

## **HOUSING – SEDis and CBD LAPS**

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## 1. CURRENT SITUATION

The Housing Sector Plan (2011) sets out the housing demand for TMM as depicted below (pg. 31 Housing Sector Plan 2011):

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Table 9: Housing demand

Dwelling type	Source	Amount in 2001	Amount in 2007
Labour tenant applications	Dept of Land Affairs		152
Traditional dwelling	Community Survey 2007	23559	26 775
House/flat/room in back yard	Community Survey 2007	5920	2 532
Informal dwelling/shack in back yard	Community Survey 2007	2800	543
Informal dwelling/shack NOT in back yard	Community Survey 2007	13514	3 328
<b>Total</b>			<b>33 330</b>
Total number of units completed 2009/2010	HSS		26 472
Estimated backlog (total number of units completed for 2009/2010)	HSS		6 858

Source: KZN Department of Human Settlements

In terms of the Msunduzi IDP (May 2009, p 138), housing backlogs are as follows:

- 16 000 low income houses
- 5 000 social housing units
- 1 000 Bank Charter housing
- 2 000 serviced stands to be sold

Concerning the demand for medium to upper income housing, no calculations have been done for the purposes of this plan. Supply and demand for such housing is determined by the market. The municipality has however indicated that there is a demand for rental stock dwellings within the municipality

In terms of supply since 1996 there have been approximately 30 000 housing units delivered in Msunduzi – see below for detail (pg. 38 Housing Sector Plan 2011):

The majority of housing projects in Msunduzi are individual and project linked subsidy projects. Housing projects in urban areas are as follows (refer to Annexure E):

- ☞ A total of 40 housing projects are being administered by the municipality at present.
- ☞ A total of 30 056 housing subsidies for these projects have been applied for.
- ☞ To date 25 657 houses have been built and 4 399 houses still have to be built.

In terms of the type/ category assigned to each project, the following project list is provided:

Table 10: Projects in Msunduzi

PROJECT TYPE/CATEGORY	AMOUNT OF SUBSIDIES	HOUSES BUILT TO DATE
25 in-situ upgrade	19 212	13 122
4 Greenfield developments	1 994	302
1 institutional		6 beds (closed out)
6 slums clearance	7 178	5 067
1 special needs	Proposed 40 beds	
1 urban consolidation	1044	975
2 in-situ/green-fields	1 288	1 218
1 urban individual	432	432
<b>Total</b>	<b>31 148</b>	<b>25 657</b>

Source: Msunduzi Housing Delivery Unit, 2010

TMM could not provide the demand or supply information for the 2 LAPS that RHDHV are working on. This will need to be checked against the updated spatial mapping of projects completed since 1996, current projects and planned projects once TMM makes this available to the professional team working on the 2 LAPS.

TMM has established the Msunduzi Housing Association (MHA) in 1999 to develop and manage social/rental housing while the municipality itself also does so via its Human Settlements Department. The MHA is a municipal entity and takes the form of a Section 21 non-profit company.

Planned projects for TMM are as follows (pg. 42 Housing Sector Plan 2011):

Table 15: Summary of planned projects

Planned projects	Planned number of sites
Edendale (southern areas)	8 419
Northern areas	4 100
Vulindlela	25 000
Sub-total	37 519
Rental housing	3 085 planned units

Source: Msunduzi Housing delivery unit and Msunduzi Housing Association

## 2. POLICY ENVIRONMENT

TMM is one of about 20 municipalities being considered for Accreditation to administer national and provincial housing programmes. Accreditation in itself does not transfer legal and financial

accountability for functions from one sphere of government to another. Accreditation is intended to produce co-ordinated development and accelerated delivery by assigning clearly defined functions in respect of the administration of national housing programmes, as illustrated in the Table below.

