

# **THE PEOPLE'S BUDGET CAMPAIGN: THE HOUSING BUDGET**

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## 1. INTRODUCTION

This draft report looks at housing budget trends, the impact of government expenditure on housing, and institutional arrangements with regards to housing, and makes recommendations as to government expenditure on housing.

Low-income housing delivery is one of government flagship delivery programmes. In the Reconstruction and Development Programme, housing was envisaged as a lead project that would catalyse wider investment and build domestic demand. Since 1994, according to government statistics, over 1.6 million houses have been delivered. However, the quality of housing has been questioned in terms of location, quality and its linkages to other programmes. Moreover, the budgets allocated to housing have been far below the 5% envisaged in the National Housing Goal.

The report assesses both the budget trends, and the quality of spending. In particular, the report covers the following:

- Assessing the expenditure breakdown and overall trends in the housing budget.
- Utilising case studies to assess the impact of the housing budget in terms of housing quality and location.
- Undertaking a quantitative assessment of housing finance, and assess the value of the subsidy provided.
- Assessing alternative forms of housing finance.
- Assessing the gender impacts of low-income housing policy.
- Assessing the reasons for under-spending and/or poor quality spending.
- Developing and costing proposals for a more expansionary housing budget.
- Evaluating institutional arrangements, assessing their interaction with integrated development plans (IDPs) and identifying strategies for more efficient spending.

Firstly, the context of housing in South Africa is looked at. Secondly, government expenditure on housing is analysed. Thirdly, the impact of housing expenditure is reviewed. Fourthly, the institutional framework for housing is examined. Finally, recommendations are made.

## 2. THE CONTEXT OF HOUSING IN SOUTH AFRICA

The housing problem in South Africa is briefly looked at, followed by an overview of the housing policy framework.

### 2.1 The housing problem

South Africa has a large problem of people living in inadequate housing that does not provide adequate access to basic services or a safe, healthy and convenient living environment. Inadequate housing conditions have enormous implications for health and quality of life. People living in inadequate housing include:

- People in informal settlements
- Backyard shack dwellers
- People renting rooms or sharing in overcrowded formal houses
- Hostel dwellers
- People living in formal houses that are inadequate in terms of size or quality

The housing backlog is impossible to accurately determine, due both to a lack of reliable and up-to-date statistics and of a commonly accepted definition of inadequate housing conditions (and there is also a lack of consensus over whether or not households in traditional dwellings in rural areas should be regarded as part of the housing backlog). The Census figures can give a rough idea of the state of the problem, however. Table 1 shows the main categories of the housing backlog (as defined by the Department of Housing): households living in informal settlements, in backyards and in rooms within houses, and in tent and caravans. It should be noted that some households living

in formal backyard structures, rooms in houses or in caravans may in fact be living in adequate housing conditions. On the other hand, some households living in formal housing may be living in inadequate housing conditions due to overcrowding or poor housing quality. In lieu of accurate information on the housing backlog, Table 2 can be regarded as giving a fairly good idea of the number of households in inadequate housing in 2001: based on the Census figures, the housing backlog would appear to be in the order of 2.4 million housing units. If traditional dwellings are also included, this figure increases to about 4.1 million units.

*Table 1: Categories of Inadequate housing 1996 and 2001*

Category	1996 Census	2001 Census	% change
Households occupying shack in informal settlement	1 049 686	1 376 705	+31%
Households occupying backyard shacks	403 329	459 526	+14%
Households occupying house/ flatlet/ room in backyard or on shared property*	623 092	532 981	-14%
Households living in tents or caravans	17 126	30 610	+79%
Total (urban)	2 093 233	2 399 822	+15%
Traditional dwellings	1 644 388	1 654 786	+1%
Total (urban and rural)	3 737 621	4 054 608	+8%

Source: Statistics South Africa, 1998, 2003

*Table 2: Housing backlog 2001*

Province	House/flat/room in backyard	Informal dwelling/shack in backyard	Informal dwelling/shack elsewhere	Room/flatlet on shared property	Caravan/tent	Total
E Cape	37 968	31 205	135 567	12 524	3 260	220 524
Free State	20 517	44 103	147 081	5 625	1 865	219 191
Gauteng	193 503	185 767	448 393	42 583	7 246	877 492
KZN	65 937	48 613	177 212	24 660	7 007	323 429
Limpopo	22 199	21 205	56 930	9 703	2 466	112 503
Mpumalanga	17 154	24 503	92 877	8 199	1 841	144 574
N Cape	4 383	5 355	20 438	1 896	1 661	33 733
North West	25 644	51 935	155 501	6 705	1 738	241 523
W Cape	25 069	46 840	142 706	8 712	3 526	226 853
Total	412 374	459 526	1 376 705	120 607	30 610	2 399 822

Note: The Department of Housing excludes traditional dwellings from their definition of those in need of housing.

Source: National Department of Housing (pers. com.), based on Statistics South Africa, 2003

## 2.2 The housing policy framework

The right to adequate housing should be regarded as the starting point for housing policy in South Africa. Section 26 of the Constitution states that:

- Everyone has the right to have access to adequate housing.
- The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of this right.
- No one may be evicted from their home, or have their home demolished, without an order of court made after considering the relevant circumstances.

The Grootboom Case in 2000, showed that Section 26 is legally enforceable. The general order of the Constitutional Court stated that "Section 26(2) of the Constitution requires the State to devise

and implement within its available resources a comprehensive and co-ordinated programme progressively to realize the right of access to adequate housing". The principles for State policies and programmes arising from the Grootboom Judgement are (Liebenberg, 2002):

- The State must establish comprehensive and coherent programmes capable of facilitating the realization of the right.
- The measures (legislation, policies, programmes) adopted by the State must be "reasonable" within their social, economic and historical context and within the availability of resources.
- The needs of the most vulnerable require special attention, e.g. the State must "devise, fund, implement and supervise measures to provide relief to those in desperate need", e.g. an accelerated land release programme for people in dire circumstances.
- The State must examine legal, administrative, operational and financial barriers to accessing socio-economic rights and, where possible, take steps to lower them over time so as to ensure the progressive realization of the right, e.g. so that a larger number and wider range of people can get access to adequate housing over time.
- Responsibilities and tasks must be clearly allocated to different spheres of government and the appropriate financial and human resources must be available.
- Policies and programmes must be reasonably implemented, e.g. must be adequately resourced and not hindered by bureaucratic inefficiency or onerous regulations.

The Reconstruction and Development Programme (RDP) Base Document set the scene for the formulation of housing policy: "Although housing may be provided by a range of parties, the democratic government is ultimately responsible for ensuring that housing is provided to all. It must create a policy framework and legislative support so that this is achieved, and it must allocate subsidy funds from the budget - to reach a goal of not less than five per cent of the budget by the end of the five-year RDP - so that housing is affordable to even the poorest South Africans."

The Housing Act of 1997 sets out the National Housing Vision and National Housing Goal to guide housing policy. The Housing Vision is for: "The establishment and maintenance of habitable, stable and sustainable public and private residential environments to ensure viable households and communities in areas allowing convenient access to economic opportunities, and to health, educational and social amenities in which all citizens and permanent residents of the Republic will, on a progressive basis, have access to:

- permanent residential structures with secure tenure, ensuring internal and external privacy and providing adequate protection against the elements;
- potable water, adequate sanitary facilities and domestic energy supply."

The National Housing Goal is to increase housing expenditure to 5% of total government expenditure and to achieve a housing delivery rate of 350 000 subsidised houses per year.

The two main thrusts of housing policy have been:

- Grant funding to assist in the provision of adequate housing and infrastructure to those in need.
- Enabling the housing market to work, e.g. increasing access to housing credit from financial institutions.

### **2.2.1 Grant funding programmes**

The main tools of housing policy are the grant funding programmes. The main programmes are the Housing Subsidy Scheme (and the related Public Sector Hostel Redevelopment Programme), the Discount Benefit Scheme and the Human Settlements Redevelopment Programme. The Department of Provincial and Local Government's Municipal Infrastructure Grant (MIG) programme and the Department of Land Affairs' Settlement/ Land Acquisition Grant (SLAG) programme are also of relevance to housing. These programmes are discussed in more detail below.

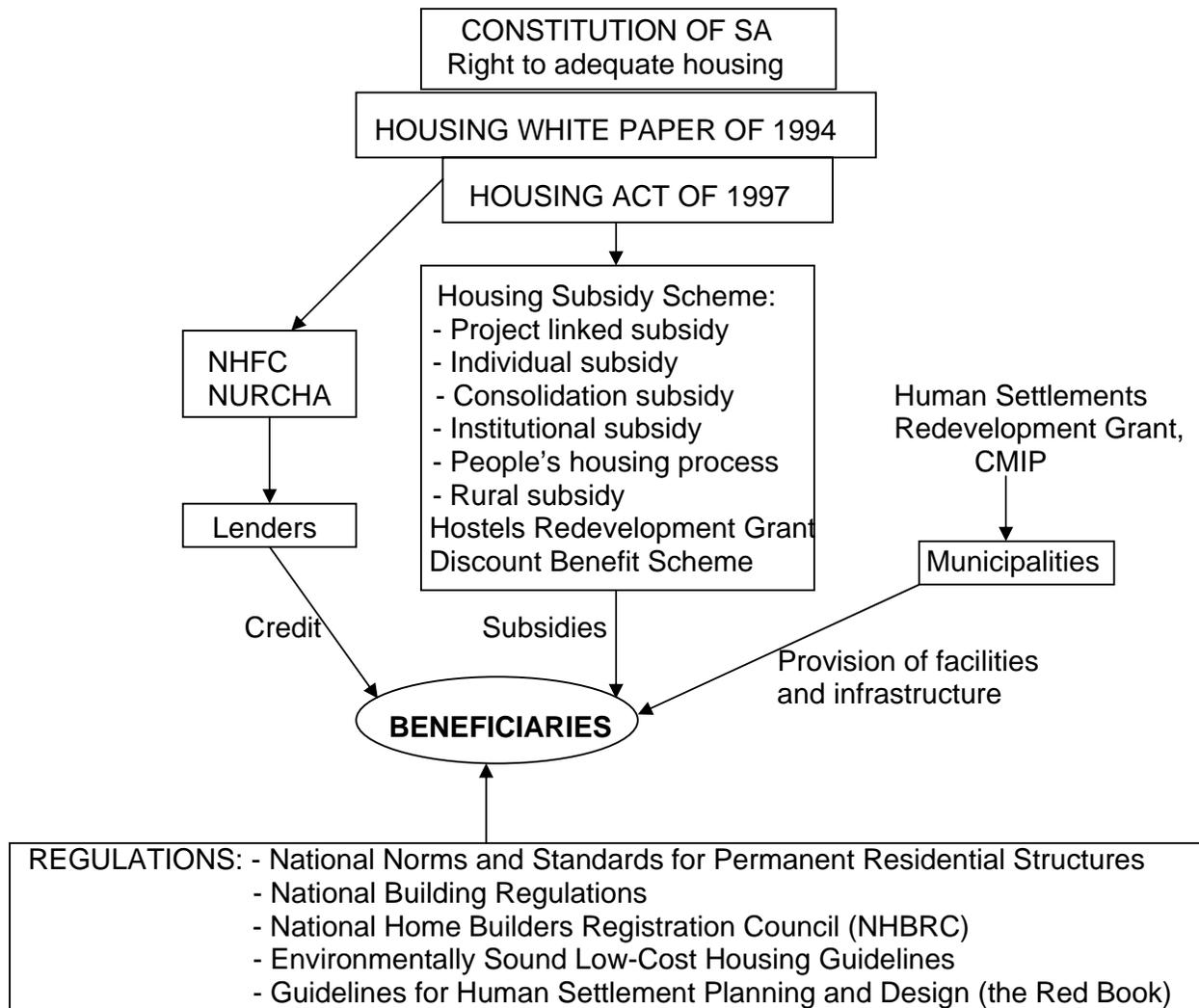


Figure 1: Housing policy framework  
Source: Development Action Group, 2003

(a) Housing Subsidy Scheme

The main policy intentions of the Housing Subsidy Scheme are to provide assistance to “persons who cannot independently provide for their housing needs” and to facilitate housing delivery (National Housing Code, p. 169). The Housing Subsidy Scheme provides subsidies (of up to about R28 000) for households with incomes of up to R3500 per month to assist them in acquiring housing. The various types of housing subsidy are:

- Project linked subsidy (project funding for the acquisition of land, and provision of infrastructure and housing)
- Individual subsidy (to purchase a house, or to purchase a plot and build a house; can be linked to housing credit)
- Consolidation subsidy (for households who own serviced sites)
- Institutional subsidy (for rental or co-operative housing owned by housing institutions)
- Rural subsidy (for households with uncontested informal land rights in areas where there is no individual ownership)
- People’s Housing Process establishment grants (an additional amount of up to R570 per subsidy for funding the support costs of housing projects where beneficiaries are involved in building or organising the building of their own houses)

The project-linked subsidy was introduced in March 1994, individual and consolidation subsidies were introduced in June 1995, institutional subsidies were introduced in December 1995, and rural subsidies were introduced in 2000. Although technically not part of the Housing Subsidy Scheme, the public sector hostels redevelopment grant is similar to these subsidies.

