

Impact and Implementation Evaluation of the Social Housing Programme



planning, monitoring
& evaluation

Department:
Planning, Monitoring & Evaluation
REPUBLIC OF SOUTH AFRICA





Policy Summary

The Department of Planning, Monitoring and Evaluation and the National Department of Human Settlements undertook an Impact and Implementation Evaluation of the Social Housing Programme in South Africa between 2007/08 and 2014/15.

Over 18,000 units have been approved for development through the programme, of which nearly 10,000 have been developed by a limited cohort of eleven Social Housing Institutions (SHIs). These Social Housing (SH) units have a combined investment value of over R4,5-billion, and are regulated by the Social Housing Regulatory Authority (SHRA). The evaluation concluded that SH has made a minor contribution to spatial restructuring through infill development that contributes to the integration of previously separated areas, higher density built form and the densification of urban areas. However, the relatively limited scale of SH development, and hence its potential impact, is too limited to attribute direct causality for spatial restructuring. While SH was never intended to be a mass housing delivery programme, the SH sector has not met its potential as a creator and deliverer of affordable rental

accommodation over the last eight years. However, the programme has delivered value for money in relation to the conversion of public funds into viable rental stock in the medium to long term.

The SH sector grew at a steady pace over the first five budget years of the Interim Social Housing Programme (ISHP) and Social Housing Investment Programme (SHIP) and delivered stock that has predominantly met its primary and secondary target markets. However, there has been a significant downturn in delivery over the last three years of the programme and financial constraints have increasingly polarised affordability at the ceilings of the primary and secondary income thresholds, and have started to break through the current upper income threshold. This is primarily due to the lack of indexing of the income bands since the inception of the programme. The evaluation has found that the inability to reasonably respond to originally defined, and non-indexed income thresholds given prevalent household income and SH operational realities makes this the single most important risk factor facing the SH sector, both due to the financial instability created in SHIs, as well as in the risks placed on the affordability of eligible households.

Currently the SH sector is experiencing a rapid decline in delivery, and the SHRA faces problems relating to its regulation of SHIs, and the management of the investment of the Restructuring Capital Grant (RCG) subsidies. Should urgent intervention not be taken, the sector will cease to deliver subsidized rental stock.

The evaluation proposes the following to be undertaken inter alia:

1. The NDHS must urgently re-calibrate the SH financial instruments as follows:

1.1. The Eligible Income Bands for the primary market should be raised from R3,500 to R5,500 household income per month. The upper level of the secondary market should be raised from R7,500 to R10,000 household income per month. Income bands must be indexed to inflationary increases in incomes at least every three years. It is important to note that this adjustment does not have any fiscal impact, in terms of increased SH subsidies, but can go far in stabilising the SH sector.

1.2. The RCG must be increased from its present level of R124,000 (set in 2007/2008) to at least R155,000 (an increase of R31,000). The RCG must be regularly increased in line with inflationary increases in future, as stipulated in the policy.

1.3. The basis by which funding is provided should be simplified and streamlined. This should enhance and not undermine the unique focus of each of the subsidy instruments (RCG, IS and CRU) and the opportunity they provide in respect of meeting local conditions, the needs of different income groups and specific municipal restructuring agendas. The requirement to reset rentals on entry of new tenants into SH units to original levels must be revised to provide for a reasonable level of rental escalation in line with inflation. Similarly, the limitation on rental escalations should be revised in any future financial model.

1.4. A medium- to long-term funding commitment to SH must be made, in order to create a platform for certainty within the sector.

2. SHRA must urgently engage with larger, more stable SHIs and their Provincial and City authorities to agree the basis by which projects are identified and included on the programme. Quick Win projects that are already in planning should be identified for fast tracking into implementation. This is not intended to replace the development of new SHIs which should be developed over the medium term.



Executive Summary

Introduction

The Department of Planning, Monitoring and Evaluation and the National Department of Human Settlements undertook an **Impact and Implementation Evaluation of the Social Housing Programme in South Africa between 2007/08 and 2014/15**.

