funding option for beneficiaries in the future. Cape Town City Council has committed R125 million for this purpose, through grants to the Cape Town Community Housing Company over a 5-year period. With the new Uni-City, the future of this resource is uncertain. Refer to the module on Fiscal Supply – Item 5.2.

Gateway (part of the NHFC group) has R500 million available for this purpose through banks and "Prime Market Lenders" such as Greenstart Finance. When further funds are required it will be sourced from the money market. Very limited documentation on the detail of these products is available as yet. The limited data received on the NHFC group's role and the Greenstart Finance products can be found in Reference Volume – Section B – 02 and 03 respectively. These sections will be updated periodically.

It should be noted that Greenstart Finance is the first private sector funding co-ordinator, forming housing institutions (refer to Item 4.2) with developers and the source funders. Local authorities with sufficient financial security can also fulfil this role, as has the City Council of Cape Town and Blaauwberg MLC.

It is unfortunate that the performance of the NHFC group has been plagued by long procedural delays and policy changes. However, pressure from Government and the housing industry has stimulated new energy and several projects in the Western Cape are now under way and some 400 houses have already been completed. Current projects should deliver a further 2 000 homes in this fiscal year and 8 000 houses in 2001/2002.

4.3.3 Bridging Finance and Guarantees

The formal banking industry regards funding of the development of subsidised housing as high-risk finance. Many contractors, developers, housing institutions and even local authorities have difficulty in finding bridging finance.

There are 3 Government supported organisations who address this problem. In addition, they have received several international grants, all of which have enabled them to support low-income housing in South Africa.

They have been operational for several years and have shown varying degrees of progress. Development of procedures and products has been slow to ensure transparency and accountability. However, this slow development and cumbersome procedures has caused some frustration in the industry.

These organisations are:

The Social Housing Development Fund (SHDF)

Their products and services became fully available in July this year and are briefly described in Item 4.2. Detailed data has been inserted in reference Volume – Section B – 04.

The Home Loan Guarantee Company (HLGC)

They provide guarantees to funders for beneficiary loan installments. Up to 3 loan installments per year are covered, giving lenders time to arrange corrective action. Details of their products have been inserted in Reference Volume – Section B – 05.

NURCHA

They have been in useful operation for several years and have assisted many housing developments, in spite of some delays in processing applications.

Firstly, they provide guarantees to financial institutions who give bridging finance to contractors and developers for low-income housing projects.

Secondly, they provide low interest bridging finance in joint ventures with developers and housing institutions for low-income housing projects.

Details of their products are in Reference Volume – Section B.

4.4 Employer Financial Support

Employer Subsidies

Generally, these subsidies fall into 3 categories:

- Mortgage Guarantees
- Mortgage Instalment Subsidy
- Capital Subsidy

The first 2 support mechanisms vary considerably but are mainly enjoyed by homeowners who are not government subsidy beneficiaries. As indicated in Item 2 above, mortgage finance, and therefore this form of support funding is diminishing.

Employer capital subsidies remain a useful source of funds for those few qualifying beneficiaries who have access to them. The total value of this contribution to subsidised housing to date in the Western Cape could not be established. *There are no current standard guidelines for employers who are prepared to financially assist their personnel who qualify for subsidies. This should be a priority for the future.*

Institutional Housing

This type of subsidised housing is targeted at working people with reliable but limited incomes. Funds are sourced as described in Item 3.2 and would not be otherwise available to subsidy beneficiaries. Security for the funds is provided by the institution who owns the property for at least 4 years. Part 3 Chapter 6 of the New Housing Code deals with this type of housing and can be found in Reference Volume – Section B – 07.

Employers are becoming increasingly aware of the growing role and benefits of institutional housing and are giving increasing support to the few housing institutions that do exist by developing systems for:

- Educating personnel
- Payroll deductions for instalments
- Instalment subsidies

Although institutional housing is a widely supported government policy, most public sector employers have not yet adapted their subsidy packages to incorporate subsidy support for institutional housing. A further constraint is that applicants report that the procedures and policies related to securing funds from the SHDF are so stringent and cumbersome that reliance thereon could severely delay development programmes.

The SHDF has funds available for the establishment of Housing Institutions, training of personnel and bridging finance. Their funding is at very low interest rates as their focus is on institutions who serve very low income groups. They have been financially supported by Government and several international agencies through grants and other resources. Documentation can be found in Reference Volume – Section B – 04.

4.5 Beneficiary Saving Schemes And Deposits

The introduction of deposits and savings schemes is a milestone in subsidised housing. Two organisations in the Western Cape employ saving programmes for potential beneficiaries.

The People's Dialogue and Homeless Federation

They have employed this practice for several years. In the Western Cape members have a total savings balance of R 1 250 000 of which R450 000 for deposits on new houses. Most of their members earn less than R800 per month but are still encouraged to save, even if it is only a few rands per month.

Although this fund is very limited, it is important to the sense of ownership and achievement. "Sweat equity" through participating in the construction of their own home is also policy. This cannot be measured or quantified but is of significant growing value to subsidised housing.

Cape Town Community Housing Company

They have 9 500 beneficiaries waiting for homes, who have collectively saved R24 million towards their own home. Most of these earn between R1 500 and R3 500 per month. They are required to save the equivalent of their proposed monthly installment for a minimum period of 6 months prior to occupation.

This form of housing funding has grown from less than R1 million to nearly R25 million in 1 year. Provided that expectations can be met, this is an important component of future planning.

4.6 Soft Funding

This type of low interest funding is usually provided to NGO's who use it for the benefit of their own projects, e.g. The People's Dialogue and Homeless Federation. Such funds have also been received by NURCHA and the SHDF and used as described in Item 3.3. However, this source of funding is generally not available to developers and housing authorities and cannot be considered as a reliable resource when planning for the future.

4.7 Summary Of Key Issues

- The importance of the financial supply grows in importance as subsidy allocations to the Western Cape decline.
- Mortgage loans played a significant role in the past but is no longer readily available.
- Micro loans are expensive, are often not applied to housing and are a potential threat to a beneficiary's retirement provisions.
- NHFC sourced funds are available and are becoming more accessible through private sector lenders. SHDF funds are also available for Housing Institutions who develop homes for the lower income groups.

- Employer financial support for subsidy beneficiaries is an important financial resource but because it is uncoordinated, the full potential has not been achieved. The development of practical guidelines for employers should be considered a priority.
- Housing Institutions can access beneficiary funding on behalf of subsidy beneficiaries which would not otherwise be available to individuals.

4.8 References