### Summary of accreditation of housing functions

Functions	Current	Level 1	Level 2	Level 3
<b>Policy and planning</b>				
Housing strategy: (IDP)	Municipality	Municipality	Municipality	Municipality
Housing plan and budget: (IDP)	Municipality	Municipality	Municipality	Municipality
Housing policies: procurement, allocation etc.	Municipality	Municipality	Municipality	Municipality
<b>Level 1: Subsidy budget planning and allocation process and priority programme management/admin</b>				
Housing subsidy budget	Provincial DHS	Municipality	Municipality	Municipality
Subsidy/fund allocations	Provincial DHS	Municipality	Municipality	Municipality
Project identification	Provincial DHS	Municipality	Municipality	Municipality
Priority programme management/admin	Provincial DHS	Municipality	Municipality	Municipality
<b>Level 2: Full programme management/admin</b>				
Full project/programme approval	Provincial DHS	Provincial DHS	Municipality	Municipality
Full contract administration	Provincial DHS	Provincial DHS	Municipality	Municipality
Full programme management	Provincial DHS	Provincial DHS	Municipality	Municipality
Subsidy registration	Provincial DHS	Provincial DHS	Municipality	Municipality
Subsidy registration (approval of special applications)	Provincial DHS	Provincial DHS	Provincial DHS	Provincial DHS
Full technical (construction) quality assurance	Provincial DHS	Provincial DHS	Municipality	Municipality
<b>Level 3: Financial administration</b>				
Subsidy disbursements	Provincial DHS	Provincial DHS	Provincial DHS	Municipality
Financial reporting and reconciliation	Provincial DHS	Provincial DHS	Provincial DHS	Municipality
<b>Subsidy &amp; property administration</b>				
Eligibility check	Developer	Developer	Developer	Developer
Subsidy applications	Developer	Developer	Developer	Developer
Allocation of subsidy/house	Municipality	Municipality	Municipality	Municipality
Transfer	Deeds Office	Deeds Office	Deeds Office	Deeds Office
Project management	Developer	Developer	Developer	Developer

Source: DHS, 2006. *Accreditation Framework for Municipalities to Administer National Housing Programmes, Managing the incremental delegation of housing functions to local government*. Available at <http://www.dhs.gov.za/Content/Upcoming%20Events/Framework%20for%20Accreditation.pdf>

TMM is also one of 49 municipalities that are part of the National Upgrading of Informal Settlements Programme (NUSP) – a national priority intervention for all informal settlements within the jurisdiction of the chosen 49 municipalities.

The national department of Human Settlements has started a Green Paper process to review the national policy. This process should take into consideration the issues and priorities brought up by the National Development Plan (2012) and the FFC public hearings on Human Settlements (2011-2013). The FFC process on the Review of the Local Government Financial Framework impacts on housing and human settlements addresses the issue of the formula for the local government equitable share that takes into account the provision and financing of Free Basic Services that has become a general feature of state-subsidised housing.

GAP housing and the Finance-Linked Individual Subsidy Programme (FLISP) and rental housing, as well as the release of well-located state land have become recent policy priorities since 2010.

### 3. ASSESSMENT

Much of the assessment in this sub-section forms part of a chapter prepared by the author of this document for the SACN State of Cities Finances 2013 Report.

Accreditation will have a direct impact on the governance/institutional arrangements, and on the spending capacity and performance of municipalities. Accreditation does not cover the assessment and redesign of housing finance instruments or programmes, or how much money the national fiscus allocates to the function. Municipalities that are accredited for the housing function will still need to operate within the confines of the Housing Act (1997) and national housing programmes and financing instruments but they will then have the discretion, responsibility and accountability to prioritise their own housing programmes to suit their local circumstances and needs.

From an organisational perspective the housing function had been run as part of Planning since 1996 with a Housing Unit being established within Planning in 2005, and then a unit separate to Planning being established in 2011 as part requirement for Level One Accreditation<sup>1</sup> - the anticipated operating cost of the Housing Unit is approximately R10million pa (Level 1 Accreditation Business Plan 2011).