The aim of the social housing programme is to create affordable rental housing stock in South Africa's major urban areas that frees its occupants from on-going government dependency, and will contribute to the restructuring of urban areas (SHRA (2005)); National Housing Code (NDHS (2009)).

Social Housing in South Africa has evolved over time and is clearly set out in policy and legislation particularly in respect of the Comprehensive Plan (NDHS, 2004), the Social Housing Policy (NDHS, 2005), the Housing Code (NDHS, 2007) and the Social Housing Act (NDHS, 2008). There is strong alignment in these documents on the objectives and key principles of the programme which is firstly to contribute to the restructuring of South African society by addressing structural, economic, social and spatial dysfunctionalities and secondly to provide a subsidised rental option to poor households.

The institutional and funding framework of the programme is complex but there are clear roles and responsibilities in respect of the key stakeholders. Of these the most significant are the SHRA which has been established as the sector regulator and is responsible for investing in the sector on behalf of government and SHIs which are the implementing agents responsible for developing and managing social housing stock.



Evaluation findings

1. Impact area 1: Spatial, economic and social restructuring

The Social Housing Programme (SHP) has contributed a limited and dispersed portfolio of social housing units, accessed primarily by low to medium income households in its target market, that in turn makes limited and constrained local-level contributions to spatial, economic and social restructuring. This SH portfolio's limited and constrained spatial, economic and social restructuring impact is below its contribution potential. Key reasons for this limited impact are that:

- The SHP has not been part of a coordinated restructuring framework due to inconsistent public restructuring definitions, policies, plans and funding framework and a lack of inter-governmental coordination of endeavours.
- The designation of the RZ has not been undertaken within a sufficient planning framework resulting in too many RZ that are too large to focus investment.

2. Impact Area 2: Creating of affordable rental stock

The evaluation concludes that while SH was never intended to be a mass housing delivery programme (DHS, 2009), it has made a small contribution to the supply of low-moderate rent housing options. The potential to continue to add to supply in the targeted income bands has been severely constrained, especially since 2012. The SH sector grew at a steady pace over the first five budget years of the ISHP and SHIP programmes and delivered stock that predominantly met its primary and secondary target markets. However, there has been a significant downturn in delivery over the last three years of the programme and financial constraints have increasingly polarised affordability at the ceilings of the primary and secondary income thresholds, and have started to break through the current upper income threshold. This is primarily due to the lack of indexing of the income bands since the inception of the programme.

Delivery is expected to continue to decline until it stagnates by 2016/17 unless urgent actions are taken. The key reasons for this are a limited cohort of eight SHIs with capacity to plan, implement and manage new SH and no formal strategy for growing the SH sector. In addition there are indications that even those SHIs with capacity are starting to move away from SH.

While it is increasingly difficult for SHIs to charge affordable rentals to the targeted households it is also becoming increasingly difficult for households with incomes within the designated income bands to be able to afford the rentals and servicing charges.

There are a number of critical issues which undermine the effective functioning of the social housing sector including the lack of a rental housing policy and an incoherent subsidy support framework.

3. Impact Area 3: Value for money

The programme has delivered value for money in relation to the conversion of public funds into viable rental stock in the medium to long term. It is the only state subsidy programme to gear public money with significant private investment. The relatively high levels of directed purpose, transparency, control and regulation, and delivery of accommodation in relation to public money invested, exceeds most other public subsidy programmes. While there are reservations regarding the efficacy of certain aspects of the programme (specifically, the regulatory costs versus regulatory benefits accrued through the SHRA to date), the potential of the sector to deliver substantially greater value for money is noted.