During 2003 an emergency housing programme was introduced to provide for resettlement or other interventions in the event of natural disasters or evictions. An informal settlement programme is to be introduced in 2005, and funding for institutional housing is to be revamped (the current institutional subsidies will be replaced by a more flexible lump sum grant per project).

The criteria for eligibility for housing subsidies (except for emergency housing and informal settlement upgrading) are:

- Must be a lawful resident of South Africa (citizen or permanent resident)
- Must have a partner (either be married to someone or live together with someone) or be a single person over 21 years of age with dependents
- Must have a monthly household income of less than R3500 per month (combined income of head of household and spouse or partner)
- Must not have owned property or received any form of government housing subsidy before (except for the consolidation subsidy, relocation assistance or disabled people)

In terms of the new Comprehensive Housing Plan announced in September 2004, all households with incomes of up to R3 500 per month will qualify for the "full subsidy" of approximately R28 000 (the consolidation subsidy amount is considerably less because it does not include the cost of land and infrastructure). Those in the R1 501 to R3 500 per month bracket must make a contribution – either "sweat equity" in building the house or a financial contribution of R2 479 – as part of the commitment to their housing; households in the 0 to R1 500 per month category will not have to make any contribution.

The subsidy amounts and beneficiary contribution requirements are based on the estimated cost of a 30m<sup>2</sup> house meeting National Home Builders Registration Council (NHBRC) standards on a serviced site with minimum services as per the National Norms and Standards for Permanent Residential Structures (yard tap, VIP latrine, etc.).

*(b) Discount Benefit Scheme*

In terms of the Discount Benefit Scheme, tenants of public rental housing receive a discount of up to R7500 on the selling price of the property. In many cases the book value of a property is less than R7500, so public rental properties have sometimes been transferred to ownership of tenants free of charge.

*(c) Human Settlement Redevelopment Programme*

The Human Settlement Redevelopment Programme, which was introduced in 2000, is intended to assist in the development of sustainable urban communities. The programme includes funding for projects and programmes that result in increased opportunities for social and economic development (e.g. informal markets and business hives). The programme initially had a focus on existing dysfunctional areas and on infrastructure, but it has been refocused on interventions to create viable human settlements linked to new housing delivery. In terms of the new Comprehensive Housing Plan, announced in September 2004, for projects of a minimum size (e.g. 5000 housing units) there is now provision for a package of basic facilities: a clinic, a crèche, a community hall, a community park, a taxi rank, a sports field and small enterprise trading facilities.

Table 3 sets out the current conditions attached to the Human Settlement Redevelopment Grant.

*Table 3: Human Settlement Redevelopment Grant*

Purpose	To fund projects that aim to improve the quality of the environment by identifying
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	dysfunctionalities in human settlements.
Measurable outputs	The improvement of the quality of human settlement by funding projects which will address dysfunctionalities in such settlements. The outputs of the programme depend largely on the unique content of each project funded in terms of the pilot programme. This will include: <ul style="list-style-type: none"> <li>• Upgraded infrastructure in depressed areas</li> <li>• The number of existing depressed areas re-planned and redeveloped, such as inner city redevelopment, urban renewal and informal settlement upgrading; and</li> <li>• Completed plans which could promote integration (new developments)</li> </ul>
Conditions	To form part of the contract between the provincial government and the national Department of Housing on specific projects based on approved business plans.
Allocation criteria	Division between provinces is made on the basis of the housing subsidy grant formula.
Reasons not incorporated in the equitable share	As a pilot programme, the Department of housing needs to be involved in approving, monitoring and evaluating the projects in line with expected outputs. The outputs of the pilot programme will inform the formulation of a more comprehensive permanent programme.

Source: Government Gazette Vol 454 Pretoria, 30 April 2003, No 24834

#### *(d) Municipal Infrastructure Grant (MIG)*

Initially, the Department of Housing was responsible for the Bulk and Connector Infrastructure Grant (BCIG) Programme, which was subsequently incorporated into the Consolidated Municipal Infrastructure Programme (CMIP), managed by the Department of Provincial and Local Government (DPLG). The CMIP programme provided municipalities with subsidies of up to R3500 per low-income household for the cost of bulk infrastructure, e.g. for the main water and sewer lines, and roads, required to link up new settlements into existing networks. The CMIP was subsequently incorporated, together with other infrastructure support programmes, into the Municipal Infrastructure Grant (MIG) programme.

#### *(e) Settlement/Land Acquisition Grant (SLAG)*

The Department of Land Affairs' Settlement/Land Acquisition Grant (SLAG) of R16 000 was intended to be able to be used in rural land redistribution projects for the purchase of land, infrastructure, top structure and/or on-farm capital items. The Department subsequently shifted its focus away from land reform aimed at the poor towards support for emerging farmers via the Land Redistribution for Agricultural Development (LRAD) Programme. The Department of Land Affairs has now converted the SLAG programme into a fund for the acquisition of land in urban and rural areas.

### **2.2.2 Enabling markets to work**

Apart from housing subsidies, the other main thrust of housing policy is to enable the housing market to function more effectively so that greater numbers of people can access housing via market processes (i.e. through accessing credit from a financial institution). A Record of Understanding (the Botshabelo Agreement) was signed between the government and the Association of Mortgage Lenders (including ABSA, First National Bank, Nedcor, Standard Bank) in 1994, whereby the government undertook to normalize the lending environment and the lenders undertook to lend 50 000 low-income mortgage loans per year. This target was not achieved, and the agreement was later revised.

The Mortgage Indemnity Fund (MIF) was an insurance fund set up by government to cover financial institutions against losses that they made from giving housing loans to low-income households (it has since been closed down), and Servcon was set up by government to take over ownership of all properties of low-income households who defaulted on their bank loans as of 31 August 1997 (or 31 May 1995 for some smaller lenders). Thubelisha Homes was established to find more affordable housing for borrowers who could no longer afford to repay their mortgage loans. The Department of Housing also makes relocation assistance grants available for low-income households who are forced to relocate due to an inability to repay their mortgage loan.

In 2003, the banks signed the Financial Sector Charter, which is a commitment to extend bank services to lower income people. The Department of Housing collaborated with the Banking Council on formulating a new programme to ensure access to mortgage loans for the “affordable housing sector”, i.e. the R3 500 to R7 000 per month income group. This group is often referred to as the “grey gap” or “gap market”, as they were unable to access mortgage loans from banks and are also excluded from the current housing subsidy scheme. As a result, it has been extremely difficult for people in this income bracket to obtain access to affordable and adequate housing. In terms of the new programme, the government will pay half of the 10% deposit required for a mortgage loan from a bank and guarantee 50% of the loan amount against risk of non-payment. This programme. ABSA, one of the largest banks in South Africa, has subsequently launched a new mortgage loan specifically targeted at households in the R3 500 to R6 000 per month income range. Based on the assumption of a 13.5% interest rate, a 20 year loan repayment period and being able to use 25% of income for loan repayments, the maximum loan amount affordable for a household with a joint income of R3500 per month is about R72 000 and the maximum loan amount for a household with a joint income of R6000 per month is about R124 000. At the moment virtually no new housing is being developed by private developers in the R50 000 to R150 000 price range, so greater delivery for this target group would need to be encouraged.

The two main government-established bodies involved in housing finance are the NHFC and NURCHA.

The National Housing Finance Corporation (NHFC) facilitates finance for low-income housing by the provision of wholesale finance to lenders. The programmes and subsidiaries of the NHFC have included

- Gateway Home Loans, which provided loans of R10 000 – R50 000 for households in the R2000 –R6000 per month income bracket
- Housing Equity Fund (HEF): provides funding to emerging lenders
- Rural Housing Loan Fund (RHLF)
- Housing Institutions Development Fund (HIDF), for lending to social housing institutions (this subsequently merged with the Social Housing Foundation).

The National Urban Reconstruction and Housing Agency (NURCHA) is a RDP Presidential Lead Project jointly established in 1995 by the government and the Open Society Institute. Its main focus is to provide guarantees to enable developers to access bridging finance, but it also facilitates finance for low-income housing by providing guarantees for end user finance. It is focused on households earning less than R2000 p.m.

The housing finance market is currently focused on properties with values of R100 000+ and borrowers with incomes of about R6000-7000 per month upwards. People with incomes of R3500 per month upwards are theoretically able to get access to mortgage loans of R40 000 to R100 000 from banks, but there is a severe lack of new private sector delivery appropriate for this affordability bracket (although it is hoped that the new scheme for promoting mortgage credit for the R3500 – 7000 p.m. income group discussed above will help rectify this situation). Mortgage loans are generally inappropriate for very low-income people, however: they involve large amounts of money, are long term (usually 20 years), property is used as collateral (i.e. the borrower can lose their property if they cannot repay the loan) and conventional banks usually operate via their branch offices and the postal service whereas low-income loan schemes necessitate having loan officers constantly out in the field interacting with borrowers and applicants. Low-income people need housing finance mechanisms that involve small amounts of money, much shorter repayment periods and alternative forms of security (e.g. savings deposits, peer pressure of a savings group, movable assets, etc.). Most households with incomes of less than R3500 per month are therefore mainly served by micro-loans (of less than R10 000) from micro-lenders, who operate very differently from conventional banks. Informally employed people and those working for employers who do not have payroll deduction facilities are often unable to access any affordable credit at all. As a result, NGOs have started to become involved in providing appropriate credit to the poor on a

non-profit basis. An example is the Kuyasa Fund in Cape Town, which was established in 2000, and which promotes the formation of savings groups and then offers loans to savers who have saved up a deposit and have a good savings record.

The Kuyasa Fund is directly involved with more than 50 savings groups, representing more than 1400 savers, and has given loans totalling over R2 million to over 600 households (as of the end of the 2002/2003 financial year). Loans are in the range of R1 000 to R10 000 and the average loan is R3 800. The applicant must have saved for a minimum of six months, and the maximum loan granted is limited to three times the savings (the average savings amount of Kuyasa borrowers is R2700). The repayment period is up to 30 months, with an average of 18 months. Over 70% of borrowers are women and over 65% of borrowers are unemployed or are informally employed. The loans have had an enormous impact in terms of the size and quality of housing that is provided (the loan gets added onto the subsidy and savings), and the repayment rate has been very good. The cost recoverable interest rate the loans are provided at is 32% p.a., which is higher than the interest rate a middle-income person could get on a large loan from a bank (because of the far greater intensity of work required for a small low-income loan), but is considerable less than the interest rates demanded by informal money-lenders and cash loan companies (typically 30-40% p.m., i.e. over 300% p.a.).

