

EXECUTIVE SUMMARY : MODULE E

Capacity and Constraints Analysis for Housing Delivery in the Western Cape

Relative to (A) Financial Supply, (B) Fiscal Supply, (C) Infrastructure, (D) Infrastructure Implications and (E) Land availability

(A) FINANCIAL SUPPLY

1. BACKGROUND

The importance of this funding increases as national subsidy allocations to this province are set to decrease. In addition, the granting of mortgages to recipients of the government subsidy has largely disappeared.

2 MORTGAGE FUNDING

In the past, 6 337 mortgages valued at a total of R287.9 million have been granted to subsidised buyers. Currently, such grants are extremely rare.

3 NON-MORTGAGE LOANS

Historically, the micro-lending industry has provided high interest, unaffordable loans for housing, using pension/provident funds as security. Generally, such “housing” loans were seldom applied to housing, as there was little control.

However, the industry has become more regulated and the NHFC has made R500 million available to reputable “Prime Market Lenders” to grant affordable non-mortgage loans to beneficiaries, specifically for housing.

Again, the “availability” of the R500 million is subject to complicated and ever changing requirements, resulting in long and frustrating delays in housing projects. Not much of this allocation has actually been spent to date but several projects have now been approved.

Bridging finance, establishment costs and instalment guarantees are available to housing associations, developers and project funders from NURCHA, SHDF and HLGC respectively. Complicated approval procedures result in disappointing performance of these organisations.

4 EMPLOYERS

4.1 Some employers provide housing financial support through one or more of the following:

- Mortgage guarantees
- Loan instalment subsidy
- Capital subsidies

However, the support packages vary enormously, in the absence of guidelines from housing authorities.

4.2 Institutional housing is a new mechanism, which should be supported by employers through housing education, payroll deductions and instalment subsidies. Not only does government provide the full subsidy for all beneficiaries who earn less than R3 500 per month, financial institutions are starting to provide top-up funding to such institutions and their beneficiaries.

5 BENEFICIARY SAVING SCHEMES AND DEPOSITS

2 organisations in the Western Cape require all their subsidised beneficiaries to contribute to the cost of their own house through savings and deposits.

At the lower end of the income scale, the S.A. Homeless Federation and the People's Dialogue have collected R1.25 million in savings, of which R450 000 is for direct housing costs.

Subsidised beneficiaries of the Cape Town Community Housing Company have collectively saved over R24 million towards their own home. This savings plan requires each beneficiary to save the equivalent of 6 monthly housing instalments, before being allocated a home.

6 SOFT FUNDING

This is generally not available to directly benefit individual housing beneficiaries. However, such financial support to NGO's hold indirect benefits for existing and potential subsidised homeowners. Unfortunately, such funds are very scarce and difficult to access.

(B) FISCAL SUPPLY

1. BACKGROUND

With a view to develop a 5 year strategy and a 3 year business plan, the report identifies key issues related to past and current capacity and constraints in an environment of:

- Local authority re-structuring
- A new untried housing code
- Insufficient and dated research data in some cases

A strategy must be developed for motivating performance based national allocations.

2 NATIONAL GOVERNMENT

2.1 Statistics from the national department indicate that R2 822,3 million has been underspent by the 9 provinces since 1994.

This can be ascribed to changes in national policy and emphasis in provincial allocations, such changes negatively effecting established delivery procedures, e.g. the switch to emphasis on rural housing

Change in emphasis has also resulted in over allocation of subsidies to under performing provinces with strong rural demand, leaving urbanised provinces, e.g. Gauteng and Western Cape with very low subsidy allocations.

2.2 The People's Housing Process is a small but growing delivery mechanism with the S.A. Homeless Federation and the People's Dialogue leading delivery, particularly in the Western Cape. 6 182 homes have been delivered between 1995 and 1999 nationally, utilising only 2 613 subsidies. Because of the "sweat equity" investment by beneficiaries, as well as soft loans, homes are bigger and represent excellent value for money.

2.3 The Department of Land Affairs historically provided subsidies for agriculture related housing, however this source is being terminated.

2.4 The National Government has assisted with – and provided substantial capital – for the establishment of several semi-independent home finance corporate bodies such as:

- NHFC
- DBSA
- NURCHA
- SHDF

Unfortunately, housing delivery has not been significantly improved by these organisations, because of over-elaborate allocation procedures and a cumbersome bureaucracy.

3 PROVINCIAL GOVERNMENT

- 3.1 The Western Cape has been the most efficient province in spending (and even over-spending) its subsidy allocation budget. It has approved 114 174 subsidies, totalling R1, 592 million since 1994. Of this, 34.32% was allocated within the Cape Town metro, in spite of the fact that some 65.7% of the population resides in the metro.

- 3.2 Servcon – The “right-sizing” subsidy for families who have not been able to retain mortgaged home, has only utilised R4 million in the 2000/2001 fiscal year.

4 METROPOLITAN AUTHORITY

In the past, an annual budget of R5 million was set aside for the AMSLP, which provided a maximum of R6 000 per house as bridging finance against an approved subsidy. It is uncertain how the restructuring of the Uni-city will impact on this programme.