4. Implementation Area 1: Restructuring Zones

There is a lack of well-defined RZs in South Africa to guide the location of, and further investment in RZ areas. The legislative and regulatory provisions, as well as guidelines for RZ planning, identification, promulgation and review are not thorough, and this framework has not been systematically implemented. In a majority of cases RZs have not been carefully and appropriately defined and established, nor monitored and reviewed since designation. RZs generally do not fully take guidance from, nor support other levels of planning at city level, and are not subject to review in line with spatial planning reviews. Generally, too many cities have RZs designated for SH investments, and designated RZs are large and do not provide sufficient focus to meet a clear SH restructuring agenda.

5. Implementation Area 2: SHI Delivery and Financial Viability

There is a limited and constrained SHI sector with very few (8) capacitated SHIs. There is a lack of an agreed SHI growth strategy, limited and ad hoc institutional capacitation programmes and reduction in financial sustainability of SHIs due to marginal project viability and net operating deficits. Many SHIs are actively pursuing alternative project opportunities. There are strong indications that conditions in the sector are worsening. The key reasons for this are a lack

of sector guidance and efficient oversight from the NDHS and SHRA; very limited pro-active investment in the development, capacitation and growth of SHIs; continued erosion of SH project feasibility (and hence SHIs long-term sustainability) due to current financial arrangements in the SH financing system; and as a result, a lack of and inability to develop and maintain a viable pipeline of social housing projects.

The evaluation has found that the inability to reasonably respond to originally defined and non-indexed income thresholds, given prevalent household income and SH operational realities, makes this the single most important risk factor facing the SH sector, both due to the financial instability created in SHIs, as well as in the risks placed on the affordability of eligible households. These failures have already had a significant impact on current sustainability of the sector, and will continue to have a multi-year impact on the realistic future projected sector growth, even if urgent actions are implemented.

6. Implementation Area 3: Monitoring and Oversight

Currently the monitoring and oversight system for the SH sector is impaired, and has not and does not offer the information required to guide the growth and development of the sector. While the policy and regulatory framework for SH is generally sound and has been an important stabilising factor in the growth and development of the SH sector, its implementation is currently significantly flawed and is not calibrated to prevailing operating and market conditions. This situation is primarily a result of the combined ineffectiveness of the NDHS and SHRA to interpret, adjust and implement required changes for successful regulation and investment in SH. The failure of the NDHS to adequately oversee the SH sector, specifically the failure of SHRA to adequately perform its core mandates, but also the inability of the combined forums that guide the Human Settlements function generally and rental housing in particular (specifically the National Rental Task Team and the Provincial Forums), have brought the sector to crisis point.

Conclusion

The evaluation conclusion is that, the SHP has contributed a limited and dispersed portfolio of social housing units, accessed primarily by low to medium income households in its target market, that in turn makes limited and constrained local-level contributions to spatial, economic and social restructuring. This SH portfolio's limited and constrained spatial, economic and social restructuring impact is below its contribution potential.

There continues to be a need for the programme. The creation of a portfolio of affordable rental units does not directly or adversely compete with other (non-subsidised) rental sub-markets in most areas, is financially sustainable in the medium to long term, benefits more than a single beneficiary household in the lifetime of a single subsidy contributed, and is unique amongst all state subsidy programmes. In addition, the role SH and SHIs play in contributing better quality to many beneficiaries' lives creates inter-generational benefits that break the cycle of deprivation amongst occupants. This in turn creates a 'virtuous housing cycle' where tenants pay rent, housing stock and environments are maintained and SHIs contribute on-going revenue streams to municipalities through rates and service charges.



Recommendations

1. The **NDHS must urgently re-calibrate the SH financial instruments** as follows:

- **The Eligible Income Bands for the primary market should be raised from R3,500 to R5,500 household income per month** which means that this band will be between R1,500 and R5,500. **The upper level of the secondary market should be raised from R7,500 to R10,000 household income per month**, which means that this band will be between R5,500 and R10,000.

Income bands must be indexed to inflationary increases in incomes at least every three years. It is important to note that this adjustment does not have any fiscal impact, in terms of increased SH subsidies, but can go far in stabilising the SH sector.