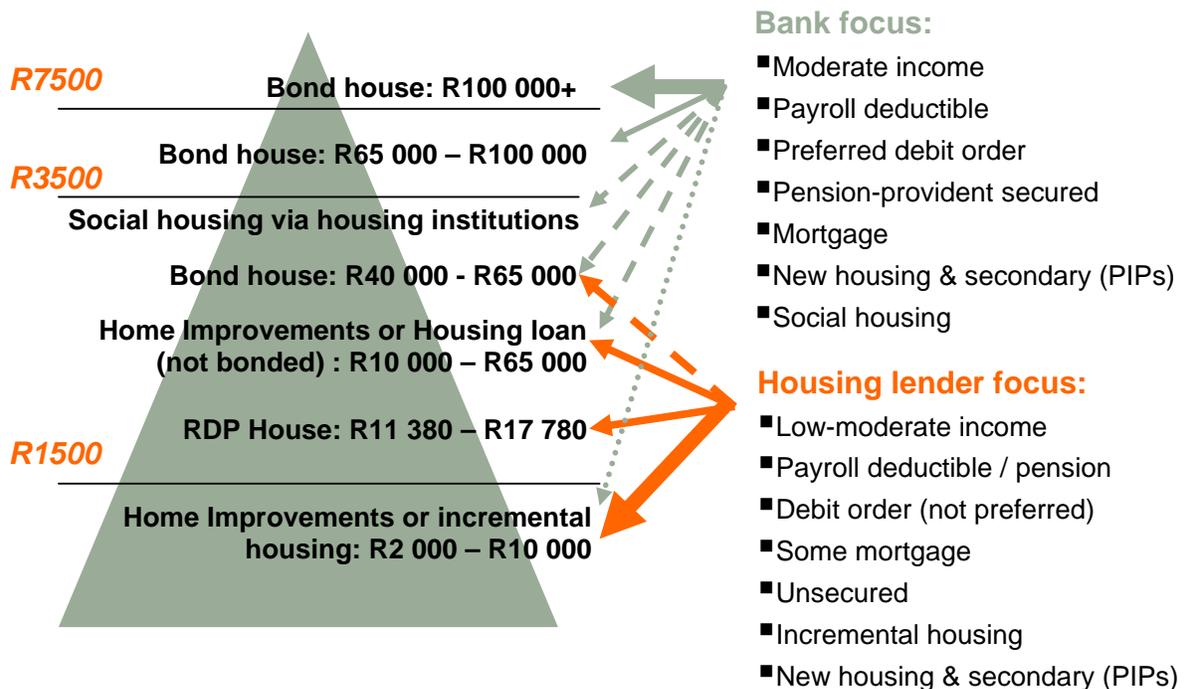


Figure 2: The housing finance market  
Source: Shisaka Development Management Services, 2003

### 3. INSTITUTIONAL FRAMEWORK

Different levels of government have different roles to play as defined in the Housing Act of 1997 and its amendments. Housing policy is largely formulated and funded by the national government, but it is largely implemented by provincial and local government.

#### 3.1 National government

The role of national government is to determine national housing policy, consisting of an institutional framework and a funding framework. The most important function at national level is

the design of the housing subsidy scheme and the allocation of money for other support systems. The national government is also responsible for developing national norms and standards, setting national delivery goals through a multi-year plan which determines allocation of housing subsidy funds, monitoring performance related to the delivery goals and funding allocations and assisting and developing the capacity of provincial and local government to meet goals.

The main actors at a national level are:

- National Minister of Housing: responsible for national housing policy, in consultation with the Housing MINMEC, which consists of the provincial Members of the Executive Councils (MECs) responsible for housing and a representative of the South African Local Government Association (SALGA).
- National Department of Housing: manages national strategy and programmes, and facilitates and monitors national programmes.

The National Department of Housing has a total of 289 posts in nine Chief Directorates: Ministerial and Parliamentary Support, Policy Planning, Programme Management, Research, Housing Equity, Housing Sector Performance, Communication, Financial Services, and Corporate Support.

There are also a number of housing support institutions which fall under the Department of Housing:

- National Housing Finance Corporation (NHFC)
- National Urban Reconstruction Agency (NURCHA)
- Servcon Housing Solutions: management of properties in possession and non-performing loans (i.e. where mortgage loan borrowers defaulted on their loan repayments) – approximately half of the 33 000 properties it was originally responsible for managing have been disposed of.
- Thubelisha Homes: procures and develops housing stock suitable for “right sizing” purposes (i.e. for relocation of households from Servcon managed properties to more affordable properties).
- Social Housing Foundation (SHF): promotes and supports social housing delivery
- People’s Housing Partnership trust (PHPT): promotes and supports People’s Housing Process (PHP) delivery.
- National Home Builders Registration Council (NHBRC)

### **3.2 Provincial government**

The role of provincial government is to:

- Formulate provincial policy within the framework of National Housing Policy. These policies and legislation must facilitate the provision of adequate housing in the province.
- Strengthen and support municipalities to exercise their role and intervene where municipalities cannot or do not perform their duties as defined by the Act.
- Prepare and maintain a multi-year provincial housing plan. This plan must outline the execution of housing programmes in the Province. These programmes must be in line with the National Housing Policy.

The main actors at the provincial level are:

- MEC for Housing: responsible for provincial housing policy and implementation – most of these powers are delegated to officials.
- Provincial housing department: manages provincial strategy, facilitates project applications, evaluates and recommends projects, and monitors projects.
- Provincial Housing Development Boards: used to approve allocation of housing subsidies, but these have now been disbanded (except in the Western Cape). The Housing Amendment Act of 2001 gave the Boards’ powers to the MECs. The provincial housing department now allocates subsidies to local authorities for projects (and the projects to be funded are generally identified and prioritised by local authorities themselves).

### 3.3 Local government

The Housing Act of 1997 says that “Every municipality must, as part of the municipality’s process of integrated development planning, take all reasonable and necessary steps within the framework of national and provincial housing legislation to ensure that:

- The inhabitants of its area of jurisdiction have access to adequate housing on a progressive basis;
- Conditions not conducive to the health and safety of the inhabitants of its area of jurisdiction are removed;
- Services in respect of water, sanitation, electricity, roads, stormwater drainage and transport are provided in a manner which is economically efficient.”

The role of the local authority is to:

- Initiate, plan, co-ordinate and facilitate appropriate housing development on a progressive basis within its boundaries
- Prepare a local housing strategy and set housing delivery goals
- Set aside, plan and manage land for housing development
- Create a financial and socially viable environment conducive to housing development
- Facilitate resolution of conflicts
- Provide bulk engineering services where there are no other service providers
- Administer housing programmes if accredited to do so
- Facilitate and support role-players’ participation in housing, i.e. facilitating the provision of housing by other roleplayers, such as private sector developers, CBOs and/or NGOs, by assisting in the identification of projects, by bringing roleplayers together and by supporting community organizations to be able to participate in these processes.
- Acquire land for housing development through purchase (after proposal calls) or, where necessary, through expropriation (with permission of the MEC)
- Act as a developer to initiate, plan and manage projects, either directly or by setting up an independent housing company
- Enter into joint venture contracts with private sector developers, NGOs or CBOs.

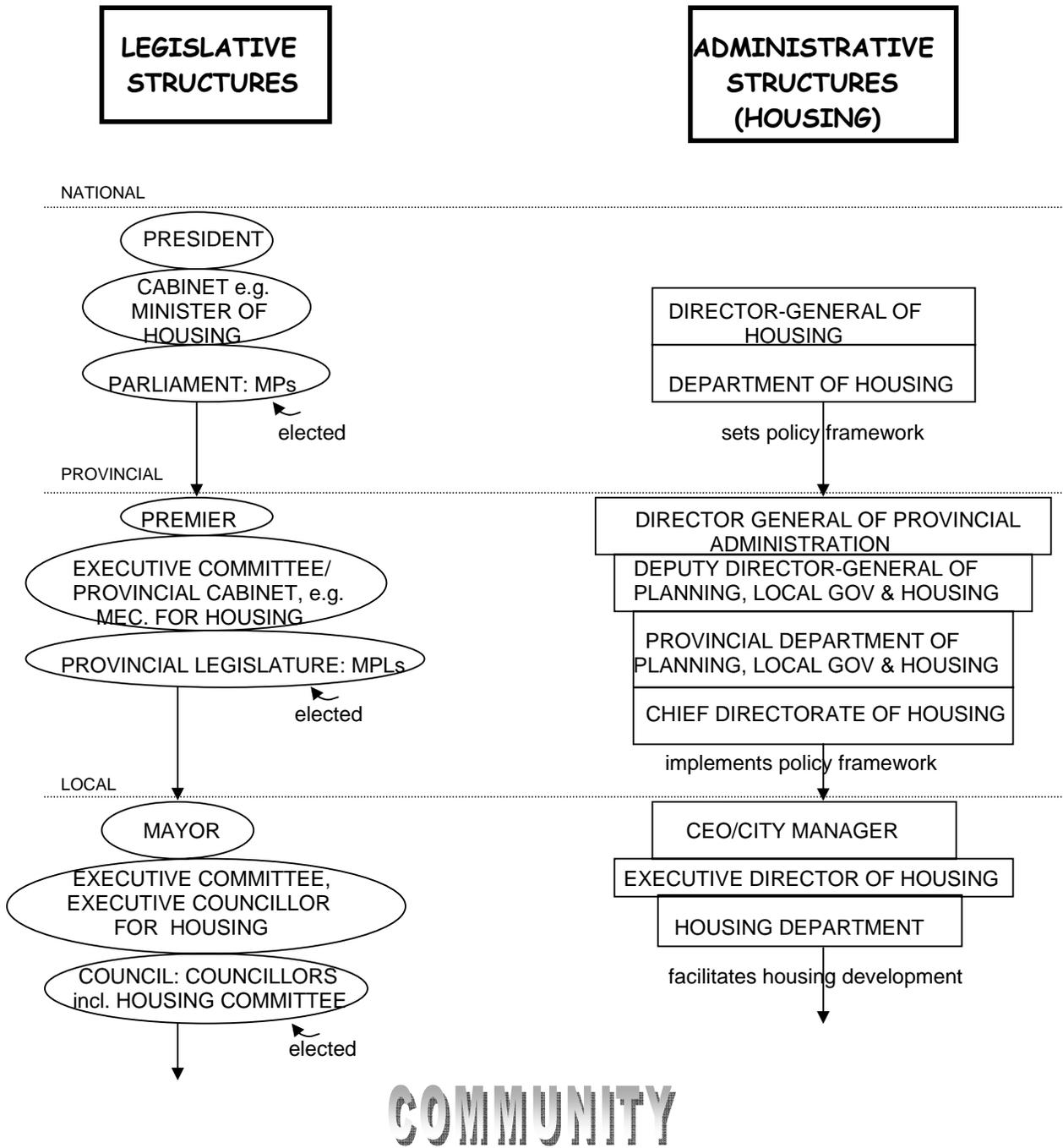


Figure 3: Levels of government  
 Source: Development Action Group, 2001

Many other local government activities also impact upon the provision of housing, such as the provision of basic services. Internal infrastructure (e.g. residential streets, water connections, sewer connections) is funded from the housing subsidy, but local authorities are responsible for maintaining this infrastructure, and also for providing and maintaining the necessary bulk infrastructure (main sewer and water pipes, sewage treatment plants, water treatment plants, major roads, etc.). Local authorities are responsible for many other things that need to be an integral part of housing projects, for example, refuse removal and disposal, street sweeping and

maintenance of public open space (e.g. planting trees), street names, traffic signs, parks, libraries, clinics and community halls. Spatial planning (zoning, densities, layouts) can also have an enormous impact on the success or failure of housing strategies.

Integrated Development Plans (IDPs) are meant to be the local authority's main tool in planning for development. Section 153 of the Constitution says that: "A municipality must structure and manage its administration, budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community".