Some sceptics believe that accreditation simply moves the current challenges within the sector from national and provincial government to municipalities without addressing the policy issues. However, the process of accreditation cannot address or resolve the current policy, fiscal and financial issues in the housing sector. As mentioned above, these issues will be addressed by other parallel housing sector processes. Accreditation will result in higher levels of certainty in respect of financial allocations to municipalities – a great leap from the practice to date, where even the annual allocations were not gazetted or made known on time by provinces, thus hampering the municipalities' ability to plan effectively their capital investments. Most officials in most cities are in favour of the move. They believe that accreditation provides clarity on responsibility and accountability, while offering the opportunity to be innovative and creative, responding directly to local needs, and allowing better coordinated development and more efficient delivery.

TMM is currently not benefitting from the intended horizontal integration that accreditation promotes because TMM continues with its past and current practice of silo planning and implementation – there has been no attempt to functionally integrate housing to the planning and design of the IRPTN. This has been confirmed by the current head of the Housing Unit.

Cities have to grapple with the assignment of the land transport and housing functions that will need to be implemented in a manner that enhances service delivery, supports the growth of city economies and acts as a catalyst for the spatial transformation of the city. This will be supported by proposed legislation on land use management and spatial planning that clarify these functions as primarily the responsibility of local government rather than provincial responsibilities. This will affect many municipal departments, not just the relevant sector departments. Therefore, the implication is that the performance and capacity of the city as a whole has to be considered. In particular, accreditation

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<sup>1</sup> TMM expects Level 2 Accreditation on 2013/14 and finally Level 3 by 2015/16. Level 3 will enable TMM full control of the housing function (decisions on priority development and management of all programmes) with the flow of funding still being via the provincial department of Human Settlements (as compared to the assignment of the function where the flow of money is directly from the national department to the municipality).

will place additional strain on weaker municipalities, notwithstanding the lack of capacity of some provincial departments of human settlements. The primary challenges are municipal capacity to perform and integrate these functions, within a context of rapidly increasing urbanisation.

The enthusiasm of municipalities for accreditation is driven more by the need for funding certainty and full administration and management of national housing programmes than how accreditation can contribute to more integrated planning and land-use management. Such a view is perhaps warranted given the circumstances and slow pace of assignment and housing sector reform, but the focus is likely to change to integrated planning and land-use management in the short term.

As cities start to grapple with the integration of the housing and public transport functions, an on-going challenge is the level of functional integration between the sectors and the choice of which sector(s) leads development. Neither the Housing Code nor the HSDG framework has clear objectives or indicators to ensure that approved housing projects are integrated to other municipal programmes and projects within the priority developments identified by the MSDFs and IDPs. The NDP proposes that the development of effective and affordable public transport be used as the guiding factor to integrate urban spaces and people.<sup>2</sup>

The assumption is that cities have good IRPTNs that will connect space and development, which is not currently the case in all cities (even where bus rapid transport networks have been implemented). This implies that, unless new housing development is integrated more effectively to public transport, municipal housing development plans (MHDPs) are unlikely to contribute substantially to more efficient cities and spatial transformation. In particular, existing housing developments located on the periphery will need to be serviced adequately by public transport networks to reduce the cost of mobility for people living in these areas to access jobs and services. Yet, to date, MHDPs have paid very little attention to how urban land and housing markets operate to include or exclude the poor and vulnerable, what needs to be done to manage and regulate these markets, and what impact government intervention in this market will have on the sustainability of municipal finance.

An area of concern for all cities is the persistent under-spending of capital budgets, which is believed to be linked to problems with planning and project management as well as administrative and technical capacity (National Treasury, 2011, Local Government Budgets and Expenditure Review 2006/07-2012/13. Pg. 70). Cities need to be able to manage their annual capital expenditure with minimal roll-overs.