- **SHI should be encouraged to provide housing products to meet local conditions and to provide accommodation for all income groups in the local area with a particular focus on those at the lower end of the primary market.** To this end a **review of standards and targets should be undertaken.** Accommodation standards should be changed at the lower end of the subsidised SH sector to provide more affordable accommodation. This could include consideration for intermediate accommodation types, such as bachelor units, rooms with shared ablutions and shared rooms.
- **The RCG must be increased from its present level of R124,000 (set in 2007/2008) to at least R155,000 (an increase of R31,000).** The RCG must be reviewed annually and regularly increased in line with inflation, as stipulated in the policy.

It is noted that the Social Housing Policy specifically references the increase of the RCG in accordance with CPI rather than Building Cost inflation, as with other subsidy instruments. Note that this increase is necessary to counteract the inflationary erosion of the existing subsidy quantum. This must not reduce vigilance from SHRA regarding efforts to drive greater operational efficiency in SHIs.

- The requirement to reset rentals on entry of new tenants into SH to original levels must be revised to provide for **a reasonable level of rental escalation in line with inflation**. Similarly, the limitation on rental escalations should be revised in any future financial model.
- **The inherent complexity in the SH programme's funding and financing model requires review**. The multiple sources and types of finance should be simplified, aligned and streamlined. This should enhance and not undermine the unique focus of each of the subsidy instruments (RCG, IS and CRU) and the opportunity they provide in respect of meeting local conditions, the needs of different income groups and specific municipal restructuring agendas. In particular, the RCG, IS and debt financing from NHFC and GPF need to be aligned so as to provide funding for a selected project. Debt funding should be provided on a concessionary basis.
- The NHFC provides an important service to the SH sector, as the largest provider of debt finance for SH projects. The envisaged restructuring of DFIs may have an influence on the ability of a future DFI to service social housing. It is therefore important that this critical input to a sustainable SH sector in South Africa is taken into account in this process, and **that the NHFC's ability to continue to provide debt to SHIs is not negatively affected**.

- **A medium- to long-term funding commitment to SH must be made, in order to create a platform for certainty within the sector**. This in turn must be based on a realistic assessment of delivery targets for the sector. This stability will encourage commitment from SHIs, as well as provide a platform for potential improved private sector engagement in the sector. An important part of overcoming the current delivery slowdown in the sector is to ensure this longer-term funding picture is clear for SHIs to commence rebuilding project pipelines.
- **A realistic Medium Term Social Housing Implementation Plan (SHIP) should be developed**. A future call for projects should be announced in parallel with revised financial criteria in order to stimulate the development and packaging of viable projects. This must be aimed at providing a timeline for SHIs, Provinces and Metros to develop and package viable projects for financing, as well as to commence the development of a sustainable and credible project pipeline for the MTSF period that recognises and aims to unblock delays in and constraints to viable project development over the MTSF period (2015/16 to 2019/20). The SHIP should be developed through a process that coordinates and aligns projects between the SHRA, municipalities and provinces.



- **SHRA must urgently engage with larger, more stable SHIs and their Provincial and City authorities to agree on the basis by which projects are identified and included in the SHIP.** Quick Win projects that are already in planning should also be identified for fast tracking into implementation. This is not intended to replace the development of new SHIs, but rather to recognise that SH development capacity over the next three years will predominantly come from existing SHIs with latent delivery capacity. Over the medium term there is a need to develop new entities (see 7 below). In formulating the SHIP, funding should be allocated to a specific project for the full term of the project (5 to 7 years).