IDPs consist of:

- Establishing a long-term vision (10 years)
- Formulating a medium-term integrated development plan and financial plan (5 years)
- Formulating detailed annual plans and budgets
- Monitoring and evaluating implementation and delivery, and making changes if necessary

The procurement policy for housing introduced in 2001 strengthened the role of local government in housing delivery. Local authorities need to develop housing strategies and identify potential projects as part of IDPs, and these will then feed into the provincial housing plans. Local authorities are required to be the developer for all new housing projects other than institutional housing and PHP.

### **3.4 Weaknesses in the institutional framework**

The main problems with institutional arrangements for housing include the following (it should be noted that in terms of the new Comprehensive Housing Plan, the National Department of Housing attends addressing these issues):

- *Ad hoc* policy development processes: Frequent, unilateral changes in housing policy by the National department of Housing have caused many delays in delivery and have hindered the building up of appropriate capacity. It appears that the systems to implement policy changes before policies are put into effect.
- Lack of policy alignment: In some cases, different Departments and different spheres of government have different priorities, for example, the Gauteng Provincial Housing Department's focus on managed land settlement which was opposed by the National Department of Housing. In some instances, national policies are often interpreted in very different ways by different Provincial Housing Departments, most notably the People's Housing Process (PHP) policy.
- Lack of capacity: The Department of Housing has recognised that there is a "lack of adequate capacity at all spheres of government and in the housing sector as a whole" (Department of Housing, 2003: 9). The Public Service Commission found that, although there are housing capacity building programmes for local authorities, some provinces report that not enough funds are being received from the national department to capacitate the municipalities to initiate, train and resource their housing departments, and capacity is also sometimes lacking at provincial level to provide necessary support to local authorities (PSC, 2003).
- Lack of adequate spatial dimension to Integrated Development Plans (IDPs): IDPs, especially their spatial dimension – Spatial Development Frameworks (SDFs) - are meant to play a key role in identifying where and how housing development should occur. Urban plans introduced post-1994 have had a number of objectives, most notably compaction and integration, in order to get better functioning, more equitable urban settlements where all residents can have adequate access to urban opportunities. Key tools of SDFs have typically included setting "urban edges" to contain urban sprawl, and promoting the densification of "activity corridors" along major public transport routes. It is generally agreed that spatial planning has only had a limited effect on post-apartheid urban spatial development, however, and there appears to have been a general decline in the coordinating role of spatial planning over the past decade as other line departments, such as housing and transport, are also increasingly required to do their own forward planning (Watson, 2003).

#### 4. GOVERNMENT EXPENDITURE ON HOUSING

Government expenditure on housing is analysed in three main categories:

- National housing expenditure: what the national housing budget is spent on.
- Allocation of housing funds to provinces: how housing funds are distributed to provinces, and what proportion of total provincial expenditure this forms.
- Housing subsidies and the Human Settlements Redevelopment Grant: the actual expenditure of grant funding on housing and human settlements development.

##### 4.1 National expenditure on housing

In 1994, the goal of increasing expenditure on housing to 5% of government expenditure, from approximately 2% at the time, was set. In reality, the housing budget for 2004/2005 is only 1.3% of government expenditure, and this percentage has been steadily decreasing over the last few years (see Table 4). There was an approximately 30% decrease in real housing expenditure from 1997/8 to 2003/2004, and the number of houses delivered in 2001/2002 was less than half of that in 1997/1998. By comparison, the international average for housing expenditure as a proportion of total expenditure for developing countries has typically been in the range of 2-5% (World Bank, 1993; May, 1998; UN-Habitat, 2003).

Table 4: Housing expenditure 1995-2002 (National Treasury, 2001-2003)

Year	Housing expenditure (Rands)	National expenditure (Rands)	Housing expenditure as % of national expenditure	Number of subsidised houses delivered
1997/98	4 520	189 947	2.4%	295 811
1998/99	3 748	201 416	1.9%	248 391
1999/00	3 494	214 750	1.6%	161 572
2000/01	3 329	233 934	1.4%	190 643
2001/02	3 721	262 905	1.4%	143 281
2002/03	4 213	291 529	1.4%	203 588
2003/04	4 524	331 685	1.4%	190 181
2004/05*	4 849	368 904	1.3%	-
2005/06**	5 172	404 654	1.3%	-
2006/07**	5 484	439 058	1.2%	-

\*National budget for 2004/2005

\*\*Medium-term expenditure estimates

Source: National Treasury, 2001, 2002, 2003a, 2004a; own calculations

Table 5 shows expenditure on the six programmes of the National Department of Housing. The programmes are:

- Administration: Expenditure on this programme has been steadily growing and is expected to rapidly increase (the budget for 2004/05 is 67% more than the estimated expenditure for 2003/04). This programme now includes communication (public relations and liaison with stakeholders), which was previously a separate programme.
- Policy Planning and Research: research on human settlements and housing, analysis and amendment of housing policy and strategy, drafting of housing legislation. The necessary capacity is still being developed (the Chief Directorate of Research was only established in 2003). The budget for 2004/2005 is 142% more than the estimated expenditure for 2003/2004.
- Programme Management: managing the housing subsidy programmes, the capacity building programme and the Human Settlement Redevelopment Programme. Spending on programme management was high during the early years of the Subsidy Scheme as capacity was built up, then declined rapidly, but increased again between 1999/2000 and

2001/2002 with the initiation of the Human Settlements Redevelopment Grant and the Capacity Building Programme.

- Housing Sector performance: monitoring and evaluation. The expenditure on this programme has been fairly erratic. The increase from 1999/2000 onwards was partially due to the disestablishment of the South African Housing Trust and the assumption of its responsibilities by this programme.
- Housing Equity: This programme consists of the operations of the recently established Office of Disclosure (in terms of the Home Loan and Mortgage Disclosure Act of 2000).
- Housing Development Funding: funding of national housing programmes. This typically forms 90% of national government expenditure on housing.

*Table 5: Breakdown of housing expenditure 1998/1999 - 2006/2007*

R thousands	Audited 1998/99	Audited 1999/00	Audited 2000/01	Audited 2001/02	Prelim. outcome 2002/03	Revised estimate 2003/04	Budget 2004/05	MTEF 2005/06	MTEF 2006/07
Admin	23 154	30 368	38 444	44 602	39 553	39 969	66 833	76 737	84 896
Policy Planning & Research	2 968	3 556	3 515	5 651	8 231	9 143	22 139	24 634	26 112
Programme Management	636 250	192 666	69 727	259 082	192 917	114 456	152 477	160 437	170 063
Housing Sector Performance	54 045	297 630	191 610	157 883	137 909	78 530	92 240	121 878	128 923
Housing Equity	-	-	-	-	36	953	5 612	5 949	6 306
Housing Development Funding	3 031 149	2 970 156	3 026 199	3 254 022	3 829 474	4 275 039	4 502 397	4 774 204	5 067 628
Totals	3 747 566	3 494 376	3 329 495	3 721 240	4 213 130	4 523 890	4 848 941	5 172 083	5 483 928

Source: National Treasury, 2002, 2003, 2004a

One of the main priorities of the national sphere of government is to monitoring and evaluate provincial departments' spending of these conditional grants to provinces. Recently provinces have reported high underspending on the conditional grants. The National Department of Housing has installed a universal computerised subsidy management system in all provincial housing departments for the administration of the subsidy scheme and to allow the national department to monitor progress and expenditure.

#### **4.2 Allocation of housing funds to provinces**

Conditional grants are transferred to provincial treasury departments based on pre-approved plans submitted by the respective provincial departments. Funds are transferred in four payment schedules through out the year from national to provinces. According to the Public Finance Management Act of 2000 the Chief Financial Officers (usually the head of the department) is accountable for these funds.

The housing formula has been amended three times since 1994. In 1994 the formula focused primarily on household income and those earning within the R3 500 range. In 2001, MINMEC decided to amend the formula to benefit provinces with large rural sectors. However, this did not work well, as reflected in huge rollovers. In 2002, MINMEC changed the formula again in order to reflect a more urban bias in line with government's commitment towards medium density housing. The changes were introduced partly due to the lack of spending capacity of rural provinces. The formula for allocating funds between provinces is based on the following weighting:

- Housing needs defined by number of homeless living in shacks and informal units (50 percent)
- Households earning less than R3500 (30 per cent)
- Population based on the 1996 Census (20 per cent)

In order to ensure that those most in need receive priority, a weighting was added to the various categories of most need, namely the homeless (weighting of 1.25), people living in informal settlements (weighting of 1.2), people living in backyard shacks (weighting of 1.0) and those living in backyards, rooms and flats on shared property (weighting of 0.5). This will result in predominantly urban provinces receiving more housing funds than predominantly rural provinces (personal communication with the National Treasury, 4/9/2002). This shift is logical, but the frequent changes in the formula have led to tremendous instability in housing budget allocations.

This change in the formula had to be approved by the Cabinet, as it was effectively a shift away from government's previous prioritisation of rural areas. At more or less the same time, the Office of the Presidency introduced the National Spatial Development Perspective (NSDP), which is intended to guide public investment in economic infrastructure and major social infrastructure. The NSDP prioritizes urban areas for major government investment, as this is where government expenditure has been found to be most efficient and effective, whereas investment in rural areas has generally been unsustainable. In terms of the NSDP, basic needs will still be provided for in rural areas, though. The new formula came into effect as from the 2004/2005 financial year.

The allocation to provinces for housing consists of conditional grants to provinces for the Housing Subsidy Scheme, the Human Settlement Redevelopment Programme and capacity building programmes for municipalities. These transfers to provinces currently form more than 90% of national housing expenditure (see Table 6).

*Table 6: National and provincial share housing expenditure 2000/2001 – 2006/2007*

Proportion of expenditure	Audited 2000/01	Audited 2001/02	Prelim. outcome 2002/03	Adj. appror. 2003/04	Budget 2004/05	MTEF 2005/06	MTEF 2006/07
National share of total expenditure	8%	11%	7%	4%	5%	6%	6%
Conditional grants to provinces	92%	89%	93%	96%	95%	94%	94%
Total	100%	100%	100%	100%	100%	100%	100%

Source: National Treasury, 2004a

Table 7 shows the provincial housing budgets. The operational costs of Provincial Housing Departments come out of the equitable share allocations by national government and own revenue. In 2002/2003, over 20% of provincial housing expenditure was funded by the equitable share and own revenue, but this proportion has since decreased and is projected as stabilizing at about 15-16% of total provincial housing expenditure (see Table 8).

*Table 7: Provincial housing expenditure 2000/2001 – 2006/2007*

R million	Audited 2000/01	Audited 2001/02	Audited 2002/03	Prelim. outcome 2003/04	Budget 2004/05	MTEF 2005/06	MTEF 2006/07
E Cape	564	330	517	895	704	675	716
Free State	290	295	348	389	464	466	494
Gauteng	713	917	1 417	1 210	1 425	1 655	1 742
KZN	841	926	1 020	1 081	943	981	1 040
Limpopo	276	428	438	481	429	450	477
Mpumalanga	212	405	300	324	347	348	367

N Cape	67	76	69	120	105	94	101
North West	357	366	395	318	470	514	542
W Cape	390	381	434	371	552	555	585
Total	3 710	4 124	4 938	5 189	5 439	5 738	6 064

Note: Only Gauteng, KwaZulu-Natal and the Western Cape have separate housing departments; in other provinces, housing is just a branch within a department (typically the Department of Local Government and Housing).