Furthermore the finalisation of spatial planning and land use management legislation would also provide greater guidance to planners. Over the last 18 years, municipal planning has tackled integrating local needs and priorities to sectorial programmes and priorities driven from the national and provincial spheres (matching grant funding to local needs especially to eradicate services backlogs), while simultaneously trying to integrate various sectors at the local government level (housing, transport, water and sanitation, electricity, etc.) and democratise the planning process. The formulation of MHDPs and their incorporation into the IDPs have always been a municipal function, but now there will be a greater focus on how housing is integrated to other key built environment functions such as public transport and how this will impact the urban form of the city.

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<sup>2</sup> National Planning Commission (August 2012), National Development Plan, pg. 183.

The Accreditation Panel has conducted capacity assessments within the municipal DHS, as well as the general administrative and financial capacity in the municipality. Cities have raised the concern of the adequacy and appropriateness of the capacity development grant. The City of Cape Town, eThekweni and Ekurhuleni point out that the short-term nature of the capacity development grant limits the nature of staff appointments. The grant only provides for contract appointments of approximately three years, making it difficult to attract high-level planning and project management skills, which are required for longer periods, given the nature of the activities. Furthermore, if the assignment of the function affects more than just the sector department at municipal level, national and provincial government may need to reassess the design of the grant.

Inter-governmental relations and institutional arrangements are another challenge when functions are assigned to cities. While the approval of the MHDPs has always been a local government function, provincial human settlements departments approve funding allocations to municipalities based on the Housing Code and the HSDG framework. However, neither the Housing Code nor the HSDG framework has clear objectives or indicators to ensure that approved housing projects are integrated to other municipal programmes and projects within the priority developments identified by the MSDFs and IDPs. Tensions between provincial and local priorities can influence provincial allocations to cities, sometimes with the unintended consequence of negatively impacting some local priorities.

#### **4. KEY FINDINGS & IMPLICATIONS**

The Housing issues and key findings are presented in the table below with some points being explored in greater detail.

Housing Issues	Key Findings
Rural Housing delivery prioritised over urban housing	The IDP target of 2500 units pa over 5 years (budget of R300million over 5 years or R60million pa) was overtaken with the 2011 rural housing project in Vulindlela by the provincial department delivering 5000 units pa over 5 years (at cost of R475million or R95million pa).
MIG used to top up housing subsidy	MIG is used to top up housing subsidies by R25,000 per site generally for all housing projects.
Procurement and payments for housing project implementation managed by Province	<ul style="list-style-type: none"> <li>The expenditure on housing excluding the MIG does not form part of TMM budget because TMM housing allocations are managed by the provincial department of Human Settlements – the value is approx. R155million pa.</li> <li>The value of current and planned housing project allocations for TMM from the Provincial department of Human Settlements for the medium term is higher than the total capital budget of TMM.</li> <li>TMM has a relatively small capital budget that is 87% grant dependent and is prone to year-on-year under-spending<sup>3</sup></li> </ul>
Non-revenue or low revenue generating assets leads development in TMM	<ul style="list-style-type: none"> <li>Many properties funded by housing capital subsidies are not billed for rates and also receive Free Basic Services (except for social housing).</li> <li>While this is part of the social package offered generally in our country offering much needed poverty and shelter relief it is financially unsustainable unless some scarce resources are also used for economic development and job creation.</li> </ul>
Gap housing has not been implemented and social housing has not been delivered at required scale	Gap housing and social housing fulfil the particular needs of income earning qualifying housing beneficiaries and also represent additional revenue streams for municipalities – they represent revenue-generating housing developments in comparison to non-revenue or low revenue generating housing developments such as RDP housing or rural housing.
Housing delivery is increasing urban sprawl	<ul style="list-style-type: none"> <li>From a spatial perspective<sup>4</sup> housing expenditure has gone and may continue to go against the stated intention of the Housing Sector Plan in respect of the Human Settlement Development Strategy adopted in 2011 since the projects increase urban sprawl.</li> <li>There are very few housing projects that are higher density projects that contribute to spatial restructuring.</li> <li>There is an absence of gap housing projects that could contribute to spatial restructuring if correctly located.</li> <li>In-situ upgrading of informal settlements will consolidate the current urban form.</li> </ul>
Planning practice needs to urgently address the functional integration of Housing and Public Transport	<ul style="list-style-type: none"> <li>Transport Planning and Housing Development have been driven by sector priorities to date with no attempt to functionally integrate them to date.</li> <li>TMM is the recipient of Housing Accreditation (Level 2 ultimately) and the function for planning and implementing the IRPTN.</li> <li>Planning practice has to be improved to be able to address the functional integration of these key built environment functions</li> </ul>