5 LOCAL AUTHORITIES

- 5.1 Although most local authorities have indirect cost related to housing, the main utilisation of additional funds has been in the metro, as follows (1998/9 figures):

- MLC's own funds – R6.413 million
- CMC bulk/link infrastructure funds – R41.880 million
- CMIP/BCIG – R42.912 million
- NER – R4.868 million

5.2 Cape Town City Council has set aside R92 million for housing subsidies of R18 400 per house and a further R125 million (over 5 years) to soft top-up loans of R5 000 per unit. It is not certain how the restructuring of the Uni-City will effect these promised allocations to the Cape Town Community Housing Company.

6 RENTAL HOUSING STOCK

Although nearly 50 000 housing units are owned by metropolitan local authorities, losses of R85 million annually result from inadequate management of this potential asset of some R1 879 million.

(C) INFRASTRUCTURE

1 BACKGROUND

This section deals with municipal services and includes a review of norms and standards, sources of funding, sustainable infrastructure, and the effect of infrastructure on housing delivery.

2 LEVEL OF SERVICES

Internal services is 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. Officials from local authorities usually argue for higher service standards, which implies lower maintenance costs. However, every cent spent on engineering services is one less for the house. It is therefore the responsibility of all officials, as well as consulting engineers, to critically examine the level of services and specifications set for projects of this nature.

3 BULK AND CONNECTOR SERVICES

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.

4 CONSOLIDATED MUNICIPAL INFRASTRUCTURE PROGRAMME (CMIP)

CMIP is currently the largest bulk infrastructure funding mechanism and was developed to consolidate various existing grant-funded programmes. CMIP funds allocated in the Western Cape up to September 2000 amount to R295m. Similar to most other provinces, the majority of the funds have been allocated to water and sanitation project categories.

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.

5 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. It is essential to implement end user awareness programmes, which, if implemented successfully, will instil 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.

6 MAINTENANCE OF SERVICES

Maintenance operations of municipalities have in recent years become very strained due to ever increasing budget limitations. General degradation is evident and in some instances it has resulted in the total collapse of certain services. Proper maintenance management programmes need to be utilised, as these systems will assist authorities to optimise their limited resources.

7 CAPACITY OF EXISTING BULK SERVICES

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. There is however immediate need for housing development within the service delivery areas of these utilities. The available capacity can in some cases be extended by applying water demand management.

8 SHORTAGE OF FUNDS

In order to eradicate the estimated backlog of 300 000 houses for the Western Cape, approximately R124m of CMIP funds are required per annum over the next eight years. The current year allocation to the Western Cape amounts to only R86m and indications are that these allocations will decrease in future. It is therefore essential that alternative funding options (e.g. BOT's, PPP's, etc.) be explored.

- 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. Apart from the municipalities' own contributions, grants for bulk infrastructure are also obtained from the City of Cape Town : CMC Administration and the various district councils.

- *Private Sector Funds*

Private sector funding consists of concessionary finance (e.g. 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.

9 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.

(D) INFRASTRUCTURE IMPLICATIONS

1. LEVELS OF SERVICE

Service standards and specifications differ significantly for various municipalities within the Western Cape. Norms need to be established and municipalities who continuously insist on standards, which are unaffordably high, should accept financial responsibility for the resultant additional cost.

2. LACK OF END USER AWARENESS PROGRAMMES

Successful housing development encompasses far more than just the installation of services and the building of houses. 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, why it is important to pay for water, electricity, etc.

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.

3. MAINTENANCE OF SERVICES

Maintenance operations of municipalities have in recent years become very strained due to ever increasing budget limitations.

General degradation is evident and in some instances it has resulted in the total collapse of certain services. Proper maintenance management programmes need to be utilised as these systems will assist authorities to optimise their limited resources.

4. 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. There is however immediate need for housing development within the service delivery areas of these utilities. The available capacity can in some cases be extended by applying water demand management.

5. SHORTAGE OF FUNDS

In order to eradicate the estimated backlog of 300 000 houses for the Western Cape, approximately R124m of CMIP funds are required per annum over the next eight years. The current year allocation to the Western Cape amounts to only R86m and indications are that these allocations will decrease in future. It is therefore essential that alternative funding options (e.g. BOT's, PPP's, etc) be explored.

6. 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 current Local Authority

bulk infrastructure funds. Another problem is that the approval processes differ for each of these funds.

7. 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.

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(E) LAND AVAILABILITY

1. Alienation of municipal land

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.)

2. Database of the availability of land

The Provincial Department of Housing and Planning has initiated the update of their 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 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.

3. Proposals

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

- **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.
- **Proposal calls:** There is a need to improve the guidelines. The release of land for housing by means of proposal call cannot be achieved if the document describing the procedures creates uncertainties. Prospective participants are often deterred by too much detail required.
- **Co-ordination:** There is 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 is currently based on a voluntary basis. The Provincial State Land Disposal Committee could fulfil an important role in ensuring that state land is reserved for housing development.

- **Developer initiated applications:** It is anticipated that once the details of publicly owned land becomes common knowledge, the CMC or MLCs may be faced increasingly with situations where a developer initiates a development with the support of a beneficiary community without first consulting the land holding authority. This type of exceptional situation can be resolved by way of an advertised negotiation.
 - **Section 21 companies:** Although 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 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 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:** Problems can be minimised or even prevented by giving 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 prescriptions of the Housing Act 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.
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