Source: National Treasury, 2004b

*Table 8: Provincial own revenue and equitable share contribution to housing 2000/2001 - 2006/2007*

R million	Audited 2000/01	Audited 2001/02	Prelim. outcome 2002/03	Rev. est. 2003/04	Budget 2004/05	MTEF 2005/06	MTEF 2006/07
Total provincial housing expenditure	3 710	4 124	4 938	5 189	5 439	5 738	6 064
Total housing transfers to provinces	3 047	3 322	3 907	4 355	4 589	4 868	5 160
Provincial own contribution (equitable share and own revenue)	663	802	1 031	834	850	870	904
% provincial own allocation	18%	19%	21%	16%	16%	15%	15%

Source: National Treasury, 2004a, 2004b

### 4.3 Housing subsidies and the Human Settlement Redevelopment Grant

Table 9 shows expenditure on conditional grants, i.e. on housing subsidies and the Human Settlement Redevelopment Programme. Expenditure on housing subsidies has been increasing steadily over the past few years. In real terms, the budgeted expenditure on housing subsidies for 2004/2005 is about 20% greater than that in 2000/2001. The Human Settlement Redevelopment Grant addresses the crucial need for more integrated and sustainable human settlements, but the expenditure patterns reflect that it is still relatively new and lacking in the necessary systems and procedures to ensure that these funds are adequately spent. Only R109 million was spent in 2003/2004. The Human Settlement Redevelopment Grant is meant to play an increasingly important role in funding the provision of community facilities in new housing projects, but projected expenditure over the next few years does not reflect this.

*Table 9: Conditional grants to provinces 2000/2001 – 2006/2007*

R million	Audited 2000/01	Audited 2001/02	Prelim. Outcome 2002/03	Adj. approp. 2003/04	Budget 2004/05	MTEF 2005/06	MTEF 2006/2007
Housing subsidies	2 998	3 226	3 801	4 246	4 474	4 745	5 030
Human Settlement Redevelopment Programme	36	96	106	109	115	122	130
Other	13	-	-	-	-	-	-
Total	3 047	3 322	3 907	4 355	4 589	4 868	5 160

Source: National Treasury, 2004a

To improve efficiency and make housing delivery more “demand-driven”, the Housing Subsidy Scheme was revised by the introduction of a new procurement policy for housing in 2001, so that

subsidies are now allocated to projects on the basis of a competitive tendering process. Project applications are considered on the basis of business plans submitted by municipalities. In addition the Grootboom Constitutional Court judgment poses new challenges for government in allocating the housing grant: Provincial departments must set aside between 0.5% and 0.75% of their housing budgets for emergency housing. Previously there was no suitable mechanism for spending this money, but a new Emergency Housing Policy (for floods, evictions, etc.) was introduced in 2003. Table 10 shows the conditions for housing subsidy grants.

*Table 10: Conditions for housing subsidy grants*

Measurable Objectives	No. of subsidies financed per annum averages 190 000 houses No. of housing units completed per province No. of households benefiting No. of jobs created/maintained p.a. through construction Improvement in quality of life for beneficiaries (change from shack to proper houses impacting on health etc)
Conditions	Provincial spending plans must be approved by National Department of Housing before the flow of the first instalment Provincial housing departments, to ensure that all subsidies for 2003/04 are allocated by 30 April 2003, through consultation with municipalities. Provincial departments must ensure coordinated developmental approach with other line function departments, funds for infrastructure including social facilities and services. Provincial housing departments to ensure that all subsidy allocations for 2004/05 are allocated by 31 October 2003, in consultation with every municipality, and in line with the Integrated Development Plan. Provinces must utilise the transversal system for budgeting, subsidy administration, financial administration and reporting purposes. Comprehensive reporting on expenditure on any transfers to municipalities or public entities. Provincial governments have to set aside 0.5% to 0.7% per year to finance emergency housing needs. This will provide for the people who have been affected by disasters and need to be assisted in a matter of urgency access. Housing allocations must be in terms of national housing programmes and priorities. Provinces to modernise and reform according and classification systems in line with a framework approved by the National Department of Housing and the National Treasury.
Reasons not incorporated in equitable share	The provision of housing to the poor is a national priority. The conditional grant enables the national government to provide for the implementation of housing delivery in provincial budgets and the monitoring of provinces accordingly.
Monitoring mechanism	The National Department of Housing has installed a universal computerised subsidy management system (HSS) in all provincial housing departments for the administration of the subsidy scheme and to allow the national department to monitor progress and expenditure continuously through monthly reporting, quarterly visits to provinces, interaction by the housing sector Chief Financial Officers and Heads of Housing and MinMEC meetings.

Source: Government Gazette Vol 454 Pretoria, 30 April 2003, No 24834

Table 11 shows the number of subsidies approved per province. The number of subsidies approved is not a reliable indicator of delivery, however, as shown in the next chapter, a significant proportion of subsidies approved do not translate in the short term into actual housing units on the ground.

*Table 11: Subsidies approved 1994/1995 – 2003/2004*

Province	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	Total
E Cape	0	19 357	28 581	34 235	33 071	28 614	31 105	38 146	10 849	20 811	244 769
Free State	2 048	20 439	7 210	4 017	11 600	16 818	13 564	8 799	17 510	5 681	107 686
Gauteng	56 691	17 051	75 462	68 527	104 446	111 623	65 877	84 907	404 432	39 086	1 028 102
KZN	17 111	24 065	33 845	50 339	30 664	33 806	24 384	27 801	23 437	43 397	308 849
Limpopo	3 193	3 450	6 141	7 214	10 845	33 849	28 814	16 574	18 223	32 681	160 984

Mpumalanga	3 565	8 368	17 483	11 756	3 746	19 345	38 621	42 748	7 861	2 341	155 834
N Cape	1 797	2 707	5 275	11 322	2 880	3 990	4 010	3 109	4 161	7 452	46 703
North West	13 381	10 429	34 987	25 429	9 579	9 054	38 962	3 107	1 790	7 570	154 288
W Cape	1 737	13 444	21 332	44 737	16 350	33 060	25 577	31 857	32 952	8 143	229 189
Total	99 523	119 310	230 316	257 576	223 181	290 159	270 914	257 048	521 215	167 162	2 436 404

Source: National Department of Housing, 2004

Table 12 gives a breakdown of subsidy types per province. 70% of all subsidies approved were project-linked subsidies; institutional subsidies (the only subsidy mechanism to provide an alternative to one-house-on-a-plot individual ownership) were only 2.5% of all subsidies.

*Table 12: Breakdown of approved housing subsidies by type 1994/1995 – 2003/2004*

Province	Project-linked	Individual	Consolidation	Institutional	Rural	Hostel redev	Total
E Cape	201 051	27 635	9 305	5 710	1 050	0	244 751
Free State	79 920	15 364	8 127	1 300	2 459	516	107 686
Gauteng	709 352	52 639	84 161	19 105	563	162 282	1 028 102
KZN	234 574	14 353	28 477	21 197	10 248	0	308 849
Limpopo	91 425	4 348	3 252	0	61 606	353	160 984
Mpumalanga	85 615	16 362	46 046	5 450	1 476	885	155 834
N Cape	37 631	7 688	384	1 000	0	0	46 703
North West	118 624	8 419	7 326	1 154	17 492	1 273	154 288
W Cape	157 984	10 998	48 343	6 998	0	4 866	229 189
Total	1 716 176	157 806	235 421	61 914	94 894	170 175	2 436 386
Share of total	70.4%	6.5%	9.7%	2.5%	3.9%	7.0%	100.0%

Source: National Treasury, 2004a

## 5. IMPACT OF HOUSING EXPENDITURE

What has been the impact of housing expenditure? This question is considered in terms of quantitative impact and qualitative impact.

### 5.1 Quantitative impact of expenditure on housing

Since 1994, over 1.6 million housing units have been delivered; subsidised housing formed 54% of all new housing built between 1996 and 2001 (National Treasury, 2004a). Subsidised housing delivery has more or less kept pace with the growth of the backlog in urban areas, but has not been sufficient to decrease this backlog. It was estimated in the 1994 Housing White Paper that the *urban* housing backlog was growing by 178 000 units per year due to new household formation and urbanisation; housing delivery in the 1994-2004 period averaged only 161 000 housing units per year). The net result has been growing informal settlements and growing numbers of inadequately housed people, especially in metropolitan areas. For example, in Cape Town the number of shacks in informal settlements increased from 24 000 in 1993 to 68 000 in 1998 to 83 000 in 2003 (Abbott and Douglas, 1999; WCHC/DAG, 2003).

Table 13 shows the actual number of houses completed from April 1994 to June 2003 (although the Department also counts partially completed houses, and surveys have shown that some houses are in housing projects are never completed, so these figures are higher than the actual number of houses delivered). The table shows that in total 1 611 078 houses were completed or under construction over this period. The highest number (295 811) of houses completed or under construction was reported in the 1997/1998 financial year and the least in 2001/2002 (143 281). The table also shows that the largest numbers of houses were delivered in Gauteng (24% of total

delivery), followed by KwaZulu-Natal (17%), the Eastern Cape (13%) and the Western Cape (12%). Of the housing delivered, based on Table 12 above, about 10% of delivery was the provision of houses on sites that were already serviced and about 7% was the redevelopment of hostels.

*Table 13: Subsidised houses delivered 1994/1995 – 2003/2004*

Province	1994-1997	1997/98	1998/99	1999/00	2000/01	2001/2002	2002/2003	2003/04	Total
Eastern Cape	6 511	32 223	24 659	20 345	34 021	10 816	58 662	27 119	214 356
Free State	13 042	18 001	17 391	7 177	16 088	7 005	9 155	16 746	104 605
Gauteng	56 293	70 924	58 170	45 384	38 547	46 723	24 344	49 034	389 365
KwaZulu-Natal	17 553	78 468	53 105	28 997	28 547	14 379	24 485	33 668	279 202
Limpopo	11 108	15 743	22 899	12 401	20 996	16 667	14 953	15 810	130 577
Mpumalanga	19 884	10 873	16 838	4 808	16 457	14 584	21 649	21 232	126 325
Northern Cape	6 666	4 768	2 378	2 600	4 148	2 588	6 056	3 787	33 000
North West	21 287	20 977	18 367	12 944	14 109	13 885	23 784	10 484	135 837
Western Cape	25 321	43 834	34 575	26 916	17 730	16 634	20 500	12 301	197 811
Total	177 611	295 811	248 391	161 572	190 643	143 281	203 588	190 181	1 611 078

Source: National Department of Housing, 2004

Housing subsidies have generally been targeted at the poor and vulnerable. Housing delivery has overwhelmingly been targeted at the 0-R1500 per month income group (the only delivery mechanism specifically targeted at the R1501 to R3500 per month income group was the institutional subsidy, which was only about 2.5% of all housing delivery up to March 2004), and more than 50% of subsidies have gone to women-headed households, and 73% of subsidies have gone to households with child dependents (see Table 14).

*Table 14: Breakdown of approved subsidies by male and female beneficiaries and by child dependents 1994/1995 – 2003/2004*

Province	Male beneficiaries	Female beneficiaries	Households with child dependents
Eastern Cape	48%	52%	84%
Free State	51%	49%	99%
Gauteng	52%	48%	45%
KwaZulu-Natal	44%	56%	55%
Limpopo	35%	65%	N/A
Mpumalanga	41%	59%	93%
Northern Cape	56%	44%	N/A
North West	54%	46%	99%
Western Cape	57%	43%	85%
Total	49%	51%	73%

Source: Hall, 2004

In addition, over 400 000 public rental units have been transferred to the ownership of tenants under the Discount Benefit Scheme (see Table 15).

*Table 15: Discount Benefit Scheme 1994/1995 - June 2003*

Province	Number of subsidies
Eastern Cape	118 512
Free State	34 258
Gauteng	140 931
KwaZulu-Natal	2 956
Limpopo	1 594
Mpumalanga	24 030

Northern Cape	9 776
North West	12 251
Western Cape	57 831
Total	402 139

Source: National Department of Housing, 2004

Table 16 shows that only 66% of all subsidies approved translated into a house being built (or construction having commenced) for the period under review. For Free State, 97% of all subsidies approved resulted in a house being built (or construction starting). KwaZulu-Natal had the next highest proportion, with 90%. The reasons for the large differences between subsidies approved and houses built include delays in the release of funds, inadequate capacity for implementation (especially by municipalities), and the stalling of projects due to community conflict. Gauteng managed to convert only 36% of all subsidies approved by the Department into a completed housing unit (largely because of the province's focus on rapid land release followed by incremental improvement of the topstructure).