<sup>3</sup> Refer to Finance Report

<sup>4</sup> Analysis based on desk top review of Housing Sector Plan only. TMM is yet to provide RHDHV with updated spatial location of current and planned housing projects including informal settlements Rapid Appraisal.



## Implications

Housing expenditure should be understood in relation to TMM capital budgets for the medium term: the capital budget for TMM has been approx. R223million for 2011/12 (audited outcome), and is currently R460million (2012/13 capital budget), then grows to R475million for 2013/14 while it decreases to R254million in 2014/15 and R242million in 2015/16. The value of current and planned housing project allocations for TMM from the Provincial department of Human Settlements for the medium term is higher than the total capital budget of TMM.

<b>Provincial Housing Allocations to TMM in comparison to TMM Capital Budget</b>					
<b>Allocations from PDHS to TMM</b>	<b>Audited 2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
Current projects		R 84 184 000.00	R 56 000 000.00		
Planned projects		R 598 848 000.00	R 1 305 600 000.00	R 1 242 800 000.00	
		R 683 032 000.00	R 1 361 600 000.00	R 1 242 800 000.00	
<b>TMM Capital Budget</b>	R 223 000 000.00	R 460 000 000.00	R 475 000 000.00	R 254 000 000.00	R 242 000 000.00

This implies that the creation of assets in TMM is externally driven (from a provincial capital grant) and may in most instances create non-revenue generating private assets given that many properties funded by housing capital subsidies are not billed for rates and also receive Free Basic Services (except for social housing). This is exacerbated by the fact that the capital subsidy currently represents an under-funded mandate imposed on municipalities by provincial and national government. For example, the actual cost of a 'RDP' house (land, services and top structure) is on average R140,000 in metros, while the maximum capital subsidy is approximately R60,000.<sup>i</sup> Therefore, the metro absorbs the difference of R80,000, but this figure does not include further public investment in public spaces and community facilities required within the development. In-situ upgrading costs can cost up to R6,000 more than RDP development, and excludes the operating cost for the management of the informal settlement prior to and during upgrading. The structural fiscal gap is the term used to describe the difference between the capital subsidy and the actual cost of development. So while TMM is praised for providing social benefits to alleviate poverty and hardship it is at the same time planning for huge amounts of revenue foregone. This ultimately puts the municipality in greater financial difficulty and is fiscally and financially unsustainable.

## 5. References

- (i) Application for Level One Accreditation to undertake the administration of national and provincial housing programmes and to undertake housing development, Business Plan submitted by Msunduzi Municipality, September 2011
  - (ii) Financial and Fiscal Commission (May 2012). Options Analysis associated with the Local government Fiscal Framework, Public Hearings. Chapter 4 - Pages not numbered.
  - (iii) Financial and Fiscal Commission. 2012. *Summary of Housing Finance Public Hearings November 2012*.
  - (iv) Musunduzi Municipality Housing Sector Plan and Slum Clearance Strategy, Final Report, October 2011
  - (v) National Planning Commission (August 2012), National Development Plan
  - (vi) National Treasury (2011). Local Government Budgets and Expenditure Review 2006/07-2012/13. Pg. 70.
  - (vii) Yasmin Coovadia, July 2013, 2013 State of Cities Finances Report, Chapter 3. Publication produced for South African Cities Network (SACN).
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