2. A fundamental review of RZs and how SH projects are located, approved and implemented should be undertaken

on the basis that SH investments should be focused in fewer urban areas (and this must include the **de-designation** of certain RZs), and concentrated in more specifically targeted areas of restructuring in limited cities in order to improve the levels of investment in these areas and the ability to coordinate other funds in these areas. These areas should be designated in relation to the state of their economies; the importance of urban spatial, economic and social restructuring within them; and the likely long-term development potential of these areas to generate maximum benefit from SH investments. This must be a technical, not a political decision. SH investments should be more closely aligned with, or linked to existing planning instruments (e.g. SDFs, Housing Plans, IDPs) in order to ensure SH investments better meet municipal spatial restructuring priorities, and to ensure better alignment to municipal land allocations and other public investments in such areas

3. Appropriate and aligned sector Capacity Development should be undertaken.

The roles and functions of the NDHS, SHRA and other organisations, specifically NASHO, in respect of institutional capacitation and SHI capacitation must be resolved, and implemented. SHRA in turn must continue to implement a clear SHI capacitation strategy that is clearly linked to delivering the SHIP, and assists to develop existing and new SHI delivery capacity.

4. A revised, simplified, less onerous regulatory regime should be developed and implemented

by the NDHS and SHRA in order that SHIs are not overburdened by compliance requirements. SHRA should encourage and support SHIs to be flexible and innovative in undertaking SH projects, while at the same time undertaking ongoing monitoring to ensure compliance to the investment requirements. As part of this SHRA must initiate, develop and maintain good relationships between public sector role players (national, provincial and municipal role players in project approval and alignment of financing) and SHIs in respect of SHIP development.

5. In order to improve the performance of the SH sector the following should be implemented: – Stabilise and Capacitate SHRA:

- NDHS and SHRA's combined ineffectiveness in providing leadership, guidance, policy interpretation and regulatory certainty, is the major risk to the future sustainability and growth of the SH programme. Urgent and bold steps are required to bring SHRA under the leadership of a capacitated Council supported by a supportive national department, to appoint competent and committed Executive leadership, and to urgently re-capacitate the SHRA.
- **Role of SH in Human Settlements Strategy:** The current crisis in the SH sector has undermined the importance of SH in South Africa's human settlements framework. It is necessary to re-affirm the importance of SH in the forthcoming Human Settlements White Paper. This should include discussion on its value for money to the State, the virtuous economic cycle that SH establishes between tenants, SHIs, municipalities and provincial and national government, and its important city restructuring role.
- **Private Sector Financing Approaches:** Alternatives that create better frameworks for private sector participation in the SH sector as funders and managers of SH stock must

be considered. This will need to consider how to deal with the lack of collateral for private funders, either through changes in policy or via the creation of a guarantee mechanism. In addition, consideration of a mechanism that could allow potential private sector investors to exit the sector must also be considered.

- **Improved Monitoring and Evaluation**

Mechanisms: The current gaps in the M&E framework have allowed manageable issues to cascade into a sector crisis. M&E approaches must be implemented that ensure relevant oversight and insight into the performance of the SH sector. In this regard:

- NDoHS oversight of the sector should be improved and located in one department that will monitor the basis by which the policy and regulations are being implemented, the appointment of key role players in SH, designation of new RZs, and responses to political interference in the sector and rent boycotts. The unit should work closely with the SHRA.
- The SHRA should ensure that data collected from SHIs is properly collated, quality controlled, analysed and utilised to monitor the sector and SHI performance.
- The SHRA's internal data management and other systems and procedures should be reviewed and improved.

It is noted that, even if the above is implemented immediately, there will still be a time lag to impacts being visible in the preparation, approval, development and tenancing of new projects and in phasing in the income bands across existing portfolios. Therefore, even with these changes, **pragmatism is required regarding the sector's ability to meet the 27,000-unit target in the MTSF due to the breakdown in project pipeline and sector delivery trajectory.**

It is estimated, however, that if this recommendation is implemented in the short term, a pipeline of projects could be facilitated to deliver up to 20,000 units over the MTSF period. It is estimated that between 12,000 and 14,000 units of social housing could be approved for construction in the next three years. Importantly, by the end of the MTSF period in 2019, the Social Housing sector should have a sustainable and growing pipeline of around 5,000 units per annum.



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