*Table 16: Houses built (or under construction) as a percentage of approved subsidies 1994/1995 – 2003/2004*

Province	Approved subsidies	Built/ under construction	Percentage
E Cape	244 769	214 356	87%
Free State	107 686	104 605	97%
Gauteng	1 028 102	389 354	38%
KZN	308 849	279 202	90%
Limpopo	160 984	130 577	81%
Mpumalanga	155 834	126 325	81%
N Cape	46 703	33 000	70%
North West	154 288	135 837	88%
W Cape	229 189	197 811	86%
Total	2 436 404	1 611 078	66%

Source: National Department of Housing, 2004; own calculations

Table 17 shows how inefficient allocation/ management systems are one of the reasons for the wide discrepancies between the number of subsidies approved and the number built or under construction. It shows that for the 2002/2003 financial year, the majority of subsidies were only approved in the last quarter (January 2003 to March 2003); of the 519 498 subsidies approved in 2002/2003, 425 449 (82%) were approved in the last quarter.

*Table 17: Housing subsidies approval rate 2002/2003*

Province	Apr 02- Dec 02	Jan 03 - March 03	Total subsidies approved	% of subsidies for the year approved in the last quarter
E Cape	3 212	7 637	10 849	70%
Free State	5 809	11 701	17 510	67%
Gauteng	41 892	362 540	404 432	90%
KZN	11 760	11 677	23 437	50%
Limpopo	6 839	9 667	16 506	59%
Mpumalanga	5 043	2 818	7 861	36%
N Cape	2 040	2 121	4 161	51%
North West	410	1 380	1 790	77%

W Cape	17 044	15 908	32 952	48%
Total	94 049	425 449	519 498	82%

Source: National Treasury, 2003b

These inefficient allocation procedures have contributed towards high levels of underspending. Table 18 shows that there was a total underspending of R575 million in provincial housing budgets in 2003/2004. The Eastern Cape and Western Cape had the largest unspent amounts (almost R170 million in each case).

*Table 18: Underspending of provincial housing budgets 2003/2004*

Provinces	Budgeted 2003/04 (adjusted appropriation) R millions	Actual 2003/04 (preliminary outcome ) R millions	Underspending	Percentage of budget spent
Eastern Cape	1 064	895	169	84%
Free State	430	389	41	90%
Gauteng	1 236	1 210	26	98%
KZN	1 120	1 081	39	97%
Limpopo	485	481	4	99%
Mpumalanga	349	324	25	93%
Northern Cape	125	120	5	96%
North West	416	318	98	76%
Western Cape	539	371	168	69%
Total	5 764	5 189	575	90%

Source: National Treasury 2004b

The main reasons for the slowdown of delivery and the high levels of underspending have been:

- Narrow eligibility criteria for housing subsidies: beneficiaries must be a lawful resident of South Africa (citizen or permanent resident); must have a partner (either is married to someone or lives together with someone) or be a single person over 21 years of age with dependants; must have a monthly household income of less than R3500 per month (combined income of head of household and spouse or partner); and must not have owned property or received any form of government housing subsidy before (except for consolidation subsidy, relocation assistance or disabled people). Many people in inadequate housing conditions do not meet all these criteria. Table 19 shows how, in real terms, the target income group of the Housing Subsidy Scheme has dramatically narrowed over time.
- From 1 April 2002, there was a requirement for people in the 0-R1500 pm income category (apart from pensioners, disabled or single women with dependants earning less than R800 per month) to make a cash contribution of R2479 in order to get the housing subsidy (for contractor built houses only, not for People's Housing Process projects). This has meant that many people are now unable to afford housing subsidies, or it will take time for them to save up the required amount.
- The extension of the National Home Builders' Registration Council building standards for all subsidised housing (as from 1 April 2002), other than in People's Housing Process projects makes it increasingly difficult to achieve the required minimum standard of housing within the subsidy amount and the NHBRC is still building up its capacity to monitor building standards, both of which are delaying housing delivery.
- Being able to obtain housing credit to supplement housing subsidies has become increasingly important, but there is a great lack of appropriate and affordable housing credit. This often means that people in the R1500-R3500 p.m. income bracket are not able to benefit from the housing subsidy scheme. Banks have not made very many housing loans for subsidised households as a result of very strict borrower eligibility criteria and the informal "redlining" of areas perceived as being high risk (i.e. deciding not to grant mortgage loans in those areas). Where banks have given low-income mortgage loans, it appears that many households have overextended themselves on credit and, as a result, many households have lost their

properties. Micro-lenders have been active in giving out small housing loans, but at very high interest rates (and sometimes using pension/provident funds as security, which puts poor people at the risk of losing their retirement funds).

*Table 19: Comparison of income thresholds*

Original income thresholds	Real value of original figure in Nov 2004 Rands	Actual current figure
R 3500 p.m.	R 6790 p.m.*	R 3500 p.m.
R 2500 p.m.	R 4850 p.m.*	R 2500 p.m.
R 1500 p.m.	R 2910 p.m.*	R 1500 p.m.

\* Income thresholds set in March 1994; inflated by 94% in line with increase in CPI

## 5.2 Qualitative impact of housing expenditure

Two major evaluations of the impact of the Housing Subsidy Scheme were released in 2003, one commissioned by the Public Service Commission, which involved the investigation of 40 housing projects across the country, including beneficiary surveys in 20 of the projects, and one commissioned by the Department of Housing, which involved focus groups in 28 projects across the country.

The studies had very similar findings. The two studies found that the Housing Subsidy Scheme had contributed towards an overall general improvement in people's lives, especially with regards to access to secure tenure and basic services, but that, in general, the real needs of people were not been adequately met and that there were high levels of dissatisfaction amongst beneficiaries.

The Public Service Commission study evaluated the Housing Subsidy Scheme against the following objectives found in policy documents:

- Providing access to adequate housing
- Creating socially and economically viable communities
- Ensuring balanced and sustainable spatial development
- Provision of choice
- Sustainability
- Transparency and equity
- Co-ordination of state investment
- Efficiency and effectiveness
- Creativity and innovation

The study found that, although the Housing Subsidy Scheme has succeeded in delivering houses, basic services and secure tenure to large numbers of people, few of the objectives of the Housing Subsidy Scheme are being completely achieved: "Housing delivery has not been sufficient to keep up with the growth in the housing backlog, especially in metropolitan areas. In terms of quality, the subsidy amount has not been sufficient for both an adequate house and an adequately serviced and well located plot. Where projects have managed to achieve houses of large size and good quality, this has often been possible only because of additional subsidisation or by having very low levels of infrastructure....Most [projects] are... in peripheral areas, reinforcing apartheid urban patterns" (PSC, 2003:1-2).

Although the study commissioned by the Department of Housing had very similar findings, the overall assessment was more positive: "...despite their poor quality, the new dwellings are bigger and more solid than the beneficiaries' previous shelter... Respondents are hugely proud of owning their new homes, and derive a great sense of dignity, independence, and security from this. While there are significant criticisms with this, they generally believe the government has done well and has fulfilled its promise to deliver housing" (Zack and Charlton, 2003: 50).

There have been some successful projects which have provided good quality housing for people (see the case studies for some successful and some not-so-successful examples of housing

projects). The general consensus of evaluations of the HSS is that delivery has been impressive in terms of numbers but less so in terms of quality. Some of the reasons why the impact of government expenditure on housing have been uneven are (PSC, 2003):

- Poverty and unemployment. Many households are unable to afford the ongoing costs associated with housing (rates, service charges, maintenance costs, transport costs). Poverty in rural areas is especially a problem, and can result in rural dwellers being forced to become migrant workers.
- Lack of local government capacity, especially in rural areas: most of the activities associated with providing adequate housing and creating sustainable communities are the responsibility of local government (e.g. providing and operating most community facilities), and since 2001 local government is responsible for initiating most housing projects. Many local authorities lack housing capacity, and some even lack capacity to provide basic services.
- The quality of housing has been constrained by the subsidy amount, which generally has not been sufficient to provide both an adequate housing unit and an adequate level of infrastructure on a well located piece of land (although this may have changed, to some extent, with the substantial increase in the subsidy amounts in 2002). It appears that in many cases where large, adequate houses were provided it was only possible because of additional subsidization or through having a very low level of services.
- The subsidy eligibility criteria have excluded many people living in inadequate housing conditions, e.g. single people, single parents below the age of 21, households with incomes of above R3500 per month and people evicted from houses they used to own.
- The fact that, prior to 2001, the Housing Subsidy Scheme was application-based and primarily aimed at private sector developers, meant that many projects were implemented by developers with no long term interest in the project, and were therefore often not suitably located nor properly completed. This was addressed by the introduction of the new procurement policy in 2001.
- Frequent changes in housing policy have caused delays in delivery and have hindered the building up of appropriate Provincial Housing Department capacity. This is especially true of the changes introduced in 2002. Some policies have also lacked clarity and have resulted in a wide range of interpretations, e.g. PHP.

The more detailed findings of the two studies are discussed under the following headings:

- Quality of housing and infrastructure
- Location
- Sustainable settlements
- Environmental impact
- Participation/ empowerment
- Mobilizing finance
- Ongoing costs of housing

In addition, four case studies of housing projects are looked at: a project-linked subsidy project in Cape Town (part of a Presidential Lead Project), a project-linked subsidy project in a rural area in Limpopo, a PHP consolidation-subsidy project in Cape Town, and an institutional subsidy project in Durban.

### **5.2.1 Quality of housing and infrastructure**

The quality of subsidy housing has largely been inadequate. "The majority of respondents are dissatisfied with the quality of the houses they have received... Many households feel that their structures will not last long. They commonly complain about flimsy roofs, cracks in walls, weak doors, as well as the generally unfinished nature of their houses..." (Zack and Charlton, 2003: 23). "It seems clear that the quality of most or all subsidised housing is poor. Beneficiaries' experiences and perceptions of their new houses are almost universally negative" (Zack and Charlton, 2003: 50).

“The Housing Subsidy Scheme has generally provided secure tenure, basic infrastructure and adequate shelter for households that previously lived in inadequate housing conditions, but there are some problem projects where the housing that has been provided has not been adequate (e.g. one room houses, houses at risk of collapse, no water supply, no sanitation, located over 10 km from the nearest town)” (PSC, 2003: 112). “In most projects some houses have problems such as leaking roofs, gaps around door/window frames, windows/doors not closing properly, cracks in walls, dampness and mould, lack of toilet doors and lack of ventilation. Damp penetration is especially a problem... The majority of beneficiaries have complaints of some sort about their house (66% for PLS, 67% for consolidation subsidy, 70% for institutional subsidy, 58% for individual subsidy)” (PSC, 2003: 96). “In eight projects (22% of implemented projects), there were serious health and safety concerns...” (PSC, 2003: 74).

Apart from the quality of dwellings, the infrastructure in some projects was also found to be inadequate. Out of 40 projects investigated for the Public Service Commission study, six did not comply with the minimum standards for water supply (a functioning on-site water connection) and eight did not comply with the minimum standards for sanitation (a VIP toilet per site).

The main reason for inadequate quality, has been because the subsidy amount has always been less than the actual amount required. The real value of the housing subsidy has tended to decrease over time, due to the impact of inflation (see Table 20). It should be noted, however, that in 2002 the People’s Budget Campaign called for housing subsidy amounts to be regularly increased in line with inflation, and in April 2003, this happened for the first time.

*Table 20: Comparison of housing subsidy amounts*

Original Project-Linked Subsidy amounts	Real value of original subsidy amount in Nov 2004 Rands	Actual subsidy amount (2004/2005)
R 15000 (0-R1500 p.m. band)	R 27 150 *	R25 800
R 9500 (R1501-R2500 p.m. band)	R 18 430 **	R15 700
R 5000 (R2501-R3500 p.m. band)	R 9 700 **	R8 600

\* Original PLS amount for new subsidy band introduced in December 1994; inflated by 81% in line with increase in CPI

\*\* Original PLS amounts set in March 1994; inflated by 94% in line with increase in CPI

\*\*\* Original consolidation subsidy amount set in June 1995; inflated by 73% in line with increase in CPI

## 5.2.2 Location

The location of new housing projects, typically on the periphery of towns and cities where large amounts of cheap land are usually available, was found to be a major problem: “Respondents often cite distances from shops, schools, clinics and recreational facilities as a problem. They commonly say distance to amenities has a major impact on their household finances: the cost of transport, particularly to places of work as well as schools, is cited as a heavy financial burden” (Zack and Charlton, 2003: 28)

## 5.2.3 Sustainable settlements

Many new settlements created by the Housing Subsidy Scheme seem to be unsustainable in the long term. “...while many beneficiaries indicate that they will stay in their settlements, many are unclear about whether there is a future for their children in the area, citing a lack of recreation, and – above all – job prospects as major negative factors” (Zack and Charlton, 2003: 21).

“In general, apart from the Presidential Lead Projects such as Cato Manor and the Integrated Serviced Land Project, there has been inadequate funding for the capital and operational costs of facilities to accompany housing projects, such as halls, parks, sports fields. Many housing projects consequently lack essential facilities”. (PSC, 2003: 108). “While most housing projects in larger towns and cities/metropolitan areas at least have the potential to become socially and economically viable communities in the long term (although they may lack social and economic

facilities at present), many housing projects in small towns and rural areas have little or no potential of ever becoming socially and economically viable communities” (PSC, 2003: 112).

Part of the reason for this lack of viability of many of the new settlements created, part from location, is that they are too suburban-like. “It is necessary to have a sufficiently high residential density in order to support a wide range of economic activities and community facilities. The Department of Housing’s Guidelines for Human Settlement Planning and Design suggest a minimum gross residential density of 50 dwelling units/hectare is appropriate to ensure a sufficiently wide range of activities. Only two of the forty projects investigated have densities of over 50 dwelling units/hectare. Both of these projects are institutional subsidy projects in metropolitan areas. Most housing projects have gross residential densities of less than 30 dwelling units/hectare, and many projects in small towns and rural areas show densities as low as 10 dwelling units/hectare. Settlements with densities as low as these will never be able to support a full range of social and economic activities because their population thresholds are simply too low.” (PSC, 2003: 100).

#### **5.2.4 Environmental impact**

Some housing projects have also had a severe environmental impact. “Problems with soil erosion and littering were fairly common... 22% of projects had significant soil erosion problems, 25% had significant littering/dumping problems and 33% of projects with water courses had problems of littering/dumping in the water courses” (PSC, 2003: 81).

#### **5.2.5 Participation/empowerment**

“Community participation has varied considerably, from no community participation at all in some projects, to People’s Housing Process projects which were completely managed by community organisations. There was generally a low level of community participation in most aspects of housing projects. The sample shows little participation in decisions about location, town planning layout, house design, and the level of services, especially in private developer projects” (PSC, 2003: 99).

#### **5.2.6 Mobilizing finance**

“Very little beneficiary savings and loans have been added to the subsidy amount, apart from in PHP projects and for credit-linked individual subsidies. For example, only 11% of PLS beneficiaries added any of their own savings to the subsidy and only 1% received loans to supplement the subsidy, mainly from employers (the typical loan size was R10 000).” (PSC, 2003: 104). “Although there has not been much in the way of savings and credit added to housing subsidies, there has been fairly substantial consolidation of subsidised houses, largely financed by savings. For example, 73% of PLS beneficiaries have made some improvements to their houses (with a median total cost of R965). The most common improvements (each undertaken by more than 10% of all households) are: installing electricity, putting in floor coverings, putting up burglar bars and safety gates, plastering internal walls, building extra rooms, putting up a fence or wall, putting in paving around the house, and planting a vegetable garden (PSC, 2003).

The R2479 contribution requirement for non-PHP subsidies in April 2002 was introduced partially as a response to this lack of investment by beneficiaries, but this may prevent many poor households from accessing housing subsidies.

#### **5.2.7 Ongoing costs of housing**

“Many beneficiaries say they cannot afford monthly service payments and the cost of ongoing home repairs... Some even report that people are leaving their subsidised houses because living in them is too expensive” (Zack and Charlton, 2003: 41)



*Figure 4: Delft South*

#### **Case study 1: Delft South, Cape Town**

Delft South Towns 3-6 is part of the Integrated Serviced Land Project, a RDP Presidential Lead Project in Cape Town intended to provide 43 000 housing units. This project consisted of about 3 800 housing units. As a Presidential Lead Project, Delft South had access to additional funding, and therefore has an impressive road system, a wide range of community facilities and there have been a range of capacity building programmes carried out in the area. The houses provided in the project are about 95% 24m<sup>2</sup> concrete block houses and about 5% 30m<sup>2</sup> asbestos cement sheet houses. Beneficiaries show great dissatisfaction with the asbestos cement houses, and a health survey of these houses is being undertaken and legal action is potentially going to be instituted against the provincial government. It is estimated that about 80% of residents are not paying service charges, and the Anti-Eviction campaign is very active in the area.

Source: USN, 2003



*Figure 5: Mahonisi*

#### **Case study 2: Mahonisi, Limpopo**

Mahonisi is a typical rural housing project. The nearest town is 12 km away and there is very high unemployment in the project, with very few employment opportunities within commuting distance. 996 40m<sup>2</sup> houses were built here, with VIP toilets and gravel roads, but there is no water supply or electricity (although there are taps, there is no mains supply). There has been no progress in addressing the lack of water and energy supply even though the project was completed in 1997. Residents have to use water from the neighbouring village. The only facility provided in the project was post boxes. The only service currently being provided by the municipality is maintenance of the main gravel roads, and even this is hampered by funding constraints. Some household members work in Johannesburg and Pretoria and only return home at weekly or monthly intervals.

Source: USN, 2003



Figure 6: Masithembane

### Case study 3: Masithembane, Cape Town

Masithembane is a People's Housing Process (PHP) project undertaken by the Masithembane People's Housing Association, with the assistance of a NGO and a materials supplier. The community organization managed the project. Beneficiaries could choose their house design, materials and local builder, with advice from the Housing Support Centre. Beneficiaries were encouraged to form savings groups so as to be able to save money to supplement the subsidy amount, and access to appropriate micro-credit was facilitated. The size of the houses range from 36m<sup>2</sup> to 66m<sup>2</sup> and are of very good quality. A substantial number of local people were employed during the project, and the community has been empowered to be able to deal with other development issues.

Source: USN, 2003



Figure 7: Shayamoya

### Case study 4: Shayamoya, Durban

The Shayamoya Housing Association in Cato Manor, is a Section 21 (not-for-profit) company. The project was possible because of funding from the Malaysian government which supplemented the housing subsidy funds (on a 1:1 ratio). The first phase of the project consists of 320 units in 3 and 4 storey walk-ups. Rents range from R250 to R730 per month. All occupants have to meet the subsidy eligibility criteria. The Board consists of 8 members, 4 elected residents and 4 non-residents appointed by the NGO that established the housing association, and hires paid staff to undertake day to day management. Members meet at least once a year to approve annual budget, elect resident Directors, approve appointment of staff, and so on. One member from each household can vote. As with most other institutional housing projects, there have been problems with affordability, and the attempted eviction of tenants for non-payment resulted in a general rent boycott. Thus, although Shayamoya provides a pleasant and convenient living environment (with a playground and shops), its long term sustainability is in doubt).

Source: USN, 2003

## **6. RECOMMENDATIONS**

The objective of housing policy should be to ensure that there is progressive realization of the right of access to adequate housing. There are two dimensions to this:

- The qualitative dimension: the housing provided must be adequate, or be capable of being incrementally improved to ensure adequacy within a reasonable period of time.
- The quantitative dimension: an increasing proportion of households must have access to adequate housing, and the numbers of households living in inadequate housing conditions must be significantly reduced within a reasonable period of time. This means that the delivery rate must be significantly more than the annual growth in housing need.

Recommendations are clustered under these headings, followed by a section on budget implications. It should be noted that these recommendations were originally written in 2003, and that some of these issues are now starting to be addressed by the National Department of Housing.

### **6.1 Quantitative recommendations**

Recommendations as to how the delivery rate can be improved to ensure that all households in need of adequate housing can be provided with adequate housing as quickly as possible are:

- Introduce new housing programmes
- Expand subsidy eligibility criteria
- Capacity development to ensure delivery capacity
- Facilitating access to appropriate credit

#### **6.1.1 New housing programmes**

The following new subsidy programmes, to address housing needs that are not currently being met, should be introduced:

- Informal settlement upgrading programme (the Department of Housing has now recognised the need for this and will be introducing an informal settlement upgrading programme in 2005)
- Rapid land release/managed land settlement programme
- Transitional subsidy programme: for short-term institutional rental accommodation

#### **6.1.2 Expand subsidy eligibility criteria**

The income threshold for subsidy eligibility should be set at about R6000 per month, because this is largely the target group unable to access mortgage credit from banks. Refugees and single people, who are currently excluded, should be eligible for housing subsidies. Certain categories of people who have owned property before (e.g. those evicted for non-payment of rates and service charges) should also be eligible for housing subsidies. There needs to a programme of support in place to ensure that child-headed households can access housing subsidies (children are able to own property - in terms of the Administration of Estates Act of 1965, the Master of the High Court has to appoint a curator/tutor to administer the property on behalf of the minor until he/she reaches the age of majority).

#### **6.1.3 Capacity development**

The Department of Housing has recognised that there is a “lack of adequate capacity at all spheres of government and in the housing sector as a whole” (Department of Housing, 2003: 9). In particular, the institutional, financial and human resource capacity of local authorities to provide adequate and affordable services must be built. Local authorities need to have the capacity to provide and maintain services to housing projects, e.g. water supply, sanitation, roads, clinics, sportsfields, playgrounds. Local authorities need to have effective billing and collection systems in place and there should be suitable structuring of rates and service charges to ensure cross-

subsidization and affordable charges for low-income people. Effective indigent policies must be in place for households without any regular income.

#### **6.1.4 Facilitating appropriate access to credit**

In order to ensure that housing subsidies can be supplemented with housing credit, and to assist in the development of a secondary market, there needs to be a large scale national savings and credit programme which provides access to appropriate and affordable savings-linked non-mortgage credit. Currently, the National Housing Finance Corporation (NHFC), National Urban Reconstruction and Housing Agency (NURCHA), the Home Loan Guarantee Company (HLGC) and the National Housing Savings Scheme fulfill some of the requirements for such a programme (such as issuing guarantees, providing seed capital and wholesale finance for non-traditional retail lenders, providing loans to housing associations, and securitisation), but this is done on a relatively small scale. These functions need to be co-ordinated and increased in scale, for example, by creating a national institution or a set of regional institutions. The primary purpose of institutional consolidation or rationalisation should focus on issuing guarantees for end-user loans linked to subsidies and savings contracts. Secondary functions could include:

- Seed capital and wholesale loans to community based finance institutions, plus other forms of support (the creation of new community based finance institutions needs to be stimulated as formal financial institutions and formal credit mechanisms such as mortgage loans are usually inappropriate for the needs of low-income households; the examples of the uTshani Fund and the Kuyasa Fund show that it is possible to provide housing loans to low-income borrowers, including informally employed people and pensioners)
- Guarantees and/or loans to housing associations
- Guarantees for community-based/non-profit developers to obtain bridging finance

#### **6.2 Qualitative recommendations**

Recommendations as to how the quality of housing can be improved are:

- Integrated development
- Participation
- Energy efficiency and environmental sustainability

##### **6.2.1 Integrated development**

Many housing projects are unsustainable, sterile, poorly located dormitory suburbs that have a negative impact on the livelihoods of poor households. Poverty poses a large threat to development processes, including housing. Integrated planning, budgeting and implementation of development programmes can play a significant role in overcoming this threat.

There must be a shift towards focusing on poverty alleviation and socio-economic issues in urban development interventions: "Urban housing strategies should provide more than shelter... Local housing policy as a consequence is always a housing 'plus' policy which involves community development goals, environmental goals, urban transportation and other forms of infrastructure (schools, hospitals, child care, etc.)... Housing subsidies are social policy instruments, but they are not standalone subsidy policy instruments – it needs to complement other social policy instruments, such as family assistance, livelihood programmes, redistributive pension systems or general social assistance" (Hall and Pfeiffer, 2000: 230-231, 234). This is starting to be recognised, for example, the Presidential Urban Renewal Programme focuses on poverty alleviation and economic development, as opposed to the RDP which mainly focused on housing, residential infrastructure and services.

Housing projects therefore need to be regarded as being part of broader integrated development interventions aimed at social and economic development. These broader development programmes need to include capacity building, skills development, sustainable livelihoods interventions, health, education, community safety, etc. There needs to be sufficient funding available for this.

Housing projects also need to have adequate provision of facilities. The experience of the Klapmuts project in the Western Cape shows that the capital cost implications to the municipalities of bulk infrastructure and community facilities can be equivalent to the total housing subsidy funding for a project. In low priority projects or under-resourced municipalities, there are therefore often no facilities such as community halls, libraries, clinics, sportsfields or playgrounds. Some form of funding for facilities, or a contribution towards the cost of facilities, should be linked to the housing subsidy to ensure that all housing projects have some basic community facilities apart from schools. There also needs to be sufficient provision for operating costs.

There need to be infill projects on vacant land inside existing urban edges, but the reality in Cape Town is that after the next 3-5 years, virtually all new greenfield projects will be beyond the urban edge. It is therefore especially important that new development happens in an integrated way so that new housing projects have adequate access to public transport, facilities and economic opportunities.

The key preconditions for achieving integrated development are

- Policy coherence (between sectors, and between spheres of government), based on a holistic long-term view of development, as opposed to the current short term, sectoral, project-based view (e.g. housing and transport)
- Public participation (e.g. participatory IDP processes and participatory budgeting, e.g. as in Porto Alêgre, Brazil).

Ultimately, in order to ensure integration, there need to be fundamental shifts in government budget prioritization and allocation processes, the way that policies and programmes are divided up between Departments and spheres of government, and the way that departments/spheres of government interact with each other and other stakeholders.

### **6.2.2 Participation**

Although there have been some public participation processes with regards to housing, , many issues have been excluded from participation and many projects have inadequate participation processes dominated by councillors, officials and/or consultants. It is essential that citizens and civil society organizations are able to participate in decision-making at all levels of housing delivery, from national policy development down to local project planning, as this is the only way of ensuring that housing delivery will meet people's real needs. It is particularly important that vulnerable and disadvantaged groups "have access to information and... opportunities to participate in the local decision-making process on community and shelter issues that will affect them" (Habitat Agenda, Section 96(g)). Partnerships between municipalities and communities, i.e. Municipal-Community Partnerships (MCPs), are also important. Essential preconditions for effective participation include capacity building (of all stakeholders) and access to information – on need, delivery, policies, programmes, procedures, projects, etc. Access to information could also help facilitate civil society monitoring of progress on the realization of the right of access to adequate housing.

### **6.2.3 Energy efficiency and environmental sustainability**

Incorporating principles of energy efficiency and environmental sustainability in housing is crucial to ensure sustainability. Some of the key issues with regard to energy efficiency and environmental sustainability in housing are:

- Optimising land use through higher densities
- Given increasing water scarcity it is important to look at dry sanitation or water-saving systems.
- Water conservation: Dual flush toilets, flow-control showers and taps, stormwater and rainwater harvesting
- Saving on energy, e.g. through solar orientation, insulation and the use of solar energy
- Greening of external space

- Use of external space for urban agriculture
- Use of materials that have a lower environmental impact than cement, steel, etc.

### 6.3 Budget implications

The proposals for an expansionary housing budget are based on four principles:

- The delivery rate must be increased so as to aim at eradicating the housing backlog within 10 years. Assuming a current backlog of 2.4 million households in urban areas and growth of approximately 180 000 households per year, approximately 420 000 housing units per year need to be delivered over the next 10 years in order to aim at eradicating the urban housing backlog. As it will take a number of years to build up delivery capacity again, a maximum delivery rate of more than 420 000 units per year must be aimed for within the 10 year period. Increasing expenditure on housing will not only enable the housing and infrastructure backlog to be addressed within 10 years, but will also simultaneously contribute towards job creation and economic growth. For every increase of one house per year in the housing delivery rate, it is estimated that one permanent job and three temporary jobs are created (Robinson, 1999). In other words, increasing the delivery rate of subsidised housing from the current rate of 200 000 houses per year to 350 000 houses per year could result in an additional 150 000 permanent jobs and 450 000 temporary jobs. It has also been estimated that investment in the building industry can create 2.8 times as many jobs as an equivalent investment in the commercial sector (NHF, 1994).
- As many people as possible must get access to secure tenure and adequate services as soon as possible, followed by incremental upgrading. There must therefore be emphasis on subsidy programmes to enable access to adequate infrastructure and secure services in the short-to-medium term, to be followed at a later stage by support for topstructure consolidation. The main focuses must be *in situ* upgrading of informal settlements and managed land settlement for in-migration and new household formation. There will still need to be some delivery of completed housing units in the short-to-medium term, for example, for households requiring to be relocated (dedensification of informal settlements, relocation from overcrowded formal housing and backyards) and new household formation in the higher income brackets.
- The subsidy amount and income criteria must be increased. Current subsidy amounts are still inadequate in many contexts, especially in metropolitan areas where land costs are high. The actual cost of a 30 m<sup>2</sup> contractor-built housing unit of adequate quality and adequate level of finishes on an adequately serviced site, and with adequate provision for land cost, is typically in the region of R40 000 to R50 000. The actual cost of an adequately serviced site, including land costs, is in the region of R10 000 to R20 000. For the lowest income bracket, subsidy amounts should therefore be about R45 000 for a complete housing unit on a serviced site or about R15 000 for just the land and infrastructure (e.g. for the first stage of informal settlement upgrading). The income cut-off limit for housing subsidies should be increased to at least R6000 per month, and the subsidy amounts should be graded appropriately, with the lowest income group getting the maximum subsidy amount and higher income groups getting lower subsidy amounts. The size of households should also be taken into account. Table 21 shows what the end product affordability for these subsidy amounts and income criteria could look like. The subsidy should be more flexible, and should be disaggregated into funding for the following components: land funding (to pay for actual cost of land), internal infrastructure funding (to pay for actual cost of internal infrastructure in green field projects and informal settlement upgrading); topstructure funding (to contribute towards the cost of the actual house or flat); housing facilitation/capacity development/ PHP support funding.
- There needs to be increased emphasis on the provision of the other components of integrated development, e.g. social facilities and greening. The Human Settlement Redevelopment Grant should be renamed the Human Settlement Development Grant, and the necessary systems and capacity must be rapidly built in order to ensure that funds for the non-housing components of sustainable human settlements are able to be developed. Based on actual project experience, for example, the Integrated Serviced Land Project

(ISLP), the cost of associated facilities and infrastructure and capacity development is equivalent to the cost of the actual housing (in the ISLP, for example, the average total cost of the development programme was R35 000 per beneficiary – the maximum housing subsidy amount for most of the programme was R17250-R18400). The principle in the Special Integrated Presidential Projects (SIPPs) was for RDP funding to be equally matched from other sources (e.g. municipalities). This would seem to be a reasonable principle, as municipalities are meant to be responsible for the provision of facilities and infrastructure in any event. The total quantum of the Human Settlement Development Fund should therefore ultimately be approximately half of the funds for housing subsidies. It should be noted that, apart from contributing towards the cost of creating sustainable human settlements (e.g. basic community facilities, public spaces, greening), the Fund could also cater for additional funding for bulk infrastructure over and above the Municipal Infrastructure Grant (MIG) for projects where the cost of bulk infrastructure is a blockage, or for remedial interventions in housing projects where adequate housing was not provided.

*Table 21: Proposed approximate subsidy amounts and product affordability*

<b>Income group</b>	<b>Subsidy amount</b>	<b>Credit</b>	<b>Product affordability</b>
0-R1500 p.m.	R40 000	Micro-loans: Up to R10 000	R40 000 - R50 000
R1500 – R3500 p.m.	R20 000 - R40 000	Non-mortgage credit: R10 000 – R 50 000	R50 000 – R70 000
R3500 – R6000 p.m.	0 – R20 000	Mortgage credit: R50 000 – R100 000	R70 000 – R100 000

Accurate figures on housing demand are not available, but assuming a 2:1 split between incremental informal settlement upgrading/ managed land settlement and delivery of completed housing units, Table 22 shows what possible delivery targets could look like, and what the budget implications of this would be.

*Table 22: Proposed delivery targets and budget allocations*

	<b>2005/2006</b>	<b>2006/2007</b>	<b>2007/2008</b>	<b>2008/2009</b>	<b>2009/2010</b>
Informal settlement upgrading/ MLS	150 000	200 000	250 000	300 000	300 000
Delivery of completed units	75 000	100 000	125 000	150 000	150 000
<b>Total delivery</b>	<b>225 000</b>	<b>300 000</b>	<b>375 000</b>	<b>450 000</b>	<b>450 000</b>
Total housing subsidy funding <sup>1</sup>	R5.0 billion	R7.3 billion	R10.0 billion	R13.2 billion	R14.5 billion
Human settlements development funding <sup>2</sup>	R1.2 billion	R3.6 billion	R5.0 billion	R6.6 billion	R7.3 billion
<b>Total housing budget<sup>3</sup></b>	<b>R6.9 billion</b>	<b>R12.1 billion</b>	<b>R16.6 billion</b>	<b>R22.0 billion</b>	<b>R24.2 billion</b>
Estimated total government expenditure <sup>4</sup>	R406 billion	R447 billion	R491 billion	R540 billion	R594 billion
Housing budget as percentage of total government expenditure	1.7	2.7	3.4	4.1	4.1

1. Assuming average subsidy of R15 000 for informal settlement upgrading/ managed land settlement and R30 000 for completed housing units (in 2004/2005 values), inflated by 10% per year.
2. It is assumed that in the first year expenditure on the Human Settlements Development programme will only be equivalent to 25% of housing subsidy funds, due to the need to gear up capacity for administration, implementation and monitoring of the programme, but that in following years it will be equivalent to 50% of housing subsidy funding.
3. Assuming 10% of total housing budget is for operational expenditure, capacity building of provincial and local government, funding of housing support institutions, etc.
4. Assuming annual growth of 10% in total government expenditure from budgeted amount for 2004/2005.

## **7. CONCLUSION**

In the first ten years of democracy, South Africa has made some progress towards solving the housing problem. A sound policy framework, based on targeted capital subsidies, is in place, and over 1.6 million housing units have been delivered to date. The housing backlog continues to grow, however, and there have been serious problems of quality with the housing that has been delivered.

Ultimately, in order to provide adequate housing for all within a reasonable time frame, expenditure on housing will need to greatly increase from its current level of 1.3% of total government expenditure to about 4% (which is still less than the National Housing Goal of 5%), and delivery levels will need to increase from current levels of about 190 000 units per year to about 450 000 units per year.

Substantially improving the quantity and quality of housing delivery will not only greatly improve the living conditions of the poor, but will contribute towards addressing the legacy of South Africa's apartheid past, and will help stimulate economic growth and development.

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